

Aide-mémoire



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

Meeting

Date: 3 September 2021 **Security Level:** IN CONFIDENCE
For: Hon Carmel Sepuloni, Minister for Social Development and Employment
File Reference: REP/21/08/0918

Meeting with FinCap, 9 September

Meeting details 4:00pm - 4:30pm, Thursday, 9 September 2021, via Zoom

Expected attendees Ruth Smithers – Chief Executive
Moana Andrew – Kaihautū
Jake Lilley – Policy Advisor

Meeting purpose FinCap wish to discuss a range of matters with you including sustainable funding, FinCap's work in the ongoing shaping of the Building Financial Capability (BFC) sector, the MoneyTalks pilot and request your advice on resolving systemic issues with debt collection practices.

Talking points We recommend you acknowledge the following:

- FinCap's work around the improvements to the Financial Mentor Introductory Course (FMIC).
- that the COVID-19 Response and Recovery Fund (CRRF) is ending 30 June 2022 and that you are aware of the potential impact that this will have on the sector.
- FinCap's work with the sector, including the recent regional hui and the promotion of BFC services in local newspapers.
- that FinCap has been working closely with MSD officials on the Financial Capability Future State paper.

Sustainable funding for financial mentoring FinCap has advised that it will be presenting their view of a sustainable funding model for the Financial Mentor service. We understand this work is driven by the time limited funding for BFC services from CRRF which ends on 30 June 2022.

Prior to the CRRF investment, FinCap and individual BFC providers raised concerns about the viability of their services due to our contributory funding model.

Based on our discussions with FinCap, we understand that they are proposing that the current level of CRRF investment (\$25 million over two years) is retained.

We also anticipate that FinCap will seek funding for the 200 budgeting organisations that it supports. Of these, MSD currently funds 131 organisations.

Appendix One outlines Ministry of Social Development (MSD) funding for core BFC services.

MSD is currently reviewing the costing model for BFC services, with a view to preparing a Budget bid. This work includes understanding what sustainable funding is required for BFC services which is one of the principles of the Social Sector Commissioning approach.

We believe there is a significant gap between current funding, which is contributory, and what these services need to function sustainably and meet demand.

MSD has made the following changes recently:

- longer term (three year) contracts from 1 July 2021
- increased baseline funding for BFC services from \$98.80 to \$118.70 per session due to Budget 20 cost pressure funding
- a temporary increase of the session rate to \$170.50, due to the CRRF investment, this is time limited to 30 June 2022.

In its report "*THE STRUGGLE IS REAL: A snapshot of financial hardship post-Covid-19*" the Salvation Army has also recommended the increased funding for BFC services from CRRF should continue¹.

FinCap's work in the sector

FinCap's current Chief Executive, Ruth Smithers started in February 2021 and has been working closely with MSD officials on how FinCap can best support the sector. This includes improvements to training for financial mentors which is MSD funded.

FinCap have recently run hui with BFC services in Christchurch and Whanganui and have focused on networking and service improvement. Further hui throughout New Zealand are planned between now and November. MSD has recently supported FinCap by funding them to deliver MoneyMates² training for BFC services.

We have also asked FinCap to provide feedback for our draft *Financial Capability Future State* paper. The paper gives a snapshot of the financial capability sector and situation in New Zealand. It explains why financial capability matters, where we are now, and

¹ Salvation Army report – *THE STRUGGLE IS REAL: A snapshot of financial hardship post-Covid-19* - https://www.salvationarmy.org.nz/sites/default/files/files/%5Bfile_field%3Atype%5D/sppu_thestruggleisreal_june_2021_v2.pdf

² MoneyMates is peer-led support groups that encourage people to learn from others as they talk about money and finances

where we want to be in 2024. FinCap are currently helping with a final review after which time we will share with you prior to publication.

MoneyTalks

There has been an increase in people accessing MoneyTalks, which appears to be an indicator of the impact of COVID-19. In July 2020, MoneyTalks received 1,489 calls – an increase of 165 percent from the same time last year. Data from May 2021 has the total number of calls received at 2,594.

This financial year we increased funding from \$330,000 to \$830,000 per annum for MoneyTalks to meet the increased demand.

As MoneyTalks is a pilot, we plan to review it to ensure that it is providing the best service to New Zealanders. We have informed FinCap that we want to conduct a review of the service and no decisions have been made regarding the future of MoneyTalks, or which type of organisation is best to deliver it.

Debt collection practices

At the start of this current lockdown, FinCap wrote an open letter³ regarding debt practices of electricity retailers, phone and internet providers, rental housing providers, banks, lenders, other creditors, and government agencies. FinCap encouraged compassion at a time when people were suffering financial stress, they also asked the Ministry of Justice to pause processing of attachment orders for people who receiving a benefit.

FinCap have not raised specific issues regarding MSD's debt collection practices with us. They have however, recently requested information on Work and Income redirections to third tier lenders and attachment orders under the Official Information Act. A response was provided on 19 August 2021.

FinCap may also ask that you raise this with Minister Sio in his capacity of Minister for Courts.

Responsible manager: Mark Henderson, General Manager, Safe, Strong Families and Communities

³ [Open-letter-to-creditors-August-2021.pdf \(fincap.org.nz\)](#)

Appendix one – Funding for core BFC services

Funding for BFC services is contributory and prior to 1 July 2020 core BFC services had a baseline of \$13.057 million per annum. This was distributed across 131 providers around New Zealand.

Through Budget 20, BFC services received funding of \$9.7m to address cost pressures. An additional \$25.212m over two years was allocated from the Budget 20 COVID-19 Response and Recovery Fund to improve the sustainability of BFC services, to respond to increased demand. A one-off amount of \$0.5 million was also allocated to MoneyTalks to increase capacity of the helpline service⁴.

The additional time-limited funding from the CRRF allowed MSD to temporarily increase the number of sessions and the unit rate per session. An increase to the unit rate was necessary to ensure services were viable, able to retain skilled staff and attract new staff, to meet the increase demand expected from the economic impacts of COVID-19.

The table below breaks down baseline funding and increases through Budget 2020 for core BFC services over four years.

| Funding (\$m) | 20/21 | 21/22 | 22/23 | 23/24 | Four year total |
|---------------|---------------|---------------|---------------|---------------|-----------------|
| Baseline | 13.075 | 13.075 | 13.075 | 13.075 | 52.300 |
| Cost pressure | 2.425 | 2.425 | 2.425 | 2.425 | 9.700 |
| CRRF | 11.402 | 13.810 | 0.000 | 0.000 | 25.212 |
| Total | 26.902 | 29.310 | 15.500 | 15.500 | - |

⁴ \$4.75m over two years was also allocated to Debt Solution services. These interim services strengthen BFC clients' access to safe lending, debt advocacy and debt counselling specialists.