



13 November 2018

By email: economics.sen@aph.gov.au

Senate Standing Committees on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senators

Supplementary submission: Credit and Financial Services targeted at Australians at risk of Financial Hardship – National Debt Helpline

Consumer Action Law Centre and Financial Rights Legal Centre have each provided separate submissions to this inquiry, but wish to provide this supplementary submission.

This submission is particularly in response to the term of reference relating to the capacity and capability of the financial counselling sector, and relates to the National Debt Helpline (the **NDH**). In particular, this submission identifies significant negative implications that arise as a result of a recent tender process for the NDH by the Department of Social Services (**DSS**) which will impact the capacity of the financial counselling sector, and the effectiveness of the NDH in the future.

Unless DSS takes steps to urgently address the issues:

- access to the NDH in Victoria and New South Wales will be severely constricted from 1 January 2019 (which is only six weeks away);
- up to 1,000 people experiencing financial difficulty in Victoria and New South Wales every week will be affected; and
- the ability of banks, utilities and other creditors to effectively respond to people in financial difficulty will be severely constrained.

About the NDH

The NDH is a telephone financial counselling service and website that provides free, confidential and independent information and advice for people experiencing financial difficulty. The telephone service is accessed through a free-call 1800 007 007 and the website www.ndh.org.au is a supporting information service that contains a range of step-by-step guides explaining how to address common debt problems.

The NDH is a major gateway into financial counselling and related services in the Australian community. While many people who speak to a financial counsellor at the NDH obtain the information and advice necessary to address their debt problems, those that lack the capacity to self-advocate or have more complex issues are commonly referred to community-based financial counsellors which are employed by community organisations around Australia. Many are referred to other support services, including legal services (for example, where court action has been initiated), mental health services, family violence services and others. The NDH is an extremely busy service receiving over 170,000 calls in 2017.

Since its establishment, the NDH has been delivered by a separate organisation in each state. In the two most populous states, the NDH has been delivered by Consumer Action Law Centre (Victoria) and Financial Rights Legal Centre (New South Wales). Together these two services receive 45% of the total volume of calls Australia-wide.

The various organisations that deliver the NDH benefit from coordination by Financial Counselling Australia. This model has been effective, as it recognises that each state and territory has different laws and social support (requiring locale-specific advice), while national coordination ensures consistent and high-quality service-delivery.¹

The development of a national brand and website for the NDH in 2016 also had an important goal of tackling for-profit debt management firms, which are also in scope for this inquiry. Recognising that debt management firms regularly advertise on the internet, television and radio, and that these firms can leave people in worse off financial positions, the development of a strong NDH brand helped counter the impact of these firms.

Funding for the NDH

The NDH relies on a mix of funding from state and federal governments.

In Victoria and New South Wales, the state governments provide the majority of the funding (around 70-75%) with the Federal Government providing the remainder. In other states and territories, the Federal Government provides the majority or all of the funding.

The existing network of NDH services have also been able to leverage other sources of funding, for example, as a result of ASIC enforceable undertakings. In the past 12 months, the NDH services have been the recipients of funds from two undertakings, one from BMW Finance on 3rd July (\$1 million) and one from Cash Converters on 16th May (\$650,000). Funds were distributed to each service based on call volumes and their staffing levels. Funds were primarily used to employ additional staff to meet increasing demand. In the NT funds have been used to promote the NDH to Aboriginal clients and some funds were provided to FCA to assist in promoting and improving the NDH website.

DSS tender process

We recognise the role that governments have in tendering for services, and we respect the outcomes of well-run tender processes. As community organisations that deal with a range of different government agencies and other funding bodies, and respond to tender processes, we respect these processes, including when our individual services are unsuccessful.

¹ For example, the court debt recovery laws are different in each state, while concession and other benefit schemes are also different.

However, we consider the DSS tender process that has occurred this year suffered from serious flaws, and the outcome of the process will negatively impact the effective NDH service model. While the full outcomes of the tender process have not been made public, Consumer Action Law Centre and Financial Rights Legal Centre were informed in late October that our applications were unsuccessful.

This means that the Federal Government contribution to the NDH services in each state will be directed to new service providers. This means that there will be two organisations providing telephone financial counselling in each state, as the respective state governments continue to provide funding to Consumer Action and Financial Rights.

There are a number of issues and implications that arise from this decision:

- DSS own the 1800 007 007 number, so it appears likely that the organisations that won the tender will be required to answer calls to that number. The organisations that won the tenders will receive around a quarter of the funding that the current NSW and Victorian services receive. Should the 1800 007 007 number be directed to those new organisations, they will receive in the vicinity of 20,000 – 30,000 calls each year in each state. The DSS funding will only allow staffing of around 2 to 2.5 full time equivalent positions. The existing NSW and Victorian services have between 8 and 10 full time equivalent positions. It will not be possible for the new agencies to meet the demand solely on the funding provided by DSS.
- The number is quite important as it required by legislation to be on certain consumer information documents that are likely to be reviewed by consumers experiencing financial difficulty. This includes default notices issued by credit providers, as well as warning statements required to be published by payday lenders (small amount credit providers) on websites and in-store. This has been an extremely effective strategy to date in directing debtors to the help they need exactly when they need it the most.

While the tender application did ask questions about leveraging other sources of funding or resources, we consider that a key flaw with the tender process was that it did not adequately recognise the implications of the NDH being co-funded by State Governments. For example, we understand that DSS did not consult with either of the State Governments before or during the tender process.

It is also perplexing that other NDH providers were successful in the tender. The eight services currently involved in the NDH coordinated our responses, so DSS should have been assessing very similar proposals.

Delivering NDH following the tender process

Consumer Action and Financial Rights will now consider how best to ensure the NDH continues to operate, including through partnering with the successful tenderers. There is some difficulty with this, however, noting that the tender start date (and presumably the date that the 1800 number may be re-directed) is 1 January 2019 and the identity of the successful tenderers are yet to be made public. The short time-frame will make continuation of the service very difficult.

We also consider that the result of the tender decision will create a range of inefficiencies and complexities for the service, which will impact users of the service. These include:

- Each service provider will be required to have its own separate management, call centre technology and other administrative support, which is likely to be costlier and more inefficient. The new providers may need to invest in call centre technology.
- The coordinator of the service, Financial Counselling Australia, will now be coordinating ten agencies across Australia to deliver NDH, rather than existing eight. This is likely to create additional complexity.
- Existing NDH services have well-established relationships with key referral agencies (including utilities, banks, external dispute resolution schemes and others). New service providers will need to duplicate these arrangements, creating difficulties for referring organisations.
- Should the 1800 number be somehow shared between the agencies (which appears to be the only way the services might meet demand), there is likely to be increased call-handling and administrative effort in switching callers between services in one state. For example, return callers may have to be switched to the other service if they call back.
- The peaks and troughs that can occur in call volumes will be more difficult to manage in a distributed model, This is because the new providers will have so few staff.

In Victoria, the NDH is part of a strategic response by the Victorian Government that sees the service as a gateway to financial counselling. The Victorian NDH makes warm referrals to community-based financial counsellors and these agencies are required to accept them within mutually agreed timeframes based on urgency and vulnerability of the client. This is a client-centred approach. This will not be able to be replicated with the new service delivery agency creating greater fragmentation and confusion for service delivery agencies.

Further, in both NSW and Victoria callers to the NDH have had the benefit of legal advice being available from the same agency. In NSW, for example, over 1,100 callers to the NDH were facing legal proceedings or enforcement ranging from initiating proceedings to a creditor's petition (the final stage of making a person bankrupt) in 2017/18, resulting in over 2,500 legal advice services and other legal assistance being provided in addition to financial counselling. The new services will likely need to refer these callers back to Consumer Action or Financial Rights, or to another community based legal service.

Separating financial counsellors from legal advice services will likely produce poorer outcomes for consumers but also will deprive regulators and government from an important source of information on systemic issues facing consumer and the community—issues of the sort that are the subject of this current inquiry with respect to Credit and Financial Services targeted at Australians at risk of financial hardship,

In short, the tender process has resulted in funds being removed from two services with trained staff, established infrastructure and extensive experience delivering the service to two new services with no track record and likely to have grossly insufficient capacity to meet the demand because they do not have access to the complementary state funding.

Longer-term path forward

Consumer Action and Financial Rights consider that the approach to funding financial counselling, particularly the NDH, needs to be radically reconsidered. In particular, there needs to be a joined-up

approach between state and federal governments to funding, perhaps through a National Partnership Agreement.

We have also supported the proposal put forward by the National Association of Community Legal Centres and Financial Counselling Australia in a submission to the Interim Report to the Royal Commission in the Banking, Superannuation and Finance Industry.²

This submission calls for funding of \$157 million per annum, through an increase to the Major Bank Levy or ASIC Industry levy, to create a properly funded network of community financial counselling and community legal services. This is composed of \$1 million for the National Debt Helpline, \$130 million for 1,000 financial counsellors, and \$26 million for an additional 200 community financial service lawyers located across Australia.

The submission estimates that this expanded network will triple the number of people—increasing from around 250,000 to 800,000 people a year—who are able to access information, self-help resources, phone financial counselling services, face-to-face financial counsellors, legal advice, or other legal support to help them resolve disputes, structure their debts, and negotiate with financial services.

Please contact Gerard Brody on 03 9670 5088 or at info@consumeraction.org.au if you would like to discuss this with further.

Yours Sincerely,



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² Full submission is available at:
<http://www.naclc.org.au/resources/20181026%20NACLC%20and%20FCA%20Banking%20RC%20Submission.pdf>