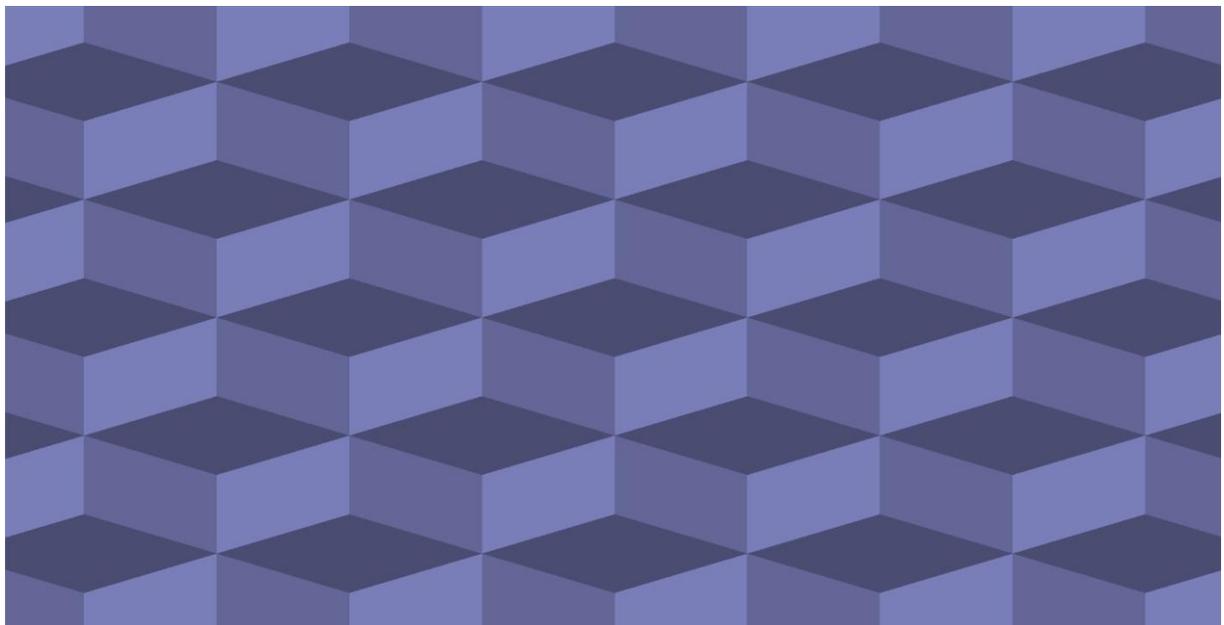

The Countervailing Power: Review of the coordination and funding for financial counselling services across Australia

March 2019



Foreword

Minister for Families and Social Services
The Hon Paul Fletcher MP
Parliament House
CANBERRA, ACT 2600

Dear Minister,

It is my pleasure to provide you with my report into the Review of the Coordination and Funding for Financial Counselling Services across Australia (the Review).

I have undertaken a wide range of consultations during the short review period seeking answers to the issues raised in the Terms of Reference.

During the review period, I was struck by the positive attitude towards financial counselling services from all stakeholders. The work undertaken by financial counsellors is widely admired and widely valued. There is also a strong consensus that current levels of service provision are insufficient to adequately address demand, with clear evidence that service delivery is limited by funding constraints.

While funding presents the largest impediment to financial counselling accessibility, a number of challenges require more than just an increase in funding. Higher visibility of the services in the market, nationally consistent data collection, investment in research and data analysis, centralised provision and support for the National Debt Helpline, a national approach to training standards, an improved ability to innovate in service delivery through pilots and to scale promising approaches – these are only some of the challenges that will be met through a more strategic approach. Though still a young sector, financial counselling is at the stage where a considered national strategy which also ensures integrated and coordinated services at a local and regional level is necessary.

There is a need for an independent body to be established which can address current challenges and take responsibility for fostering the next stage of development of these important services. My report outlines the findings of the Review and provides a roadmap for building an improved understanding of the underlying demand for these services, and transitioning to a new body which will be accountable for responding to this need.

The changes recommended in this report to the funding and governance of financial counselling services are designed to ensure that, in the near future, financial counselling services are better placed to successfully address the challenges identified.

Early steps to increase access to financial counsellors, commencing the process of establishing an independent and accountable body, and initiating the development of a national strategic approach in consultation with all stakeholders will fulfil the Commonwealth's commitment to act on this finding of the Hayne Royal Commission.

Louise Sylvan AM FAICD

March 2019

Terms of Reference

On 1 February 2019, the Commissioner, the Honourable Kenneth Madison Hayne AC QC, submitted his Final Report of the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* (the Royal Commission) to the Governor-General. The Treasurer, the Hon Josh Frydenberg MP, released the Government's Response to the Royal Commission on 4 February 2019.

The Australian Government had committed to taking action on all 76 recommendations outlined in the Royal Commission's Final Report. The Commissioner also referred to the importance of financial counselling services. Following these comments, the Australian Government has committed to additional actions to improve the financial outcomes of Australians. This includes undertaking an immediate review of the coordination and funding of financial counselling services that disadvantaged Australians rely on.

Financial counselling services play an important role in supporting the financial and economic wellbeing of everyday Australians. The financial counselling services sector faces multiple challenges: increased demand; inconsistent, short-term and uncertain funding; and fragmented service delivery.

The Department of Social Services will lead this Review, in consultation with The Treasury and the Department of the Prime Minister and Cabinet.

Role of the Review

The Review will:

- assess whether existing financial counselling services adequately support clients' current, emerging or changing needs, including areas such as small business and natural disasters;
- explore the most efficient and appropriate way to deliver financial counselling services;
- consider how to improve the coordination and consistency of delivery of financial counselling services across all jurisdictions in Australia;
- recommend options for improving the predictability and sustainability of funding financial counselling services, including by drawing on successful international funding models and considering options for industry funding; and
- consider how the use of data can inform policy, service delivery and demand trends.

The Review will engage with state and territory governments, the private, not-for-profit sectors, financial counselling and legal assistance sectors, and relevant Commonwealth agencies.

Membership

The Review will be led by Ms Louise Sylvan, AM FAICD, and will be supported by a secretariat from the Department of Social Services.

Timing

The Review's findings will be provided to the Prime Minister, Treasurer and Minister for Families and Social Services, for consideration.

Executive summary

Background to the Review

In the Final Report of the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* (the Royal Commission), Commissioner Hayne noted that the “legal assistance sector and financial counselling services ... like financial services, are a necessity to the community. They add strength to customers who are otherwise disadvantaged in disputes with financial service entities”. In other words, financial counsellors act as a countervailing power.

Commissioner Hayne also noted that for these services “the desirability of predictable and stable funding ... is worthy of careful consideration”.

Following the release of Commissioner Hayne’s report, the Australian Government had committed to implementing all recommendations. On 25 February 2019, the Government announced a Review of the Coordination and Funding for Financial Counselling Services across Australia (the Review).

The financial counselling services landscape

Australia’s financial counsellors are of high quality and are dedicated to the work they do.

Financial counselling is provided by community and local government organisations who offer free, independent services to help people in, or at risk of, financial hardship.

Financial Counselling Australia estimate that in 2018 there were 500 financial counsellors in Australia who provided face-to-face services to 125,000 people and received approximately 180,000 calls through the National Debt Helpline.¹ This includes generalist financial counselling and more specialised advice, such as assistance to those who have experienced domestic violence or those addicted to gambling. Services are also provided in specific geographical areas such as financial counselling services for rural areas.

Financial counsellors are distinct from financial advisers as their services are free to the consumer, completely independent of business and advice provided is conflict free.

Consumers seek financial counselling when they are experiencing difficulties or unexpected life events. Examples include an inability to service credit arrangements, rising utility bills, loss of employment, serious illness or relationship breakdown. While there are limited studies on the outcomes of financial counselling in Australia, sufficient evidence from Australia and internationally points to the importance of *early* intervention in reducing the stress and effects on health and relationships that often accompany financial difficulties.²

Although the Review arose from observations in the Royal Commission, other sectors are involved in the interactions and referrals to financial counsellors. In particular, essential services such as utilities (including energy, telecommunications and water) contribute to the demand for financial counsellors.³

1 A New Approach to Funding Community Financial Counselling and Better Advice Services (Financial Counselling Australia, 2019). There are approximately 800 financial counsellors in total, some of whom work part time. This equals 500 full time equivalents.

2 Ibid.

3 Approximately 45% of calls to the National Debt Helpline are related to financial services credit products with utility debts featuring in about 15% of calls.

Financial counsellors consulted during the Review reported that the matters that require assistance now are much more complex than in the past, due partly to the increasing complexity in financial and credit products offered by the market as well as the opaqueness of plans in many services. Financial counsellors assist in rebalancing the asymmetry of information and power between a consumer and a business – an imbalance particularised by Commissioner Hayne in the Royal Commission Final Report.

Funding

Funding for financial counselling services is primarily provided by the Commonwealth and state and territory governments with some funding from philanthropic organisations. In addition, some businesses provide financial counselling services for their customers through contracts with organisations. Government funding, generally provided through grants, is essential for the continued delivery of services. As such, **Commonwealth funding should be maintained and should not decrease, as should the funding from state and territory governments.**

The ability of financial counsellors to meet the demand for their services is limited by the total pool of available funding. The vast majority of stakeholders consulted during the Review highlighted the unmet demand for services, which evidence suggests is as much as double current service provision. The weight of demand on current services and insufficient funding also limits the ability of providers to undertake consistent data collection and analysis, workforce planning or significant innovation in service delivery. Unpredictable and unstable funding sources also inhibit a service's ability to secure and retain a workforce and invest appropriately in its development.

Additional funding should be made available to the financial counselling services sector (the sector). In part, demand pressures are contributed to by industry, a function of the complexity and product opaqueness to which Commissioner Hayne referred. Of note is the economic and social value which businesses derive from the services of financial counsellors. It is appropriate for industry to participate and contribute to the increase in the availability of and access to financial counsellors and for **additional funds, bolstering current state, territory and Commonwealth governments' contributions, to be provided by industry sources.**

The Commonwealth can facilitate this by mandating and collecting such contributions and passing them through to the sector. While stakeholders consulted had a variety of opinions on the possible mechanisms to enable industry funding, the vast majority were supportive of industry contributing financially to support the sector, many citing the business case that they could make in this regard.

The ability of the sector to deliver optimal outcomes is also inhibited by a lack of coordination between services, and increasing levels of regulatory and administrative burden associated with operating with funding from multiple funding sources. There is also inefficiency arising from the fragmentation of service delivery. This could be addressed through a **national approach for financial counselling** implemented by a **single independent body** which is responsible for a national cooperative effort. This body will have the ability to introduce or undertake collective functions currently not undertaken by individual services including:

- consistent data collection;
- ownership of the National Debt Helpline as a national function;

- awareness raising in the Australian community of financial counselling services;
- establishment of nationally consistent standards for training and continued professional development of the financial counselling workforce; and
- increasing outreach functions, fostering ongoing innovation in service delivery and early intervention.

Small business and natural disasters

In discharging the Terms of Reference, the Review explored small businesses' need for financial counselling, as well as the role of complementary services such as community legal services, and the role of financial counselling in unexpected events such as natural disasters.

The Review found that, at least anecdotally, **there is a need for small business financial counselling**. However, due to the variability in needs and complexity in service delivery, more time is required to allow detailed exploration of the most appropriate approach to address these issues.

There is no doubt regarding the need for financial counselling services after a disaster has occurred. Most individuals and families within the geography of a natural disaster would benefit from this support, noting that in usual circumstances many of them would not require such assistance. A range of services are required during natural disasters, and governments have established extensive response arrangements. While not the first response requirement, assistance from financial counsellors is needed once emergency services have been able to carry out their responsibilities. To enable this support, a 'surge' capacity will likely be required to ensure the financial counselling response is not at the cost of removing counsellors from existing necessary services in other areas. Financial counselling should be seen as a standard part of governments' responses to communities affected by natural disaster with specific funding provided to enable this.

Associated legal services

Increasing the availability of financial counsellors as well as improving the visibility and reach of these services will also drive the need for legal assistance service providers who work hand-in-hand with financial counsellors. As the work of financial counsellors is within a legal context of, for example, contract law, statutory dispute schemes or hardship arrangements, many of these services are co-located. This allows financial counsellors to easily refer complex consumer legal issues, including misconduct, to the legal assistance sector for their attention.

Legal assistance is currently funded under the *National Partnership Agreement on Legal Assistance Services 2015-20* and the *Indigenous Legal Assistance Program*.

Due to the connection between financial counselling and legal assistance, any increased provision of financial counselling services will have flow on implications for the provision of legal assistance and may need to be considered.

Summary of recommendations

1	State, territory and Commonwealth governments convene to initiate the development of a national approach for financial counselling.
2A	Total state, territory and Commonwealth government funding for financial counselling be maintained at current levels and does not decrease.
2B	Additional funding be made available from industry sources, (collected by the Commonwealth Government), to enable access to financial counselling services in Australia to double over the next four years.
2C	Initial contributions from industry of \$20 million to begin in fiscal year 2019-2020 through a voluntary arrangement with the four major commercial banks, to enable the “ramp up” of financial counselling services to commence.
3A	The Commonwealth immediately take steps to establish (by 1 July 2020) an independent body that is responsible for the national cooperative financial counselling effort. This body is to be advised by an Advisory Council of Government, the financial counselling services sector and industry.
3B	The Commonwealth immediately take steps to initiate data analytic work which will underpin a national strategy and enable financial counselling services to be appropriately funded through assessment of need.
4	The Commonwealth, in consultation with small business bodies and the Small Business and Family Enterprise Ombudsman, continue the exploration of small business needs for financial counselling and the best methods to address the identified need for subject matter expert support.
5	State, territory and Commonwealth governments include financial counselling services as a standard part of the broader response for assistance to people affected by natural disasters.
6	State, territory and Commonwealth governments should consider the impact and funding implications for the provision of legal assistance that will flow from significantly increased provision of financial counselling services.

List of abbreviations and defined terms

Table of abbreviations

Abbreviation	Definition
ASIC	Australian Securities and Investments Commission
DSS	Department of Social Services
FCA	Financial Counselling Australia
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
TIO	Telecommunications Industry Ombudsman

Defined terms

Term	Definition
Bankruptcy	A legal status of a person or entity who cannot repay debts to creditors.
Financial adviser	Financial advisers provide financial advice or guidance to customers for compensation. Services can include, but are not limited to, investment management, income tax preparation and estate planning.
Financial capability worker	Workers who deliver financial literacy education, information and coaching and maintain a strong focus on supporting consumers to change their behaviour and 'learn by doing'.
Financial counsellor	Financial counsellors provide information, support and advocacy to assist people in financial difficulty. Working in community organisations, their services are free, independent and confidential.
Financial hardship	Difficulty in making repayments on loans and debts when they are due.
Financial vulnerability	The ability to recover from unexpected financial shocks including sudden or unexpected loss of income, financial exclusion, unexpected life circumstances or unexpected increase in expenses.
Four major commercial banks	The four largest banks by market share: National Australia Bank (NAB); Commonwealth Bank of Australia (CBA); Australia and New Zealand Banking Group (ANZ); and Westpac.
The Royal Commission	Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.
The sector	The financial counselling services sector.
The Senate Inquiry into Hardship	<i>The Senate Inquiry into Credit and Financial Services Targeted at Australians at Risk of Hardship.</i>

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1 Introduction

1.1 Background

On 14 December 2017, the Australian Government appointed the Honourable Kenneth Madison Hayne AC QC (Commissioner Hayne) to lead the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* (the Royal Commission). Commissioner Hayne's Final Report made 76 recommendations related to the banking, superannuation and financial services industry, after uncovering extensive misconduct in the sector.

In the Final Report of the Royal Commission, Commissioner Hayne noted that the "legal assistance sector and financial counselling services ... are a necessity to the community". Commissioner Hayne also highlighted that financial counsellors frequently struggle to meet increasing demand, and that:



"The desirability of predictable and stable funding for the legal assistance sector and financial counselling services is clear and how this may best be delivered is worthy of careful consideration."⁴

Arising from this observation, on 7 February 2019, the Government announced a Review of the Coordination and Funding for Financial Counselling Services across Australia (the Review).

The Review consulted with a wide range of stakeholders and considered international funding models. A detailed description of the Review process is available at **Appendix A**, and the Terms of Reference are available on page ii.

1.2 Rationale for the Review

Commissioner Hayne's comments in the Final Report of the Royal Commission were significant in shaping the rationale for the Review. Broadly, these can be captured in two main categories:

1. the asymmetry of knowledge and power that occurs between consumers and providers; and
2. the role and value of financial counsellors.

The asymmetry of knowledge and power between consumers and service providers

One of the key themes that emerged in the Final Report of the Royal Commission was the growing complexity of the financial market offerings and the negative impact this can have when consumers select products and services which are either more expensive or inappropriate for their financial situation.

Commissioner Hayne wrote that:

⁴ Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (2019).



“The asymmetry of knowledge and power between consumers and financial services entities has been evident throughout the Commission’s work. Financial products and services have grown ever more complicated, numerous, and difficult to distinguish.”

I note as Reviewer that the Royal Commission had appearing before it some of the major financial institutions in Australia. Not being examined were payday lenders, commercial debt consolidators or for-lease goods providers. Even a cursory examination of the problems presenting to financial counsellors suggests that such providers are strongly implicated in many of the debt problems facing consumers. *The Senate Inquiry into Credit and Financial Services Targeted at Australians at Risk of Hardship* (the Senate Inquiry into Hardship) documents many of these issues. These sectors need to be borne in mind in the eventual model providing for the contributory requirements of industry funding for financial counselling services.

The role and value of financial counsellors

Financial counselling is provided by community and local government organisations who offer free, independent services to help people in, or at risk of, financial hardship. Those they assist are often in a position of accumulating debt and may also face loss of essential amenities (electricity, housing) or even bankruptcy.

Commissioner Hayne in his Final Report states that the legal assistance sector and financial counsellors:



“...perform very valuable work. Their services, like financial services, are a necessity to the community. They add strength to customers who are otherwise disadvantaged in disputes with financial services entities.”

Financial counselling can provide a range of benefits to individuals, with the most important being timely intervention which can often get an individual back on track in a time of financial hardship. Among others, this can be through assisting an individual to get a clear picture of their income and expenses, negotiating with an energy, telecommunications or water provider to ensure the individual’s service is not cut off or that they are able to pay for services in smaller portions, assisting with complaints to other bodies that deal with disputes such as an Ombudsman, and equally importantly, connecting clients with other services that can offer support.

The short time period for the Review did not enable wide consultation with those who use the services of financial counsellors. However, the Review was given access to unidentified comments from those who had accessed services in the past and these three quotes speak for themselves:



“At first, I was so nervous coming to see you, imagining that ‘the financial counsellor’ would be over bearing, controlling, intimidating and judging me. Contrary to this pre-conceived idea, I found you to be most professional, warm friendly, easy to talk to, very patient as I found it difficult to explain things to you, very thorough in your follow ups, very reassuring as you gave me encouragement that the great mess I caused with my debts could and would be resolved, and indeed it was. I read on

your flyer that your values were: Respect, Integrity, Compassion and Collaboration and I agree that you displayed all of those values and characteristics to me.”



“I wanted to take this opportunity to personally thank you for everything that you did for my girls and I. I don’t think I can ever thank you enough for your unflinching support and help. Without you, I could never have had those crushing debts extinguished and my situation would have been so bleak. It’s a long road to recovery and I am still very behind in my goal to achieve financial and housing security, as are all women who have lived through domestic violence scenarios. However, without your help in dealing with my creditors and debts I would be in crisis and instead I am on the road to recovery.”



“I can’t express enough how much she has done for us in time of overwhelming need and stress. She has helped us to save our home through excellent advice and practical help with extreme competency and a calming manner. She is a very busy person yet her caring is always evident - quite literally a life saver.”

1.3 Focus and scope of the Review

The Review considered financial counselling services within the continuum of financial literacy, financial capability and related legal assistance. The intersections of the services along this continuum are important. All analyses, options and recommendations, however, relate to financial counselling services only.

The Review considered the following:

- how financial counselling services operate within Australia;
- emerging needs for consumers and financial counsellors;
- ways in which service delivery can be improved; and
- how funding can be more sustainable.

In addressing the issues noted above, this report outlines the context in which financial counselling operates, the complexity of financial wellbeing, services that complement financial counselling, drivers for why people may require this service, and the breadth of stakeholders who benefit from this service.

Stakeholders consulted included state and territory governments, the private and not-for-profit sectors, financial counselling and legal assistance sectors, and relevant Commonwealth agencies. Consultation was undertaken through interviews, focus groups, and written submissions to an issues paper and survey. A detailed list of stakeholders is provided at **Appendix B**.

The findings from the Review are expected to complement a range of other reviews and initiatives currently underway including:

- **National Partnership Agreement on Legal Assistance Services 2015-20 and the Indigenous Legal Assistance Program.** This Review assessed the effectiveness,

efficiency and appropriateness of the legal assistance arrangements which are currently due to expire on 30 June 2020;

- **the work of the Joint Agency Drought Taskforce**, including the development of a long-term Commonwealth strategy for drought preparedness and resilience;
- the Department of Agriculture and Water Resources' **internal review into the operation and structure of the Rural Financial Counselling Service** to assess the efficiency and effectiveness of funding and services in meeting the program's objectives. This internal review will include targeted and public consultation, and take into consideration findings from related reviews and existing performance data. Outcomes and recommendations from the internal review will inform the government's decisions on future program design and funding arrangements. The internal review is anticipated to be completed mid-2019. As a result, this review will not conduct an in-depth exploration of the Rural Financial Counselling Service;
- **the establishment of the new body, Ecstra**, a not-for-profit organisation working as part of the National Financial Capability Strategy. Ecstra will provide individuals with the support and access to resources they need to make confident money decisions now and for their financial future; and
- **the Final Report of the Senate Inquiry into Hardship**, which was tabled on 22 February 2019. The Committee made 20 recommendations, focused on reducing the risk and impact of marginal credit products on vulnerable Australians. This included recommendations regarding increasing government funding to financial counselling organisations and consideration of the timing for future tender processes for financial counsellors.

2 The financial counselling services landscape

2.1 *Financial counselling within Australia*

Financial counselling services are predominantly provided by community organisations, who offer free, independent services to help people in, or at risk of, financial hardship and who are often accumulating debt.

The peak body for financial counselling in Australia estimated that there were around 500 financial counsellors in Australia who provided face-to-face services to around 125,000 people across Australia in 2018 with the National Debt Helpline attending to about 180,000 calls per annum.⁵ Services include generalist financial counselling and more specialised advice, such as assistance to those who have experienced domestic violence or people addicted to gambling. There are also services provided in specific geographical areas, such as financial counselling services for rural areas.

2.1.1 *Financial counsellors*

Financial counsellors are distinct from financial advisers or financial planners who usually charge a fee and offer financial advice to assist in financial decisions and planning, such as budgeting, investing, superannuation, retirement planning, estate planning, insurance and taxation. In addition, the requirements to become a financial adviser differ from those required to become a financial counsellor. While a financial adviser may assist an individual to proactively manage and optimise their finances, or may assist in times of crisis, financial counselling is targeted to people who are in financial difficulty and need immediate support to improve their situation.

Financial counsellors do not provide services such as financial planning advice, finance lending, or endorsement of specific financial products or services.

Financial Counselling is delivered by individuals who have completed the nationally-accredited Diploma of Financial Counselling and are accredited by their state financial counselling body. Some current financial counsellors don't hold this qualification which presents a challenge. Financial counsellors are exempt by the Australian Securities and Investment Commission (ASIC) from the requirement to hold a credit licence or Australian Financial Services Licence on the basis that they have undertaken appropriate training, are accredited with their state financial counselling peak body, offer free services and provide any financial service as part of a financial counselling service. In light of this exemption, "financial counsellor" and "financial counselling" are protected terms under the National Consumer Credit Protection Act.

Financial counsellors require an in-depth knowledge of parts of the consumer and financial system, including credit, bankruptcy and debt collection laws and practices, industry hardship processes and government concession frameworks. This is obtained through a combination of formal education, professional development provided by peak bodies and

5 A New Approach to Funding Community Financial Counselling and Better Advice Services (Financial Counselling Australia, 2019).

training/information provided through other sources (such as ombudsmen, government or industry).

The formal education component of acquiring knowledge for a financial counsellor is through completion of the nationally-accredited Diploma of Financial Counselling. This consists of 17 units covering a variety of subjects including specialist financial counselling knowledge, skills in counselling, mental health, advocacy and community development. There are numerous registered training organisations around Australia that offer this diploma.

Governance

Following completion of the diploma, financial counsellors can become a member of a relevant state or territory peak body that requires compliance with national standards for membership and accreditation. This includes the requirement to maintain professional competence through undertaking at least 20 points of continuing professional development annually. This can be completed through a variety of methods such as attending seminars, workshops and webinars.

Financial Counselling Australia (FCA) is the peak body for financial counsellors in Australia. FCA's role is to support the financial counselling profession. It also engages in systemic advocacy on issues affecting people who are financially vulnerable. FCA is a federated body and its members consist of each state and territory financial counselling association in Australia.⁶ FCA also receives Commonwealth funding to coordinate the National Debt Helpline.

2.1.2 Support provided by financial counsellors

Financial counsellors provide support by assessing a person's financial situation to understand the extent of their financial difficulties and identify options to address these. They encourage the person to participate in the planning and decision-making process. Financial counsellors may also refer clients to other local sources of support and assistance, such as housing, community or health services, if required. People may seek support from financial counsellors for a range of issues, including bankruptcy, difficulties in paying bills, negative credit reporting, or to seek advice on money management strategies.

Financial counselling support might include:

- suggesting ways to improve a person's financial situation through improved budgeting or income and expense management (including prioritisation);
- assessing eligibility for government assistance or rebates;
- negotiating repayment arrangements with creditors;
- explaining options and consequences of processes such as debt recovery procedures, bankruptcy and other alternatives;
- providing assistance in applying for a hardship variation;⁷

⁶ The South Australian Financial Counsellors' Association also covers the Northern Territory.

⁷ National Consumer Credit Code 2009.

If someone is unable to keep up with repayments on their utility bills, credit or loans (for example, because of illness, unemployment or changed financial circumstances) some companies offer a 'hardship variation' where the lender/company and individual can explore options for repayment.

- providing a referral to other services, for example, family support services, personal counselling or community legal aid; or
- lodging disputes with external dispute resolution bodies.

Financial counselling services have a number of key attributes which distinguish them from other services -

- **Advice is provided free of charge:** financial counsellors provide expert advice at no cost to the client.
- **Independence and trust:** financial counsellors provide an independent service (i.e. separate to the government and industry service providers). This independence has been essential in allowing counsellors to establish the trust of those they are assisting. Trust is important in creating an enabling environment where a client can feel comfortable to present their whole problem without omitting details which they might otherwise be hesitant to disclose.

Cases managed by a financial counsellor vary in complexity and the level of support required can range from referral and advice through to case management and support. Some clients require months of support to resolve their financial (and related) issues.

In some cases, only a small amount of ‘**assisted self-help**’ is required. This might include the provision of simple advice, accessing sample letters for seeking entry into hardship schemes or gaining access to a dispute toolkit from the financial counsellor or website. This initial support may be sufficient to manage the issue. If further support is required, a person can seek additional advice from a financial counsellor to resolve the issue.

2.1.3 *Types of financial counselling*

As noted earlier, financial counselling support in Australia includes generalist financial counselling and more specialised advice including assistance to farmers, and those who are affected by domestic violence or problem gambling. The types of financial counselling funded by government are explained below.

Department of Social Services

- *Commonwealth Financial Counselling and Financial Capability:* helps eligible people address their financial problems through the provision of information, advocacy and/or negotiation on behalf of the client.
- *Problem gambling:* similar to the above, however, providers have slightly different training and may also work closely with therapeutic counsellors who provide assistance in addressing the addiction.
- *Money Support Hubs:* provide integrated Commonwealth Financial Counselling and Financial Capability services, and in some instances, Emergency Relief services and access to Microfinance products, in Income Management and Cashless Debit Card locations.
- *National Debt Helpline:* a national helpline where people can receive financial counselling, general referral and if needed, referral to their closest face-to-face financial counselling service.

Department of Agriculture and Water Resources

- *Rural Financial Counselling*: provided in farming communities to eligible clients who are experiencing, or at risk of, financial hardship through not-for-profit organisations. This service is for farmers, fishing enterprises, forest growers and harvesters and related small business owners.

State and territory governments

Generalist financial counselling services are provided by each of the state and territory government organisations listed below. Note that this list is not exhaustive. Where it is evident that specialist financial counselling is provided, this has been highlighted.

- Financial Counselling Services Program (NSW)
- Financial Counselling Program (VIC): this includes counselling for those exposed to family violence
- Financial Literacy and Resilience Program (QLD)
- Financial Resilience Programs (SA)
- Streets Ahead (TAS)
- Financial Counselling Services (WA)
- Financial Counselling (ACT)

Some state and territory governments also provide funding for the National Debt Helpline and may provide funding for problem gambling counselling.

2.1.4 *Modes of delivery*

Should the need arise for financial counselling, people can access services individually or through referral from other organisations which have established pathways for financial counselling. These organisations include:

- state and federal government agencies (e.g. Centrelink);
- government regulators (e.g. Australian Financial Security Authority);
- financial services institutions (e.g. banks, debt collection companies);
- utility and telecommunication providers;
- ombudsmen services; or
- other community services organisations.

Further, the details for accessing the National Debt Helpline are often legally required to be included on certain documents given to consumers. It is a legal requirement for the number for the National Debt Helpline to be printed on default notices issued by credit providers and on warning statements that payday lenders are required to publish on websites and in-store. This widespread awareness of the National Debt Helpline can often act as a triage system for ombudsmen offices and community / consumer legal services as people can seek information and referral in the initial stages of financial difficulty or when seeking to explore their options.

Financial counselling services are provided across Australia with locations generally reflecting where government funding has been made available for service provision. Some providers may operate from one location while others may be co-located with other services (i.e. women's refuges, housing service, legal aid or other community services) permanently or on a rotation. In addition, some providers offer outreach services.

Financial counselling is accessed and delivered through the following mediums:

- **Face-to-face:** by contacting a local financial counsellor and arranging an appointment. This includes drop-in style sessions which allow individuals to gain advice on financial documentation which may not be completely understood. Rural financial counselling is primarily delivered face-to-face, with flexible arrangements for office-based, on-farm, or in-home sessions.
- **Online:** via access to resources available through online channels such as the National Debt Helpline website.
- **Telephone:** by contacting the National Debt Helpline (1800 007 007), for generalist financial counselling services, which is managed by a provider⁸ in each state or territory and is available between 9:30am and 4:30pm Monday to Friday. Rural financial counselling can be accessed directly from service providers, or by referral by calling the dedicated phone line which is managed by the Department of Agriculture and Water Resources (1800 686 175). Problem gambling financial counselling can be accessed through contacting the National Debt Helpline to seek referral to the closest service. In all circumstances, a trained financial counsellor assesses the caller's situation and provides advice. If the matter is more complex, the caller may be referred to their closest face-to-face financial counselling service and to other services they may require, such as legal services, crisis food and accommodation services, tenants' advice and health services.

2.2 The requirement for financial counsellors

The requirement for financial counselling was recently explored by the Senate Economics References Committee in the Senate Inquiry into Hardship. This Inquiry explored marginal credit service providers such as payday lenders, consumer leases, and debt advice firms and noted that financial products are not all alike and exist on a spectrum of risk and potential harm. The Royal Commission, Senate Inquiry into Hardship, research and consultations collectively highlighted a number of factors in the market that can contribute to a person entering into debt and can influence why someone may require a financial counsellor -

1. **A complex market:** resulting from the asymmetry of knowledge and power - individuals may not choose products that are best suited to their financial situation in part due to the complexity of these products.
2. **Predatory products, services and practices:** individuals may fall into debt by using financial products and services with often opaque terms such as high interest and 'hidden fees'.
3. **Unexpected life events or financial vulnerability** (e.g. divorce, death or illness).

⁸ There are currently two providers in Western Australia, New South Wales and Victoria.

2.2.1 *The complex market*

The Royal Commission and Senate Inquiry into Hardship widely canvassed current lending practices which were not re-canvassed through this Review. It is important to note however that in addition to financial services and products, other markets such as energy and telecommunications have become more complicated with an increasing number of products which can be difficult to distinguish.

It can be challenging for consumers to navigate and understand these markets without a high level of financial literacy; the complexity of products and opaqueness of contracts may make it very difficult to choose wisely even when the consumer is highly financially trained. In addition, navigating a dispute with a service or product provider (either directly with an entity, via legal proceedings or through alternative dispute resolution) can be overwhelming and challenging for many people.

While the Royal Commission and the Senate Inquiry into Hardship discussed the complexities of financial products and markets, other current or recent reviews have highlighted other complex products and services. Examples include:

- **Travel insurance:** ASIC's current review of travel insurance following the Royal Commission in recognition that travel insurance is one of the most complained about financial products.
- **Electricity:** the Australian Competition and Consumer Commission's (ACCC) recent review of electricity supply and pricing in 2017 found that it can be a difficult market to navigate, creating uncertainty for the consumer. In addition, it was noted that because high prices and bills can place significant strain on household budgets,⁹ negotiating the best electricity deal can play a significant role in day-to-day finances.

Changing markets

The market is also constantly evolving. As technology improves the development of 'big data', for example, many companies are able to better target products and prices. Data analytics may allow them to personalise prices in ways that were previously uneconomic.¹⁰ This could mark a major break from the experience of the last century in how prices are set in mass markets. Regardless of how far such price discrimination practices may go, 'big data' in the hands of businesses – and not consumers – will significantly exacerbate the asymmetry of power and information in market transactions.

2.2.2 *Predatory or unethical practices*

Predatory lending practices were a focus in the Senate Inquiry into Hardship and were highlighted by witnesses as contributing to unmanageable debt that may lead a person to require the services of a financial counsellor. For example, the Senate Inquiry into Hardship found products, such as consumer leases and payday loans¹¹ were "clearly targeted at low income Australians who do not have access to other credit products. The

9 "ACCC Electricity Supply and Pricing Inquiry Submission", [acc.gov.au \(Webpage, 2019\)](https://www.accc.gov.au/system/files/Energy%20Consumers%20Australia.pdf)
<<https://www.accc.gov.au/system/files/Energy%20Consumers%20Australia.pdf>>.

10 James Plunkett, "The Future Of Shopping: Pricing Gets Personal", [prospectmagazine.co.uk \(Webpage, 2019\)](https://www.prospectmagazine.co.uk/magazine/the-future-of-shopping-pricing-gets-personal)
<<https://www.prospectmagazine.co.uk/magazine/the-future-of-shopping-pricing-gets-personal>>.

11 Payday loans are a high-cost short-term loan that must be repaid between 16 days and one year. It is important to note that although payday loans may offer benefits in the short-term, if loans are not paid within the agreed term, it may be detrimental to the individual's financial wellbeing in the long-term.

evidence before this committee (as well as the public record of regulatory actions) shows that there are real issues with the business models and business practices of providers in this sector”¹² and that these products present an oversized risk to Australians in financial hardship.

In addition to the Royal Commission and its revelations relating to financial misconduct and industry ‘attitude’ towards consumers in financial services, there are frequent examples of illegal or unethical behaviour by reputable companies in other markets. The recent release of a systemic insight paper by the Telecommunications Industry Ombudsman (TIO) “Sales Practices Driving Consumer Debt” highlights selling practices in the telecommunications sector which drive financial over-commitment by consumers.¹³ The TIO makes recommendations in this regard, but in particular highlights the need to make reasonable enquiries about a consumer’s financial situation before selling post-paid plans. The ACCC has highlighted misconduct of, and issued fines to, both energy and telecommunications companies over misleading representations.

2.2.3 Unexpected life events and financial vulnerability

Many Australians experience life events which can result in unexpected financial shocks (i.e. a large bill after an accident) or can impact on their income or access to finances (i.e. losing a job, illness or divorce). Some people may have the financial resilience to buffer themselves during the event (i.e. having access to savings or family who can assist), while for others, these events can unexpectedly push them into financial hardship.¹⁴ In addition to unexpected life events, some people are more susceptible to financial vulnerability, for example, women who are victims of family violence,¹⁵ people with a gambling or substance addiction,¹⁶ those with limited income, the elderly¹⁷, or those faced with significant costs resulting from caring responsibilities, illness or disability.

For these individuals, it can be their life experiences, financial vulnerability or financial exclusion (explored below) which can contribute to them being in financial hardship. This can also increase the risk of them utilising products and services inappropriate for their financial situation and lead into unmanageable debt.

¹² Ibid, p.10.

¹³ Telecommunications Industry Ombudsman Systemic Insight: Sales Practices Driving Consumer Debt February 2019.

¹⁴ Muir, K., Hamilton, M., Noone, J.H., Marjolin, A, Salignac, F., & Saunders, P. (2017). Exploring Financial Wellbeing in the Australian Context. Centre for Social Impact & Social Policy Research Centre – University of New South Wales Sydney, for Financial Literacy Australia

¹⁵ Dwyer, W, Family Violence: Financial Abuse Position Paper, Redfern Legal Centre, <http://rlc.org.au/sites/default/files/attachments/Family%20Violence,%20Financial%20Abuse%20-%20Position%20Paper.pdf>

¹⁶ Australian Psychological Society submission to "House Of Representatives Committees – Family and Human Services Illicit drugs Report.Htm – Parliament of Australia", aph.gov.au (Webpage, 2007) <https://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=fhs/illicitdrugs/report.htm>.

¹⁷ Gardner, P, Byrne, G, Leander, M & Pachana, N (2015), Financial capacity in older adults: a growing concern for clinicians, Medical Journal of Australia, 202(2), pp.82-85

2.3 Financial counselling within the broader context

2.3.1 Financial wellbeing

Financial wellbeing refers to the ability of individuals and families to achieve financial security and independence, in order to achieve quality of life and access the opportunities available in society.¹⁸ To obtain financial wellbeing, a person may require the following foundations:¹⁹

Stage	Adequate income	Financial capability and financial literacy	Financial resilience	Financial inclusion
	Income is adequate to achieve high quality of life and access opportunities available in society.	Access to appropriate information and applying the appropriate skills, attitude and behaviour to make informed and effective financial decisions.	The ability and access to draw on resources or capabilities that can assist with financial difficulty.	Access to appropriate and affordable financial services and products
Enabler	<ul style="list-style-type: none"> • Employment • Income 	<ul style="list-style-type: none"> • Access to appropriate resources • Financial tools (e.g. budget calculators) 	<ul style="list-style-type: none"> • Savings / assets • Networks • Financial products (e.g. loans) 	<ul style="list-style-type: none"> • Microfinance • Financial products (e.g. loans)

An imbalance in one or more of these foundations can result in an individual being vulnerable to financial hardship. For example, an individual who does not have savings to buffer them from an unplanned bill may turn to a pay-day loan when this product is inappropriate for their financial situation. Analysis indicates that “almost 1 in 5 (adults) could not, or did not know if they could raise \$2,000 in a week” to meet an unplanned cost.²⁰

Financial capability

Closely related to financial counselling, and part of the overall financial wellbeing landscape, is enabling consumers through financial literacy, or more broadly, financial capability.

The Australian Government supports financial capability through the 2019 National Financial Capability Strategy which is aimed at improving skills in managing money day to day, making informed decisions and planning for the future. Through this strategy, a new not-for-profit organisation, the Ecstra Foundation, was launched. This foundation provides support and access to resources for Australians to ensure that financial capability is addressed through social, economic and behavioural factors. Initiatives include online learning resources, grants for organisations to provide support and school engagement to encourage learning in early years.

Further, ASIC provides a breadth of information to consumers, including money management strategies, risks involved in using credit, and general investing information through its website – MoneySmart. It also provides a range of calculators and resources helping to enable consumers in navigating the financial services market.

The Australian Government also supports financial capability through financial capability workers. These staff often work in organisations that provide financial counselling. However, these staff focus more on the delivery of financial literacy education, information and coaching. Financial Capability workers maintain a strong focus on supporting consumers to

18 ASIC, 'National Financial Literacy Strategy 2014-17'

19 Sources include: Ibid, p. 12. and TNS (2015) Financial Capability and wellbeing a qualitative report, The Money Advice Service

20 Centre for Social Impact and NAB, Why is financial stress on the rise? September 2017.

change their behaviour and 'learn by doing'. Financial capability work is an important part of enabling consumers to traverse complex markets with some confidence in their skills.

Consumer credit lawyers and community legal centres

Consumer credit lawyers and community legal centres generally work hand-in-hand with financial counsellors. By nature, financial counsellors are often supporting consumers who are in difficulty resulting from a legal contract. Although many consumers can be helped by a financial counsellor through advice or support on how to make a complaint or how to access financial hardship provisions, financial counsellors may need to seek immediate legal advice from legal professionals. They may escalate a matter to legally-trained personnel where it is beyond their training. Legal advice might include support to dispute an inaccurate credit default listing, or help to understand legal obligations with respect to payday loans or making debt repayments. Legal assistance might extend to liaison with consumer lease providers who have failed to comply with responsible lending laws or legal representation in a dispute with a bank.

2.3.2 Complementary services and products

Financial counselling operates within a larger ecosystem of financial advice and support offered to the community. This ranges from early intervention through financial literacy, through to support for those in financial hardship and crisis.

There are a number of complementary private and government products and services that people in financial hardship may utilise. While only financial counselling is in scope for this Review, it is important to note that other services support the work undertaken by financial counsellors.

Microfinance

There are a number of microfinance providers who specialise in financial products for those who lack access to traditional banking services. Microfinance complements the financial inclusion aspect of financial wellbeing. The largest provider of microfinance in Australia is Good Shepherd which is supported by National Australia Bank, and also receives some government funding. Good Shepherd provides a range of low or no interest loans (e.g. No Interest Loans Scheme, Speckle and StepUP) for low income earners who meet eligibility criteria.

Hardship programs

Financial services, telecommunications, energy and other utility service providers offer support for clients in financial hardship. However, the availability and scope of this support can vary.²¹ Hardship programs are available where a person who is unable to meet bill repayments can access a 'hardship variation' allowing the service provider and an individual to explore options for repayment. Depending on the company's implementation, their hardship program may have its own dedicated staff and/or phone line to ensure consumers receive a consistent service.

Many of these support mechanisms have a direct referral for financial counsellors. For example, submissions highlighted that many banks and energy companies maintain

21 Ali, P; Bourova, E & Ramsay, I. (2017) Financial hardship assistance behind the scenes: Insights from financial counsellors .Australian Journal of Social Issues, Vol. 52, No. 3: 41-61. Availability: < <https://search.informit-com-au.virtual.anu.edu.au/documentSummary;dn=244662303626887;res=IELAPA>> ISSN: 0157-6321 . [cited 20 Mar 19].

a dedicated phone service to allow financial counsellors to easily contact the provider to discuss their client's matter. There is also a link on all of the four major commercial banks' website's home page to information on hardship and access to financial counsellors.

In the utilities sector, many energy providers offer financial hardship support which includes energy audits designed to help the household identify the most cost effective and practical options to reduce energy consumption and costs.

Given that financial hardship is often first identified by financial services, energy, telecommunications or other utility service providers, the continuous provision and improvement of this support is important. With the exception of predatory providers, the first point of contact for a consumer who realises they cannot pay a utilities bill or meet their credit repayment obligations is, and should be, the company itself.

Ombudsmen

Ombudsmen are independent agencies which assist when a dispute arises between individuals and industry bodies or government agencies. Of most relevance to this Review are energy and water, financial industry and telecommunication ombudsmen.

Through stakeholder engagement, it became apparent that ombudsmen rely significantly on financial counsellors as they often provide a triaging process. This process can often prevent issues from reaching the ombudsman if it is resolved earlier with the help of a financial counsellor. Additionally, complaints by consumers who have had the assistance of a financial counsellor are often easier to deal with administratively (for example on the advice of the financial counsellor the individual may be prepared with the correct documents and information). All this can decrease the demand and workload on ombudsmen offices.

In addition, financial counsellors often highlight systemic issues observed in a particular market or with a particular provider enabling regulators and ombudsmen to focus on such market behaviour. Frequently, financial counsellors are the first to see emerging conduct or market problems and serve an important function of 'early warning' - alerting regulators and governments to such matters.

2.3.3 Sector innovation

Given the limitations on funding, coordination and other challenges in the financial counselling sector (the sector), it is easy to overlook how innovative and proactive the sector has been. There are a number of initiatives undertaken by financial counsellors and businesses which continue to provide innovation in the way that funding or skills are used.

Innovation in the delivery of financial counselling services

Despite the funding barriers to service improvement, the sector has demonstrated creative methods to service offerings, often in conjunction with, or led by ombudsmen services -

- **Bring your bills day:** these initiatives help people understand their energy and water bills. Companies, ombudsmen and financial counsellors are present to assist with solving a range of billing issues.
- **Bulk debt negotiation:** this was a project undertaken in Victoria aimed at assisting "judgement-proof debtors" – people with no assets and low incomes. There is little point in a creditor pursuing legal action in this situation. This project bundled many clients' debts to perform a 'bulk negotiation' with the provider rather than contacting the bank institutions separately for each client. This resulted in successful negotiations of debt

waivers in most cases. This saved time and resources for the consumers, the financial counsellors and legal aid offices, and the bank businesses.

- The development of the National Debt Helpline: this service, offered to all Australians via one national number and several service centres located around the country, has significantly increased the accessibility of financial counselling services.
- Specific funding which is targeted towards specialist work in more specific cases for financial counselling resulting from issues related to domestic violence, gambling, and rural needs.

Innovation by industry

Historically, industry has focused on supporting financial capability and literacy development. This support is typically provided in the form of online tools and resources to support consumers in building their financial capability.

Industry has also provided support in the financial counselling space through innovative responses such as supporting training, improving referral pathways and making financial contributions in the field of financial counselling. These include, but are not limited to the examples below -

Industry referral pathways and support services

- Dedicated phone services to allow financial counsellors to easily contact the bank to discuss client matters.
- Customer advocate teams which work with customers who are being assisted or represented by financial counsellors to offer independent customer complaint reviews and support for vulnerable customers. For example, Westpac has a dedicated team of specialists who work in partnership with financial counsellors to achieve better customer outcomes. Further, the National Australia Bank has partnered with Kildonan to provide one-on-one support to customers who are facing financial stress.
- Links on all of the four major commercial banks' website's home page to information on hardship and access to financial counsellors, including referrals to the National Debt Helpline.

Industry developed products and services

- Microfinance products and services which create additional avenues of support for people experiencing financial hardship. This includes no and low interest loan programs. Microfinance is generally co-funded by industry and the Australian Government.

Industry funding contributions

- Industry funding contributions to support, offer and attend professional development, training and financial counselling conferences. For example:
 - Contributions through FCA to all state and territory financial counselling associations. This money supports professional development and conferences for member financial counsellors. The Commonwealth Bank of Australia (CBA) also partners with FCA to fund and train financial counsellors in recognising and responding to domestic and family violence.
 - Supporting organisations such as Indigenous Consumer Assistance Network Ltd (ICAN). ICAN Learn is a social enterprise Registered Training Organisation whose

purpose is to provide quality industry-focused education to those wanting to become financial counsellors and capability workers across Australia. This organisation partners with CBA and EnergyAustralia who provide a range of scholarship programs for individuals to obtain the required education and training to become a financial counsellor. This includes focused opportunities for Aboriginal and Torres Strait Islander peoples and those in multicultural communities.

- Australia and New Zealand Banking Group (ANZ) provided a seed funding contribution to the Financial Counselling Foundation, a charitable trust set up to provide grants for financial counselling casework and help build the capacity of the sector.
- Industry has provided funding for additional financial counselling required when a natural disaster such as drought or flooding occurs.
- Kildonan has partnered with community agencies, the government and utility and financial service providers to develop the CareRing model. The CareRing model provides advice and support including Utility Home Visits, that help people identify ways to reduce their energy and water use and save on bills.

Industry partnerships

- Partnership between community and financial services providers to form the Way Forward Debt Solutions program. This is a market intervention which provides a free service to support individuals who have multiple unsecured debts in returning to financial stability.
- The Thriving Communities Partnership brings together a number of organisations (including banks, energy, water and telecommunications providers) to provide a centralised platform for collaboration, learning, research and projects that advance organisational contributions to combatting consumer vulnerability and hardship.

2.4 Value of financial counsellors

Financial counsellors provide value to three main stakeholders: those experiencing financial hardship, industry and government.

Value provided to those experiencing financial hardship

Financial counsellors provide value to those experiencing financial hardship through two main streams of support -

- **Advice and support:** financial counsellors provide independent expert advice and support at no cost to the consumer and are available to assist through a variety of channels.
- **Prevention of further financial hardship:** intervention at the right time can often get an individual back on track and prevent further financial hardship. This may include **advocacy** support as individuals dispute unfair contracts or negotiate better payment plans or debt waivers, or **referral** as people may present with complex or underlying issues.

A report in 2012²² highlighted the range of benefits financial counselling delivers for clients including increasing the chances a person's financial difficulties can be resolved and alleviating the stress and anxiety for consumers related to financial difficulty. This includes reducing the negative impact of environmental stressors, such as interpersonal relationships and housing security, which if unchecked may exacerbate financial stress.

A detailed cost benefit analysis of financial counselling services was undertaken by the University of Adelaide for the Wyatt Trust²³. It concluded that the benefits of financial counselling in preventing bankruptcy and improving debt, moratoriums, waivers and grants outweighed the cost of providing the counselling by approximately five times.

Value provided to industry

Financial counsellors are used extensively by banks, telecommunications, energy and other providers. These service providers often recommend that financial counsellors are accessed by the consumers to support them with their financial hardship. On their websites, a number of service providers refer to financial counselling services as an avenue for further help for consumers experiencing financial stress. Some debt collection agencies may also refer clients to financial counsellors.

Apart from helping their customers in a time of significant stress, financial counsellors often assist an individual in managing, repaying or contributing towards their bills and debt. Thus, companies can benefit from continued revenue and an ongoing relationship with a customer which may not have otherwise occurred.

Value provided to government

While most governments have signalled their commitment to financial counselling through funding, there are a number of other benefits to government.

Financial hardship has high social costs. It can impact on a person's mental or physical health and personal relationships. It can also increase their dependence on other social services and supports.²⁴ The timely and early intervention of financial counselling for someone experiencing financial stress may prevent larger downstream costs to government and society than if a person were to fall deeper into financial hardship.

22 Brackertz, N., Swinburne University of Technology (2012) *I Wish I'd Known Sooner! The Impact of Financial Counselling on Debt Resolution and Personal Wellbeing*, Melbourne, The Salvation Army

23 "Paying It Forward - COST BENEFIT ANALYSIS OF THE WYATT TRUST FUNDED FINANCIAL COUNSELLING SERVICES", Ican.Org.Au (Webpage, 2014) <<http://ican.org.au/wp-content/uploads/2014/03/Wyatt-WISeR-Financial-Counselling-Cost-Benefit-FINAL2.pdf>>.

24 Sources include: Ibid, p. 18. and Engels, B., Nissim, R. and Landvogt, K. (2009) *Under Pressure: Costs of Living, Financial Hardship and Emergency Relief in Victoria*, Melbourne, Victorian Council of Social Service. Turunen, E. Hiilamo, H. (2014) 'Health effects of indebtedness: a systematic review', *BMC Public Health*, 14, 489 and Wesley Mission (2009) 'Financial stress: the hidden human cost,' *The Wesley Report*, Report No. 5.

3 Issues and challenges

The financial counselling sector, while still young, provides significant benefits to its client-base. It has expanded its service offering from budgeting and debt repayment advice in the sector's infancy to a range of early intervention, financial hardship, crisis, and debt resolution services. Notwithstanding its successes, the sector is faced with a range of compounding issues and challenges placing pressure on providers and impacting their ability to provide support to their clients. These include:

- the lack of a sector-wide strategic approach and the associated impacts; and
- an increasing gap between the complexity and demand for financial counselling and capacity to deliver.

The financial counselling sector operates in a complex environment in terms of why a person may need financial counselling and the potential supports available to them. This means the challenges are multi-faceted and interlinked.

In the context of this Review, a broad range of stakeholder views have been canvassed and are reflected in this section.

3.1 *Lack of sector-wide strategic approach and the associated impacts*

Financial counselling programs are funded by all levels of government. These programs seek to provide information, support and advocacy for people in personal financial difficulty. However, these multiple funding sources and cycles may lead to different policy expectations. In addition, funding assessment and administrative requirements may not align.

Funding

Funding for the financial counselling sector is mostly grant-based. The certainty and duration of funding cycles varies and significantly impacts providers' ability to plan, budget, recruit and retain staff.



*“Current funding is quite piecemeal (federal, state, local, philanthropic, industry)... some funding is for 12 months, 18 months, 4-5 years. It is hard to make good strategic decisions when faced with this mismatch.” - **State-funded financial counsellor***

Funding certainty is also affected where the end of one funding cycle occurs and the announcement of continued funding for future periods do not align. This is compounded where funding cycles are on a calendar year basis, meaning the end of a funding period may coincide with high periods of demand (financial distress associated with expenses related to Christmas and/or school year commencement).

Different funding requirements mean that a single provider may be funded to provide broad financial counselling and other complementary services (such as financial literacy and capability), or alternatively limited in the services they can offer (e.g. gambling debt related counselling only). This can make it difficult to provide consistent service to all clients. It also

limits the ability of providers to innovate and improve their services across the financial wellbeing continuum.



“Relaxing access requirements so we are able to assist all people who are experiencing financial stress [would improve service delivery].” - Commonwealth-funded financial counsellor

Administrative requirements

Providers noted that there are significant administrative burdens associated with applying for and acquitting grants that take them away from their core business. This is especially true for small service providers. The competitive nature of the grants process can create competition within the sector, adversely affect outcomes for clients and cause barriers to improved collaboration and referral pathways. Flexibility in funding also needs to be balanced with the need for appropriate levels of accountability and transparency.

The current lack of a coordinated approach means that providers funded from multiple sources have a range of competing data capture and reporting requirements. Providers are often required to report the same, or slightly different, information through multiple channels sometimes within seemingly unrealistic timeframes. These providers may receive funding for less than one full-time-equivalent (FTE) employee who may struggle to meet increasing demand for counselling services as well as fulfilling their accountability obligations.



“Multiple reporting tools are required by different funders, placing high levels of administrative impact on efficiency as financial counsellors need to be able to operate multiple reporting tools/databases... which don’t reflect the actual work being done.” - State-funded financial counsellor

Data to Support Innovation

The majority of stakeholders recognised the need for improved data analytics to better inform their planning and service delivery. They would appreciate access to regional, state and national trends that could (for example):

- increase their ability to target outreach services to areas of increasing demand;
- guide counsellor training towards elements of changing/emerging needs; and
- inform co-location with allied practitioners to enhance and streamline referrals to provide a one-stop-shop to clients.

Some of the larger providers think that with additional funding, they could establish these data analytics capabilities in-house. However, that would not provide consistent reporting Australia wide. Further, smaller providers would appreciate access to a data analytics capability that resides either with government or with an independent body that is responsible for national data collection.



“Data capture is always a struggle as we are so busy doing the business at hand. Analysis of the data could be undertaken at government level and provided back to the service providers. The difficulty here is that data entry at service provider locations is often the last priority.” - Commonwealth-funded financial counsellor

Workforce

The variations of funding certainty significantly influences a provider's ability to maintain a stable, experienced and trained workforce. Numerous examples of the inability to maintain a workforce were provided to the Review: when funding is cut, financial counsellors leave to secure alternate work; when funding is reinstated, providers struggle to rebuild the workforce, especially when continuity cannot be assured.

The financial counselling workforce is highly dedicated and genuinely cares about its clients. This is evidenced, among other ways, by some part time workers providing additional counselling services on a voluntary basis. In addition, there is benefit in clarifying the responsibility, roles and appropriate levels of support of financial counsellors and financial capability workers.

During consultation, providers explained that while training is important to build and maintain a professional workforce, the requirement to complete the Diploma of Financial Counselling²⁵ may be a barrier to increasing the pool of financial counsellors. For some providers this presents a workforce challenge as it can be hard to ensure all staff have completed this qualification.



“A challenge going forward after December 2019 is the need for all financial counsellors to hold the Diploma in Financial Counselling. This is an expensive way forward for counsellors who are not funded as the cost is \$6000. Our service will probably lose three counsellors out of a team of nine – a significant impact on our ability to grow and service the increasing demand for financial counsellors.” -

Commonwealth-funded financial counsellor

Additional challenges to gaining and maintaining qualifications exist for financial counsellors in rural and remote areas, as courses are difficult to access, a counsellor may require a locum, and attendance costs are high. Recruiting and retaining staff in regional areas is also difficult. In these areas additional employment benefits must often be offered, to negate the challenging conditions.

3.2 Increasing gap between complexity and demand

The sector has evolved over time to meet the needs of its client base. The Review found that increasingly the sector was experiencing an increase in complexity of cases due to the intersection of multiple issues (such as debt, gambling and mental health), the higher availability of complex debt products in the market, and the increasing asymmetry of power between the market and consumers.



“More frequently, clients are presenting with significant issues in addition to financial hardship which include physical and mental health conditions, unemployment and underemployment, low income, relationship issues, family breakdown, domestic violence, sexually transmitted debt and accommodation issues.”

²⁵ Under the ASIC exemption financial counsellors much have undertaken appropriate training. FCA note on their website that “the entry-level qualification to become a financial counsellor is the nationally-accredited Diploma of Financial Counselling (CHC51115)”. <https://www.financialcounsellingaustralia.org.au/about-financial-counselling/diploma-of-financial-counselling/>. This requirement is also reflected in the Financial Wellbeing and Capability Activity, Commonwealth Financial Counselling and Commonwealth Financial Counselling Helpline.

*These issues compound the financial hardship and make it difficult for the financial counsellor to achieve good client outcomes.” - **Commonwealth funded financial counsellor***

Multiple clusters of disadvantage

The increasing complexity of cases presenting to financial counselling providers arises from both the nature of the financial problem, and the client.



*“Financial counselling clients have become increasingly more complex in their issues. They often have gambling or other addictions, and mental health issues. We see more single mothers supporting their children on very low wages, families burdened with a gambler who often has a large number of pay day loans, and new Australian residents unable to get work. We also work with Corrections and Parole to support those people who have been released from prison.” – **Commonwealth-funded financial counsellor***

Many clients presenting with multiple clusters of disadvantage, find themselves making decisions that also affect their physical, psychological or emotional wellbeing. Submissions to the Review provided numerous examples of clients presenting with a particular problem. For example, the inability to pay an energy bill. Often, however, the initial impetus to seek financial counselling assistance is just the ‘tip of the iceberg’ with other additional problems emerging through the course of the consultations. Some enter a cycle of repeated vulnerability that can have flow-on effects across generations.

One provider described these as falling into four main clusters²⁶ -

1. **Family:** comprising domestic violence, divorce, relationship breakdown, problems with children.
2. **Homelessness:** comprising rented housing, homelessness, perceived unfair treatment by police, formal action against the individual.
3. **Health and welfare:** arising from unmet clinical needs, mental health, immigration, welfare benefits.
4. **Economic:** comprising consumer problems, money/debt and employment problems.

For particular groups, such as Aboriginal and Torres Strait Islander peoples, additional unique challenges arise. Culturally, a face-to-face connection is important as building trust is required. However, financial counselling services providing face-to-face services can be limited. Challenges exist in assisting those who reside in rural and remote areas (due in part to distance, cost of transport, limited number of counsellors and work health and safety requirements). These clients may have difficulty with proof of identity, understanding complex financial concepts, and speak English as a second or third language. In addition, culturally and linguistically diverse clients may require more support.



““[There is] significant financial abuse in remote communities – people are being cut off benefits or refusing to engage with the Community Development

²⁶ Community legal practitioner quoting a study conducted in the United Kingdom in 2004

Program.²⁷ They then have no income and rely on other people to financially support them. People on higher payments such as the disability support pension or aged pension are particularly targeted for this purpose, as are working people. The already inadequate incomes of those on pensions become further stretched. Those who are vulnerable are left even more so. Workers become discouraged as they receive little benefit from employment, and this sometimes leads to people giving up their job. All of this exacerbates financial hardship and the need for financial counselling.” -
Financial literacy education provider with and for people in remote Indigenous communities

Increasing asymmetry of power between consumers and the market

As noted earlier, asymmetry exists in the power and information between consumers and businesses. The financial services market now provides a plethora of available credit options (such as ‘buy now, pay later’, rent-to-buy arrangements, pay day loans, ‘cash and go’ arrangements and loans that users believe do not have high interest). The Report of the Senate Inquiry into Hardship indicates that there is a possibility that the behaviour of some providers of some of these products appear to be in contravention of the National Consumer Credit Protection Act. The inability to navigate these products is greatest amongst consumers who lack financial literacy and/or capability.

During times of financial distress it is increasingly difficult for clients to make good financial choices. What can appear to a vulnerable consumer as a low-risk solution to a financial bind (because of the way it has been marketed), leaves them with compounding debt as they are unable to meet required repayments.

One financial counselling provider raised concerns with the Review about the introduction of “Cash n Go” machines in their region (these machines can be likened to an automatic teller machine). People enter their Centrelink details, bank account details and bank personal identification number (PIN) and receive a cash loan from \$200-\$400. If paid within the agreed timeframe (can be one, two or three months), the amount offered for subsequent loans increases.



*“Small amount credit providers [should make a contribution to the financial counselling sector]. These companies cause significant social harm and financial hardship. Their business model is effectively to target vulnerable, low income consumers and rely on the likelihood that more often than not, their inappropriate lending will not be discovered/challenged. This industry needs to be tightly, effectively regulated so that it can no longer prey on the public. It should have to pay a percentage of each loan towards financial counselling **and** should have to pay a levy each time a complaint is lodged with an external dispute resolution body.” -*
Financial literacy education provider in remote Indigenous communities

Providers also told the Review about complexities associated with increasing tolls and traffic-related debt, Centrelink, child support and Australian Taxation Office (ATO) disputes.

²⁷ More information on the Community Development Program is available at <<https://www.pmc.gov.au/indigenous-affairs/employment/cdp>>



“Unpaid tolls or parking fines often attract excessive administration fees; for example, a \$110 toll debt can easily become \$1000 and [result in] the cancellation of a driver’s licence.” - Large not-for-profit provider of financial counselling and capability services

3.2.1 Natural disasters

Stakeholders held differing views about the value of providing financial counselling services simultaneously with responses to natural disasters. Stakeholders who saw value in financial counsellors comprising part of the response to natural disasters noted that a separate workforce (surge capacity) will be required to ensure that normal financial counselling services elsewhere were not negatively impacted. In addition, specialised skills may be required. Stakeholders noted that the timing of this support was critical. However, there were different views on whether an immediate response was necessary or whether a delay followed with an ongoing presence was the best approach. Most respondents believed that an on-the-ground response was best.



“During natural disasters, Financial Counsellors should be available to set up triage assistance and support. Financial Counsellors would be the first point of contact and be able to assist in contacting creditors in order to negotiate a 3 month moratorium.” - Survey respondent

Deploying financial counselling services as a standard element of response in the case of natural disasters should be considered as part of the Department of Social Services’ Emergency Relief Program and the responses organised by states and territories.

3.2.2 Small business

The importance of the small business sector is evident – contributing about 33% to total GDP over the 2013-14 period, and approximately 44% of all jobs in Australia.²⁸ It is also a sector where many financial hazards exist with the Australian Banking Association estimating that 70% of small businesses have outstanding debts.²⁹

While service providers and industry recognised an increasing demand for financial counselling for small business, they highlighted both the differences between small business and consumers, and the interconnected nature of small business debt with family finances. These differences emphasized the increased complexity and need to provide specialised advice – especially regarding corporate law requirements and lending, which require additional training. Additionally, the protections in place for small business are much less than those for individual consumers.

28 "Small Business Sector Contribution To The Australian Economy – Parliament of Australia", Aph.Gov.Au (Webpage, 2018) <https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1819/SmallBusinessSector#_Toc527009255>.

29 "The Small Business Sector In Australia", Ausbanking.Org.Au (Webpage, 2016) <https://www.ausbanking.org.au/images/uploads/ArticleDocuments/134/ABA-126420_Economic_Report__Small_business_sector_in_Australia_-_May16.pdf>.



*“Small business debts are more complicated and they usually have more creditors requiring many hours of work by the financial counsellor.” - **Survey respondent***

These very complex matters require more time to allow for a detailed exploration of the most appropriate approach to address these issues.

3.2.3 Legal assistance services

Financial counsellors frequently refer clients for assistance with understanding their legal obligations in relation to agreements they have entered into, or regarding debts they have incurred.

A submission to the Review provided an example highlighting the positive outcomes gained from better integration of legal and counselling services. Financial counsellors assisted self-represented debtors during bankruptcy hearings in the Federal Circuit Court, to understand the nature of the proceedings, determine their rights and make effective decisions in presenting their cases. In addition, this assistance increased the efficiency of the court in resolving bankruptcy matters justly.³⁰

A better-integrated legal assistance sector and financial counselling sector will ensure people get the right help when they need it.³¹ Some service providers feel that co-location of these services is beneficial.

3.3 Conclusion

In addressing these issues and challenges, it is clear that there is a need for the sector to expand to meet the increasing need from the complexity of financial counselling cases that are presenting. The sector will require government funding to be maintained and potentially supplemented. This funding must be provided in a way that remedies the current lack of coordination, and addresses the current administrative burdens.

As Commissioner Hayne noted, the demand for financial counselling services is being driven by changes in the complexity of markets and the increasingly complicated task of choosing products in the financial services industry. This complexity is an attribute of not only banking but also alternate credit providers and other businesses including energy and telecommunications providers. The task of providing adequate funding for financial counselling is not only the responsibility of governments but is shared with businesses in partnership. The next section explores the options for improving funding and access to these services nationwide.

³⁰ Commonwealth funded financial counselling and legal advisory provider

³¹ Financial Rights Legal Council

4 Funding and Governance

4.1 *Current financial counselling funding and governance arrangements*

4.1.1 *Current funding arrangements*

The majority of financial counselling services are funded by Commonwealth, state and territory governments. In addition, there are some providers who receive funding from industry and philanthropic institutions. The funding composition (source, amount and timing) differs across jurisdictions.

Commonwealth funding

The majority of Commonwealth funding for financial counselling services is provided through:

- The Department of Social Services (DSS) which provides approximately \$18.6 million per annum as part of its Financial Wellbeing and Capability activity including for:
 - broad financial counselling and financial capability services; and
 - supporting FCA to coordinate the National Debt Helpline.
- DSS also provides targeted support as part of the Money Support Hubs and problem gambling support services.
- The Department of Agriculture and Water Resources provides approximately \$19.5 million funding annually for the Rural Financial Counselling Service. This funding is provided for the delivery of free financial counselling services in farming communities to eligible clients who are experiencing, or at risk of, financial hardship.

State and territory funding

Governments in all states and the Australian Capital Territory (note that no funding is provided by the Northern Territory), support a variety of financial capability and counselling initiatives. It is estimated that the quantum of funding provided by the state and territory governments is in the order of \$26 million per annum for generalist financial counselling services.

Industry and philanthropic institution funding

Some financial counselling service providers receive contributions from industry and philanthropic institutions. Relationships and funding between industry, philanthropists, and financial counselling service providers may be initiative-based or ongoing. Philanthropic funding streams in the sector include:

- the Wyatt Trust's ongoing work on financial wellbeing initiatives in South Australia;
- Wesley Mission's extensive network of corporate donors – supporting, inter alia, the Wesley Financial Counselling Services;
- Kildonan CareRing administered by UnitingCare which provides support for financial counselling and is financially supported by a range of industry partners including banks,

energy and water companies. CareRing includes utility home visits which assist consumers in reducing usage and associated costs; and

- The Salvation Army financial counselling services include a mobile phone application developed to provide tips on money management and connect consumers to support services.

4.1.2 Existing governance arrangements

Governance and coordination arrangements within the sector vary both within and between jurisdictions. Discussions with both government and non-government stakeholders indicated that sector participants are of the view that there is room for improvement in the current arrangements for both supporting and delivering financial counselling services.

The sector's peak body, FCA, plays an important role in increasing the visibility of financial counsellors at a national level and operates within a federated structure of state bodies. Critically, given existing fragmentation in the sector, FCA has historically played an important role in highlighting the often complex interactions between current service delivery initiatives and identifying areas for improvement in the sector. Part of FCA's role also includes coordinating the National Debt Helpline, which is currently delivered by eleven state-based organisations to provide national coverage.

To meet the needs of consumers, it is clear that the sector requires more structured coordination and governance frameworks. Enhanced coordination frameworks may allow existing and future resources to be coordinated more effectively.

4.2 Possible future funding and governance environment

4.2.1 International examples

Internationally, jurisdictions have taken various approaches to funding financial counselling services. Comparable jurisdictions have employed a mix of industry funded, user pays and government supported funding frameworks. Further details on these international examples can be found at **Appendix C**.

There is evidence that these models work well in their national operating environments and are useful for informing Australia's understanding of its options. Importantly, the principles underpinning these international frameworks and those that must be considered in developing a new framework domestically are similar.

4.2.2 Jurisdictional coordination

In order to address rising demand, it is clear that better coordination between state, territory and Commonwealth governments is needed. There are a number of frameworks which could facilitate increased coordination between governments, these are explained below.

Memorandum of Understanding (MoU)

An MoU between state, territory and Commonwealth governments could strive to define a common understanding and include a commitment to further work. An example of an MoU in a related field is the Gambling Help Online MoU to which the Commonwealth was, until recently, a party.

Strategic Partnership

Similar to an MoU, a strategic partnership between jurisdictions could set guiding principles to achieve a shared goal from which more concrete commitments could be made. The National Strategic Framework for Legal Assistance is an example of such a partnership. The partnership establishes common principles between the Commonwealth, states and territories and these principles guide the National Partnership Agreement on Legal Assistance Services.

National Partnership Agreement (NPA)

An NPA has an action focus and is a flexible framework within which specific funding commitments and delivery mechanisms can be detailed. The NPA on Legal Assistance Services includes a funding allocation model, performance metrics and is the framework within which Commonwealth funding is provided to Legal Aid Commissions and Community Law Centres.

The appropriate framework for delivery of financial counselling could be through an MOU, strategic partnership or NPA. The Review recommends that, the Commonwealth, states and territories immediately convene to begin the process of developing a national strategic approach for the sector. This should occur regardless of funding framework or structure that is chosen, noting that these aspects should align with the agreed approach.

4.2.3 Quality data

Improving data capture, consistency and availability is critical in driving evidence-based innovations in the sector and improving client outcomes. In developing a national approach for the sector, there is a clear need for jurisdictions to articulate both how the quantitative evidence-base could be improved and meaningful ways in which this data could be analysed and applied in funding and policy discussions moving forward. This will help build the understanding of drivers for the need for financial counselling and any flow-on implications for other services including legal assistance support.

In contemplating a framework which could strengthen the possible data analytics (as distinct from data collection) within the sector, it is clear that a collaborative approach between governments, industry and service providers is needed. In particular, an effective framework will provide interoperability and built-in tools, that provide digestible national and regional insights. It is clear a collaborative approach is needed.

Although the development of a nationally consistent data collection model will take time, taking immediate steps to improve the quality of data in the sector will have a number of significant benefits. In particular, an enhanced evidence base will allow for more effective identification of supply and demand for financial counselling services and improve the sector's ability to analyse client outcomes.

4.2.4 Current demand

A broad range of factors drive demand for financial counselling services. The Royal Commission and the Senate Inquiry into Hardship highlighted the significant role that inappropriate or predatory products, services and practices can play in driving the financial hardship that may require financial counselling. Problem gambling, mental health issues and other income shocks - such as job loss, divorce or illness – may also limit a person's ability

to meet their financial obligations and, in turn, drive demand for financial counselling services.

Developing a detailed picture of the national demand for financial counselling services is challenging. As a result of existing resource constraints for service providers and the fragmentation of service delivery in Australia more broadly, data captured in the sector is not currently easily comparable between jurisdictions. Although further work is needed to construct an accurate picture of the demand for financial counselling at a national level, it is clear that there is significant and increasing demand for these services.

Financial counsellors assist consumers to manage a wide range of financial obligations associated with a variety of financial and non-financial products. In 2018, the Victorian National Debt Helpline handled 15,387 debt cases of which 45% related to credit products, 11% related to housing arrears, and a further 15% related to utility debts.³²

In 2018, over 700,000 (up 26% since 2016) Australians accessed 3 million pages of information or tools on ASIC's MoneySmart website relating to urgent debt help, crisis management and accessing financial counselling services. Additionally, FCA estimates that financial counsellors assist 125,000 clients per annum and that in 2018, the National Debt Helpline received 180,000 calls for assistance.³³

The significant and increasing demand on the sector's resources has resulted in reduced accessibility of financial counselling services in some regions. FCA reports that the average waitlist time to see a financial counsellor is between two and four weeks and that 40% of those seeking financial counselling services are currently unable to be assisted.³⁴ Records also indicate that one third of all calls to the National Debt Helpline are from non-unique numbers, suggesting the call has not been attended to the first time or further assistance is required. Given the strain on existing government-supported resources, consultation has revealed that some corporations have entered into private arrangements with financial counselling service providers to develop in-house capabilities to ensure their clients are able to be assisted in a timely manner.

4.2.5 Improving access and increasing supply

In the absence of consistent and comparable national data, estimating the cost of meeting the current unmet demand for generalist financial counselling services is complex. However, initial estimates extrapolated from existing data suggest that the total funding base required to meet this demand in 2018-2019 is approximately \$90 million. Current government funding for generalist financial counselling services meets around half of this need, not including funding provided at both the state and territory, and Commonwealth levels for specialised services, such as those provided for problem gambling and domestic violence.

It is important to note that this funding increase is just to meet current unmet demand for general financial counselling services. It does not cover the increase in legal and other services that will be needed to support the increase in financial counselling services. This estimate also does not account for any increase in either demand and/or the complexity of financial counselling cases arising from changes in aggregate funding levels. It is clear

³² Sources include: Ibid, p. iii and CF Sales practices driving consumer debt (telecommunications Industry Ombudsman, 2019).

³³ Ibid

³⁴ Ibid

that there is a strong linkage between financial counselling services and the legal assistance sector. Additional legal services will be required to support any significant changes to financial counselling service provision. Further, the identified gap in funding to meet current demand does not include functions not currently funded such as specific support for small business or surge capacity needed to support natural disasters.

In a recent paper, FCA estimated that an operating funding base of approximately \$180 million per annum is required.³⁵ Analysis undertaken in this Review has indicated that estimates of a funding base of this magnitude include a number of the specialised services not included in the estimate of funding for *core* financial counselling services. The services not reflected include Rural Financial Counselling Services, specific support for small business and other specialist counselling services including for problem gambling and domestic violence. Estimating a funding base inclusive of specialised services adds a layer of complexity to the analysis that is not readily borne by the available data. Ensuring that the current funding arrangements for specialised services is adequate is important, but establishing a core funding base as a starting point is essential.

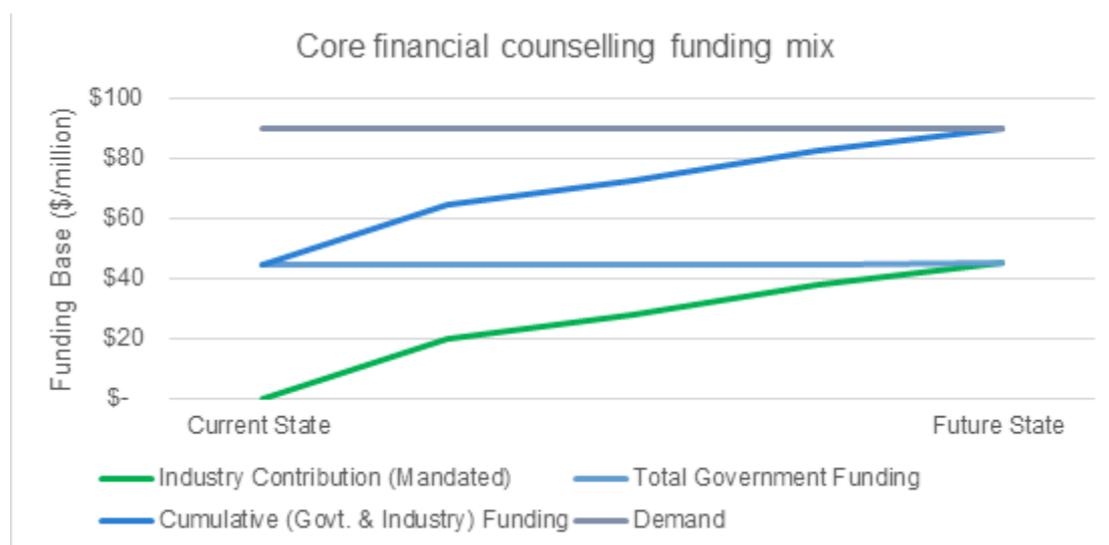
The significant gap in the required funding base indicates that a collaborative approach to funding is required. Sustained government funding, as well as involvement from the financial services, utilities and other industries in supporting financial counsellors is critical to achieving this outcome. Preliminary modelling suggests that support for financial counselling — seen appropriately as an early intervention investment from government and industry — could result in future savings to governments and business and provide for better outcomes for consumers. Additionally, it is appropriate for Government to mandate the involvement of industry in supporting the provision of resources for financial counsellors (as occurs abroad – see **Appendix C**) to build the capacity of the sector and ensure sustainability into the future.

A framework to enable industry and government jointly to participate in providing financial support for financial counsellors will need to provide the highest levels of transparency and assurance. Such a framework will also require flexibility to provide stable, data-driven funding flows in a manner that reflects the needs of service providers. Importantly, any funding framework must allow for participation by a broad base of industry participants and governments. Further, once established, better data may enable those industry sectors or companies who ‘drive’ demand for financial counselling to contribute more equitably to the costs of such services.

The design of such a collaborative funding framework will be necessarily complex and it is important that consultations on its development commence immediately. In addition to developing an enduring funding framework, an initial voluntary contribution from industry to facilitate the transition will be required. I propose a voluntary up-front contribution of \$20 million. The funding profile over time is captured in Figure 1.

³⁵ Ibid, p. 30.

Figure 1: Core financial counselling funding profile over time



4.2.6 A new governance approach

To meet the increasing demand for financial counselling services, particularly in the context of a new national strategy, a change of approach is needed. The new approach must allow financial counsellors as well as the various state, territory and Commonwealth governments and industry stakeholders to contribute to the design and ongoing operation. This will facilitate innovation, flexibility and accountability. The future approach to financial counselling needs to be based on:

- independence from industry and Government;
- a level of leadership in the development of the sector;
- responsibility for national data capture and analysis;
- appropriate funding collection mechanisms and allocations to not-for-profit organisations; and
- appropriately allocated financial resources guided by a framework and informed by strong data analytics.

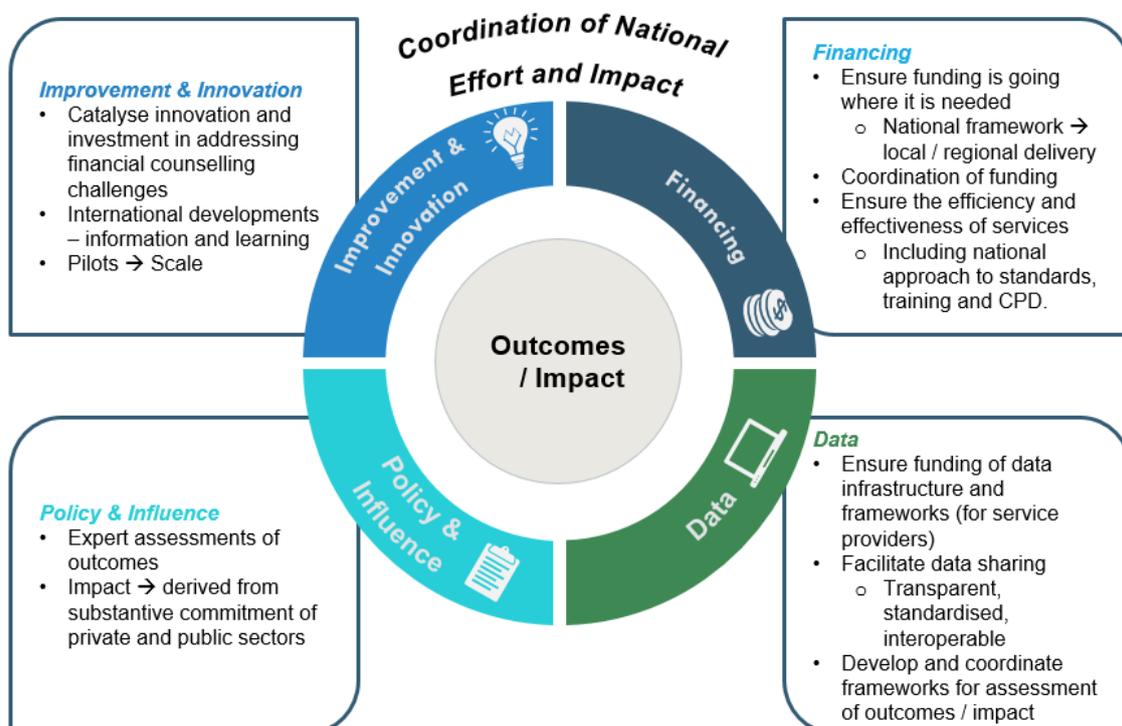
Consideration of the above suggests that the desired outcomes could not be effectively achieved within existing frameworks and that a new standalone entity is required in Australia. To ensure that a new entity is able to effectively achieve the desired outcomes within a national strategy, the governance arrangements of the entity will require careful consideration. Below is a non-exhaustive list of potential entity arrangements that could be considered by stakeholders -

- **A corporate Commonwealth entity:** a body corporate that has a separate legal personality from the Commonwealth and can act in its own right, exercising certain legal rights, such as entering into contracts and owning property. Some provisions of the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)* apply to corporate Commonwealth entities differently to non-corporate Commonwealth entities because of their different legal status, for example the provisions relating to appropriations, banking, investments and the use of indemnities.

- **Commonwealth companies:** companies that are established by the Commonwealth under the *Corporations Act 2001* and are wholly controlled by the Commonwealth. The *Corporations Act 2001* is the primary regulatory framework for these companies. Chapter 3 of the *PGPA Act* sets out requirements that Commonwealth companies have to comply with in addition to the requirements of the *Corporations Act 2001* in order to meet appropriate standards of public sector accountability.
- **Companies:** these are registered under the *Corporations Act 2001*. Commonwealth involvement in a company requires the Commonwealth to have the relevant constitutional power/s and legislative authority provided by the Finance Minister on behalf of the Commonwealth. Companies are established through registration by members (shareholders or guarantors). A company's objects may be outlined in its constitution. A company is generally utilised where competitive necessity dictates that commercial discipline is required, the body has to operate in a commercially competitive environment and limited ongoing Commonwealth involvement is anticipated. However, this company structure has also been used for non-competitive entities.

In reflecting on the role of the new entity, the importance of a partnership between government and industry and ongoing funding of the model, I strongly favour an independent body capable of receiving funds from a variety of sources, and crucially, supported by an advisory body of financial counsellors, government and industry. My view is that this will be best achieved through a company structure independent of the Commonwealth. I envisage the company structure to be similar to the figure below.

Figure 2: Coordination of national effort and impact



5 Recommendations

5.1 Summary of issues and recommendations

Fragmented delivery and coordination

Earlier sections explored in detail the issues the sector faces with a lack of coordination, fragmentation and increasing levels of regulatory and administrative burden associated with operating with funding from multiple funding sources. This could be addressed by state, territory and Commonwealth government coordination and engagement at a more strategic level.

Recommendation 1: State, territory and Commonwealth governments convene to initiate the development of a national approach for financial counselling.

Unmet need

At the very core of this Review are the challenges around the level of funding for the sector. To contextualise:



Approximately two million Australia's are experiencing financial distress³⁶ and currently, only three in every five people seeking assistance receive assistance in the form of financial counselling.³⁷

It is clear that overall funding levels are insufficient to meet the current and growing demand, including the time demands driven by the complexity of cases financial counsellors are increasingly dealing with. In addition, the nature and variability of current funding arrangements is adversely affecting the capacity of organisations to plan and to attract and retain staff.

Consultation with industry highlighted that industry both utilises and values the contribution of financial counselling. The vast majority of industry representatives believe they have a role to play in financially supporting the availability of financial counselling generally. Many also acknowledged the need to urgently increase the availability of financial counselling services. Further, a number of industry representatives indicated that there is a good business case for such support.

Many businesses also provided information about their activities in evaluating and improving their own practices in cases of consumers in financial distress, often with the advice and collaboration of the financial counsellors.

Feedback from the sector is supportive of the financial services and utility providers contributing to the funding of financial counsellors. A significant number of consumers that

36 "Financial Security And The Influence Of Economic Resources", Csi.Edu.Au (Webpage, 2018) <<https://www.csi.edu.au/media/2018-Financial-Resilience-in-Australia.pdf>>.

37 The unmet need for financial counselling – December 2018 <<https://www.financialcounsellingaustralia.org.au/FCA/media/CorporateMedia/Unmet-Need-for-Financial-Counselling-2018.pdf>>

financial counsellors support are referred from or are dealing with issues related to providers in these industries.

It is important to ensure that the financial contributions of the business sector are additive and do not replace those of government. The nature of this task requires a strong partnership between industry and government in the funding equation.

Recommendation 2A: Total state, territory and Commonwealth government funding for financial counselling be maintained at current levels and does not decrease.

Recommendation 2B: Additional funding be made available from industry sources, (collected by the Commonwealth Government), to enable access to financial counselling services in Australia to double over the next four years.

This increase in support may take time to be implemented as the workforce will need to be grown, but it is expected that this doubling of access could be achieved by 30 June 2023.

Current government funding for generalist financial counselling services is approximately \$45 million per annum, not including funding provided at both the state and territory, and Commonwealth levels for specialised services such as those provided for problem gambling and domestic violence. Increasing access to services to meet the current unmet need identified by financial counsellors will be at an additional cost of approximately \$45 million per annum.

As part of the immediate implementation of increase and access to financial counselling, the Review estimates that \$40 million will be required. Half of this contribution should initially come from the four major commercial banks to enable the ramp up of financial counselling services, with the establishment costs to be met by government.

Recommendation 2C: Initial contributions from industry of \$20 million to begin in fiscal year 2019-2020 through a voluntary arrangement with the four major commercial banks, to enable the “ramp up” of financial counselling services to commence.

Immediate work should also commence to explore the most effective way to expand this contribution from the financial services sector. Suggestions have included contributions from the ASX 50 or ASX 100 listed financial entities, or from all members of the Australian Financial Complaints Authority. Concurrently, mechanisms should be explored and established for the energy and telecommunications sectors. This broad based approach in the economy should ensure there is limited impact on consumer bills or pricing.

The need for a more strategic approach

While additional funding will assist in ensuring increased access for Australians in financial hardship, it will not address the issues highlighted in consultation and explored in previous sections around improvements needed for a strategic approach to financial counselling in Australia. Issues previously discussed include the coordination and national delivery of the National Debt Helpline, consistent and robust data collection, enhancing the visibility of financial counselling services, establishing consistent national standards of training and service delivery, fostering innovation and analysing trends and usage of services. This requires a body with autonomy, accountability and stability to draw together the work of the sector.

Recommendation 3A: The Commonwealth immediately take steps to establish (by 1 July 2020) an independent body that is responsible for the national cooperative financial counselling effort. This body is to be advised by an Advisory Council of Government, the financial counselling services sector and industry.

A national body will lead the cooperative effort to deliver enhanced financial counselling services in Australia. Financial wellbeing and resilience is a collective responsibility of many parties including all levels of government, business, and the non-government sector. It is anticipated that both Commonwealth funding and industry contributions (see recommendation 2B) are provided to the independent body to ensure continuity of funding and to foster a coordinated effort.

To ensure all stakeholders who contribute funding to the independent body are able to guide the strategic direction, it is proposed that a National Financial Counselling Advisory Committee be established. This will include representatives from state, territory and Commonwealth governments, and the sector. The initial task of this advisory group will be to bring together all stakeholders to use data to contribute to a National Financial Counselling Strategy.

Recommendation 3B: The Commonwealth immediately take steps to initiate data analytic work which will underpin a national strategy and enable financial counselling services to be appropriately funded through assessment of need.

A number of transition activities need to be undertaken and these should commence immediately:

- development of a legislative framework to ensure the form and function of the body is appropriately supported;
- development of a workforce strategy to address current and future workforce needs (such as scholarships to immediately increase the number of trained counsellors); and
- creation of a data project to enable analysis of the drivers of financial stress and to inform appropriate areas for enhanced intervention.

Small business

The Terms of Reference also requested that the Review explore small business needs for financial counselling. The Review found that at least anecdotally there is a need for small business counselling and noted that service delivery is already provided in rural financial counselling for farmers. However, there are also significant differences and complexity involved in such provision including the possibility of providing advice in circumstances where a business could be trading insolvent. These very complex matters require more time to allow for detailed exploration of the most appropriate approach to address these issues.

Recommendation 4: The Commonwealth, in consultation with small business bodies and the Small Business and Family Enterprise Ombudsman, continue the exploration of small business needs for financial counselling and the best methods to address the identified need for subject matter expert support.

Natural disasters

It is clear that in the event of a natural disaster, the need for financial counselling increases in areas experiencing that disaster, resulting in the requirement for surge capacity. The best approach appears to be to include financial counsellors in the overall response already conducted by disaster relief efforts at a time deemed appropriate.

Recommendation 5: State, territory and Commonwealth governments include financial counselling services as a standard part of the broader response for assistance for people affected by natural disasters.

Associated legal services

Increasing the availability and visibility of financial counsellors will likely drive the need for the legal assistance service providers who work hand-in-hand with financial counsellors. This is likely to necessitate additional provision of legal support services and should be monitored.

Recommendation 6: State, territory and Commonwealth governments should consider the impact and funding implications for the provision of legal assistance that will flow from significantly increased provision of financial counselling services.

Appendices

Appendix A The Review process

Overview

The Minister for Social Services announced the Review on 7 February 2019. On 25 February 2019 the Minister released the Terms of Reference and announced that Ms Louise Sylvan AM would lead the Review.

The Department of Social Services (DSS) established a webpage for the Review on its website on 27 February 2019. This was the main channel of information about the Review. It included an Issues Paper which was framed around the Review's Terms of Reference and was intended to guide contributions from participants.

Stakeholder consultation

The Review required consultation with a wide range of stakeholders including state and territory governments, the private, not-for-profit, financial counselling, financial services and legal assistance sectors. Throughout the consultation, the Review sought to answer questions as to the adequacy of existing financial counselling services across the following:

- supporting the needs of clients;
- the efficiency of current delivery mechanisms;
- the predictability and stability of the sector; and
- options for future service delivery including options to fill gaps in current service offerings.

The number and type of consultation are summarised below.

Number received	Type of consultation
34	Face-to-face / teleconference
19 stakeholders	Four round tables
31	Written survey responses via the DSS Engage website
42	Written responses to the Issues Paper via a dedicated email address

Other considerations

The Review was required to consider international funding models (including industry funding) and to consider how the use of data could inform policy, service delivery and demand trends. A number of publications were consulted to extract this information and references have been provided throughout this report.

In addition, wide research was undertaken and a number of publications were consulted to understand the financial counselling landscape within Australia. References of these publications have been provided where required.

Limitations

The short, sharp timeline for the Review did not permit as extensive a consultation as the Reviewer might have wished. Thanks are due to all individuals who made time in crowded diaries to fit into a tight timetable.

Appendix B

List of stakeholders

Participant / organisation	Participant / organisation
Anglicare Sydney	Good Shepherd – Australia New Zealand
Anglicare Tasmania	Good Shepherd Microfinance
Anglicare WA	Indigenous Consumer Assistance Network
Australia and New Zealand Banking Group Ltd	Law Council of Australia
Australian Banking Association	Mallee Family Care
Australian Competition and Consumer Commission	Melbourne Lord Mayor's Charitable Foundation
Australian Council of Social Service	Mid North Coast Financial Counselling Service
Australian Energy Regulator	Midlas
Australian Financial Complaints Authority	MoneyMob
Australian Government Financial Literacy Board	National Association of Community Legal Centres
Australian Securities and Investments Commission	National Australia Bank
Australian Small Business and Family Enterprise Ombudsman	National Legal Aid
Bendigo and Adelaide Bank	NSW Energy & Water Ombudsman
Broome Circle	Regional Alliance West
Cape York Partnership Group	Rural Financial Counselling Service
Care Financial Counselling Service	SA Financial Counsellors Association
CatholicCare	Samaritans Foundation
CatholicCare NT	South East Community Links
CatholicCare Wilcannia-Forbes	Southern Youth and Family Services
Centacare New England North West	Sussex Street Community Law Service Inc.
CHOICE (Australian Consumers Association)	Telecommunications Industry Ombudsman
Communications Alliance	The Salvation Army
Consumer Action Law Centre	The Salvation Army Moneycare
Credit Corp	The Salvation Army Moneycare Qld
Customer Owned Banking Association	The Spiers Centre
Ecstra	UCare Gawler
Energy & Water Ombudsman NSW	Uniting
Energy and Water Ombudsman Queensland	Uniting Care West
Energy Australia	Uniting Country SA
FamilyCare	Uniting Kildonan
Financial and Consumer Rights Council VIC	UnitingCare Community
Financial Counselling Association of NSW	UnitingCare Kapunda Outreach Service
Financial Counselling Australia	Upper Murray Family Care
Financial Counselling Network	Westpac Banking Corporation
Financial Counselling Project Hunter Valley	YFS Ltd
Financial Counselling Tasmania	Government
Financial Counsellors ACT	State and territory agencies from: ACT, NSW, NT, QLD, SA, TAS, VIC, WA
Financial Counsellors Association of Qld	Attorney General's Department
Financial Counsellors Association of WA	Department of Agriculture and Water Resources
Financial Rights Legal Centre (NSW)	Department of Human Services,
Financial Services Council	Department of the Prime Minister and Cabinet
Financial Services Ombudsman	The Treasury

By understanding how other industries and economies utilise different funding models to deliver similar services, Australia can better service its citizens in delivering financial counselling services. Evaluating alternative funding models is instrumental in understanding their applicability and viability within the Australian market and how demand for services can effectively be met.

Utilising an existing or introducing a new levy arrangement

Case study: levy arrangement

 *Applying a levy to fund financial counselling has been particularly successful in the United Kingdom where 50% of total funding comes from levy arrangements.³⁸*

In the United Kingdom (UK), a levy was introduced on financial services providers to fund the UK's Financial Conduct Authority, whose roles and responsibilities are a hybrid to the Australian Security and Investment Commission (ASIC), and the Australian Prudential Regulation Authority (APRA). The levy was then extended to assist in funding financial counselling as debt levels began to rise relative to household incomes and a systemic problem around debt management appeared. This extension of the UK's Financial Conduct Authority levy sought to link the amount of funding by financial service providers as a proportion to its contribution to the requirement for financial counselling (i.e. large financial service providers paid a larger levy than small financial service providers). Therefore this levy arrangement is a weighted contribution levy.

The extension of the existing levy to fund financial counselling services provided additional revenue to provide this valuable service. However, the levy itself was targeted to the financial service industry only, considering it to be the sole contributor to financial counselling. In reality, there are a number of industries which contribute to the need for financial counselling.

Applicability to Australia

Similar to the UK, Australia has existing levy arrangements for the financial services industry:

- The Major Bank Levy: introduced to facilitate budget repair and imposed on the five largest banks (Commonwealth Bank of Australia, ANZ, Westpac, National Australia Bank and Macquarie Bank); and
- ASIC Industry Funding Model: recovers the costs associated with ASIC's regulatory activities through a combination of cost recovery levies, fees for service and statutory levies.

³⁸ Peter Wyman, Independent Review of the Funding Of Debt Advice in England, Wales, Scotland and Northern Ireland (2018).

The financial services industry is also required to pay licence fees for credit licences and financial services licences.

Levies are also applied to other industries such as:

- the telecommunications industry: under section 593 of the *Telecommunications Act 1997*, the annual licence charge levied on eligible telecommunications carriers can be used to provide grants to consumer bodies for purposes in connection with the representation of interests of consumers; and
- the energy industry: through the Australian Energy Market Operator, fees are charged on a cost recovery basis to participants for operating the National Electricity Market.

These existing levies could be leveraged to provide additional funding for financial counselling services. However, similar to the UK, if levies are only collected from financial services providers, there will be a number of industries who contribute to the demand for financial counselling without contributing to the funding required to provide these services. To contextualise this, significant demand for financial counselling in Australia is from the utilities and telecommunications industries with the majority of demand coming from the financial services industry.

If a levy arrangement is to be introduced, it will provide financial counselling services with more predictable and coordinated funding. However, extensive analysis and consideration should be made to ensure that any levy is collected from all industries who contribute to the demand for financial counselling and not just from those which are relatively simple to implement.

Means adjusted funding structure

Case study: means adjusted funding structure

A means adjusted funding structure could involve funding from both industry and individuals who use financial counselling services. Funding would be weighted for industry on proportion of contribution to financial counselling need as a service and weighted for individuals depending on income and demographic factors. This creates accountability for industry's contribution to the issue and incentivises good practice. Funding will also become more predictable and coordinated.



TIO: funding is on a cost recovery basis from telecommunication industry participants resulting in them effectively completing more than 95% of their cases.³⁹



Energy and water providers in Queensland pay for complaints processed by the Energy and Water Ombudsman Queensland (EWOQ) on a cost recovery basis. This is consistent with the approach of other states. EWOQ has effectively been able to complete more than 95% of their cases.⁴⁰

³⁹ "Telecommunications Industry Ombudsman Annual Report", (Webpage, 2018) <https://www.tio.com.au/__data/assets/pdf_file/0006/257325/Telecommunications-Industry-Ombudsman-Annual-Report-2018.pdf>.

⁴⁰ Energy and Water Ombudsman Queensland, Annual Report (2018) <<https://www.ewoq.com.au/userfiles/files/EWOQ-AR-201718-WEB.pdf>>.

Industry contributions based on a cost recovery basis, where providers who are responsible for the complaint are charged with processing and dispute resolution costs, incentivises industry to uphold good practice and dis-incentivises poor predatory practices on low income consumers.

 *The financial counselling (credit counselling) landscape in Canada is a mixture of not-for-profit and private models. Not-for-profit funding is mainly gained from creditors and private models run on a user-pay basis.⁴¹*

In addition to industry funding, as practised in Canada, the financial counselling sector could consider a user pays element which is means adjusted and that scales cost depending on socioeconomic and demographic factors. However, this approach is not favoured in an Australian context.

Applicability to Australia

As observed in Canada, the introduction of a user pays element in Australia would require careful consideration to ensure that it does not become a barrier for consumers accessing required services.

The funding structures that have been identified in ombudsmen services in Australia provide insight into alternate ways of funding for financial counselling. Introducing a means adjusted industry contribution would provide financial counselling services with access to funding that is intrinsically linked to the demand for the service, as costs for financial counselling will fall to industry to finance. This funding structure also incentivises contributing industries to become more conscious and proactive to financial counselling as an issue. This will seek to change the lending and sales practices that prey on socioeconomic and demographic factors that drive financial counselling demand.

The environment observed by ombudsmen also highlights the potential for a central body to represent the industries and key contributing companies. This will assist in providing coordination of funding and a means to create accountability and traceability for where demand of financial services is generated.

This funding structure's application to Australia has proven to be successful in comparable industries which seek to provide similar advice. However, research and analysis into piloting this structure would be required to understand and confirm it will target and direct funding appropriately. It should be used as a complementary source of funding to government as a means to alleviate demand pressure that has been growing for the service.

⁴¹ Public Interest Advocacy Centre, Credit Counselling: A Way Forward (2007) <https://www.piac.ca/wp-content/uploads/2014/11/credit_counselling_report_final.pdf>.