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By email: engage@dss.gov.au

# Submission to Department of Social Services (DSS) in response to the Financial Counselling Industry Funding Model Discussion Paper

Financial Counselling Victoria (FCVic) welcomes the opportunity to make a submission in response to the DSS Discussion Paper. The proposals for Industry Funding have significant implications for the financial counselling sector, and its capacity to meet community needs, promising an important new stream of funding. It is important that the opportunities from increased funding enhance the sector’s viability, wider growth, and independence and capacity to work with vulnerable Australians.

FCVic’s submission is focused on how the model can be developed to best support a strong, independent professionalised financial counselling sector in Australia.

## About FCVic

FCVic has the largest membership of the state/territory financial counselling peak associations (479 members, including 307 practising financial counsellors). As the Victorian peak body, FCVic works to support and represent both financial counsellors and employing agencies (‘the sector’), with a primary focus as the professional body and collective voice of financial counsellors in Victoria. We set and maintain professional standards for financial counsellors in Victoria, and advocate for financial counselling as a profession as well as a service sector.

As a collective body, we also advocate for our members’ clients on systemic issues that emerge from our member’s professional practice – whether for legislative or regulatory reform or improved government or industry policy and practices that reduce the harms and disadvantage experienced by people in, or at risk of, financial hardship. This includes people impacted by disasters, by family violence, by irresponsible lending or exploitative business practices, by gambling, substance use or imprisonment, by discrimination, by ill health or bad luck.

## Submission Summary

FCVic provides this submission in two parts.

In the first section, we provide high level comments on the framing of the model in four areas: *funding, demand, conflicts of interest* and *professionalism*.

Across these areas, it is important the model takes account of the significance of financial counselling as a significant state funded profession and service, engaging with community needs that go well beyond immediate demand. The use of voluntary funding in particular creates concerns about the risks it poses for conflicts of interest to arise.

Out of these comments, we make the Recommendations listed below.

In the second section, we provide brief comments on a number the questions posed for discussion, drawing in part on the implications of some of the issues we identified in the first section of the submission.

**Recommendations**

* Industry Funding arrangements should be separated out from government funding, and carefully managed via compulsion to pay and arms-length governance to avoid any real or perceived conflict issues emerging from the funding for the sector.

We note that an industry levy is mooted as a possibility in the Paper, although only in the event that the voluntary model fails. This suggests there is no specific principled barrier to moving away from the voluntary model if it does not work, but it is unclear why concerns about viability are limited only to whether or not industry is paying up or participating. From a professional body perspective, the potential for conflicts and protecting the independence of financial counsellors are also fundamental to viability.

* Arms-length governance means that only option 1 regarding the independent body governance is more appropriate.
* To ensure appropriate additionality without undermining state government funding, and appropriate separation of industry funding from government funding, the model should be implemented in conjunction with a commitment to establish Federal/state agreements for funding the financial counselling sector, with access to Federal funding made contingent on state level specific sector funding matching the best performing state levels.
* The model should include provisions to fund state/territory professional bodies commensurate with the additional membership supports they will need to provide for an expanded sector, and be structured to support a diversified sector that looks beyond a narrow demand framework to addressing shifting and growing community needs.

## High-Level Issues

The Discussion Paper frames a series of questions for response, but the model around which these questions are framed would be strengthened with a more nuanced conception of the sector in four regards:

1. The Discussion Paper presupposes a relatively **static funding environment** into which industry funding can be added as an additional or supplementary element. But the sector’s funding environments are dynamic and complex. This means the funding model proposed has many more potential risks and problems with it than is comprehended by the Paper or the questions it poses.

The Discussion Paper provides a single national level set of funding figures - ‘around’ 30m in state funding compared with 44m in Federal funding (pp3-4), stating that the sector is predominantly Federally funded. However, in the largest states (Victoria and NSW), it is predominantly state government funded, In Victoria we estimate the funding split as something like 65% State, 25% Federal, 10% other. Funding in states like Queensland and WA has begun to recover to some degree in recent years from catastrophic state government cuts made 10 years ago, but from a low/non-existent state base.

The single national figure cited in the Discussion Paper hides significant diversity in relation to the role of states in funding the sector. It almost certainly fails to include important newer elements of state funding outside of the traditional portfolio areas. For example, since 2020 there has been significant Victorian government funding for small business financial counselling through the Victorian Department of Jobs Precincts and Regions.

In addition, in Victoria, increasingly a number of state funded service organisations are learning about financial counselling, recognising its relevance and importance, and finding funding to provide it from their resource base. This development is in its early stages, but into the future, more than single portfolio sector funding at either state or federal levels, it is likely to drive significant expansion of financial counselling to meet community needs. These developments are also invisible in the headline funding data focused on traditional portfolio areas, and can only be seen via state peak membership data.

When we look at the overall funding and sector dynamics, in Victoria, financial counselling is understood as a state-based profession and service, supplemented to some degree by federal funding, (though federal funding provision has not so far been coordinated with state funding). These understandings about financial counselling are crucial to building community-based capacity and integrating financial counselling with an array of other related or linked services provided and funded mainly at the state level, such as community health, mental health, family violence, community and family services, tenancy, legal, and disaster recovery. This conceptualisation has helped underpin Victoria becoming the strongest and most developed state in the financial counselling sector (though we are still very small and tenuous in size and capacity).

It could be said this makes Victoria an outlier, but other states have been moving in a similar direction, and Federal government support for these trends would do much to build a much larger, more diverse and connected sector better able to meet community needs.

The Discussion Paper’s depiction of how the sector is funded almost seems to invite a freeze on all government funding while the industry funding ‘tops up’ the sector. This framing risks leaving it open to state governments to vacate the field at any point on the basis that financial counselling is a basically federal responsibility.

This situation also creates a perverse incentive problem where low levels of state government funding are likely to lead to larger demand gaps in those states, and result in a larger share of industry funding being allocated to them. It is important that the funding model does not reward state underinvestment in the sector by giving disproportionate amounts of industry funding to places where this has occurred to bridge the resulting gaps.

FCVic’s view is the Federal Government should more clearly and strongly position itself as supporting and supplementing core state government development and funding of the sector, and in that context, define the industry funding model as additional/ supplementary to inter-governmental funding arrangements that themselves are growing and better coordinated.

1. The Discussion Paper presupposes a relatively **static level of ‘demand’** (albeit allowing for periodic reassessments to occur), using a quick snapshot to come up with a figure.

Others have already pointed to the limitations of the data collection process, and the accuracy of the picture it drew, and we will not go further into those concerns here.

However, FCVic is concerned that any snapshot of ‘demand’ is placed in the context of the much larger reservoir of community need. This has evolved and grown in the last 20 years, linked with large scale and long term economic, technological and social changes. Use of credit and debt in Australia is very different now from what it was at the end of the 20th Century, and there are many other drivers of poverty and disadvantage at play, including disasters, mental illness and family violence, which make financial counselling of increasingly widespread relevance, importance and value as a professional service for significant numbers of people throughout the community.

If everyone in the community knew about financial counselling and could access it, then there would not be a gap between need and demand, but given widespread ignorance and confusion and the small size of the sector, there is in fact a very large gap between need and the subset of demand. As the sector peak bodies work to educate and inform people about financial counselling, we can predict further translation of need into demand.

Beyond the demand/need relationship, the model’s depiction of demand has other limitations. The data collection process used by DSS to measure demand focused solely on financial counselling as a service for individual clients in need/crisis. This presumption is commonly made by funders, and orients services into that mode of delivery. However, this approach misses out on the aspects of financial counselling that involve early interventions, community outreach and education. As crisis case demand levels have exceeded current service capacity, they have crowded out opportunities for financial counsellors to do more of that kind of work.

Also, existing demand links to the needs of only the parts of our community that happen to know about financial counselling. There are many structural gaps and limitations in who is able to access financial counselling in our diverse communities, with many missing out and invisible from the current demand gap measures. A broader, community based approach to investigating and exploring community need can address these gaps.

1. The Discussion Paper says nothing about **conflicts of interest** issues which arise from the industry funding model, and which continue to provoke widespread concern and unease amongst financial counsellors about the proposed model.
2. The proposed funding model is voluntary. This is despite the UK model on which FCA drew to advocate for industry funding being based on a compulsory levy. Voluntary funding effectively creates a lever for industry influence, based on the capacity for a perpetual credible threat of withdrawing or withholding funding. If industry is in a position to influence the sector that way, then the capacity of financial counsellors to work independently and without conflicts will be compromised.
3. Industry influence is structured through the model in various ways – via the processes of chasing up and securing funding, via the reviews and recalculations of demand and sectoral and sub-sectoral load sharing, via the allocation of grants in which the agencies bidding for funding and the operation of the independent body could well be subjected to various kinds of industry ‘feedback’ or commentary.
4. As part of their practice, financial counsellors advocate for changes to systems, regulation, policies, procedures and attitudes that harm vulnerable people. This work means financial counsellors often engage in criticism and lobbying for reform and regulation in ways that can be counter to what industry organisations perceive as their interests. The conflict and influence issues noted above are likely to be triggered by advocacy that is seen as too critical of industry. The risks are not only from overt and direct leaning on financial counsellors for ‘inappropriate’ advocacy, they are from agency employers and/or financial counsellors self-censoring in anticipation of industry concerns which might jeopardise funding.
5. The Discussion Paper is silent on **financial counselling as a profession** (as distinct from a service provided by funded agencies). Yet the professionalisation of the role has been the most crucial development in the last 15 years, and is a large and complex process still only partially done.

Financial counsellors work with considerable expertise in a highly complex environment where poor training or standards can result in real harm being caused to vulnerable people. It is through the standing of financial counselling as a profession that we can ensure both quality of service standards and appropriate management of the financial counsellor’s power relationship with clients. It is also important that financial counselling has standing as a profession to garner credibility with other services as a referral point, which is a key pathway to meeting community needs.

When viewed through a professional lens, the funding and organisation of services becomes less transactional and more about a holistic approach to clients in their community setting. It is not easy for the bureaucratic and managerial language and logic that drives the establishment of this type of funding model to take such things into account, but it is important for it to try and do so.

Financial counsellors do not grow on trees; their training and professional formation takes place over 3 years, before full accreditation, going well beyond completion of the Diploma. The state/territory peak professional bodies run large and complex professional development programs to maintain currency of skills and knowledge, organise and oversee professional supervision requirements, and provide significant peer support structures and processes.

All of this is crucial to ensuring clients are supported by appropriately qualified and skilled people working within an appropriate ethical and professional framework. Agency employers also benefit from the supports provided by the professional bodies.

Also, as the roles of financial counsellors broaden into more and more complex areas, specialisations are beginning to emerge around gambling, small business, and family violence work. Significant work is required to define scope of practice, skill and training requirements in these and many other areas.

As the financial counselling profession has low pay, and very small numbers, professional body models where membership dues cover the costs of operating do not realistically work, and state governments have stepped in to fund the professional bodies. Historically, federally funded services have free ridden on this state level infrastructure.

It is essential that the Funding Model recognise the importance of the professional bodies and the capacity building, development, and infrastructure they provide which underpins service capability.

## Implications of high-level issues

FCVic acknowledges the Industry Funding Model is aiming to bring additional resources into a small and limited sector, and we have no desire to make the perfect the enemy of the good.

While the concerns about conflict issues, in particular, are deep and significant amongst financial counsellors, we hope it is possible to modify the Model sufficiently to manage the risks posed in this area. However, there is little value in relying solely on wishful thinking or ‘undertakings’ alone in that regard. Risk amelioration around the conflict issue needs to be substantive and credible.

Similarly, the structuring of the Model should recognise the complex dynamics around state and federal funding, and between need and demand. The Model should support the growth and development of a sector better able to meet community needs, avoiding some of the problems with too narrow a focus on existing demand, while recognising the key role of state and territory governments and professional bodies in service provision.

To that end, we make the following suggestions to add into the design of the Industry Funding Model:

**Recommendations**

* Industry Funding arrangements should be separated out from government funding, and carefully managed via compulsion to pay and arms-length governance to avoid any real or perceived conflict issues emerging from the funding for the sector.

We note that an industry levy is mooted as a possibility in the Paper, although only in the event that the voluntary model fails. This suggests there is no specific principled barrier to moving away from the voluntary model if it does not work, but it is unclear why concerns about viability are limited only to whether or not industry is paying up or participating. From a professional body perspective, the potential for conflicts and protecting the independence of financial counsellors are also fundamental to viability.

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## Additional issues and comments

We provide further comment below on some of the key Discussion Questions.

## Principles

Discussion Question – Proposed Funding Model Principles:

1. *Industry funding helps to address unmet demand and improves the predictability and stability of funding for financial counselling services.*
2. *Industries that contribute to the demand for, and benefit from, financial counselling, contribute to the funding of the services.*
3. *Quantum and split of suggested industry contributions are determined on a fair and transparent basis.*
4. *Industry funding provides an additional funding stream to current funding sources.*
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.*

***Comment***

Principle 1 above focuses on predictability and stability and ‘unmet demand’, but this misses the most significant issues facing the sector, which concern a tiny sector confronted with enormous community need only patchily translating into a narrow concept of demand. From FCVic’s perspective, the principles the model should be focused on concern a need to rapidly expand and build capacity and diversity while maintaining standards in order to meet burgeoning and significant community needs. That said, even if the ‘low ball’ framing of this principle were appropriate, on its own terms the voluntary nature of the model is inconsistent with concerns about stability and predictability of funding

The principles should include an additional statement that the model will be designed to provide real and robust protection against the emergence of any actual or perceived conflicts of interest for financial counselling services and their professional staff in relation to the funding.

Principle 6 provides a limited list of areas the model should contribute to that are quite managerial and do not bear much relationship to the key challenges financial counselling faces in order to become sustainable and effective in improving the lives of vulnerable Australians. An additional Principle should be added concerning professionalism in the sector. This could state that the model should contribute to or enhance the development and recognition of the financial counselling profession, lifting both standards and quality/consistency of practice, and capacity to meet diverse and evolving community needs.

## Funding into the model

Discussion Question:

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

Discussion Questions:

* *What is your view on the proposed initial three-year commitment? Is this an appropriate length to ensure flexibility and stability of funding?*
* *When would an appropriate time be to review the functioning of the model?*
* *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?*

***Comment***

FCVic notes the quantum in the first three years of the model is less than half the Sylvan Review recommendation of $45m, (albeit near the ballpark for its starting point of $20m). Although the pandemic had complex impacts on demand as the model measures it in Victoria, including some short-term drops in 2020-21, the financial impacts of the pandemic and other disasters have only expanded community need and the complexity of the work. The long-term trend is not consistent with any suggestion that would warrant a halving in the level of funding from the Sylvan recommendation.

Regarding the funding commitments and associated processes, the voluntary nature of the funding is likely to result in significant transaction costs as the independent body is left to chase individual corporations for their payments, and with few or no means to compel payment. This is another significant weakness in the voluntary funding model.

Again, the conflict of interest issue is of concern. What if many or most businesses in a subsector uses a problematic or exploitative business model to operate, causing hardship and harms, and financial counsellors engage in criticisms of it? How will that impact on the recommitment phase? Our recommendations above speak to addressing these issues.

## The Independent Body

Discussion Question:

* *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?*

Discussion Questions:

* *Which board composition option do you prefer and why? Are there other options?*

***Comment***

The proposed independent body as a granting organisation focused on disbursing the industry funding appears logical enough within the model framework. However, as noted in our comments above, the framework itself does not grasp some key aspects of the development of the financial counselling sector.

FCVic is concerned about the tendency of the model and the proposed independent body within it to engage in a highly centralised and centralising set of processes that will narrow a sector that needs to become much broader and more diverse to meet community needs. The structure and characteristics that are proposed will tend to heavily favour making grants to the larger, more corporate financial counselling agencies. Once the amounts of money available are split into grants they will not go very far, and there will be understandable and logical emphasis on not making them too small and piecemeal. In granting, with an entirely appropriate emphasis on transparent, measurable criteria for applications, larger corporate organisations with the infrastructure to make professional grant applications will almost inevitably win out over small organisations interested in employing one or two financial counsellors, who will struggle to resource significant or complex grant applications.

While it is possible for the independent body to put in place granting arrangements that mitigate against that dynamic – for example allocating a certain proportion of grants to small organisations – this will only happen if care is taken with its design and characteristics to ensure it reflects and pays attention to the diversity and complexity of the sector.

 In regard to the options for governance structure, FCVic believes option 2 – an external dispute resolution scheme type governance structure – is inappropriate in light of the deep sector concerns about potential conflicts of interest, and given the role of the body is concerned with disbursing funds rather than resolving complaints. Industry funding will create a distinctive new stakeholder category in the sector which can be recognised through appropriate use of advisory committees, but it is essential for the credibility and independence of the sector that independent governance be instituted through a stand-alone professional board.

## Evaluation

Discussion Question:

* *What are your views on the proposed questions the evaluation could test?*

***Comment***

The proposed questions the evaluation could test should be amended to incorporate robust checking on any signs of undue industry influence in funding allocation, and whether sector diversity, capacity and professionalisation has been supported and enhanced.