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Scotland's Money Charity

RESPONSE

INQUIRY INTO THE FUTURE WORK OF THE SCOTTISH AFFAIRS COMMITTEE

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About Money Advice Scotland

Money Advice Scotland is the national umbrella organisation in Scotland which promotes and champions financial inclusion and the development of free, independent, impartial, confidential money advice. A registered charity, Money Advice Scotland was set up in 1989 and provides the following services to its members:

- Standards and quality framework development
- Qualifications
- Training
- Financial Capability programme
- Research and policy input
- Annual Conference
- Seminars and other events
- Publications
- Consultancy
- Organisational audit

Our membership includes money advisers at housing associations, local authorities, Citizens Advice Bureaux and other information and advice agencies. Money Advice Scotland makes it a priority to ensure that the views of its members feature clearly and persuasively on the policy agenda across Scotland and the UK. Our Strategic Plan outlines our commitment to leading and improving the financial health and wellbeing of the people of Scotland.

In terms of standards and quality framework development, Money Advice Scotland has been at the forefront of raising standards in Scotland and beyond. The organisation was involved in developing a framework which underpinned the Debt Arrangement Scheme Regulations, and gave assurance that the advice being given to clients was of quality. The framework which was in place until 2011, the casework of which was assessed by competent advisers who were also approved advisers under the Statutory Debt Arrangement scheme.

Money Advice Scotland is an approved Centre for the delivery of Scottish Vocational Qualifications in Advice and Guidance. It is currently working with the Institute of Money Advisers in England and Wales and has developed the Scottish version of the Certificate in Money Advice Practice. Money Advice Scotland is also working closely with the Money Advice Service in terms of the development of a national money advice quality framework.

With regard to training of money advisers, the organisation has been using standards to underpin its training for almost 20 years. In more recent times, the Scottish Government in conjunction with the advice sector has developed the Scottish National Standards in Information and Advice (SNS) and Money Advice Scotland was a pivotal player in their development. These standards are enshrined in current training and also help shape the Certificate in Money Advice Practice, together with the National Occupational Standards in Advice and Guidance.

Since November 2014, Money Advice Scotland has been responsible for the roll-out of the Scottish Government's Financial Capability programme which administers financial education through a combination of workshops, training and e-learning. The necessity for financial education of individuals experiencing debt problems is recognised in the Bankruptcy and Debt Advice (Scotland) Act 2014.

In January 2015, Money Advice Scotland also launched the Scottish Financial Health Service helpline in collaboration with the Scottish Government.

Introduction

Money Advice Scotland welcomes the opportunity to respond to the investigation of the Scottish Affairs Committee on the role and scope of its work over the course of this Parliament.

In the months and years to come, Money Advice Scotland is of the view that the Scottish Affairs Committee will play an ever more important role both in terms of scrutinising the policymaking of the UK Government, as well as ensuring close and effective collaboration on issues that overlap and interconnect with the remit of the Scottish Parliament.

Ways of working

What are the best ways for the Committee to engage with organisations in Scotland and the Scottish public?

Money Advice Scotland was encouraged that the Committee's first evidence session was held in Edinburgh. In future, we would recommend that this continues to occur frequently to establish close engagement with Scottish organisations and communities. For our part, Money Advice Scotland will be keen to offer a strong voice for its membership at any opportunity, be that in the form of written and oral evidence or via any other method.

Money Advice Scotland is an organisation that operates across the length and breadth of Scotland and we are aware of the difficulties often experienced by rural and island communities in accessing services. This can lead to a sense of isolation from the decision-making process and we hope that the Committee will keep these factors in mind during its engagement with organisations across Scotland.

How should the committee engage with organisations across the United Kingdom and on what issues?

Money Advice Scotland recognises that the Scottish Affairs Committee is uniquely placed to offer insight into the effect of UK Government policy on the people of Scotland. Inquiries that overlap the responsibilities of multiple Government departments may be particularly suitable given the overview perspective that the Committee can offer to these types of investigation.

In the second part of this submission, we outline the specific issues that we consider to merit examination over the course of the Parliament.

Where should the Committee meet and what type of meetings (e.g. formal evidence sessions, informal discussion panels, etc.) would be useful?

Money Advice Scotland welcomes the practice of holding evidence sessions in Scotland. We also foresee a scenario where Committee sessions, forums and seminars can be hosted by third sector organisations. Money Advice Scotland is willing and able to accommodate sessions if required.

How can the Committee make sure it engages effectively with the work of the Scottish Parliament and Scottish Parliament Committees?

Money Advice Scotland recognises that the position of the Scottish Affairs Committee offers invaluable insight into the impact of UK Government policy from a Scottish viewpoint.

In this respect, Money Advice Scotland is of the view that the Scottish Affairs Committee should give particular attention to issues that overlap responsibilities of the two Parliaments. With specific reference to our own work, for example, the issue of consumer credit remains reserved whereas the recovery of that debt is a devolved matter. If it proves possible to 'join up' the work of the two legislatures, this may provide a greater insight into the experience of those at the sharp end of policymaking decisions.

Money Advice Scotland advocates more effective liaison between the two Parliaments in acknowledgement of the fact that these matters are often inextricably connected leading to major implications for the consumer. On occasion, for example, it may prove worthwhile to hold joint investigations or to call witnesses from the corresponding Parliament to ensure the widest possible gathering of evidence.

Issues

What issues should the Committee be examining during this Parliament and why?

Money Advice Scotland recognises that the Committee's remit covers an extensive subject area. Whilst we are willing and able to cooperate with the Scottish Affairs Committee on any matters relation to money advice and financial wellbeing, we believe that certain areas warrant specific focus.

Household debt

A central element to the work of Money Advice Scotland is the provision of quality debt and money advice both in terms of responding to emergency situations and eschewing financial problems in the longer term.

Earlier this year, the Office for National Statistics published an analysis of the self-reported burden of both financial and property debt. In terms of financial debt in Scotland, the ONS observed a rapid increase in median debt from £2,250 in 2008/10, to £3,480 by 2010/12.[1] This represented a seismic increase of 54.7 per cent over a relatively short period. It is important to reiterate that these figures do not include mortgage related debt and are restricted to credit cards, overdrafts, loans and so on.

Across the same period, the 18–24 age group witnessed the biggest increase in financial debt, from £1,540 in 2008/10 to £3,000 in 2010/12 – a 95 per cent increase. This trend certainly requires closer examination in the years ahead. At present, the under 25s are unable to claim otherwise essential income top-ups in the form of tax credits and housing benefit. What's more, the recently announced National Living Wage will not apply to this age

[1] Office for National Statistics, The Burden of Financial and Property Debt, Great Britain, 2010 to 2012, 25 July 2015 http://www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-3/the-burden-of-property-debt-in-great-britain--was/rpt-the-burden-of-financial-and-property-debt--great-britain--2010-to-2012.html#tab-foreword

group, exacerbating the existing financial pressure on young people to turn to expensive forms of debt such as pay day lending.

More recently, the latest commentary from the University of Strathclyde's Fraser of Allander Institute noted that 'growth remains unbalanced with household spending the key driver fuelled largely by rising household debt, which we fear may soon become unsustainable.'[2]

Money Advice Scotland is of the view that household debt may be considered the elephant in the room in the current discussion on cost of living. With the inevitable rise of interest rates, we expect the burden on debtors and money advisers alike to be intensified in the years ahead. In anticipation, it will be imperative that the UK Government and the financial services sector combine to promote awareness of how any increase will impact on consumers as well as offering alternative services in certain circumstances.

Financial exclusion

The promotion of financial inclusion remains a key interest for Money Advice Scotland and complements the present debate on living costs and welfare reform.

Save the Children has previously undertaken research on 'the poverty premium' – this refers to the cost incurred by low-income families when accessing basic goods and services.[3] Members of the Committee will no doubt be aware through constituency casework that low income families without bank accounts often rely on more expensive prepayment meters for electricity and gas. This demographic is also more likely to turn to expensive forms of credit such as pay day lending.

In 2010, this deficit amounted to £1,280 per year for low-income families. With living costs rising over the intervening period alongside cuts to benefits and tax credits, it is reasonable to expect this gap to have widened still further. Any other tax or benefit change which resulted in this scale of loss to low income families, would justifiably attract considerable criticism from politicians. Money Advice Scotland see no reason that the issue of financial exclusion should be omitted from this debate.

Money Advice Scotland is of the view that an updated investigation is required to determine the true impact of financial exclusion on the Scottish consumer. Again, this subject area incorporates the remit of several government departments including HM Treasury, the Department for Business Innovation and Skills, and the Department for Work and Pensions, as well as covering the responsibilities of the Scottish Government in areas such as financial education and capability.

Money Advice Scotland would of course be willing and able to contribute to this particular investigation.

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[2] Fraser of Allander Institute, *Economic Commentary, Vol 39 No.1*, 2015
http://www.strath.ac.uk/media/departments/economics/fairse/Latest-Fraser-of-Allander-Economic-Commentary.pdf

[3] Save the Children, *The UK Poverty Rip-Off: The poverty premium 2010*, January 2011
http://www.savethechildren.org.uk/sites/default/files/docs/UK_Poverty_Rip_Off_Brief_1.pdf

Welfare reform

The topic of welfare reform dominated political debate in recent years and this looks set to continue during the course of the next Parliament.

As part of our commitment to improving the overall financial wellbeing of the people of Scotland, Money Advice Scotland's Financial Capability project conducts a series of workshops for the provision of free information on how best to manage finance and avoid crisis situations. Across its workshops from January to July 2015, the impact of welfare reform remained the most recurring problem issue raised by money advisers.

The cumulative effect of ongoing welfare reform aligned with rising living costs and interest rate rises may lead to a perfect storm of financial pressure on Scottish consumers and we would encourage the Scottish Affairs Committee to examine these issues in the months and years ahead.

Money Advice Scotland is aware that the Scottish Parliament's Welfare Reform Committee recently consulted on 'The Future Delivery of Social Security in Scotland.' It is our view that joint collaboration between the two Parliaments may assist in the effective scrutiny of the upcoming changes.

What aspects of UK Government policy are not working, or could be made to work better, in and for Scotland?

Money Advice Scotland has grave concerns about the impact of tax credit cuts on low paid families. The Institute for Fiscal Studies (IFS) note that the average loss for working age households is estimated at £2,070 per year.[4] Our membership and money advisers are already recording concern from clients, however, we are conscious that the changes will come as a bolt from the blue for many low paid individuals and families, increasing the likelihood of crisis situations.

Furthermore, in the upcoming Welfare Reform and Work Bill, we are specifically concerned about the changes to the Support for Mortgage Interest (SMI). In presenting the proposals, HM Treasury described SMI as 'unsustainable.' However, this neglects the fact that the cost of the scheme has declined from its peak of £621m in 2009-10 to £237m in 2014-15.

As well as withdrawing the loan element, a further regressive aspect of the change is the extension to the waiting time for support which rises from 13 weeks at present to 39 weeks under the new system. There can be little doubt that this will increase the pressure on out-of-work mortgage-holders and increase the likelihood of arrears and repossessions. At present, the House of Commons Library report that SMI is received by 167,000 claimants of out-of-work benefits.[5]

Both of these particular changes to the welfare system are set to take effect from April 2016.

[4] Institute for Fiscal Studies, Briefing Note BN175, September 2015
http://www.ifs.org.uk/uploads/publications/bns/BN175.pdf

[5] House of Commons Briefing Paper, Welfare Reform and Work Bill [51 of 2015-16], 16 July 2015
http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7252

Should the Committee consider the impact of the devolution of powers?

Money Advice Scotland has made its views on the devolution of powers available as part of our submission to the Smith Commission.[6]

What are your views on the effectiveness of the Scotland Office? What could it do better?

Money Advice Scotland is of the view that the Scotland Office should place more emphasis on engaging with organisations across Scotland. The process of liaising with Scotland Office ministers and official could be made more accessible. Increased visibility and activity in Scotland may also improve the effectiveness of the Scotland Office.

[6] Money Advice Scotland, Response to the Smith Commission, June 2015
http://www.scottish.parliament.uk/Money_Advice_Scotland.pdf