

**Care Financial Counselling Service**

28 September 2007

Mr Jon Stanhope MLA  
Chief Minister  
ACT Legislative Assembly  
GPO Box 1020  
Canberra ACT 2601

Dear Chief Minister,

**Re: 2008-09 Budget**

Thank you for your letter of 14 August 2007, inviting Care's input into the 2008-09 Budget process.

**Postal Address**

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Civic Square ACT 2608

**Introduction:**

Care has been the main provider of financial counselling and related services in the ACT since 1983. Care's integrated range of service options includes:

- A daily financial counselling information line operating between 9 am and 12 pm;
- A variety of face-to-face financial counselling service options, including ongoing case work and advocacy; a weekly after hours drop in service on Wednesday evenings between 5.30 pm and 7.30 pm; a service dedicated to the needs of Housing ACT tenants and a regional NSW outreach program based in Queanbeyan;
- Hosting the Consumer Law Centre of the ACT;
- A Community Development and Education programme;
- Contribution to public discussion, policy and law reform processes of importance to Care's client group; and
- Operation of a No Interest Loan Scheme to assist low income consumers purchase essential household items since 1997.

The range of activities and longevity of Care's operations in the ACT provides a unique capacity to not only reflect the views and experiences of our clients currently, but to make observations about how those needs may be changing over time. We note in particular that throughout its years of operation, Care has provided regular and detailed reports on its operations to a variety of ACT Government Departments, in particular under current contractual arrangements the Department of Disability, Housing and Community Services. The observations to follow are based on our service experience and data collected in the course of interacting with our clients.

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**Brief comment on current economic conditions and the impacts on Care's client group:**

Australians individually and collectively have never owed more money personally than they do now. The growth in levels of personal debt has been prolonged and explosive. We routinely borrow more than we earn and monthly payment commitments on outstanding personal credit are approaching 160 per cent of GDP.<sup>1</sup>

Financial counselling agencies and consumer advocates generally have been warning about the possible implications of this escalation in credit commitments for several years. In short, the rate of growth is unsustainable. There is mounting evidence that we are reaching saturation point and that even consumers who have previously coped well with increased levels of debt, may be reaching a point where they cannot adjust to modest changes in economic conditions.

Care's data has been pointing to subtle but clear and consistent changes in intake demographics. Whilst our core clients are still very low income people, Care receives proportionally more requests for assistance from slightly higher income people and those in the 'mortgage belt', than it did five years ago. Across client demographics the problems people are seeking assistance with are broader and deeper. These are experiences being mirrored in similar agencies around Australia. They suggest a significant shift in the capacity of low to moderate income consumers – and even those on higher incomes – to keep pace with financial commitments.

With the preceding comments as background, Care has chosen three key themes for this submission. The comments are not designed to be exhaustive and we acknowledge the submission prepared by the ACT Council of Social Services which covers a broader range of issues and recommendations:

**1) Appropriate mechanisms for responding to financial hardship and improving the quality of life for low to moderate income consumers in the ACT:****a. Review of ACT Government Concessions:**

Care has provided a preliminary submission to the review of ACT concessions, currently being coordinated by the Department of Disability, Housing and Community Services. A copy of that submission is annexed. Care supports the review and urges Government to make appropriate allowances for implementing

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<sup>1</sup> Raw data in relation to outstanding personal credit can be extracted from the Reserve Bank of Australia web-site ([www.rba.gov.au](http://www.rba.gov.au)). Commentary on those debt levels is available from a variety of sources. One such source that presents a particularly alarming view is a monthly newsletter entitled Debt Watch produced by Associate Professor Steve Keen from the University of Western Sydney. Debt Watch can be accessed via [www.debunking-economics.com](http://www.debunking-economics.com).

recommendations. ACT concessions and the processes by which they are made available to the community are out of date and lack appropriate coordination. It is likely substantial investment will be required to correct these problems.

**b. Review of Debt Collection across ACT Government Departments:**

A review of debt collection practices and procedures across ACT Government Departments was announced early in 2007. Care was asked for and made preliminary public comment on the review, noting that it was an opportunity to ensure best practice in the collection of debts owing to the ACT. We also anticipated the review would provide important links to other ACT Government activities including:

- The review of concessions;
- More commercially and socially responsible approaches to reducing or waiving debts in appropriate circumstances; and
- Effective mechanisms for allowing payments over time, especially in relation to fines.

Care has asked on a number of occasions for information about the review and for assurances that it would be appropriately connected to community needs and expectations. That has not yet occurred, but as previously we would welcome the engagement. Without further detail Care is unable to make specific comment on the budgetary implications of the review, save to say that doing debt collection better, safer, smarter and even more thoughtfully is likely to improve the bottom line, as many commercial organisations have already realised. To emphasise this point another way, aggressive debt collection or approaches that pay no regard to actual capacity, frequently cost more in the long run, as well as causing considerable extra hardship for debtors.

**c. Regular, independent research into how financial stress is experienced in the ACT:**

In the preliminary comments made to the concessions review (enclosed) Care notes that there is no regular, ACT specific research into what might broadly be described as 'financial stress'. There have been occasions, most notably the engagement of NATSEM in the course of the Poverty Taskforce, where independent research has been commissioned. Care acknowledges also that some excellent work has been done within Government, for example Patrick Stakelum and Leila Galang's work that provided the impetus for the Community Inclusion Board's Community Inclusion and Household Debt Pilot Project.

What is missing is a commitment to regular independent research and medium to long term planning is poorer because of that absence.

## **2) Ensuring key ACT markets remain safe, accessible and fair:**

### **a. Establishing a Commission for Effective Markets:**

In early 2004 a review of ACT Utilities Regulation commenced. The review was suspended as a result of national market reforms and to the best of Care's knowledge has not recommenced. We would welcome reinvigoration of the process and its expansion to consider better ways to design, deliver and oversee effective markets in the ACT. In particular, Care recommends consideration be given to replacing the current Independent Competition and Regulatory Commission (ICRC) with a Commission for Effective Markets. The term "Effective" would encompass efficiency, sustainability and fairness.

In Care's view too much emphasis has been applied to competition as a driver of good consumer and economic outcomes, to the detriment of other equally important considerations. At a general level the effective development of markets in the ACT going forward would be better served by a fundamental shift in how we approach design and regulatory oversight.

## **3) Focus on Affordable Housing:**

### **a. Ensuring lateral home ownership options being developed by ACT Government are accessible, safe and sustainable for the target market:**

Care supports the ACT Government's willingness to test lateral approaches to solving housing affordability problems. I should disclose that this support includes a current informal and part-time secondment I am personally undertaking with Housing ACT to assist in the design of equity share proposals. The secondment is unpaid (in the sense that I continue to be an employee of and paid by Care during the interactions) and is not an endorsement by Care of the detail of specific approaches. It does however recognise the importance of taking action to tackle housing affordability problems in ways that are accessible, safe and fair for low to moderate income people.

There are two related and more specific issues we would like to raise in a budgetary context:

- One of the likely consequences of successfully developing an equity share program that would allow significant numbers of people currently tenants of Housing ACT to purchase their

homes is that Housing ACT's income will fall. It is vital that Housing ACT is resourced to provide sufficient accommodation and services to its tenant base. In other words, developing lateral responses to home ownership does not diminish the imperative to provide adequate resources for public rental accommodation. All of Care's client experience and interactions with our colleagues in the sector confirm current public rental resourcing is not sufficient.

- Regardless of the care taken in design, equity share arrangements add an additional level of complexity to home purchase. It is vital consumers considering such options access appropriate independent advice. If that advice is to be sourced from the commercial market there are genuine questions regarding its ready availability and cost. Most likely consumers wanting to explore an equity share purchase with ACT Government would pay more than ordinary consumers in the housing market, diminishing the attractiveness and utility of the approach.

Care, the ACT Legal Aid Office, Welfare Rights and Legal Centre and the Tenants Union have discussed broadly whether we could cooperatively develop an advice proposal to be presented to Government as a short term funded option. We have resolved that such a model would be very difficult to site within the free legal service community. Nevertheless we continue to look for options, including the possibility of discussing a hybrid with the local private legal profession. The separate question of appropriate independent financial advice is potentially even more challenging.

Either way, we would suggest consideration be given to targeted additional support for potential equity share purchasers to ensure they access appropriate advice on potential benefits and risks of co-ownership arrangements.

**b. Maintaining a leadership role in the appropriate regulation of home lenders and intermediaries:**

There are real problems in the home lending market at present. Those problems have been the subject of intense public discussion and debate, as well as a number of regulatory initiatives, in particular the licensing and oversight of mortgage and finance brokers. Care urges the ACT Government to maintain a leadership role in these discussions and, if they fail to produce an outcome within a timeframe appropriate to the urgency of the problems, to invest in the delivery of an ACT specific framework – even if that is an interim step to delivering a national model.

We trust the comments above are of use. Because they overlap the portfolio responsibilities of the Attorney General, the Minister for Community Services and the Minister for Housing, copies will be provided to your Cabinet colleagues as your initial letter invited.

Thank you again for the opportunity to provide our views. Care would be happy to expand on the issues raised if requested.

Yours sincerely,

David Tennant  
Director