

Consumers' Federation of Australia



**Submission to the
Senate Community Affairs References
Committee**

Inquiry into Poverty in Australia

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Care Inc.

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And the

CONSUMER LAW CENTRE OF THE ACT

About the groups making this submission

The Consumers' Federation of Australia (CFA):

The CFA was established in 1974 and is the main peak body for consumer advocacy organisations in Australia. Currently the CFA has 95 member groups around Australia across a variety of areas of interest to consumers. A copy of the CFA's Objects are attached to this submission (Annexure 1).

Care Inc Financial Counselling Service and the Consumer Law Centre of the ACT (Care Inc):

Care Inc has been the main provider of financial counselling and related services to low income and vulnerable consumers in the ACT since 1983. Those services include:

- Financial counselling and information services (including an outreach service in Queanbeyan and a dedicated service for tenants of ACT Housing and applicants for public housing)
- Community Development and Education
- Policy and Social Action.

In January 2003 the Consumer Law Centre of the ACT was opened. That service has been co-located with Care Inc.

Introduction:

This submission will focus on points 1 (C) & 1 (D) in the Terms of Reference. It will be split into 3 sections:

- 1) What poverty is to those it affects
- 2) Government & community working together – the model of the ACT Poverty Task Group
- 3) Problems in the system – the inherent unfairness in financial services delivery.

Points 1 & 2 will predominantly draw on the experiences of Care Inc. Point 3 is drawn from the broader experiences of the CFA membership and the Association's attempts to describe the failures of and recommend improvements to the financial services system, as it impacts on low income and vulnerable consumers.

1) **What poverty is to those it affects:**

In reading the Committee's Terms of Reference and the information material for those making submissions, we are reminded of how difficult it is for those actually experiencing poverty to be given voice in the processes that affect them. This is not a criticism of the Committee or of the Inquiry being undertaken. It is however the reality that the poor are also those least able to and least likely to provide their views to assist policy makers to fully appreciate the reality of their everyday lives.

In point 2 below, reference is made to the work of the ACT Poverty Task Group. The first report that the Task Group released was entitled "Telling the Story"ⁱ. Through a series of workshops, forums, questionnaires and so on, it sought to give voice to the individuals, families and communities affected by poverty. It was a powerful document, not only in the material it presented in its published form, but in shaping the entire work of the Task Group and the collective community commitment to take that work forward.

To follow is a story that one of Care Inc's clients prepared for inclusion in this submission. We do not present it as being typical or representative, although this is no doubt a story replicated in community agencies around the country. It is instead a reminder that each person in Australia affected by poverty faces challenges every day that many would never have to confront in a lifetime. Every one of those stories and every one of those experiences challenges us to do better than we do now in understanding and responding to their needs.

(This is the story of a single parent with a disability working part-time. This woman has three children, one of whom still lives with her. She receives part income support payments, part wage, and minimum child support payments. The child at home is in the last year of school, receives Youth Allowance and works part-time after school. The words are her own.ⁱⁱ)

"At first I thought why bother telling anyone what it's like to live in poverty? Who would really be interested? The government is always saying they want to help poor people but every time you turn around, everything costs more, there's less money to go round and more stress. But if you want to know something about what it's like for someone who looks outwardly ok but struggles constantly then read on.

There are few things that grind you down like constantly having to check to see whether there is enough money to live. Will we pay the rent or eat?

Will we save the electricity from being disconnected this time? Will there be a medical emergency and there's no phone on?

You may think that this is not real, that people exaggerate their poverty, especially if they have a part-time job and only receive a reduced amount of income support. But it is real. Even for reasonably educated people, it is real if you have an illness, disability or are a sole parent. If you have more than one of these, then things get even tougher.

Don't get me wrong.....it's not that I don't appreciate the help that I get. But every time there's an increase in my income (when I've had to fight to drag myself to work in the first place), there's a decrease in my pension, an increase in my rent (I can only afford to rent from the government) and an increase in my tax. This means that I'm often left wondering whether the government wants to keep me away from the workforce, rather than keep me in it.

I have always wanted to work, full-time if possible, but since my illness constantly gets in the way of this, I have always worked as many paid hours as I can, to at least be contributing to society in what I hope is a useful way. This makes me feel less of a financial burden on the community. The paid hours are also in addition to the hours that a sole parent does by being on call virtually 24 hours a day.

The stress and strain of living with the constant 'robbing Peter to pay Paul' saga that accompanies poverty, added to the way the 'income support' systems intersect to take money away, is a constantly depressing factor. It is already difficult enough to have overcome (as much as I can), a difficult past and the disadvantages that it brings, with trying to work, juggle the demands of children, run a home and be a part of society as well.

My income over a small base amount is subject to such harsh penalties that often it seems like a punishment, not a reward for extra hours that are already difficult to do.

I have a fortnightly amount that I earn, but if I can work extra hours, I do. This is for about \$15 per hour gross. I hope this sum following is something that will help you to understand my position.

For an extra \$100 dollars (approx. an extra 6.5 hours) earned, I will lose the following from my income:

- \$40 (pension)*
- \$25 (rent) 25% of gross*

= \$35 left!

This is the equivalent of working for \$5.38 per hour! This is instead of the actual rate of \$15 per hour. There will be even less left when my income reaches above the tax-free threshold. In this case I will lose \$17 of tax as well...leaving me with \$18 out of the \$100 I earned! This will be the equivalent of working for \$2.76 per hour! Would you work for this? Well I do. Even an extra \$18 helps but surely you can see that the intersection of all these aspects of living in poverty is not fair or encouraging or designed to promote well-being in someone who already has to battle to survive not just financially but physically and emotionally as well.

It's not possible to suddenly increase work hours (or I would have done this already) when you have an ongoing illness, and therefore earn so much that you don't need some income support. And since it is a constant battle to keep working anyway, it is demoralizing to see your money taken on every front when all you are trying to do is contribute to the community in the best way that you can.

When the possibility of losing the pension and going onto unemployment payments (if I can work more than 15 hours per week) was recently raised I felt even more fearful, as this would make my situation worse. If I increased my hours (above 15) then I would lose the pension (much more than the \$52 per f/night for people who are on full income support – which they cannot afford to lose either). I cannot instantly make up the extra amount lost in extra hours. I have tried to increase work hours at a rate that is manageable. If I were pushed to suddenly work full-time hours or to look for extra jobs, I would break down and end up on full income support payments which would end up costing the government more money and be more demoralizing.

Look at how you can help alter the current situation for people living in poverty so that our efforts are encouraged. And don't forget that behind the figures that you read and the decisions that you make, there are people, and I'm one of them.”

2) **Government & Community working together- the model of the ACT Poverty Task Group**

In 1999 the ACT Government, in conjunction with the ACT Council of Social Services established a Task Group, drawn from government, business & the community services sector to conduct an inquiry into the nature and effect of poverty in the ACT. Care Inc was represented on the Task Group throughout its various activities, from June 1999 until the final reports were delivered to Government in December 2000.

We are aware that the ACT Government is making submission to this Inquiry and that copies of the Poverty Task Group's 4 reports will be annexed to the submission. We commend that submission to the Committee, and note in particular:

- the level of bi - partisan support for the project
- the ongoing commitment to the project and its outcomes as a key driver of social policy across government and
- the benefits of genuine partnerships & co-operation between government & community.

The ACT is a small landlocked jurisdiction that has traditionally been described as enjoying a higher standard of living than many other regions in Australia. The Poverty Task Group, through its research and reports, made clear that significant numbers of people in the ACT also experience poverty.

Research conducted for the Task Group by the National Centre for Social and Economic Modelling (NATSEM) concluded that the rate of poverty experienced in the ACT is less than that experienced in the rest of Australiaⁱⁱⁱ. A lower rate of poverty does not however mean the problems the ACT community faces in tackling and alleviating the effects of that poverty are any easier. For example, Canberra residents in poverty may face some challenges peculiar to the area in which they live – such as high heating costs in winter and the geographical spread of the ACT and associated challenges for delivering effective, affordable public transport.

Poverty rates and impacts will vary around Australia and the ACT Poverty Task Group reports on one such set of variations. In designing appropriate responses, we would suggest it is more important to consider the model that the ACT Poverty Task Group adopted and the continuing policy attention it commands at an all of Territory government level. It took up the issue of poverty and made it and alleviating its impacts the priority.

There is, in our view, no indication that such a commitment to treating poverty as an issue of priority exists at the Commonwealth level. More disturbing, is an apparently dogged reliance and belief that the market and competitive forces will deliver positive outcomes to all Australians, regardless of means. We believe that reliance, to the exclusion of all other broad policy considerations, has been discredited. Further specific comments in relation to the delivery of financial services are made under the next heading.

3) **Problems in the system – the inherent unfairness financial services delivery**

Low income and vulnerable consumers often have limited choices available to them in the types of products they can access and how much they will cost. Across the range of financial services and products, from basic savings accounts to credit facilities, it is the experience of consumer advocacy services that:

- disadvantaged consumers struggle to find services appropriate for their needs and means and
- frequently low income consumers pay more than any other market participants to access the limited facilities available to them.

In Point 2 above, an example was provided of policy development where the impacts of poverty and the needs of those in poverty are the central focus. At the Commonwealth level, policy development for consumers remains dominated by a single overarching priority – competition.

The CFA and its member groups acknowledge many benefits flow from competition. Any expectation or reliance that those benefits will flow evenly through the community is, in the opinion of the CFA, misplaced. To the extent that there are mechanisms to address specific concerns about the exclusion or unfair treatment that might otherwise be experienced by vulnerable consumers, without market intervention by government, those mechanisms are themselves bound to the competition framework.

The most obvious example is the Authorisation process under Part VII of the Trade Practices Act. Authorisation may be an appropriate way to consider all of community benefits that might flow from permitting certain types of anti-competitive conduct. The CFA does not believe however that the Authorisation process is the optimum way to deal with low income issues that are as fundamental as:

- fairness and equity
- corporate social responsibility and
- appropriate community support for the most vulnerable.

To expand further on the concerns the CFA has expressed in relation to the capacity and/or appropriateness of the TPA Authorisation process to meet the needs of vulnerable consumers, we attached a copy of our submission to the Application for Authorisation of a Basic Bank Account ^{iv}(Annexure 2). The ACCC issued a Draft Determination on 16 December 2002. That Draft indicated the Commission's intention to reject the request for Authorisation in its then current form. The applicants' response was to withdraw the application on 20 December 2002.

The CFA, with other key consumer groups, expressed great disappointment that the Basic Bank Account application did not proceed. The Draft Determination predominantly focussed on 4 key issues of concern:

- ensuring access to a Basic Bank Account is available through branch networks and not only agency networks,
- ensuring an adequate number of minimum transactions
- excluding balance enquiries from the number of transactions considered in any transaction limit and
- ensuring that dishonour fees more accurately represent real costs and do not operate as penalties.

It was and remains our view that the applicants collectively did not have a great distance to travel to address these concerns. Nevertheless they felt this could not be achieved by progressing the application.

The question we would invite the Committee to consider is whether in fact the Authorisation process itself was the appropriate vehicle to deliver reliable, affordable savings accounts to low income consumers. When the Financial Services Inquiry Final Report was released in March 1997, this issue was one of the few to warrant a recommendation that directly addressed the needs of disadvantaged consumers^v. In comparison however to the huge sums of money spent on financial system reform arising from the Financial Services Inquiry recommendations, government(s) have done little that has resulted in "alternative means of providing low-cost transaction services" being made available.

The ACCC Draft Determination noted the market activity that has evolved around the availability of Basic Bank Account products. We acknowledge the existence of that market activity. We believe that the timing, extent and effectiveness of that activity however has been less than optimum. In part, that relates to the lack of effective government engagement at the Commonwealth level with the needs of low income and vulnerable consumers.

Appropriate, accessible and affordable transaction accounts are only one set of financial services needs for people in poverty. It is beyond the scope of this submission to list all of those needs. We would however like to make mention of fair and affordable credit, given the public scrutiny and concern over increasing personal debt levels in Australia^{vi}.

This is again an area in which there has been a growing need for Commonwealth leadership, but little forthcoming. The community has been left to develop its own responses, with one excellent example the growth in No Interest Loans Schemes around the country.

Care Inc has operated one such No Interest Loans Scheme since 1997. The scheme offers loans to a maximum of \$650 to purchase essential household items. The original lending capital of the scheme was \$20,000. A further \$15,000 was added in 2002. The scheme has now made over 100 loans to a total amount in excess of \$60,000. It retains around 75% of total lending capital, even after write offs in almost 6 years of operation.

We acknowledge that the Department of Family and Community Services (FACS) has introduced a project that underwrites access to the Centrepay facility free of charge for borrowers from these No Interest Loans Schemes. It is the CFA's understanding however that this commitment has already been subjected to review and indications are that it may be withdrawn.

Conclusion:

There is sometimes a perception that people in poverty are bad money managers. The experience of the CFA and its member groups, through their direct client contact, is that this is rarely the case. In fact the opposite is often a better description. Low income and vulnerable consumers are better at using money wisely, because they have to be.

It is our view that insufficient attention is given to ensuring that people in poverty can access safe and fair markets and we have provided specific examples in the delivery of appropriate financial services. Those examples can and are replicated across the full spectrum of consumer services.

Competition alone will not address these issues, because the poor rarely have any choice.

Endnotes:

ⁱ The ACT Poverty Task Group was a joint initiative of the ACT Council of Social Services and the ACT Government. “Telling the Story” was report number 1 the Task Group’s 4 reports. It was released in May 2000.

ⁱⁱ Material provided by client of Care Inc Financial Counselling Service, March 2003

ⁱⁱⁱ Task Group Paper number 3 “Building the Profile” (December 2000) details the NATSEM research. Using the Henderson half average income line, the report suggests that just under 25,500 ACT residents, or 8.5% of the population live in poverty. This compares to a national rate, using the same criteria, of 13.1%.

^{iv} The Application for Authorisation of a “Basic Bank Account” (No A30214) was filed by the Australian Bankers’ Association and 10 member banks with the Australian Competition and Consumer Commission. The CFA made written submission on 17 July 2002 (Annexure 2). A subsequent oral submission was made on 13 August 2002.

^v Recommendation 96 of the Financial System Inquiry Final Report, March 1997: “Governments should examine alternative means of providing low-cost transaction services.”

^{vi} For example report in the Age newspaper 29 March 2003 “Household assets take a hammering”, reporting that household borrowings now outstrip net household assets.