Response to the Department of Social Services

Financial Counselling Industry Funding Model Discussion Paper

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By email: engage.dss.gov.au

financialcounsellingaustralia.org.au | www.financialcounsellingaustralia.org.au

Level 6, 179 Queen Street
Melbourne
VIC 3000

Contact person for this submission
Fiona Guthrie
fiona.guthrie@financialcounsellingaustralia.org.au

About Financial Counselling Australia and Financial Counselling

Financial counsellors provide advice and support to people with money and debt issues. Working in community organisations, their services are free, confidential and independent.

Financial Counselling Australia (FCA) is the peak body for financial counsellors in Australia. FCA's members are the State and Territory financial counselling associations.

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1 Introduction

For over twenty years, financial counsellors have argued that those industries that drive demand for, and benefit from, their clients accessing financial counselling services, should contribute funding to those services. The release of the Financial Counselling Industry Funding Model discussion paper is an important next step in achieving this. The development of an industry funding model is therefore a milestone that is truly welcome.

Today, one in five Australians that seek financial counselling support cannot access a service within a reasonable period of time (two weeks). In the final report of the 2019 Financial Services Royal Commission, Commissioner Hayne highlighted the need for predictable and stable funding in the financial counselling sector (and for consumer legal centres). Without it, the service capacity of the financial counselling sector is diminished, creating higher than necessary workforce churn and uncertain career longevity for skilled and new financial counsellors. This reality impacts on the sector's ability to meet current demand for financial counselling services, let alone address future demand.

In a nutshell, adding industry funding to existing levels of commonwealth and state government funding, means more financial counsellors to help people experiencing financial hardship.

The model proposed in the discussion paper is not perfect, but it is a good start.

2 Key points

Overall comments

- The proposed model is a good start – one that can be built upon, provided the initial commitment by industry funders is for a minimum of three years.
- It is crucial that the model is up and running as soon as possible, and the target date should be 1 July 2023.
- The main risk with a voluntary model is that funding will not be adequate, nor predictable and stable. Our preference has always been for an industry funding model based on a legislated levy.

Quantum and industries involved

- We are concerned that the actual industry funding commitments will fall short of the amount required to meet existing unmet demand of $18 million (indexed) per annum[1] and may not reach the 70 per cent threshold the government has set for establishing the independent body. A lower threshold may need to be considered.
- Apart from the industries singled out in the discussion paper, other industries should also be encouraged to contribute, particularly the gambling industry.

Ongoing role of government

- The commonwealth government has an ongoing role in overseeing the industry funding model to ensure it is meeting its objectives, including that it remains viable. This could be addressed through a requirement for the initial and subsequent evaluations of the independent body to be commissioned by the government.
- Industry funding must not replace commonwealth, state or territory government funding. A **formal** commitment by state and territory governments to on-going existing funding levels of financial counselling services in their respective jurisdictions must be locked in early in 2023.
- Any inter-governmental commitment should also extend to achieving national coordination of the recording and collection financial counselling sector data.

Independent Body

- "Independent" means decision-making is independent of government, industry or the financial counselling sector, although all of these stakeholders should have a voice in appropriate ways.

[1] As measured in June 2022.

- While several different governance structures would be workable, it is essential that the body has an independent chair and a board of directors that collectively bring skills and knowledge of the community and financial counselling sector, industry, effective stakeholder engagement and good grant administration.

- The financial counselling sector should be represented in relevant advisory committees. Membership will be a matter for the body to decide, but it would be expected that representatives from the financial counselling sector would have a range of backgrounds, e.g. from large and small agencies, from different states, from urban and regional and remote areas.

- Noting that the purpose of this initiative is to fund financial counselling casework and capability, industry funders should not further direct where funding goes or put conditions on their funding. These safeguards could be included in the constitution of the independent body.

- The majority of the industry funding should go toward financial counselling casework, but other than that broad parameter, the independent body should be able to decide what amount/proportion might also go toward capacity building and innovation. This would give the board of the independent body the flexibility to respond to changing circumstances.

- Capacity building funding should also be available for state financial counselling associations to ensure that financial counsellors have adequate skills and support.

Evaluation

- We support an independent evaluation of the industry funding model after two years to assess its impact on addressing gaps in service demand, as well as whether a voluntary contribution model is viable in the longer term.

Future evolution

- The current model does not consider the quantum of unmet need for financial counselling. This is an aspect that needs careful consideration and possible incorporation into the next iteration of the funding model.

3 Recommendations

Recommendation 1:
That Principle 1 be split into two separate principles as follows:

- Industry funding helps to address unmet demand for financial counselling services

- Industry funding improves the predictability and stability of funding for the financial counselling sector.

Recommendation 2:

That the commonwealth government enters into a **formal** agreement (e.g. a Memorandum of Understanding, or National Partnership Agreement) with every state and territory government to ensure that existing funding to the financial counselling sector is not reduced.

Recommendation 3:
- A demand survey needs to be explicitly built into the model and run again in year two. If there are material changes to unmet demand, the year three quantum will need to be adjusted accordingly.

Recommendation 4:
- DSS should seek voluntary funding contributions from other industries that benefit from the services provided by financial counsellors or contribute to the demand for financial counselling. The gambling industry should be specifically targeted to contribute a minimum of $500,000 per annum.

Recommendation 5:
- If the 70 per cent threshold for the quantum of industry funding is not obtained, the commonwealth government should still consider whether a lesser quantum is sufficient to move forward.

Recommendation 6:
- If the 70 per cent threshold for the quantum of industry funding is not obtained, the commonwealth government should immediately start the policy work to move to a model with legislative backing.

Recommendation 7:
- The financial counselling sector should be represented in relevant advisory committees established by the independent body's board.

Recommendation 8:
- The evaluation questions be recast so that the assessment is grounded in the principles underpinning the model.

- An additional evaluation question be added to ensure that no industry specific conditions have influenced funding decisions made by the independent body.

Recommendation 9:

- While the majority of industry funding should go toward financial counselling casework, other than that broad guidance, the board of the independent body should have the discretion to decide what portion is allocated each year (if any) to capacity building and innovation.

- Capacity building funding should also extend to the state/territory financial counselling associations as needed so they can support the additional workforce.

Recommendation 10:

- The commonwealth government needs to continue to play a role in overseeing the industry funding model. This could be through a requirement for the initial and subsequent evaluations of the independent body to be commissioned by the government.

4 Response to discussion paper questions

4.1 Principles

What are your views on the proposed principles for developing the industry funding model? (p6)

Setting out the principles underpinning the industry funding model is critical. The extent to which the model delivers against these principles is something that can then be tested during implementation and after its first three years of operation.

In relation to principle 1:

> *"Industry funding helps to address unmet demand and improves the predictability and stability of funding for the financial counselling services"*

This principle has two distinct elements. It would be better to split these into two criteria as they address different factors as follows:

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

It is important that the aim of predictable and stable funding of the sector is not considered a secondary outcome given the Hayne Royal Commission reference and the recommendations of the Sylvan review.

Recommendation 1:
That Principle 1 be split into two separate principles as follows:

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

Principle 4 importantly states that "industry funding provides an additional funding stream to current funding sources". It does not go further, however, to explicitly state that current funding sources from the commonwealth, state and territory governments should not reduce from their 1 July 2023 levels (indexed). While we are not recommending the principle be reworded, we consider that the mechanism for locking in government funding needs to be formalised.

Recommendation 2:

That the commonwealth government enters into a **formal** agreement (e.g. a Memorandum of Understanding; or National Partnership Agreement) with every state and territory government to ensure that existing funding to the financial counselling sector is not reduced.

4.2 Quantum of industry funding

What are your views on the proposed quantum for each year of the first three years of the model? (p12)

Overall views re quantum

As the pandemic recedes, demand for financial counselling services is again outstripping supply. The funding gap will also change over time, as economic conditions change.

Notwithstanding these fluctuations, a three-year funding commitment will provide greater predictability for the financial counselling sector, provide budget certainty for industry funders, and allow the independent body to plan ahead.

The proposed quantum for the first three years is based on a point in time demand survey of the financial counselling sector conducted in June 2022, data from which was then fed into an actuarial model. Around half of the survey respondents said that the survey period was representative of usual demand, but the other half said it was an under-representation. This latter result may have been because parts of Australia were still impacted by the pandemic.

We therefore support the statement in the paper,[2] that the demand survey (or one like it) be run again in year two, and if there are material changes to unmet demand, that the year three quantum be adjusted accordingly. This re-forecast needs to be explicitly built into the design of the model.

Recommendation 3:
A demand survey needs to be explicitly built into the model and run again in year two. If there are material changes to unmet demand, the year three quantum will need to be adjusted accordingly.

Future estimations of funding need to consider unmet need

The overall quantum of funding is based on a measure of *unmet demand* for financial counselling, as distinct from the level of *unmet need*. Financial counsellors report direct unmet need in parts of the population such as for people in rental stress, people experiencing family violence or people in prison. There is also broader unmet need for

[2] See page 22.

people who would benefit from financial counselling, but simply do not know that the service exists.

Measuring unmet need is an aspect that needs careful consideration and incorporation into the next iteration of the funding model.

4.3 Suggested contributions from sectors and sub-sectors

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? (p14)

Overall comments

The 2021 survey of the amount of time financial counsellors were spending interacting with various industries is a reasonable evidence base to use in getting this model off the ground.

As covered in Section 4.2 above, a point in time survey has its limitations and the relative mix of sector specific time will change given changes in the way firms respond to financial hardship, and the introduction of new entrants into the financial services, energy and telecommunications markets. However, firms need certainty about their funding contribution levels to make a three-year commitment, and for a voluntary model to be successful, this multi-year commitment is essential.

Contributions from other industries, including gambling

Given the risk that some firms may not commit to the quantum of funding set out in the discussion paper and required to address unmet demand, DSS should engage with other industry sectors that may be prepared to make voluntary funding contributions. One example are energy network businesses. Network costs make up between 40% - 50% of a residential bill.[3] It is also in the interests of both energy retailers and network businesses, that people struggling to pay their electricity accounts are provided with financial counselling.

The gambling industry should be specifically targeted as it drives demand for financial counselling. The survey of the time spent by financial counsellors interacting with various industries, conducted in late August to early September 2021, showed that interactions with gambling companies represented just 0.35% of time. This, however, is not the best way to measure the impact of gambling within financial counselling casework.

Unlike interacting with say a bank or energy company, where a financial counsellor may spend time negotiating a different payment arrangement, debts or financial stress as a result of gambling are rarely raised with the gambling company/venue as there is not much

[3] See Department of Climate Change, Energy, the Environment and Water, https://www.energy.gov.au/business/energy-management-business/large-energy-users/energy-procurement/understand-your-retail-energy-bill

that can practically be done (unless the gambling company/venue has somehow contributed to the debt by turning a blind eye to indications of problem gambling).

However, issues with gambling can have a serious impact on the ability of people to pay for other essential expenditure, such as electricity or telecommunications. Clients who have issues with gambling have been, and will continue to be, a part of financial counselling casework.

This was confirmed in our recent survey of financial counsellors, "The explosion of gambling harm and the need for urgent training for financial counsellors",[4] that asked both specialist gambling financial counsellors (of which there are around 50 in the sector) and generalist financial counsellors for feedback. The survey found that:

- Online sports betting was the greatest concern for financial counsellors (85% of specialist gambling financial counsellors were "very concerned" and 64% of generalist financial counsellors were "very concerned").

- Of generalist financial counsellors, 57% said they had clients in the previous 12 months who had been unable to pay their mortgage or rent, and 51% said clients had taken out payday loans.

- The most common impact of gambling was relationship breakdown. However gambling also meant that people lost their savings and put assets at risk.

- Helping clients with gambling issues was more complex than work with non-gambling clients (77% of specialist gambling financial counsellors said the work was a "little more complex" or "much more" complex; this figure was 60% for generalist financial counsellors).

- Clients with gambling issues are talking about or have attempted suicide. Specialist gambling financial counsellors frequently assisted clients who talked about suicide (80%). Nearly half of this group (48%) had clients who had attempted suicide and 7% had clients who had taken their lives.

In the absence of current data about the actual time financial counsellors spend on issues relating to financial hardship exacerbated by gambling, we suggest that the three percent time spent base threshold be applied to the gambling industry in the first instance, and this would equate to around $500,000 per annum.

Recommendation 4:

- DSS should seek voluntary funding contributions from other industries that benefit from the services provided by financial counsellors or contribute to the demand for

[4] Financial Counselling Australia, "The explosion of gambling harm and the need for urgent training for financial counsellors", May 2022, https://www.financialcounsellingaustralia.org.au/docs/gambling-harm-and-training-for-financial-counsellors/

financial counselling. The gambling industry should be specifically targeted to contribute a minimum of $500,000 per annum.

Should any businesses within a subsector be excluded (e.g. small businesses)? (p20) **What are your views on options 1 and 2 for determining the split within subsectors for voluntary contributions? (p20)** **What is your view of the different methods for within subsector splits for your subsector? (p.20)**

These questions are best addressed by the industry sectors and subsectors and may be different across each sector.

What is your view on the proposed initial three-year commitment? Is this an appropriate length to ensure flexibility and stability of funding? (p22)

For a voluntary model to be successful, a minimum three-year commitment by firms is essential. This will enhance:

- predictability of funding for the financial counselling sector
- budget planning for industry funders who will be certain about what is required, and
- the ability for the independent body to plan ahead and establish an effective process for distributing the funding.

We are concerned however that the **actual** industry funding commitments will fall short of the amount required to meet existing unmet demand of $18 million (indexed) per annum.[5] Any shortfall in committed funding could derail or significantly slow the implementation of the model.

The government has set aside $1.5 million in seed funding to set up the independent body, however as noted in the discussion paper, this will only be "unlocked once 70 per cent of the total quantum of industry contributions are committed".[6] It makes sense to set a threshold however, there may need to be some flexibility in the level. If the total quantum is say 60 per cent, or even 50 per cent, in our view, it would still be worth setting up the independent body. A lower amount however would be the trigger for the commonwealth government to instead introduce a legislated mechanism.

Legislation however will take time and, in the meantime, the independent body could start work and establish a track record utilising voluntary contributions. Some industry funding is better than no funding. Funding eventually raised through levies would then flow to the independent body in a few years' time.

[5] As measured in June 2022.
[6] Page 20.

Recommendation 5:

- If the 70 per cent threshold for the quantum of industry funding is not obtained, the commonwealth government should still consider whether a lesser quantum is sufficient to move forward.

Recommendation 6:

- If the 70 per cent threshold for the quantum of industry funding is not obtained, the commonwealth government should immediately start the policy work to move to a model with legislative backing.

When would an appropriate time be to review the functioning of the model? (p22)

We support the proposed review in year two of the commitment (2024-25).

A review at this point would allow adequate time for the independent body to establish and refine its operations. The review findings would also inform future funding commitments in the light of updated demand modelling.

Are peak organisation 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? (p22)

This question is best addressed by the industry sectors and subsectors and may be different across each sector.

4.4 Design of the independent body

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? (p24)

The establishment of an independent body is critical to the success of the industry funding model. While there is still a lot of detail to be worked through, we are generally supportive of the proposed characteristics described in the discussion paper. The key to getting the detail right will be the drafting of the independent body's constitution. In that regard we note that:

- "Independent" means decision-making is independent of government, industry or the financial counselling sector, although all of these stakeholders should have a voice in some way.

- The purpose of this initiative is to fund financial counselling casework and capability, industry funders should not further direct where funding goes or put conditions on their funding. These safeguards could be included in the constitution of the independent body.

Which board composition option do you prefer and why? Are there other options? (p26)

Board

Several different governance structures for the board would be workable, so long as the body has a strong independent chair and a board of directors that collectively bring skills and knowledge of the community and financial counselling sector, industry, effective stakeholder engagement and good grant administration.

On that basis, both options 1 and 2 would be workable. A middle option would involve a mix of independent, skill-based directors together with a defined number of representatives from industry and the community/financial counselling sector.

Advisory committees

The constitution of the independent body needs to provide that it *may,* rather than must, set up advisory committees. This would give the independent body sufficient flexibility to allow the board of the independent body to set up advisory committees as needed and to see them evolve.

The difficulty with being prescriptive in the constitution, for example, defining the name, function and membership structure of an advisory committee is that in a few years' time it may not be working as intended. Changing the constitution of the organisation would then be the only way to fix the issue.

Given the remit of the independent body, it is very reasonable to expect that the board would set up at least some advisory committees and that the financial counselling sector would be represented. Membership will be a matter for the body to decide, but it would be expected that representatives from the financial counselling sector would have a range of backgrounds, e.g. from large and small agencies, from different states, from urban and remote locations, and so on.

It is also worth noting that the independent body could use a range of mechanisms to get feedback and to understand current issues. These could include surveys, roundtable discussions, analysis of data and attending financial counselling association conferences.

Recommendation 7:

- The financial counselling sector should be represented in relevant advisory committees established by the independent body's board.

4.5 Evaluation

What are your views on the proposed questions the evaluation could test? (p26)

The discussion paper states that:

> *A key consideration in the evaluation will be whether the voluntary model appropriately contributes to the long-term viability of the financial counselling sector or if other mechanisms including a compulsory model should be considered.*[7]

This point however is not explicitly articulated in the three proposed evaluation questions.

Similarly, the principles set out in Section 3 of the discussion paper are key as they describe what is expected to be achieved by industry funding. However, principle 3 (that the quantum/split of industry contributions is fair) and principle 4 (industry funding provides an additional funding stream) are not canvassed. We recommend therefore that the evaluation would assess the extent to which:

1. Industry funding helps to address unmet demand for financial counselling services.

2. The voluntary model appropriately contributes to the long-term viability of the financial counselling sector.

3. Industries that contribute to the demand for, and benefit from, financial counselling, contribute to the funding of the services.

4. Industry funding continues to provide an additional source of funding of financial counselling services and the level of commonwealth, state and territory funding of the sector has not reduced from 1 July 2023 levels (indexed).

5. The operation and effectiveness of the model is supported by robust data and evidence collection and analysis

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

As mentioned in section 4.4, industry funders should not further direct where funding goes or put conditions on their funding. For the independent body to be effective, conflicts of interest, real or perceived, will need to be avoided. The evaluation should therefore also ensure that no industry specific conditions have influenced funding decisions.

Recommendation 8:

- The evaluation questions be recast so that the assessment is grounded in the principles underpinning the model.

- An additional evaluation question be added to ensure that no industry specific conditions have influenced funding decisions made by the independent body.

[7] Page 29.

5 Other matters to consider

5.1 Allocation of funding

The discussion paper is prescriptive about the amount of funding that is to be allocated to innovation and capacity building, setting aside $0.5 million in each of the three years of the model for this purpose.

While the majority of the industry funding should definitely go toward financial counselling casework, it would be preferable for the independent body to decide the exact amount/proportion that also go toward capacity building and innovation. This would give the board of the independent body the flexibility to respond to changing circumstances. It does not make sense to tie the board's hands.

Capacity building funding should also be available for state financial counselling associations to ensure that financial counsellors have adequate skills and support. It will be a welcome development to have more financial counsellors in the sector, but this will also place more pressures on the capacity of the associations to provide services to them.

Recommendation 9:

- While the majority of industry funding should go toward financial counselling casework, other than that broad guidance, the board of the independent body should have the discretion to decide what portion is allocated each year (if any) to capacity building and innovation.

- Capacity building funding should also extend to the state/territory financial counselling associations as needed so they can support the additional workforce.

5.2 Role of the commonwealth government

The commonwealth government has been a key driver of the industry funding initiative and we would not be at this stage, without this involvement. The industry funding model will need to continue to evolve and for that reason, the commonwealth government needs to play an ongoing role. This could be addressed through a requirement for the initial and subsequent evaluations of the independent body to be commissioned by the government.

Recommendation 10:

- The commonwealth government needs to continue to play a role in overseeing the industry funding model. This could be through a requirement for the initial and subsequent evaluations of the independent body to be commissioned by the government.

5.3 Voice of clients

The independent body should also consider how it can include the voice of clients in its decision-making. For example, this could also be through an advisory committee.

5.4 Financial counselling workforce

There are currently approximately 1,000 financial counsellors, with about two-thirds of these working part-time, either because of preference or lack of funding. Implementing the industry funding model however will mean our sector will be able to expand and there will be a need to employ additional financial counsellors.

Like many industries, we are currently experiencing some challenges in finding staff. However, based on data from the National Centre for Vocational Research, we also know that in the past few years, quite a large number of people have completed the relevant qualification, the Diploma of Financial Counselling. Between 2018 and 2020, there have been an additional 300 trained financial counsellors, with a further 320, reported in the preliminary data for 2021 (i.e. 620 in total). There are currently eight RTOs delivering the Diploma of Financial Counselling and we estimate that an additional 300 people will complete their qualification this year and each year thereafter.

If the industry funding model can deliver greater certainty for our workforce, we also expect that we should be able to attract people to return to the profession.

5.6 Financial Capability Workers

While the Sylvan Review's focus was on the funding of generalist financial counselling services it is important to acknowledge the significant work that financial capability workers do, particularly in remote communities. While their focus is primarily on financial literacy education it is often their work in remote communities that identifies people who need financial counselling assistance, and they connect them with relevant regional services.

We acknowledge that the independent body will make decisions about where industry funding is directed. When developing its funding criteria, however, it will be important for the body to understand the way financial counselling services are delivered in urban, regional and remote communities and the unique features of each geographic grouping.