SUBMISSION TO THE SENATE STANDING COMMITTEE ON COMMUNITY AFFAIRS

Social Security and Other Legislation Amendment (Welfare Reform and Reinstatement of Racial Discrimination Act) Bill 2009
Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2009 Measures) Bill 2009
Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (Restoration of Racial Discrimination Act) Bill 2009

By email: community.affairs.sen@aph.gov.au

ABOUT THIS SUBMISSION

This submisison is from the Australian Financial Counselling and Credit Reform Association (AFCCRA). AFCCRA is the peak body for financial counsellors in Australia.

Financial counsellors assist people in financial difficulty by providing information, support and advocacy, with the aim of helping them regain control of their financial situation. Financial counsellors work in community organisations, community legal services and in some government agencies. Their services are provided at no cost to clients, are confidential and free from any conflict of interest.

Financial counsellors are well placed to comment on income management. Financial counsellors, particularly those working in the Northern Territory and Western Australia, have seen the impact of income management at first hand. AFCCRA consulted with these workers in preparing this submission and in developing our policy position.

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1 OVERVIEW

1.1 Summary of the Submission

The summary of this submission is:

- AFCCRA does not support mandatory income management. Our view is that every individual has the right to manage their own money. Compulsory income management takes that right away.

- AFCCRA however does support a voluntary 'opt in' system for indviduals or communities, or a trigger-based approach, based on evidence such as a child protection notification.

- Mandatory income management has the potential to fundamentally alter the way in which financial counselling is delivered.

    - Financial counselling will not be as effecitve if people are forced to be involved. The relationship works best where people are self motivated and the interaction is based on mutual trust and openness.
    - Although compulsory referral to a financial counsellor is apparently not the policy intent, it is happening in practice in some areas and is a greater risk in a wider roll out.
    - Referral to a financial counsellor should not be seen as a 'quick fix', relying on making people better money managers. Where a person is in financial difficulty, the causes are myriad and complex. Financial counsellors will canvas a range of options to help their clients get back on top of their finances.

- We expect there to be an increase in demand for financial counselling and money management services as a result of income management.

- The proposed matched savings program for people on voluntary income management has some positive attributes. However the matched savings amount should be available to the individual to use as they see fit and not subject to income management.

- We acknowledge that have been some positive impacts from income management for some individuals and some communities. However there are inherent and fundamental problems. The most important of these is the stigma associated with the basics card, felt by many people who are subject to income management. People are humilitated.

- If income management continues, either on a mandatory or voluntary basis, the current shortcomings in the system need to be addressed. There will be a need for strong partnerships between financial counsellors and government agencies, such as Centrelink, to implement any system of income management. These are needed at both a local level and through a more strategic consultative body between government and the community sector.

1.2 Content of this Submission

This submission is structured as follows:

- AFCCRA's policy position on mandatory income management (Section 2);
- the interrelationship between income management, financial counselling and money management services (Section 3);
- how income management is operating in a practical sense (Section 4).

The focus on these issues reflects the areas of concern and expertise of our Association. Financial counsellors and money management workers are already dealing with income management in the Northern Territory and Western Australia. If income management is rolled out across Australia, financial counsellors will see large numbers of clients who are being 'income managed' in the future.

We also hold a number of other concerns about the rationale and policy settings underpining income management. We have not commented on these issues in any detail in this submission however, as they are adquately explored in submissions from a number of other organisations.[1] These issues include:

- the lack of a comprehensive evaluation of income management as it currenlty operates, prior to the policy rolling out Australia-wide. There have been various community consultations and evaluations, but the overall evidence from them is contested and unclear;[2]
- the cost of implementing the policy, which is enormously expensive. Milions of dollars will be spent on administering this scheme. It would be a far better to spend this money on direct service delivery.

2 AFCCRA'S POLICY POSITION ON INCOME MANAGEMENT

AFCCRA does not support mandatory income management.

Our view is that every individual has the right to manage their own money. It is wrong to assume that people on low incomes, such as Centrelink beneficiaries, spend their money inappropriately. This however is the assumption on which mandatory income management is based.

[1] For example, the submissions from the Australian Council of Social Service, Nura Gili Indigenous Programs at the University of New South Wales.
[2] See for example, Nicholson, Behrendt, Vivian, Watson and Harris, '*Will they be heard*?', Research Unit, Jumbunna Indigenous House of Learning, November 2009 or the government's own research into the effectiveness conducted by the NTER Review Board.

The inherent contradiction in the policy is that income control is said to 'foster individual responsbility'.[3] It is hard to see how this happens when individuals lose control over 50% of a welfare payment and 100% of any lump sum payment.

Financial counsellors frequently see clients on very low incomes who are excellent money managers. The policy problem is often not so much a lack of individual money management skills, but that welfare payments are inadequate.

AFCCRA recognises however that some people in communities where income management is in place have reported benefits - we describe these later. It is for this reason that we support a voluntary model of income managment at either an individual or community level, involving an 'opt in' approach.

We also support the introduction of a trigger-based system of income management in certain circumstances, such as in the event of a child abuse notification.

It is important to be clear about the two issues in the discussion above. It does not follow that because income management has some positive impacts for some individuals and some communities, that it should be mandatory. Other individuals and communities point to a number of serious issues, that go to the heart of the policy. Again, we describe these later.

Our fundamental point is that the 'one size fits all' approach of mandatory income management is paternalistic, unfair and does not reflect the reality of how most people manage their lives and money.

Ironically, given the legislation reinstates the *Racial Discrimination Act 1975*, it is also at a broad level discriminatory – it singles out one group of Australians (the long term unemployed or on parenting payments, young people) and treats them differently to other Australians. It is unclear even as to why these groups were chosen.

AFCCRA is also a signatory to the 'Community Sector Statement on Income Management', released in December 2009 by the Australian Council of Social Service.

2.1 Strong Partnerships

If income management is implemented more widely as the Government is planning, financial counsellors will obviously see many clients whose income is quarantined. Financial counsellors have a unique set of skills combining financial expertise and counselling. These can be harnessed to work with these clients, for example, where a person chooses income management.

As a profession, we will also need to work with other agencies to ensure that clients get the best service possible. There will be a need for strong partnerships at the local level, for example between Centrelink staff and financial counsellors. There are examples of these type of partnerships already in Western Australia.

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[3] Second reading speech on the Social Security and Other Legislation Amendment (Welfare Reform and Reinstatement of Racial Discrimination Act) Bill 2009.

If income management continues, either on a voluntary or mandatory basis, there is also a need for an ongoing high level consultative body to be set up by government to discuss how income management is operating. The body could include representatives of government and the community sector, including financial counsellors.

3 INTERPLAY BETWEEN INCOME MANAGEMENT, FINANCIAL COUNSELLING AND MONEY MANAGEMENT

AFCCRA welcomes additional funding for financial counselling and money management services that accompanies the wider roll out of income management. It is important that quality services are readily accessible whether income management proceeds or not.

This section discusses:

- the potential for a mandatory income management scheme to fundamentally alter the way in which financial counselling is delivered. This will occur either if referrals to a financial counsellor are compulsory (see 3.1), or if the service is seen as one that 'fixes' people, by somehow making them better money managers (see 3.2);

- an expected increase in demand for financial counselling and income management services as a result of income management;

- the matched savings program available to people on voluntary income management;

3.1 Compulsory Referrals?

We understand that referrals of clients to financial counselling or money management programs, under income management as it operates at present, are on a voluntary basis. There is strong evidence however that the opposite is happening in practice. It appears for example that Centrelink staff, particularly in Western Australia, tell people that they must see a financial counsellor. It may be that there is some misunderstanding about how referrals to financial counsellors should work at case manager level.

Even where staff choose their words more carefully, the inferences or pressure on a person to accept a referral they may not want can be very strong. This can occur where a caseworker for example has the power to either impose income management or remove it.

Financial counsellors also sometimes receive referrals from community agencies, where the referring agency has told the client they must attend. These agencies sometimes also want the financial counsellor to advise if an appointment is kept.

Clients who keep these appointments feel under duress and can be worried that the counsellor will somehow 'report' back to the referring agency. Imposing these requirements is completely contrary to how the financial counselling profession operates - these misunderstandings are addressed directly with those referring agencies. We raise this example in this submission as there is a similar potential for these expectations to arise under any system of income management.

Effective financial counselling depends on the relationship between client and counsellor. Financial counselling is non-judgmental and the client must feel that they can trust the person they are seeing. The financial counselling intervention is unlikely to work if people are forced to attend the service or if they believe that their attendance will be monitored and possibly reports provided back to the referring agency . These kind of requirements would be completely at odds with the way the financial counselling profession operates and are contrary to our ethical standards and over 30 years of professional practice.

There is definitely a place for financial counsellors to assist clients who are on income management. Indeed as set out below, we expect demand for financial counselling to grow as a result of income management. However financial counselling will not be effective if referrals are compulsory. It is very important that both policy and practice reflect this.

3.2 The 'quick fix' – making people manage their money

Some policy makers appear to misunderstand the role and work of financial counsellors. Often the role of the financial counsellor is equated with helping people put together a budget and no more. While this is something a financial counsellor may do, the role goes far beyond this and involves a holistic approach to a client's financial and personal issues.

A financial counsellor will explore all of the options open to a client in managing their finances, providing information, support and referral. The financial counsellor for example might advocate with creditors, explain the debt collection process or bankruptcy. They will always check to see whether the debt is legitimately owed in the first place. They will refer to a solicitor where there are legal issues or other support services where necessary.

A financial counsellor also works at an emotional and psychological level with a client, helping them to manage the stresses so often associated with financial difficulty and the way they view their situation. This emphasis on the 'softer' skills of counselling is just as important as objective discussions about debt.

The ultimate aim of financial counselling is to put a client back into control of their financial situation. A universal response of clients after seeing a financial counsellor is relief to know that they have some options. This helps enormously in reducing the stress associated with financial difficulty.[4]

An assumtion underpinning income management is that some welfare beneficiaries cannot manage their money. The 'solution' therefore is to help people become better money managers. Financial counsellors risk being seen as a type of quick fix - explain to people on income management the virtues of budgeting and all is solved.

This is an overly simplistic approach and misunderstands the causes of financial difficulty. It is worth reiterating that many people on low incomes are often wonderful money managers – they have to be!

For those in financial difficulty, the causes are myriad and complex. Some are related to the individual, such as sickness, unemployment or simply not having enough to live on – social security benefits are very low. Other causes are more systemic and include a credit marketplace with little regard for responsible lending.

Financial counsellors expect to see many clients on income management. While help with budgeting may assist some of them, it not a pancea.

The profession could also play a useful role in working with clients transitioning off income management, who voluntarily seek a referral. There seems to be very little information as to how this is expected to happen.

3.3 Demand

As income management rolls out across Australia, financial counsellors are almost ceratinly going to experience an increased demand for their services. There are a number of reasons for this.

First people will not understand the new system and will be understandably anxious and uncertain about how it is operating. They will need advice, support and information and many will approach financial counsellors for this.

Second, people already struggling to pay their bills, may find that compulsary income management actually exacerbates their financial dificutlty, rather than ameloriating it. Where they previously had control over what money went where, this will now be removed.

Third, there will inevitably be teething problems with the new system. We know from the NT experience that implementation issues will arise. These type of difficulties will be magnified with the massive roll out that is planned.

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[4] Blue Moon Consulting, Financial Counselling Program Research Report, prepared for Consumer Affairs Victoria, September 2007.

Those financial counsellors working in areas designated by the Minister for income management wil be hardest hit, but it does not appear they will be given any additional resources to manage demand.

If the matched savings program for example is to roll out across Australia, a significant investment will be needed to oversee this and ensure there are approved money management courses available.

3.4 Information about income management and financial counselling

There is very little information available, that we could find, about income management and its proposed interaction with financial counselling and money management services. From the viewpoint of clients, this is obviously not helpful. Resources such as fact sheets could be developed.

For the profession of financial counselling, it would be helpful if there were operating protocols and clear policies about how referrals to financial counsellors would be managed and that staff in agencies such as Centrelink received appropriate training about them.

3.5 Matched Savings Program

The legislation includes a matched savings scheme for people who voluntarily enter into income management, who undertake an approved financial management or money management course and have a pattern of saving over at least 13 weeks. The maximum amount an individual could receive in matched savings is $500.

AFCCRA strongly supports matched savings programs, with programs such as Saver Plus – a partnership between ANZ, the Brotherhood of St Laurence and other community organisations - operating successfully for a number of years and at an increasing scale.[5]

We know from this experience and from evaluations as to what makes matched savings programs successful. A 2008 report by Roslyn Russell into Saver Plus found that:

> 'The offer of matched funds is the attractor … However, it is difficult to keep motivation fired up. Dedication to the aims of the program understandably begins to wane in the face of the exigencies of household expenses. To minimise this, the matched rate needs to offer sustained incentive …'[6]

[5] See Fry, T, Russell, R, Brooks, R and Mihajilo, S 2008, 'The factors influencing saving in a matched savings program: Goals, knowledge of payment instruments, and other behavior', *Journal of Family and Economic Issues*, vol. 29, no. 2, pp. 234-250.
[6] Roslyn Russell, '*Saver Plus: More than Saving – A brief comparison with international programs'*, RMIT University, August 2008, p 3.

The evaluation found that the Saver Plus rate of $1:1 was sufficient ‘to attract participants and sustain motivation’. The incentive offered by the government appears to be at this level.[7]

There may be some complexities involved in the administration of the scheme. Any amounts saved must be from non-income managed income. How this will be monitored is unclear.

Russell also noted that ‘the compulsory financial education component can initially act as a deterrent’ but that ‘by the end of the program the participants report the financial education to be one of the program’s most enjoyable and important experiences’.[8]

We are however concerned that the ‘reward’ for being involved in the matched savings program is that 100% of the incentive payment will be income managed. This does not make sense, given the aim of the program. Any incentives should be available for people to spend on range of agreed items, such as a computer (a common savings goal in the Saver Plus program), but the ultimate decision should be up to the individual.

Finally it will be important that there are enough courses available for people to undertake, since the matched savings only begins from the time the course begins.

4 HOW INCOME MANAGEMENT IS CURRENTLY OPERATING

Forms of income management have been operating under the Northern Territory Emergency Response since 2007, in Cape York since 2002 and in Western Australia since 1998. A number of financial counsellors, money management workers and other community workers have been invovled in these interventions at first hand.

The section is based entirely on discussions and consultations with these workers. These views were sought by email and telephone over the past few months and comments were made on this submission, when it was in draft form.

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[7] It is hard to understand the explanatory memorandum on this point. It states that ‘(S)ection 1061H specifies the amount of the matched savings scheme (income management) payment as the smaller of either the person’s qualifying savings or $500. This provision also provides that the payment is only to be paid as a single lump sum and that a person can receive a payment of this payment only once. A consequence of this provision is that, if a person has qualifying savings of, for example, $80 and the person claims a matched savings scheme (income management) payment, the person can only be paid $80 and no further amount.’ Explanatory Memorandum, Social Security and Other Legislation Amendment (Welfare Reform and Reinstatement of Racial Discrimination Act) Bill 2009, p 36

[8] Roslyn Russell, ‘*Saver Plus: More than Saving – A brief comparison with international programs*’, RMIT University, August 2008, p 3.

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4.1 Weighing up the Benefits and Problems

In some communities, financial counsellors and money management workers report that income management has some positive aspects. There is less ‘humbugging’ particularly of older people, there are reports of less gambling and alcohol abuse and reports that some children are now better fed. Some young people on Abstudy in one community have benefited from learning more about budgeting.

Some of these benefits will be related to income management and others may reflect other aspects of the NTER, such as alcohol restrictions or the licensing of community stores.

On the other hand, other people report that there is a great deal of shame attached to the ‘basics card’and people feel stigmatised by having to use it. People feel humiliated. Some older people feel that they have gone back to the days of rations.

Some people also tell of specific instances where, because of a problem with the card, they were embarassed at the cash register when unable to buy something, or were treated differently to other customers. This is an awful experience when it happens.

There are also many difficulties in actually finding stores that will accep the basics card. When a number of Indigenous financial counsellors and money management workers attended AFCCRA’s confernence in Melbourne last year, they could not use their card as stores would not accept it. The stores thought the card was some type of ‘scam’.

Many people do not want to be ‘income managed’, but are subject to the policy anyway. They report that they cannot manage their money as well as in the past, as they now have less control over how they budget and save. For example, parents who have children going to school interstate now find it difficult to put money into their children’s bank accounts, now that they have less cash available. People also report difficulty in accessing sufficient cash in unforeseen events, such as the need to attend a funeral or repair a car.

These problems are inherent in the design of a mandatory income management system.

There are also numerous practical issues with the way the basics card works. These are set out next.

4.2 The Basics Card and Other Issues

There are numerous problems with the way income management is working in practice.

- *Diffculty in obtaining card balances* - If people are to manage their money, they need to know the balance on their card. However it can be very hard to find the correct balance. At the moment, access to this information is available by ringing 13 25 94. Problems include:

    - It can take 15 to 30 minutes to get through on the 13 number.
    - Mobile phones are not an alternative at present, as the call costs are prohibitive. Call costs from mobile phones should also be free.
    - People living in remote communities often have difficulty in accessing telephones, as there are very few public phones.

- *Mistakes with the basics card* - Where there are mistakes or abuses in the use of the card, getting these problems fixed takes considerable time and effort. For example, some supermarkets have been known to swipe the card through twice, for the same purchases.
- *Replacing the basics card* - When people lose cards or forget their PINs, replacement cards take some time to arrive, particularly in remote communities. This means people have no access to their money.
- *Store set up costs* – Retail outlets face significant set up costs. In one community, these costs were $70,000.
- *Concerns about fraud* - There is no signature of the client on the card, and no photo (although we understand there may be plans to change this). At present, anyone who has the PIN can use the card and this had led to instances of people having to hand over the card because of the fear of violence, or of cards being 'sold' for a much lesser amount of money and that money being used to buy items that would otherwise be prohibited.
- *Confusion about the interaction with Centrepay* – People are sometimes unclear as to what payments are made from the income managed component of a welfare payment and which are available through Centrepay.
- *Limited purchasing options* - The range of stores and variety of goods available cause problems for some people. For example, access to low cost quality fresh fruit and vegetables has been long recognised as difficult to obtain in remote areas. People who are income managed may also be less able to purchase food in bulk. Depending on where someone lives, they may also have to travel long distances to find a store that accepts the basics card.
- *Financial literacy components* – Financial literacy is meant to be an adjunct to income management, but it has been slow to roll out in Indigenous communities. People who are subject to income management should not be forced to attend financial literacy programs.

As a final point, we note that Centrepay arrangements are an effective tool for many welfare beneficiaries and are widely used. Common uses for example include Centrepay deductions for rent or electricity. These arrangements deliver similar outcomes to the basics card, but at a fraction of the cost. Importantly, control of the payments remains with the person setting them up who makes their own decisions about managing their money.