FINANCIAL COUNSELLORS' ASSOCIATION
OF WESTERN AUSTRALIA

Submission in response to

Financial Counselling Industry Funding Model Discussion Paper

December 2022

By email engage@dss.gov.au

The Financial Counsellors’ Association of WA thanks the Department of Social Security for the opportunity to respond to the discussion paper on the proposed Industry funding model.

About FCAWA

The Financial Counsellors' Association of Western Australia (FCAWA) is a well-respected peak professional body representing over 220 members within 50 locations throughout the metro, regional and remote areas of Western Australia, with well-developed links and networks with other services and organisations in the public, not for profit, and private realms.

FCAWA’s vision is to promote financial resilience across Western Australia (WA), reducing the impacts of financial hardship. The organisation has been in operation since 1985 and FCAWA’s primary objectives are to establish, monitor, and improve standards for the financial counselling sector in WA, and to provide a lead voice in advocating for fairer marketplace practices and hardship processes to reduce debts and financial distress. FCAWA advocates for social justice with policymakers and other key stakeholders and lobbies for effective and just policies and practices relating to financial hardship.

Recommendations:

- The Commonwealth Government should immediately begin policy work to move to a mandatory model with legislative backing.

- Capacity building funding be increased significantly and be available for State Financial Counselling Associations to ensure that financial counsellors have adequate skills and support as well as meet ongoing compliance.

- More robust measures for evaluating demand be integrated into the collection surveys.

- Unmet need measures should be incorporated into the model, even if out of the scope of industry funding, to highlight to all Governments and funders the wide scope of the financial counselling sector.

- Any perceived relationship between the number of referrals to financial counsellors and the proportionate industry contributions paid must be uncoupled.

- The Commonwealth Government use the independent body to collect monies from the industries and implement State/Federal partnership agreements to distribute this supplementary funding.

- A three-year funding cycle is too short, and a five-year cycle should be considered.

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Response to discussion paper questions:

Qu. What are your views on the proposed principles for developing the industry funding model?

The view of FCAWA members is that the model is not aligned against some of the proposed principles as outlined in the paper.

1. Industry funding helps to address unmet demand and improves the predictability and stability of funding for financial counselling services.

Due to the voluntary nature of the funding, FCAWA members believe it will be very difficult to improve the predictability and stability of funding by this model.

Recommendation
The Commonwealth Government should immediately begin policy work to move to a mandatory model with legislative backing.

4. Industry funding provides an additional funding stream to current funding sources.

There is a concern that whilst providing an additional stream, there is a significant risk that Government Departments (State and Federal) will relax their commitment to allocating funds. State and Territory Governments may see the addition of industry funding as reducing their responsibility to continue to fund or, importantly increase funding to the financial counselling sector. Although it has been proposed that industry funding must not replace commonwealth, state, or territory funding, it is not clear how the State and Territories Governments will be held accountable for this.

FCAWA is working with their State Government to increase understanding of the value of financial counselling and is encouraging increased funding for the service across many domains, such as gambling, small business, health, mental health, prisons etc. There is a significant concern from FCAWA members that the State Government will look to industry funding to fill these gaps rather than investing themselves.

6. The model contributes to improved coordination, innovation and capability building and enhanced service delivery across the financial counselling sector.

As the processes of the independent body are not outlined or understood, it is difficult to know how, or if, this model will contribute to improved coordination. It is very difficult to know how the proposed model will achieve this with so many unknowns in regards the processes the independent body will take to make decisions around funding. In addition, only 3% has been allowed for innovation and capacity building and none has been directly allocated to the professional Peak Associations who are responsible for the maintenance of compliance of their members. Although out of the scope of this paper, FCAWA members believe it is important to understand how the independent body will determine where the funding goes, the processes that will determine what is fair, and what the governance around this will be.

Recommendation
Capacity building funding must be increased significantly and be available to State financial counselling associations to ensure that financial counsellors have adequate skills, and support, and meet ongoing compliance.

Qu. What are your views on the proposed quantum for each year of the first three years of the model?

The additional funds allocated in the model have been calculated to meet unmet demand based on a narrow criterion (wait lists, etc). The calculations were also based on short timeframe surveys undertaken by Financial Counsellors (FC), during the Covid period. These measures and this method constitute a very narrow assessment of the sector.

There is concern from regional providers in WA, who often do not use waitlists and service provision can look very different, that there needs to be consideration of caseloads and complexity in the calculation of unmet demand. Regional and remote areas also use more financial capability workers in conjunction with a financial counsellor, allowing a more flexible and tailored service for clients. The industry funding is for financial counsellors, and it is not clear if this can be extended to the employment of financial capability workers.

In addition, since the survey took place there have been some alarming trends emerge such as continual interest rate rises and cost-of-living increases. These have impacted on the community and demand for FC services has increased significantly since the date of the survey. It is important that more recent data is obtained to measure the current demand and the allocation is split according to a method that is free from any potential conflict (see below*).

It is also noted that the model does not address unmet need, which is complex. There is a lack of awareness in the community that financial counselling even exists. Using unmet demand to provide the foundation of this model presents a very narrow scope and potentially restricts the financial counselling sector, resulting in the model having the unintended consequence of doing the opposite of its purpose. FCAWA members believe it is important to also have measures that estimate unmet need, even if they are not initially incorporated into the funding model. For example, data from the contributors on hardship plans, arrears and Part IX Debt Agreements are some measures that could be incorporated.

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Recommendations

More robust measures for evaluating demand must be integrated into the collection survey.

Funding should extend to the employment of financial capability workers

Unmet need measures should be incorporated into the model, even if out of the scope of industry funding to highlight to all Governments the wide scope of the financial counselling sector.

Qu. Are there any evidence-based adjustments that could be made to the suggested contributions methodology? What are they and how could they be incorporated into the methodology?

*Many clients are referred to financial counsellors by industry so that customers with debts can receive assistance, and the company in question also receives assistance in resolving complex customer issues. Recognition of the benefits accruing to industry from assistance received formed the key reasoning behind the industry funding model. However, if industry contributions are calculated based on referral patterns, this may lead some organisations to reduce their referrals in the hope of reducing their level of contributions. It is important, therefore, that the contributions methodology avoids creating any disincentives to the use of referrals to financial counsellors by industry.

While we might not see this affect referrals from more established organisations, it would potentially, make less ethical organisations consider referrals, if ultimately, more referrals will cost them more money.

FCAWA members believe it is important to decouple any perceived relationship between these two things. A suggestion would be to use the second or third method below based on household expenditure, as these seem to be a more conflict-of-interest-free method.

TABLE 2. A comparison of the sector splits by different methods[11].

	2021 survey of financial counsellor time (excluding Government[12], and Housing sectors)	Household expenditure (all households)	Household expenditure (lowest two income quintiles[13])
Financial services[14]	71.79%	68.13%	58.35%
Energy	16.30%	13.89%	19.09%
Telecommunications	6.46%	11.22%	14.23%
Water	5.10%	5.17%	6.37%
Gambling	0.35%	1.59%	1.96%
	100.00%	100.00%	100.00%

Recommendation
Any perceived relationship between the number of referrals to financial counsellors and the proportionate industry contributions paid must be uncoupled.

Qu. What are your views on the proposed characteristics of the independent body as set out in Table 4? Are there other characteristics that should be considered?

As the model is voluntary, the issue of a conflict of interest will need to be very carefully considered and managed. Without the mandatory element to the funding, it is very difficult to ensure the sector's ongoing independence.

If funders are appointed to the Board of the independent body, it will be very difficult to generate full confidence in the process, even if the conflict is only perceived. FCAWA members have expressed a concern that there could be an impact on systemic advocacy if it involves criticising any of the major funders of this model.

In addition, even with advisory committees in place, as is suggested in the model, there are concerns that the individual needs of the States will be overlooked. It is noted that currently the Federal Government recognises the importance of local intelligence from each of the states and maintains state offices with local contacts for service providers. It is the opinion of FCAWA members that this local knowledge is crucial to improving service delivery and the outcomes of service users.

A potential solution is that the purpose of the independent body is solely administrative, to collect the monies from Industry sectors that agree to fund the sector. The Federal Government would be better placed to distribute this funding via Federal/State funding agreements. In this way, State Governments would have an important incentive to improve their own funding of the sector in order to gain access to Industry and Federal funding. Such funding mechanisms would distance industry funding from any real or perceived direct influence over agencies the funding is deployed to, thereby avoiding any potential conflicts.

Recommendation
The Commonwealth Government should use the independent body to collect monies from the industries and implement State/Federal partnership agreements to distribute this supplementary funding.

Qu. What is your view on the proposed initial three-year commitment? Is this an appropriate length to ensure flexibility and stability of funding?

FCAWA's view is that three years does not increase stability to the sector. Three-year funding cycles are too short and do not allow for agencies to plan long-term. Funding cycles need to be for longer periods. FCAWA believes that adding another funding stream for a three-year period only increases instability to the sector including, but not limited to, workforce planning and staff retention.

Recommendation
A three-year funding cycle is too short, and a five-year cycle should be considered.

Qu. Are peak organisations an appropriate mechanism to obtain a formal commitment from subsectors as part of the initial set-up of the model? Are there alternative methods to secure commitments that could be undertaken in a timely manner?

As highlighted, a significant concern to our sector is the voluntary nature of the contributions under the industry funding model. It is acknowledged that DSS will seek formal funding commitments from the industry subsectors, seeking letters of commitment through their Peak representatives over the three-year period. It is unclear how difficult it will be for peak bodies to secure these funds (and as noted the Government needs to move on legislation towards a compulsory contribution). If this model stands, and funds are not secured by the industry peak bodies over the three-year period, and State Governments relax their current funding commitments, the financial counselling sector could end up in a worse position than it is now. FCAWA members believe that it is vital to establish a compulsory contribution model of Industry body funding to supplement Federal and State Government funding.