moneyadvicescotland
Scotland's Money Charity

RESPONSE

THE MONEY ADVICE SERVICE

BUSINESS PLAN CONSULTATION 2016/17

February 2016

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. Our mission is to be the driving force towards financial wellbeing for the people of Scotland.

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

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 was in place until 2011 and the casework was assessed by competent advisers who were also approved advisers under the Statutory Debt Arrangement scheme. Due to a change in government policy the scheme was changed.

Money Advice Scotland is an approved centre for the delivery of a range of qualifications including the SVQ in Advice and Guidance and the Scottish Qualification Authority's Personal Finance award. 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 its 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. Money Advice Scotland is a pivotal player in the development of the Scottish National Standards (SNS) which are currently undergoing review. 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 and Legal Advice.

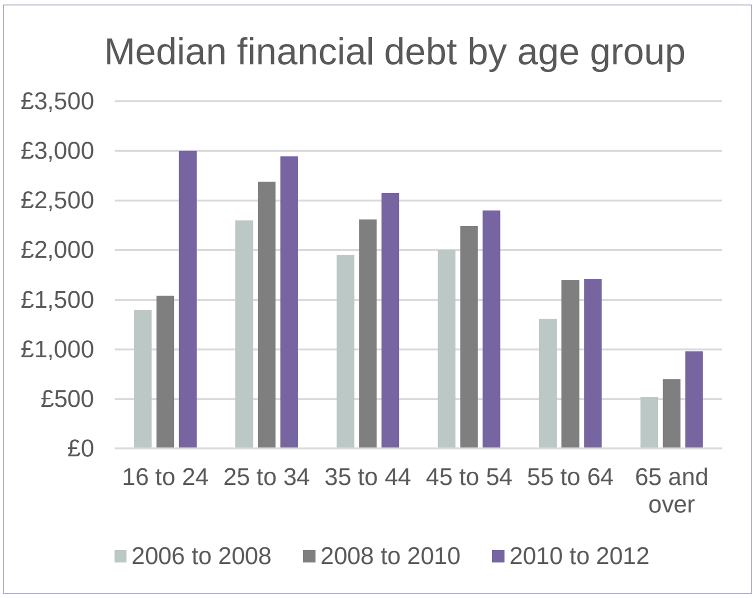
Since November 2014, Money Advice Scotland has been responsible for the roll-out of the Scottish Government's Financial Capability programme which administers financial education through a combination of workshops, training and e-learning. The necessity for financial education of individuals experiencing 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. This service continues to go from strength to strength.

1 Do you have any comments on the types of customers we propose to target our efforts towards, as set out in our three-year Corporate Strategy?

Young adults

The focus on young adults is to be welcomed. According to analysis from the Office for National Statistics, 16–24 year-olds incurred a 95 per cent rise in financial debt in the past four year period and the surge in young people with large amounts of debt relative to income is certainly a cause for concern.[1]



Source: ONS Wealth and Assets Survey 2015

The Business Plan notes the intention to give special consideration to young adults at the point of transitioning to financial independence. This type of intervention – referred to as 'just in time' – was found to be the most effective method of delivering financial education in a recent academic study.[2]

Any debate on the financial capability of young adults is not complete, however, without acknowledgement of the current economic circumstances for this age group. Wage growth since the recession has been at its very weakest for people between the age of 16–24 and a study by the Institute for Fiscal Studies found that young people are set to be poorer than their parents at every stage of their lives.[3]

For some young adults, then, no amount of financial education or budgeting skills will be enough to make up for the fact that they often simply do not have enough income to live on. The Joseph Rowntree Foundation reported that there are now 1.7 million people aged 16-24 in poverty – 400,000 more than a decade ago – and the Money Advice Service should remain cognisant of this in its approach to young adults.[4] Efforts to improve financial

[1] Office for National Statistics, *The Burden of Financial and Property Debt, Great Britain, 2010 to 2012*, July 2015
[2] Fernandes, Lynch and Netemeyer, *The Effect of Financial Literacy and Financial Education on Downstream Financial Behaviors*, 2013
[3] Institute for Fiscal Studies, *The Evolution of Wealth in Great Britain: 2006-08 to 2010-12*, November 2015
[4] Joseph Rowntree Foundation, *Monitoring Poverty and Social Exclusion,* November 2015

capability in young people will be more effective when considered in line with the wider picture of a person's finances.

People in later life

Focus on people in later life is also understandable in light of the series of changes to pensions over the course of the last five years. With the increased choice and complexity brought by new pension freedoms, the need for high quality and impartial advice has never been greater.

The Business Plan makes reference to the greater responsibility now placed on retirees to manage pension savings. Yet the provision of free retirement guidance is already provided by Pension Wise, the service launched by the Government in 2015 that we know is undersubscribed to date. Across the UK, the FCA report that two thirds of people are cashing out pension pots in full, but just 17% are seeking the services of Pension Wise before utilising the new freedoms.[5] The Government had previously anticipated that take-up would be around 75%. Indeed, it was reported recently that Pension Wise had reduced staff numbers due to low demand from consumers.

It is correct to say that the new options offered by pension freedoms will bring greater responsibility for people in later life, however, the case can be made that this need is already met through the Pensions Advisory Service and Pension Wise. In that sense, the role of the Money Advice Service in supporting people in later life must be made clearer to avoid duplication.

2 Do our six aims cover the right areas for the three-year Corporate Strategy period, and do they set the right level of ambition for the Money Advice Service?

Yes.

3 Given the intent and scope of our aims, what are your comments on the activities and priorities we have set out in each chapter covering our programme of work against each aim for April 2016–March 2017?

Aim 1: Succeeding through partnerships - to lead co-ordination of the many organisations that can contribute to improving financial capability through collective impact – creating a common understanding of problems and of ways to address them.

Common Evaluation Toolkit

Money Advice Scotland is pleased to be a partner in the pilot of the Common Evaluation Toolkit that should go some way to better assessing the effectiveness of financial capability interventions. However, whilst better evaluation of these interventions is long overdue, this

[5] Financial Conduct Authority, *Retirement Income Market Data: July-September 2015*, January 2016

tool must be accessible, user-friendly and time efficient given that too much evaluation will impact on the ability of advisers to help clients.

Stakeholder guidance

The Business Plan makes reference to the focus on ‘establishing and supporting governance mechanisms which will in turn provide guidance and leadership to the full stakeholder community.’ This statement could be read as assuming that an organisation is to be driven by priorities set by the Money Advice Service, rather than those of its members and users.

Aim 2: Earlier and wider access to debt advice - to support significantly more over-indebted people to access free, high-quality advice as early as possible to resolve their crises and build their long-term financial capability.

Additional telephone capacity

The Business Plan sets out its intention to increase supply of advice by funding additional telephone capacity. However, no mention is made to a Scottish-specific helpline and this leads to concerns that Scottish debtors will continue to receive incorrect advice based on English law. At present, Money Advice Scotland works in collaboration with the Scottish Government to operate Scotland’s Financial Health Service helpline which acts as a referral facility to debt and money advice providers.

It is important to note that telephone and digital services can also act as a barrier for some consumers, for example, people with disabilities or from BME backgrounds. This underlines the importance of retaining face-to-face advice in some capacity.

Earlier access to advice

We agree with the target of reaching over-indebted consumers earlier, especially given that the Money Advice Service’s own research shows that only 17% of over-indebted people are currently seeking advice.[6] In the experience of our members, however, debtors are often not ready to engage at an earlier stage. A debtor may not accept the scale of a problem, or are hoping to sit out a short-term crisis. The stigma of debt also remains with many people reluctant to discuss financial worries.

The credit industry and credit reference bureaux will play as important a role as anyone in helping to improve earlier access to advice both in terms of early warning systems and easing penalties on short term financial shocks.

Research into macroeconomic factors on over-indebtedness

The pledge to commission research into the impact of macroeconomic factors on levels of over indebtedness is also to be welcomed. All too often this is missing from the discussion on financial capability, where we are quick to say how a person can manage money better,

[6] Money Advice Service, *Indebted Lives, The complexities of life in debt*, 2013

but not to acknowledge the external pressures on their budgets that are out with personal control such as cuts to in-work benefits, rising housing costs and long-term pay restraint.

A further issue which may be worth the attention of the Money Advice Service is whether consumers are turning to debt to meet day-to-day living costs. Consumer spending remains the key driver of economic recovery in the UK. Economists at the Fraser of Allander Institute at the University of Strathclyde have noted that household spending (fuelled largely by rising household debt) is underpinning economic growth – a state of affairs which it fears 'may soon become unsustainable.'[7]

Furthermore, it is worth noting that the approach of the Money Advice Service in terms of promoting greater levels of saving appears to diverge somewhat with that of both the Bank of England and the Government's whose policy is to encourage people to spend money in the economy.

Standard Financial Statement

The implementation of the Standard Financial Statement may bring consistency across the sector, but must not be to the detriment of debtors. Our money advisers already report that the Common Financial Tool often has the effect of taking people out of debt and into poverty.

The introduction of a savings category across all products brings this into line with the Money Advice Service's repeated emphasis on the importance of building up a barrier to protect against financial shocks. In Scotland, the legislation already encourages a contingency to enable consumers to start to take steps to stay out of the cycle of debt.

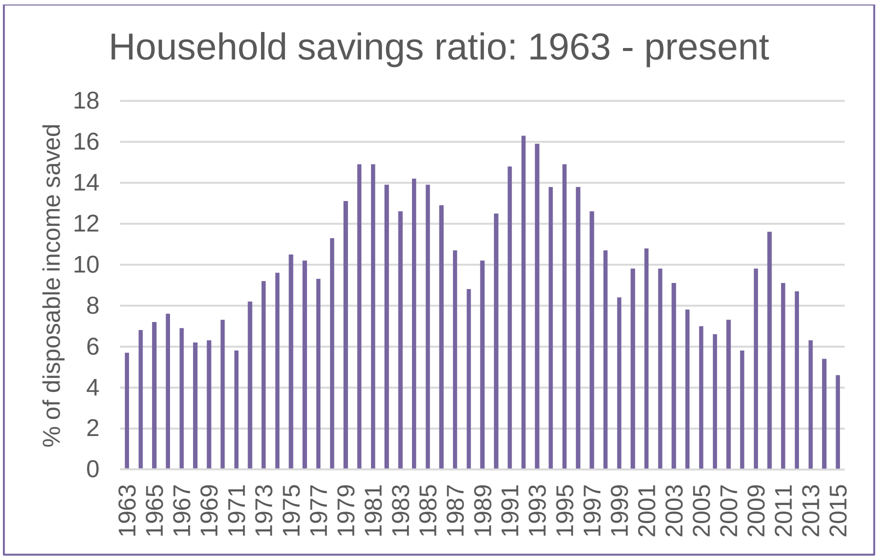
As the Standard Financial Statement has yet to be tested fully, the impact on the debtor remains to be seen. To help determine this, it may be helpful to publish comparisons of the same cases reviewed via both the Common Financial Statement and the new Standard Financial Statement to ascertain the differences. Any changes should also be reviewed in line with a minimum income standard to ensure that any subsequent arrangement still leaves the debtor will a socially acceptable standard of living.

Aim 3: More people budgeting and saving - to help people most at risk from income shocks to manage their money well day to day and save more.

Making it easier to save

The Business Plan stresses the importance of saving to help develop financial resilience. According to the most recent ONS statistical release, people are saving less now than at any time since 1963. A lower savings ratio arises following either a fall in households' income, an increase in expenditure, or a combination of both.

[7] Fraser of Allander Institute, Economic Commentary, Vol.39 No.2



Source: Office for National Statistics

The Financial Capability Strategy for Scotland also recently found that three-quarters of working-age people in Scotland did not have a savings buffer equal to or exceeding three months income.

The aim of engendering a savings habit in the squeezed and struggling segments is a laudable one, however, it must be recognised that budgeting capability is already relatively high in these groups. The Business Plan states that ‘spending more wisely will enable them to create the ‘headroom’ in their household budgets to put money aside on a regular basis.’ However, the Money Advice Service’s own research indicates that people in the ‘struggling’ segment are more likely (57%) to say that they have a household budgeting system that they feel works well, when compared with those in the ‘squeezed’ segment (51%).

In our view, the Business Plan would also benefit from acknowledging the external budgeting pressures that are out with a person’s control and hinder the capacity to save. It is often too simplistic to assert that better budgeting is all that is required in these cases.

Incentives to save

Whilst the record low Bank of England base rates may offer some solace for squeezed mortgage holders, it offers little incentive for savers. A major driver to save is the reward for doing so and this is not on offer for consumers at present. The Help to Buy ISA marks an encouraging Government intervention, yet we must remember that this has little relevance for those in the struggling segment with a median savings value of just £10.

In America, Individual Development Accounts – effectively a matched savings account – help those on low incomes to build up assets. A similar pilot scheme known as the Savings Gateway was tested in the UK, but was abandoned in 2010. Raising awareness is only part of the approach towards encouraging people to save and the Government must also do more to help people on low incomes build up savings. Put simply, education must be matched with incentive.

Supporting Universal Credit Claimants

Plans to develop a tool to assist Universal Credit claimants in the transition from weekly to monthly payments will provide some assistance to those with little experience of budgeting to this schedule, but this will not fully bridge the gap.

The transition to Universal Credit, however, is not just about the difference in budgeting from month-to-month and budgeting from week-to-week. For many claimants, Universal Credit payments will be less than they were previously in receipt of under the old system. Recent analysis from the Institute for Fiscal Studies found that 2.1m working households will be worse off following the switch by an average shortfall of £1,600 per year.[8]

This means that the challenge faced by a significant number of claimants will not only be the transition from weekly to monthly budgeting, but about getting by with less, and we must remain conscious of this when discussing the financial capability of this group.

Aim 4: Improving access to guidance and advice - to enable more people to access the right information, advice or guidance when making financial decisions.

Access to advice

The Business Plan acknowledges that there are 'potentially vulnerable customers who would benefit from help with proactive money advice, but who might not be reached via our telephone or digital services.' This is perhaps especially relevant in Scotland where our members in rural and island communities report difficulty in getting a phone signal let alone internet connection.

Aim 5: Working with financial services - to influence regulation, policy and industry so that financial products and services enhance financial capability, especially for the 12.6 million people in the 'squeezed' customer segment.

Financial products

As outlined previously, efforts should be made to encourage the Government alongside financial services providers to develop products that offer people in the 'squeezed' customer segment the incentive to save. This is especially necessary when interest rates remain at record lows.

On the other side of this same issue, a generation of new homeowners may soon experience an increase in mortgage interest rates for the first time. Practical solutions in the form of flexible financial products may prove more helpful in these circumstances than efforts to improve financial capability. For example, a flexible product that allows mortgage holders to overpay whilst rates remain low has already been mooted. Money Advice Scotland recently held talks with a major bank and this type of product and would allow consumers to

[8] Institute for Fiscal Studies, *The Evolution of Wealth in Great Britain: 2006-08 to 2010-12*, November 2015

build up a safeguard against the effects of rate rises whilst reducing the overall debt and interest.

Aim 6: Widening and improving financial education - to improve the ability of a generation of children and young people to manage their money and take good financial decisions.

Qualifications in financial education

Our financial capability team is currently increasing its activity in schools and have reached out to 62 schools across Scotland in the last six months alone with the sessions normally taking the form of an initial workshop session followed by pupils accessing the e-learning module.

Young people in particular can be encouraged to study to attain qualifications in financial education. Money Advice Scotland is accredited to deliver the Scottish Qualification Authority's Personal Finance award at SCQF level 4.[9] This award consists of two modules (Money Management and Principles of Money) and provides young people with a more comprehensive understanding of financial capability, covering topics such as the costs of borrowing money and long-term financial planning.

The pledge to support the work of Money Advice Scotland's financial capability team in the Business Plan is also to be welcomed.

4 Do you agree that the performance indicators we have identified effectively capture the intended impact of the Service's work?

Yes.

5 Are there any other ways we could measure our effectiveness?

No comments.

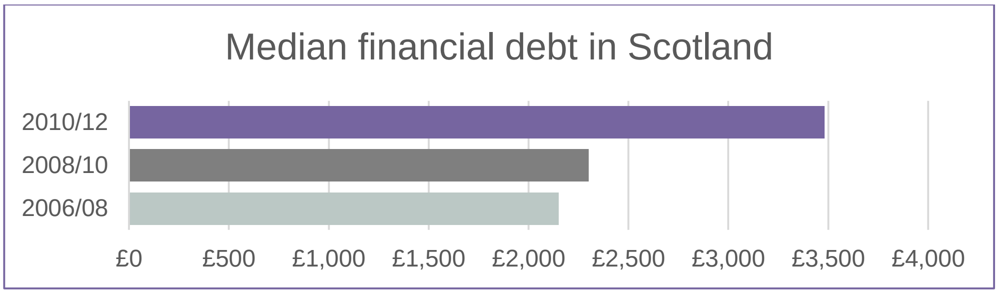
6 Do our plans understand and reflect the distinctive financial capability needs in the devolved countries of the United Kingdom?

Debt advice budget allocation

The Financial Capability Strategy for Scotland indicated that people in Scotland score less well at planning ahead than at managing day to day. That followed the latest ONS Wealth and Assets Survey which found that median financial debt per household increased rapidly in Scotland to £3,480 in 2010 to 2012, compared to £2,250 in 2008 to 2010.[10]

---

[9] Details of the Personal Finance award can be found here http://www.sqa.org.uk/sqa/36556.html
[10] Office for National Statistics, *The Burden of Financial and Property Debt, Great Britain, 2010 to 2012*, July 2015



Source: ONS Wealth and Assets Survey 2015

This increase of nearly 55% was the largest of any region in the UK. With that in mind, it is perhaps surprising that the budget allocation for the provision of debt advice to people in Scotland remains static in the Business Plan compared to increases in England and Wales and Northern Ireland.

In terms of delivery of frontline services, the budget allocated to Scotland from a total £39,120,000 is 7.1 per cent – less than its UK population share of around 8.2 per cent. We hope that consideration will be given to reviewing the budget allocation to bring this closer in line with a calculation based on population share.

Further, the budget for second tier support and the coordination of debt advice is not broken down by region. To ensure that the Business Plan reflects the distinctive needs of the devolved nations, we would also call for this to be published.

Helpline capacity

The second aim of the Business Plan also sets out the commitment to increase access to telephone advice, yet we know already that Scottish consumers continue to receive incorrect advice based on English debt law. With that in mind, any expansion in capacity must offer a tailored service, operated in Scotland whereby call handlers are familiar with geography and the appropriate advice agencies. This is pivotal to a successful service.

7 Do you think the Business Plan sets the right direction for the Service over the period 2016–2019 and specifically 2016/17?

Yes.

8 Is there anything missing from the Business Plan? Are there any specific solutions, partners or techniques that you would expect us to make use of, in relation to the financial capability challenges we aim to tackle?

Gaps within customer focus

Focus on young adults and people in later life leaves a clear gap in the working age population. The Business Plan details the support required for people in later life in light of the new pension freedoms, yet the groundwork will have to be put in long before this stage.

For example, the Financial Capability Strategy for Scotland noted that only half of working-age people are currently paying into a pension or are a member of a pension scheme. This finding would indicate that more must be done to educate and encourage those in the middle section – not covered by young people or those in later life – to review pension options at an earlier point.

In-work poverty

The growing prevalence of in-work poverty should not be understated and provides a real challenge to entrenching financial capability and budgeting skills.

In recent years, working households have experienced the cumulative effect of ongoing welfare reform aligned with rising living costs, including escalating rental prices that are not included in any inflation measure. Acknowledgement of these external pressures on a person's budget will help provide a better perspective on how to help someone become more financially capable.

BME groups

The Business Plan makes little reference to reaching out to BME groups. This is despite the Financial Capability Strategy for the UK showing that people in the BME population have some of the lowest levels of financial capability of any group. A recent Joseph Rowntree Foundation report found that poverty is higher in Scotland among ethnic minority groups than within the majority white population.[11]

At Money Advice Scotland, we work in partnership with the Council of Ethnic Minority Voluntary Sector Organisations (CEMVO) to support the delivery of a high quality money advice service to those from BME backgrounds. In our view, more can be done in this respect, whether that be in the provision of accessible debt advice or in targeting financial capability at people with protected characteristics. The provision of advice and guidance must also remain sensitive to the cultural and attitudinal differences to money often apparent in people from BME backgrounds.

9 What are the key risks and issues you would expect us to address as we deliver the plan?

Welfare reform

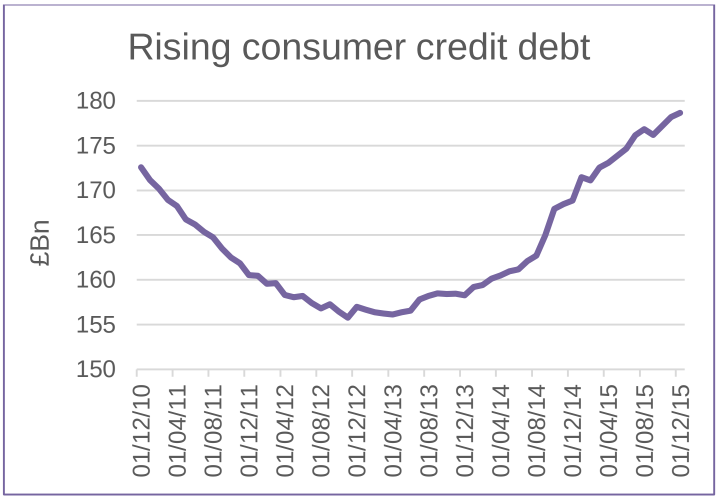
The subject of welfare reform is notable by its absence in the Business Plan. Our team of financial capability officers continue to report that the impact of welfare reform emerges more often than any other social policy issue during workshops. With further cuts to in-work benefits expected over the course of this Parliament, this will pose risks to a household's capacity to budget effectively and build up an adequate savings buffer.

Growing consumer debt

Consumer credit debt also continues to rise towards pre-recession peak levels with all the indications that people are turning to debt to cope with day-to-day living costs.[12]

---

[11] Joseph Rowntree Foundation, Poverty and ethnicity: key messages for Scotland, January 2016
[12] Bank of England, *Bankstats (Monetary & Financial Statistics)*, December 2015



Source: Bank of England

As part of its research into macroeconomic issues that impact on indebtedness, this may be an issue that merits closer analysis.

Early intervention

It is important to note that encouraging someone to take early debt advice may also have negative repercussions on a person's wellbeing; for example, by affecting credit rating. In that sense, the financial services industry and credit reference agencies have a role to play and must stop penalising people for short term financial shocks.

Financial capability is part of a wider solution

The Money Advice Service's own research shows that those in the struggling segment have a better hold on budgeting than those in the squeezed segment. This in itself shows that financial capability is not a silver bullet in the approach towards building up financial resilience. In this sense, the Business Plan would benefit from acknowledging there are more factors that affect a person's ability to manage their budget or build up savings than financial capability alone.

10 Is the plan clear and easy to understand? If not, please indicate sections that you think should be made clearer.

The Business Plan could be made more accessible through the addition of an Executive Summary. In our experience, money adviser workloads are ever-increasing and few have time to review a substantial document in full and offer feedback within a short time period. Much of the language used will also be difficult to interpret for someone outside the money advice sector.