moneyadvicescotland
Scotland's Money Charity

RESPONSE

HM TREASURY

PUBLIC FINANCIAL GUIDANCE

REVIEW

June 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.

Background

On 16 May 2016 Money Advice Scotland held a consultation event with its members at our offices in Glasgow.

The views and comments offered by a broad and varied spectrum of our membership – which included advisers from CABs, local authorities and other advice agencies, as well as delegates from the private sector – helped form the basis of this response.

We also note our gratitude to Paul Grocott, Senior Policy Adviser at HM Treasury, who was present throughout our consultation event and offered invaluable insight into the ongoing review of public financial guidance.

1 Are there any specific guidance gaps in the current pensions guidance offering that you think the new body should fill?

In recent years, no other subject area has witnessed more game-changing shifts in policy than the pensions system. In this context, it is imperative that consumers can access the guidance they need on what will likely be one of the most important financial decisions of their lives.

Evidence suggests that people don't know enough about how the pensions system works so are not saving enough.[1] Recent policy announcements such as the lifetime ISA are to be welcomed given that the ONS savings ratio shows that people are saving less of their disposable income than at any time since records began in 1963.[2] However, this might confuse matters further for consumers who will often be unaware whether the new lifetime ISA or a traditional pension will be the best option. Consumers will require impartial and accessible guidance to help navigate these types of decision which will be pivotal to their long-term financial wellbeing.

Pension freedoms can also lead to gaps in the current pensions guidance offering. Our members raised concerns about the scenario wherein a debtor may consider – or indeed be encouraged to – cash out all or part of a pension pot to pay off debts. This may resolve a problem in the short-term, but can also lead to long-term implications such as insufficient retirement income. One adviser cited the case of a client who cashed in part of his pension with the intention of clearing a debt in full, but was unaware that tax was applicable for part of the drawdown. In these circumstances, this meant that the client also had to set up a payment plan, undermining the original intention to clear the debt in one lump sum. This suggests a potential guidance gap that the new body should take into consideration.

Automatic Enrolment also brings implications which will prove relevant to financial capability. In its initial phase, employee contributions remain at 0.8 per cent. From April 2019 onwards, however, this will rise to 4 per cent and may impact on a person's ability to manage their budget at a time when household disposable incomes are already squeezed. The consultation document proposes a model that separates pensions guidance from money guidance more generally. However, the case can be made for a more holistic approach in some areas: for example, the importance of saving towards a pension can be incorporated into financial capability interventions. The pension guidance body's focus on the over 50s is to be expected, but this will be too late for many.

Finally, it is worth noting that the current pensions guidance offering suffered as much from overlaps as from gaps. Take-up for Pension Wise, for example, has been just a fraction of what was anticipated initially despite the raft of pensions changes in recent years. A single pensions guidance body should help provide consumers with a clear access point for all enquiries.

2 Are there any pension-related topics that shouldn't be included in the remit of the new pensions body?

A recent answer to a written parliamentary question confirmed that automatic enrolment and the lifetime ISA will not be included in the Pension Wise offering.[3] This is somewhat

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[1] PwC, *Wider pensions reform needed to tackle pension savings shortfall*, September 2015
[2] Office for National Statistics, *Households & NPISH saving ratio: CP: SA*, March 2016
[3] HC Deb, 11 May 2016, cW

surprising given the huge implications that these changes will bring to decisions about retirement incomes.

The consultation frequently stresses the need for a holistic approach to retirement guidance and it seems at odds, therefore, to exclude certain topics. This also leaves a potential gap in the offering and raises the question of who people can turn to for impartial and quality advice and guidance on these particular issues.

3 Will these objectives focus the activities of the new money guidance body sufficiently to allow it to improve consumer outcomes?

The consultation document notes that:

> Government agrees that the current statutory objectives of MAS are too broad (for example the generic objective of promoting awareness of the benefits of financial planning) and that publicly funded money guidance should be targeted at filling gaps, where it is most needed

While there was some agreement over this comment – few people are likely to argue against leaving gaps in provision unfilled – questions were raised over the future direction and whether the strategy of being effectively a gap-filler was the correct one. It can also be said that “filling gaps” is itself a fairly generic objective for the new money guidance body to adopt.

Our members stressed that one of the key challenges facing the sector at present is the lack of business-as-usual, mainstream debt advice budgets. Several members who attended our consultation day noted that their advice agencies were no longer accepting new clients due to a lack of funding and resources. That in itself suggests that provision above and beyond gap-filling will be necessary in many areas.

That said, the pledge to “channel as much funding as possible to front line services delivered by the third sector, the industry and other providers” is certainly to be welcomed. A recurring theme over the course of our consultation event was that local agencies and advisers are best placed to understand the needs of the communities that they serve and that front line services remain the most effective method to engage with clients.

4 What role do you think the new money guidance body should have in providing research?

The Money Advice Service has a track record for undertaking research which in recent years has included *Indebted Lives* in 2013 and *A picture of over-indebtedness* just a few months ago. During our consultation event, however, it was apparent that advisers often do not have the time to read this research alongside existing caseloads and can also fail to see the relevance to their day to day work.

Members suggested that the new guidance body would benefit from drawing more closely on the body of information and data gathered by databases held by the largest advice providers such as Citizens Advice Scotland, StepChange Scotland and local authorities, rather than relying on polling agencies and private research organisations. For our own part, analysis of the types of enquiries made to Scotland’s Financial Health Service helpline that Money Advice Scotland operates on behalf of the Scottish Government has proven invaluable in determining council tax arrears and multiple debt problems to be the primary causes of debt and money problems. There was also appetite amongst members for research to be funded and carried out at a local level to give a better reflection of the challenges facing the spectrum of communities across Scotland.

Advisers also noted that, more generally, they can be overwhelmed and overloaded by information surrounding changes directly impacting on their working practices and often find themselves 'playing catch-up.' Several members commented that it would be more helpful to their own work for research to come in the form of briefings to alert advisers to upcoming issues, rather than retrospective observations.

Our membership also observed something of a conflict of interest in a body that is ultimately accountable to HM Treasury undertaking research directly. For example, the new public financial guidance body that is accountable to HM Treasury is unlikely to be critical of Government policies that may impact a household's capacity to manage its budget. A person on a low income who is losing tax credits will find extreme difficulty in managing their budget, no matter how adept in their financial capability.

Typically, discussions on financial capability often overlooked external issues faced by consumers such as stagnating incomes, insecure work and cuts in welfare support. In our response to the most recent Money Advice Service Business Plan, we noted 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.[4]

With that in mind, we were heartened to observe a revised position in the updated Business Plan:

> We recognise that for many people, the money choices they make have causal roots in macro-economic factors, or social and political decisions that are decided through elections. We must recognise these, and avoid a naïve view that financial capability improvement will extinguish money problems.[5]

This represents a welcome shift and we hope that the new money guidance body will continue in its acknowledgement of the importance of the fact that a socially acceptable income – and more specifically one that is in line with the Living Wage Foundation's benchmark – is often the primary driver of a person's financial capability.

5 Would limiting providers of debt advice to FCA authorised firms rule out any types of providers?

This part of the consultation document led to concerns amongst some advisers that local authorities will be barred from receiving any future funding from the new money guidance body in future. Whilst local authorities are currently exempt from FCA authorisation under the Consumer Credit Act, our membership sought assurances that will not be up for review under the scope of this consultation.

As mentioned in previous answers, many local authorities are currently stretched to breaking point. Precluding local authorities from accessing funding overlooks the expertise and

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[4] Read our response to the Business Plan here
[5] Money Advice Service, *2016-2017 Business Plan*, May 2016

experience that is already apparent in many local authority services and will only exacerbate the gaps that the new money guidance body is committed to closing.

6 How could the new money guidance body work with the debt advice providers most effectively to ensure that their expertise is captured and informs contract design?

The focus on front line services throughout the consultation document is to be welcomed. However, we are of the view that this should be embedded in the initial design of projects as well as the delivery.

Members at our consultation day were concerned that there is often a detachment between the working groups who make decisions and the advisers who will ultimately have to work with them. In many situations, there is no substitute for front line experience and the new money guidance body will benefit from closer engagement and cooperation with the debt advice sector in Scotland.

Again, members also reiterated the point that contract design should be about more than gap-filling. As previously mentioned, the local authority dimension in Scotland is changing. The past funding model allowed MAS to fund gaps, but now that local authority funding arrangements are coming to an end or changing drastically, we will possibly need a new funding stream to replace this.

Members noted that a UK wide model for contract delivery may cause additional problems in Scotland if the direction of travel is toward online/phone/self-help, given that our statutory options remain most suited to face-to-face delivery.

7 How do organisations currently monitor outcomes? Do you have any suggestions for the outcomes which should be monitored?

When research assessing outcomes is undertaken, preference amongst members was for a long-term study into the effectiveness of financial capability interventions. During our consultation event, our members noted that the way we measure these interventions are often overly short-term focused.

To address these gaps, Money Advice Scotland's financial capability team has developed a new approach to its own interventions involving work-based coaching via the SVQ *Unit L&D7: Facilitate Individual Learning and Development*. This method seeks to secure long-term behavioural change, rather than quick fixes.

That same aim overarches Money Advice Scotland's financial capability team's workshop programme. This consists of a series of three workshops with an initial evaluation, an assessment of what the participant wants to achieve, followed by support and guidance on how the participant can realise these aims. The approach developed allows people taking part to set and obtain clear goals that are tailored to their own personal situation and focuses in on ensuring tangible behavioural change in the long-term.

Our consultation event took place just a week after the £7m "What Works" financial capability fund was announced. We recognise and appreciate the focus on outcomes over outputs. It is also important to reflect on what doesn't work, however. One member noted that projects are often reluctant to concede when interventions are not successful as this may hinder future prospects. This is completely understandable in a time of volatile funding arrangements for many projects, but risks losing out on learning valuable lessons.

In more recent times, Money Advice Scotland's financial capability team has also been piloting the Money Advice Service's Common Evaluation Toolkit that should go some way to better assessing the effectiveness of financial capability interventions. To date, this has proven an effective way of monitoring outcomes and we believe that the new money guidance body should continue to take this forward in future.

8 How could "hand off" arrangements be most effectively built into contracts?

Money Advice Scotland operates Scotland's Financial Health Service helpline on behalf of the Scottish Government, a first point of contact referral service to help clients access advice on debt and other money issues. The SFHS helpline deploys a call-back system whereby our advisers will call back the client to ensure that the initial referral was successful and that the client subsequently received the help they needed. Whilst this adds to the workload of helpline advisers, it is often vital to ensuring that the client was able to access the right outcome. The confidence required to make the first call for help cannot be understated and it is crucial that people do not fall through the gaps when they reach out for advice and guidance.

9 How should the new money guidance body seek to understand the gaps in the provision of money guidance?

Research can prove valuable in ascertaining the gaps in provision. That said, a number of advisers were concerned by findings from the most recent Money Advice Service research that considered Scotland to be the least over-indebted region across the UK. This analysis was incongruent with their own experiences and also overlooks geographical nuances and complexities. The most recent Scottish Household Survey found that 36 per cent of households in Glasgow are managing well or quite well financially. In the neighbouring local authority of East Dunbartonshire, the equivalent figure rises to 67 per cent of households, demonstrating the profound disparities that are apparent even in adjacent areas.[6]

Closer engagement with the sector across Scotland will also be key to understanding the gaps. If the new body is to prioritise front line delivery of services – a position our members were entirely in agreement with – then it is equally important to first secure closer engagement with those working on the front line in Scotland to help better understand these gaps.

Further, it is worth noting that the replacement of the Money Advice Service may in and of itself create new gaps in provision with doubt cast over current project agreements. We would seek assurances that these existing projects will continue to receive support through this period of transition to prevent further gaps from opening up.

10 Is the planned focus on commissioning local and digital financial capability raising projects the right one?

Following on from our previous answer, the definition of what exactly entails "local" was questioned by our delegates. Again, advisers were of the view that the consistent reference to Scotland as a region was overly simplistic.

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[6] Scottish Government, *Scottish Household Survey*, 2012

Research from Highlands and Islands Enterprise finds that that the budgets that households need to achieve a minimum income standard in remote rural Scotland are typically 10–40 per cent higher than elsewhere in the UK. What's more, the cost of living in a rural town is consistently more expensive in remote Scotland than in rural England.[7] This demonstrates that the approach to imparting financial capability will diverge markedly across different regions and the new money guidance body should reflect on this.

Our consultation event benefitted from the insights and knowledge of a number of advisers from rural areas. One member estimaed the cost of providing debt advice at around £600 per head and suggested that whilst digital has the potential to bridge gaps in investment, this, too, requires significant investment.

In terms of digital projects, a number of our members were concerned that certain parts of the consultation were inconsistent with the emphasis on front line services. For example, the consultation document notes

> the government proposes that the new money guidance body will invite bids for tools, apps or other interactive content which are targeted at helping people understand the implications of financial decisions

Whilst our members supported the stated aim of helping people understand financial decisions, the methods suggested here risk falling into the habits of its predecessor in terms of the focus on expensive digital services that are often already available elsewhere. Our members were of the view that tools such as Money Advice Scotland's financial capability eLearning module (currently accessible to every school in Scotland via the Scottish Schools National Intranet, Glow) should be supported and developed, rather than starting new projects from scratch.

Much is often made of the question of rural access to broadband in Scotland, but it is important to acknowledge that levels are also remarkably low in urban centres such as Glasgow. Analysis from the Carnegie Trust shows that Glasgow has the highest rate of digital exclusion of anywhere in the UK with an estimated 40 per cent of people offline.[8] In recent years, the money and debt advice sector has demonstrated a commitment to understanding vulnerability and these types consumers are less likely to be able to access digital services. Research from Lloyds Bank also finds that financial exclusion and digital exclusion are often inextricably connected.[9]

The consultation document notes that HM Treasury will consider whether to review, replace or continue with the financial capability strategy. Whilst this is not included as part of the consultation questions, our members nonetheless expressed the majority view that the strategy should be reviewed rather than replaced, but with clearer and simpler messaging. The perception had taken hold that this type of publication was for "policy people" or those in senior management roles, with little bearing on the day-to-day work of those in front line roles.

Finally, we would once again stress that financial capability – whether commissioned locally or digitally – is no protection against an income that falls below a socially acceptable standard as set out by organisations such as the Joseph Rowntree Foundation and the Living Wage Foundation.

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[7] Highlands and Islands Enterprise, *A minimum income standard for remote rural Scotland*, 2013
[8] The Carnegie Trust, *Across the Divide*, 2013
[9] Lloyds Bank, *Consumer Digital Index: Benchmarking the digital and financial capability of UK consumers*, 2016

11 What should be included in the partnership agreement between the two bodies, and how could hand-offs best be specified?

As outlined in our answer to previous questions, there are clear examples where the remit of the two bodies will overlap and intertwine, perhaps most notably in the scenario of a client who may consider utilising the new pension freedoms to pay off a debt. Indeed, one adviser at our consultation event commented that if the number of bodies is to be reduced from three to two, then why not three to one? This is where a holistic approach is required to ensure that consumers do not fall through the net during hand-offs and referrals from each guidance body as well as to and from other agencies. Closer collaboration between the two bodies will be essential. With that in mind, we support the proposal that the CEOs of the pensions guidance body and money guidance body will sit on one another's board to ensure that strategies are aligned and to ensure consistent quality standards.

The new bodies may also benefit from examining existing best practice across the sector. For example, the Citizens Advice network in Scotland has unique experience of delivering Pension Wise, Money Advice Service face-to-face guidance and also traditional debt advice, through one provider. In addition, bureau advisers frequently incorporate more than one role. This has minimised hand-offs and maximised the potential for a client-centred, holistic approach.

12 Do you have any other comments on the proposed model?

Money Advice Scotland is of the view that the proposed model is largely to be welcomed. As we mentioned in our answer to Q1 and Q11, there are scenarios where the scope of the pensions guidance body and the money guidance body will overlap and the partnership agreement should set this out clearly.

13 Would these proposals have any impact on delivery of public financial guidance in Scotland, Wales and Northern Ireland?

The Money Advice Service currently has a specific representative in each of the devolved nations. Again, we would expect this to continue as part of the new money guidance body as a minimum to ensure close engagement and understanding of the sector in Scotland and the other devolved nations. We are also of the view that the board of governance should include a representative from each of the devolved nations to ensure that the concerns of the sector in Scotland, Wales and Northern Ireland are accurately reflected. Similarly, when ad-hoc working groups are set up on specific issues, the same representation requirement should apply as far as possible.

Members at our consultation event also called for a better understanding of the differences in policy in Scotland. A number of members expressed frustration that information on the Money Advice Service website was often out-of-date and that advice given was not always applicable to people living in Scotland. That said, this will perhaps be less of an issue in respect of the current proposals given that the new money guidance body will not be consumer facing.

The new money guidance body will also have to be alert to the changing devolution landscape in Scotland. The Scottish Government has new powers over consumer advice and advocacy powers and the money guidance body will need to be cognisant of any divergence in policy in relation to the rest of the UK, particularly in the commission of financial capability projects.

Members at our consultation event also expressed concern about ensuring that devolved nations receive an appropriate share of budget funding. The budget allocation for the provision of debt advice for people in Scotland remained static in the Money Advice Service Business Plan for 2016/17, compared to increases in England, Wales and Northern Ireland. In terms of delivery of front line 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. In future, we hope that the new money guidance body will review the budget allocation to bring this closer in line with a calculation based on population share.

14 What kind of tools and products do consumers most often use or ask about?

15 Which content on the MAS website is most useful for consumers?

16 Which content on the MAS website is it necessary to maintain because it is not provided elsewhere?

Without question, a large part of the Money Advice Service is its online presence and reach. From April to December 2015, there were 12.8m unique contacts to the Money Advice Service website. That in itself is a clear indication that there are features on the current website that people are using and more importantly that people find useful.

The nature of our membership, however, means that clients typically contact them in crisis situations when online tools and content are not enough. Advisers noted that they will only occasionally direct clients to online services, but more intensive support is often required. Again, this demonstrates the importance of front line services that we stress throughout this response.

Amongst all online tools, the annuities calculator was singled out as being particularly good and this should be retained in some capacity. The content on basic bank accounts was also considered very useful by a number of our members. Tools such as the budget calculator, however, were considered to duplicate an adviser's existing work – members said this has always been the key starting point when meeting with clients – and this is also available via various other sources. In terms of the products used most often, our members also suggested that the Money Advice Service will have analytics far beyond our own insight that will help determine consumer usage.

In terms of hosting tools and information elsewhere, the Money Advice Scotland website was considered by members as an appropriate option, especially given the similar branding and the fact that the two organisations are already frequently confused. The Citizens Advice Scotland website and Scotland's Financial Health Service website were suggested as other suitable alternatives. Where possible, it was also proposed that these tools and products might be shared with smaller organisations who will not have the budgets to develop expensive online resources from scratch. In the transition phase to the new body that will no longer be consumer-facing, we would also suggest that some kind of signposting website remains in place to allow people who are continuing to visit the website to access the required information and advice.

Above all else, users of the website valued its independence and impartiality and it was generally considered that this would be a loss. Despite recognising these advantages, questions remained about whether the sums of money spent on the website and marketing was a price worth paying, with preference amongst members ultimately being that funding is directed to front line services.