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31<sup>st</sup> January, 2014

Mr Stephen Hally-Burton  
Budget Policy Division  
Department of the Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Mr Hally Burton

**Pre-Budget Submission from Financial Counselling Australia**

Attached is a pre-budget submission from our organisation in relation to financial counselling.

Financial counsellors, who work in non-profit community organisations, provide information, support and advocacy to people in financial difficulty.

The Federal Government currently invests around \$20 million per annum into financial counselling services. All of this funding expires at 30<sup>th</sup> June 2014. Our submission makes the case for the continuation of this funding.

Financial Counselling Australia is the peak body for financial counsellors in Australia. Our members are each of the eight State and Territory financial counselling associations.

Yours faithfully,



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## **Pre Budget Submission to the Federal Government**

***31<sup>st</sup> January 2014***

**Financial Counselling Australia (FCA)** is the peak body  
for financial counsellors in Australia.

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*Financial Counsellors: community based professionals providing information, support and advice to people in financial difficulty.*

# **FINANCIAL COUNSELLING AUSTRALIA**

## **Pre-Budget Submission**

### **1 BUDGET PRIORITY**

The Federal Government invests around \$20 million per annum into financial counselling. Funding is provided for:

- direct financial counselling service delivery - face-to-face services and telephone services (national phone number 1800 007 007)
- resourcing of the sector – training and development and supervision for financial counsellors as well as funding for the peak body, Financial Counselling Australia.

All current funding contracts expire on 30th June 2014.

We submit that the Budget should include the continuation of current funding for the financial counselling sector as a whole, with an appropriate increase for CPI.

### **2 ABOUT FINANCIAL COUNSELLING**

#### **2.1 History of the Funding**

The Commonwealth Financial Counselling Program began in 1990 with funding of \$2.5 million per annum. It was 18 years before there was any further funding increase, with the 2008 budget doubling the funding to \$5 million per annum. Since then there have been further funding increases including in response to the global financial crisis, additional funds for telephone financial counselling and for financial counsellors to assist people affected by problem gambling.

There are approximately 950 financial counsellors around Australia (this includes funding from both the State and Federal Governments).

## 2.2 What Does a Financial Counsellor Do?

Financial counsellors are qualified professionals who provide information, support and advocacy to people in financial difficulty. Based largely in non-profit community organisations,<sup>1</sup> financial counselling services are free, independent and confidential.

A financial counsellor will:

- Undertake a thorough assessment of an individual or family's situation, including which debts are priorities (and whether debts are legally owed, if the amount owing is correct or whether the contract was fair). The urgency of action will also be assessed – this is particularly important if creditors have begun legal action.
- Gain an understanding of the other factors affecting the client's situation such as their health, any abuse, stability of employment, relationship status etc.
- Work with the client to find ways, if possible, to increase their disposable income.
- Work with the client to develop a budget or money plan if appropriate.
- Identify what options the client has in relation to their debts as well as the advantages and disadvantages of those options. These options will vary and may include: advocacy with creditors such as banks, telcos or utilities to reduce or waive debts; accessing Ombudsman schemes; negotiation of affordable repayment arrangements; information about bankruptcy and its consequences; and/or accessing Centrelink entitlements or industry concession schemes.
- Help people understand the credit marketplace and improve their ability to self-advocate. For example, educating clients about their rights under the National Credit Code to hardship variations, how the credit reporting system works and what is acceptable behaviour from debt collectors.
- Identify when clients may need legal advice or referrals to specific social or community support services.
- Providing emotional support and counselling to clients. It is not uncommon to see people who are suicidal or are emotionally very upset.

Financial counsellors require knowledge of a range of areas including laws in relation to credit, bankruptcy, debt collection and general consumer protection,

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<sup>1</sup> There are some financial counsellors employed by local governments.

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government concession frameworks and industry hardship practices. They also require high level negotiation and counselling skills. The entry qualification is the Diploma of Community Services (Financial Counselling). This takes two years of full-time and four years of part-time study. Ongoing membership of a financial counselling association imposes ongoing professional development and supervision requirements.

## **2.3 Financial Counselling 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 at:

<https://www.moneysmart.gov.au/managing-your-money/managing-debts/financial-counselling>

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. Government agencies such as the Department of Human Services, the ACCC and ASIC refer clients to financial counsellors. Banks, utilities and telcos also refer clients and include information about financial counselling on their websites and other documents.<sup>2</sup> The national phone number 1800 007 007 is a mandatory inclusion on a number of prescribed notices under the National Credit Code.<sup>3</sup>

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.

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<sup>2</sup> For example, the Banking Code of Practice.

<sup>3</sup> For example, warning notices that must be displayed by payday lenders on websites and in shopfronts, credit default notices.

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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”.<sup>4</sup>

## **2.4 Need for Financial Counselling**

Financial difficulty is most often the result of a change of circumstances: unemployment, illness or relationship breakdown – events that could happen to any of us. Poverty is also a major cause of financial hardship, with people in receipt of Centrelink benefits finding it very difficult to make ends meet.

There are large numbers of Australians experiencing financial difficulty. For example:

- the Australian Council of Social Service (ACOSS) that estimated that 2.2 million people (12.8% of the population) lived below the poverty line;<sup>5</sup>
- the Australian Social Inclusion Board that estimated that 2.5 million people (13% of the population) live in households of high financial stress;<sup>6</sup>
- 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.<sup>7</sup>

Demand for financial counselling exceeds supply. Face to face services commonly run long waiting lists<sup>8</sup> and some of the phone services appear to be reaching capacity. There is just one financial counsellor for every 2,600 people living in a household of high financial stress. There is more information about data in relation to financial stress in Attachment 1.

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<sup>4</sup> Section 160C of the NCCP Act.

<sup>5</sup> Australian Council of Social Service, “Poverty in Australia”, Paper No 194, 2012.

<sup>6</sup> Australian Social Inclusion Board, “Social Inclusion in Australia: How Australia is Faring”, 2010.

<sup>7</sup> Veda Advantage, Galaxy Research, 2012.

<sup>8</sup> Waiting lists vary. 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.

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### 3 IMPACT AND VALUE FOR MONEY

#### 3.1 What is the Impact of Financial Counselling? What is the public benefit?

Financial counselling has positive benefits for clients, for industry and for the broader community. In 2012, Swinburne University surveyed 225 clients who had accessed the Salvation Army's MoneyCare service.<sup>9</sup> 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

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.

There are clearly important public benefits from financial counselling. Financial difficulty does not occur in isolation and affects physical and mental health, places strains on relationships (including sometimes exacerbating family violence) and can impact seriously on children. If financial difficulties can be resolved there are flow-on effects in the health and housing sectors with cost savings from fewer presentations, reduced housing stress and so on.

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<sup>9</sup> Dr Nicola Brackertz, "I Wish I'd Known Sooner" The Impact of Financial Counselling on Debt Resolution and Personal Wellbeing", Swinburne University, 2012.



Financial counsellors also play a strong role in increasing financial literacy, helping clients to put in place strategies that build financial resilience in the future.

Attachment 2 includes three case studies from a financial counsellor showing the “human side” of the role.

### **3.2 Current Outputs and Value for Money**

FCA does not have access to up-to-date data from the Department of Social Services about the number of clients assisted by financial counsellors in the most recent financial year 2012-13. However, extrapolating from previous, older data and our knowledge of the sector, we estimate that in 2013-14:

- the face to face services will assist 50,000 clients;
- the telephone financial counselling services will assist 120,000 clients.

There will be some duplication of clients between the face-to-face services and the telephone services - about one-third of clients contacting the telephone services are referred for face-to-face financial counselling as their situation needs a more intense intervention.<sup>10</sup> Not all people will however take up the referral.

Recognising that the figures are not precise, the unit cost per client (based on \$20 million funding and say 150,000 new clients in aggregate) is \$133 per person. We submit that this represents a sensible investment of government funds. As outlined above, resolving or reducing financial difficulty has positive benefits for individuals but saves money for government elsewhere in the social services system.

In the next few months, the Wyatt Foundation in South Australia will also be releasing a cost-benefit analysis of financial counselling. The CBA is being prepared by Adelaide University and we understand shows a positive multiplier.

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<sup>10</sup> For example, legal documentation needs to be perused, the case is complex, the client is under significant emotional distress and a face-to-face service may be better equipped to deal with this initially.

## 4 FINAL COMMENTS

### 4.1 The Impact of Funding Uncertainty

One of the issues that may not be fully understood by decision-makers is how difficult it is for the community sector to manage contractual uncertainty. In the case of the financial counselling sector, all of the funding contracts finalise at 30<sup>th</sup> June 2014. Services may not know until the May budget as to whether their financial counselling program will continue. If funding does not continue, in a matter of weeks, agencies will need to organise redundancies, manage associated contracts (for example for premises) and importantly, make arrangements for clients whose cases are still on foot.<sup>11</sup>

In December 2013, FCA completed its bi-annual survey of the financial counselling workforce. This survey provides a useful snapshot of the workforce across a range of factors, including demography, qualifications, working conditions and attitudes. The survey also asked financial counsellors about the impact the current funding uncertainty was having on them. About 10% of those surveyed said that they were planning to look for a new role before May because of funding insecurity. The free text comments were also very revealing. While some people were not concerned, for example saying they would retire or thought they could find another job, most people are feeling the strain. Some illustrative comments include:

“I have half a mortgage and am a single parent with a son who has a disability. It is very stressful not knowing what the future holds.”

“May have to sell home, no car, wife return to work (if able to find employment). Unable to support son at University (may need to find work and study part-time). I have already started applying for any roles related to my qualifications.”

“I am the primary income earner in my family so am not in a position to leave my job, the uncertainty is not helpful as it impacts our capacity to plan and increases pressure on my partner who is self-employed. Not having a decision until May 2014 about whether funding will continue leaves people in a difficult position.”

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<sup>11</sup> It can take quite a few weeks for example to determine a matter through the Financial Ombudsman Service or to finalise negotiations with multiple creditors.

“It is hard to plan for the future not knowing if you will have a position in 6 months time. Family are concerned as we cannot plan holidays etc for future and do not know where we will be, if funding does not continue we may have to move elsewhere for employment which will disrupt schooling for the children.”

## **4.2 Future Directions re Funding Initiatives**

Financial counselling has a bright future if the sector is able to continue its current strategic direction in relation to funding opportunities.

At the peak body level, we are investigating the potential for community/business/government partnerships so that industry can also contribute toward financial counselling through the vehicle of a charitable trust. This will only be a feasible option however if there is a stable base of funding from Federal and State Governments. There are two fundamental principles that will underpin any industry funding: first, that it is provided without conflict of interest<sup>12</sup> and second that it is in addition to government funding, and not a substitute for it.

Financial counsellors can also contribute toward other government initiatives, such as the announcement by the Minister for Social Services of \$200 vouchers for couples to seek counselling before marriage. Addressing financial issues is a critical part of a successful relationship.

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<sup>12</sup> A core ethos of financial counselling is that the financial counsellor is independent of industry and always acts in the best interests of their client. This can be compromised potentially with direct industry funding.

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## **APPENDIX 1 – FINANCIAL DIFFICULTY: HOW BIG IS THE PROBLEM?**

*This excerpt below is from a draft chapter in a forthcoming FCA publication about hardship practices in the banking, utilities and telco sectors.*

### **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 also note 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.<sup>13</sup> 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<sup>14</sup> 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 stress. For example these

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<sup>13</sup> ABS, 4159.0 General Social Survey: Summary Results, 2010 (released 30/09/2011).

<sup>14</sup> 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.

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households were more likely to report that they had experienced cash flow problems,<sup>15</sup> 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<sup>16</sup> 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;<sup>17</sup>
- the Australian Social Inclusion Board that estimated that 2.5 million people (13% of the population) live in households of high financial stress;<sup>18</sup>
- 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.<sup>19</sup>

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 than 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”<sup>20</sup> based on poverty being 50% of median income. When analysed by gender, women face a significantly higher risk of poverty than men,

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<sup>15</sup> 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.

<sup>16</sup> 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.

<sup>17</sup> Australian Council of Social Service, “Poverty in Australia”, Paper No 194, 2012.

<sup>18</sup> Australian Social Inclusion Board, “Social Inclusion in Australia: How Australia is Faring”, 2010.

<sup>19</sup> Veda Advantage, Galaxy Research, 2012.

<sup>20</sup> Australian Council of Social Service, August 2011, ‘[Poverty in Australia 2012](#)’, 26.

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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.<sup>21</sup> People born in non-English speaking countries are also at greater risk of poverty than people born in Australia.<sup>22</sup>

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.<sup>23</sup>

These findings are also consistent with a segmentation analysis undertaken for the Department of Social Services<sup>24</sup> based on the ANZ Survey of Adult Financial Literacy.<sup>25</sup> 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.

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<sup>21</sup> Australian Council of Social Service, August 2011, '[Poverty in Australia 2012](#)', 15.

<sup>22</sup> Australian Council of Social Service, August 2011, '[Poverty in Australia 2012](#)', 21.

<sup>23</sup> The Australia Institute, *Evidence versus Emotion: How do we really make financial decisions*, December 2010.

<sup>24</sup> Previously the Department of Families, Housing, Community Services and Indigenous Affairs when the research was undertaken.

<sup>25</sup> 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.

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## **APPENDIX 2 – THREE CASE STUDIES ILLUSTRATING THE HUMAN SIDE OF FINANCIAL COUNSELLING**

### **Case Study 1:**

Couple in their late 70s, on aged pensions, and own their own home. Their son wants to start a business but the bank will not give him finance so parents go guarantor and put up their home as security on the loan for \$150,000. The bank officers came to their home and gave the contracts to the couple to sign in the presence of their son. There was not sufficient time given for the couple to even read the contracts. They asked if they would lose their home if something went wrong and were told no as the bank would come to some sort of arrangement. The bank had also relied on a budget that was actually completed by the son and was faulty as there was nothing listed for council and water rates and insufficient money for food and groceries.

The son's business failed and he went bankrupt leaving his parents liable for the debt which was up to over \$200,000.

After the financial counsellor obtained the relevant loan documents from the bank, the couple decided that they wanted to put in a complaint to the Financial Ombudsman Service (FOS). The financial counsellor acted for the couple with the complaint which was based on the following grounds:

- There were 9 breaches of the Code of banking Practice.
- The bank displayed unconscionable conduct on 8 occasions.
- There was unjustness under the National Credit Code.
- There was a clear breach of the Tasmanian Conveyancing and Property Act 1884 (TAS)

After 1.5 years of negotiations and document swapping the bank offered to stop all interest and charges on the loan and to extinguish all interest and charges that had built up since the son went bankrupt (\$60,000). They also agreed to give the couple life tenancy of the home and that they would only look at taking possession of the home after the couple had either both died or the house was sold. The couple accepted this arrangement which enabled them to stay in their home and also avoid the embarrassing situation of losing their home and the whole town would be asking questions.

### **Case Study 2:**

An elderly client on an aged pension obtained a credit card with a \$1,000 limit from her bank. Over a period of 7 years she was offered and accepted various increases to the limit on her card so that she now had a limit of \$20,000. The client had a debt of \$21,000 on the card when she came to see the financial counsellor.

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The client had the letters received from the bank offering increases to the card limit. There had been no effort to do a thorough assessment as to the client's ability to repay this increased amount and the bank should have been aware of her income as her aged pension had been going into the bank for 10 years. The financial counsellor cited several sections of the bank's failure to comply with the Code of Banking Practice and asked that the debt be waived. The bank agreed to reduce the debt back to the original card limit amount of \$1000 and the debt to be paid back at the rate of \$20 a fortnight without any further interest or charges.

### Case Study 3:

A single mother with two children who had been left with some unmanageable debts after a broken relationship came to see a financial counsellor. The client wanted to make an effort to pay the debts and did not want to go bankrupt as this is what her ex-partner had done. The financial counsellor and the client completed a budget which showed that she could not maintain the current required payments with interest and charges being added each month.

The financial counsellor contacted the creditors and requested a moratorium for 6 months so that the client could pay off her power and phone bills in order to keep the power and phone connected. The creditors agreed to the moratorium and stopped any further interest and charges. After the 6 months the client was able to commence paying off the other debts as this had become manageable in her budget because there were no further increases due to interest and charges.

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