moneyadvicescotland
Scotland's Money Charity

RESPONSE

HM TREASURY

PUBLIC FINANCIAL GUIDANCE REVIEW: CONSULTATION ON A SINGLE BODY

February 2017

About Money Advice Scotland

Money Advice Scotland is Scotland's Money Charity.

We are the national umbrella organisation in Scotland which promotes and champions financial inclusion and the development of free and impartial money advice.

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

Background

We welcome the opportunity to respond to HM Treasury's consultation on proposals for a single public financial guidance body.

Our response was drafted after conducting a survey of our members, staff and Council of Management. Respondents included insolvency practitioners, money advisers from local authorities, Citizens Advice Bureaux, housing associations and other advice agencies.

We are grateful to all Money Advice Scotland members who took the time to complete our survey. These views helped form the basis of this response.

Summary of recommendations

- We recommend that the SFGB undertakes a sector-wide review of the provision of public financial guidance available for the BME population with the purpose of addressing existing gaps

- We recommend that the future SFGB strategy pays closer attention to the extenuating factors that influence a person's ability to manage money well

- We urge the SFGB to make a stronger commitment to ensuring that face to face advice continues to be a key delivery channel for consumers

- We are of the view that to avoid duplication, expenditure on an SFGB consumer-facing website should instead be directed to frontline services

- We call on the SFGB to work alongside government and the financial services sector to review the products available to financially excluded consumers that will help them build up financial resilience

- We call on HMT to commit to retaining the existing levels of funding for public financial guidance via the levies

- We recommend that HMT reconsider its proposals not to extend the debt advice levy to other creditors

- We call on HMT to establish a Scottish specific delivery branch as part of the new SFGB offering

- We recommend that when policies are implemented for the UK advice sector as a whole, robust impact assessments are undertaken in advance to foresee repercussions for each of the devolved nations

- We call on HMT to implement a per capita funding allocation for the delivery of frontline services across the devolved nations

- We support the position that the SFGB should not have a formal role in setting standards for the sector

- We recommend that the SFGB has a stated objective to tackle the poverty premium

Q1. Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for public financial guidance or difficulty finding and obtaining that guidance?

The subject of consumer vulnerability has received increasing attention in recent years and that is certainly to be welcomed. Typically, vulnerable consumers require greater levels of personal attention from guidance providers. Our recent response to the FCA's Mission Statement provides further detail on the additional protections that we consider to be necessary for vulnerable consumers.[1] Later, we set out the case for the importance of face to face advice more generally, but it is worth noting under this question that respondents to our survey stressed that deaf and blind clients often prefer face to face advice services.

In terms of people with protected characteristics, the Financial Capability Strategy for the UK suggested that people in the BME population have some of the lowest levels of financial capability of any group. With that in mind, **we recommend that the SFGB undertakes a sector-wide review of the provision of public financial guidance available for the BME population with the purpose of addressing existing gaps**.

Q2. Do you agree that these areas capture what the broad role of the SFGB should cover?

- *Provision of debt advice for those in problem debt*

Consumer credit continues to climb to levels last witnessed during the financial crisis. At the end of December 2016, total outstanding consumer credit stood at £192.9m – the highest level since December 2008. The prospect of rising inflation is already pushing up the cost of essential goods and services. Wage growth is forecast to continue to be weak with the IFS warning that it will be 2021 before real wages recover to pre-2008 levels.[2] In this context, the need for free and impartial debt advice remains as pressing as ever.

The SFGB will benefit from the acknowledgment that unmanageable debt is not always the result of a lack of education or capability. More and more of our members note the growing prevalence of consumers who are in debt because their level of income is insufficient to sustain a socially acceptable living standard. One respondent to our survey noted:

> The vast majority of my clients aren't in debt because of financial incapability – it's because their income is lower than essential outgoings.

In this respect, the new SFGB should play a prominent role in attempts to change the perception of debt. All too often, over-indebtedness is still considered as the result of profligacy or fecklessness when, increasingly, people are encountering difficulty due to the pressures of insecure employment, weak wage growth and escalating living costs.

- *Provision of information and guidance on matters relating to occupational or personal pensions, accessing defined contribution pension pots, and planning for retirement*

The focus on pensions is essential in light of the unprecedented period of reform in recent years. Auto enrolment and pension freedoms radically alter the way we save for our future

[1] Money Advice Scotland's response to HM Treasury's consultation on Help to Save can be accessed here http://bit.ly/2kr0u1f
[2] Institute for Fiscal Studies, *Autumn Statement 2016: IFS Briefing*, November 2016

and make decisions about our retirement income. With the increased choice and complexity brought by the new pension freedoms, in particular, the need for high quality and impartial advice has rarely been greater.

However, it is important that information and guidance on matters relating to pensions is not limited to older people or those approaching retirement. The guidance body's focus on the over 50s is to be expected, but this will be too late for many and the importance of saving towards a pension can be incorporated into financial capability interventions for people of all ages.

The recent wave of pension reforms also brings various implications for debt advice. For example, will a person use the new pension freedoms to draw down and pay off debts in the short-term, but with potential repercussions for future retirement income? In that sense, the decision to establish a single financial guidance body that incorporates both pensions and money guidance is to be welcomed and will provide a more rounded approach to this emerging issue.

- *Providing information to help consumers avoid financial fraud and scams*

Of all priority areas that the proposals set out in the consultation, this one attracted least support from our survey respondents. The Financial Conduct Authority's ScamSmart campaign and similar initiatives from Action Fraud have this area well covered. Arguably, this also sits under the wider remit of efforts to improve financial capability.

As the consultation document outlines, the proposals are intended to reduce duplication in the provision of public guidance. This seems to us to be an area that is already well-served. The consultation implies that there will not be an equivalent effort to raise brand awareness of the SFGB. A trusted and recognised brand is prerequisite for a body that is tasked with helping consumers avoid financial fraud and scams. In our view, it follows that the role of the SFGB in this area should be limited to providing support for existing trusted initiatives.

- *Provision of information for people on wider money matters and co-ordinating and influencing efforts to improve financial capability*

The proposals for an SFGB to provide information on "wider money matters" is far too loose and ambiguous. When first announced in March 2016, the new public financial guidance body was described as a "slimmed down" offering. The Farnish Review raised concerns that the breadth of the Money Advice Service remit made it difficult to focus on its strategic priorities.[3] To ensure that this is avoided in future, it is important that the new SFGB has a clear remit.

- *Co-ordination of non-governmental financial education programmes for children and young people*

The effective co-ordination of non-governmental financial education for children and young people is certainly a desirable outcome, but we are unsure whether the SFGB is the appropriate agent to assume this role.

[3] HM Treasury, *Review of the Money Advice Service*, March 2015

In Scotland, education is devolved and financial education has been a mandatory component of the curriculum since 2008. It would seem anomalous, therefore, for a UK government agency to oversee work that is taking place in a devolved context. Later, we will outline the case for a Scottish specific delivery branch for the new SFGB and this proposal would be better placed to work alongside Education Scotland to co-ordinate financial education programmes for children and young people.

The role of the SFGB in this area should take the form of funding projects and resources which are already working well for children and young people. We have previously called for greater assistance for teachers delivering financial education, ranging from consultancy services to a more defined role for third sector organisations. Members who responded to our survey were in agreement that this should be a priority.

Q3. Do you agree that the SFGB's financial capability initiatives should focus on priority groups such as those who are most in need of support to build resilience?

The consultation document makes reference to the JAMs – the just about managing households identified by the government in the Autumn Statement. This group certainly merits focus as a priority group with every indication that the budgets of these households will be stretched to breaking point by a combination of stagnating incomes, the falling value of benefits and rising living costs in the years ahead. Projections for hikes in the cost of living range from 1.3 – 4 per cent through the second half of 2017. Mark Carney, Governor of the Bank of England, echoed this warning when he said that it's "going to get difficult [for those on the lowest incomes] as we move from no inflation to some inflation." That said, our members are more likely to encounter NAAMs – households who are not at all managing – than the JAMs the government refers to.

Respondents were split on whether people on low incomes should be a priority group for the SFGB. Members noted that the majority of clients who seek debt advice are on low incomes. However, this did not always equate to poor financial capability. One respondent noted:

> Those on low incomes are not necessarily bad at being financially capable, however, depending on their financial background or what financial education they would have received, they may require some further assistance in this area.

Indeed, research from the Improvement Service suggests that around 80% of people seeking debt advice in Scotland live in households with an annual income of less than £15,000.[4] Again, this underlines the need for the SFGB to support frontline debt advice services that address crisis situations as well as preventative measures around financial capability.

Respondents to our survey were of the view that young adults in the 16-24 age group and people on low incomes are most in need of support of financial capability interventions. This chimes with research that shows "just in time" interventions are the most effective method of delivering financial education in a recent academic study.[5] That said, the just in time approach is equally applicable to the older population as the decisions we make about our retirement income are some of the most important that we will make in our financial lives.

[4] Improvement Service, *The Future of Money Advice Services in Scotland*, 2017
[5] Fernandes, Lynch and Netemeyer, *The Effect of Financial Literacy and Financial Education on Downstream Financial Behaviors*, 2013

Financial capability alone will not build up financial resilience. For example, the SFGB will have no influence over wage growth or how food prices and energy costs will increase in the coming years. Equally, the SFGB will have no influence over changes to tax and benefits that will have a particular impact on low income households. These are the factors that are likely to be the key determinants of a person's financial resilience in the years ahead.

Q4. Do you agree that the SFGB should have a strategic role, working with the financial services and pensions industry and third sector organisations to improve financial capability?

The Money Advice Service has been one of the key players in ensuring that financial capability has featured prominently on the policy landscape in recent years and the SFGB should continue in that endeavour. Initiatives such as the first ever Financial Capability Week provide valuable coverage for an issue that is still a relatively new one in a public policy context. People typically do not want to talk about money worries, but increased awareness may start to change this trend.

In the Financial Capability Strategy for the UK, levels of financial capability were described as "frustratingly low." Key findings to illustrate the deficiency of financial capability in the UK included that 21 million households do not have a modest £500 in savings and 8 million people were in problem debt. Arguably, the case can be made that these characteristics are not in and of themselves indicators of financial capability. That a person doesn't have £500 in savings may not be a mark of poor financial capability. Rather, it may be a sign that they don't have enough money for a socially acceptable living standard in the first instance. **It is imperative that the future SFGB strategy pays closer attention to the extenuating factors that influence a person's ability to manage money well.**

We also welcome the commitment to work with the financial services industry. Providers of financial services products also have a responsibility in improving financial capability. One respondent said that "it is vital that any new body proves to be effective in the struggle against irresponsible lending." Consumers are often criticised for a lack of financial capability, but the question of how much a consumer should be expected to know also merits consideration. A patient visiting a GP shouldn't have to be medically trained to protect against being prescribed harmful treatment. In much the same way, consumers shouldn't have to be experts to prevent themselves from detriment when accessing financial services and products.

Q5. How might the SFGB develop its understanding of what works and usefully contribute to sector wide research?

In the last 12 months, the emphasis on what works in financial capability interventions is to be welcomed. It is imperative that financial capability interventions are of a high-quality with key outcomes being met in the short, medium and long-term. With more and more schools, colleges and other organisations delivering financial capability, it is important that they can draw on the expertise of specialists and also have somewhere to go for support and guidance when necessary. In our view, this is where the SFGB will play a pivotal role in sharing good practice about what works in financial capability.

Members broadly welcomed a research role for the SFGB. A majority of respondents encouraged the research, although some hoped to see better outcomes as a result of this type of work:

> I do see a role for the SFGB in research, however, we have already had a lot of research undertaken in this area and so a bigger emphasis – and funding to follow – should be placed on putting more of this research into action.

Another respondent commented that existing research from the money guidance body tends to reflect what advisers know already and is heavy on analysis but light on recommendations to address the problems faced by consumers. Money advice services are often a bellwether for emerging issues and the SFGB will benefit from drawing on this intelligence.

Q6. In what ways could the SFGB co-ordinate and add value to the provision of financial education?

As we outline in our answer to Q2, the role of the SFGB in this area should be limited to funding projects and resources, as well as evaluating what works in financial education interventions.

Q7. Are there other delivery channels that the SFGB should consider that would be effective for delivering to consumers?

Members voiced concerns at the comment within the consultation that "the review will ensure that some face to face guidance remains available." In the view of our members, face to face remains the most important delivery channel for debt advice. **We are of the view that the SFGB should make a stronger commitment to ensuring that face to face advice continues to be a key delivery channel for consumers.**

The need for face to face advice is also acutely important for vulnerable people. As one respondent noted:

> Debt advice can be a very personal matter. It is important that an adviser and person receiving the advice and support is able to build a relationship of trust. This cannot always be achieved remotely. Explaining complex things like diligence can sometimes be better face to face so a client can fully understand what could happen and at the same time be reassured by the money advisor there are options.

Advisers also referred to a growing demand for home visits and the need for an enhanced level of personal attention for vulnerable consumers cannot be understated. One respondent observed that people in debt approach the problem in much the same way an ill person contacts their GP – more often than not a person prefers to meet with someone in person, rather than by email or telephone.

The latest proposals signal a shift away from the initial announcement that the public financial guidance body will not be consumer-facing. The consultation document notes that the SFGB offering will include a well-optimised website, but this change of tack did not receive the backing of our members. Again, respondents took the view that the availability of face to face services – particularly at a time of intense pressure on money advice services – should be prioritised over a consumer-facing website. This information is available elsewhere and often in a more cogent and accessible format.[6] **We are of the view that to avoid duplication, expenditure on an SFGB consumer-facing website should instead be directed to frontline services.** Under this option, the most popular tools within the current offering may continue to be made available through gov.uk or other guidance providers.

On the subject of online resources, members were also concerned that a move away from the focus on conventional face to face advice would impact on people who are digitally excluded. Members noted that access to broadband remains limited in some parts of remote and rural Scotland. In our previous response, we noted that whilst digital services have the potential to bridge gaps in advice coverage, this, too, requires significant investment. Moreover, online services were considered most useful for those who are already managing quite well, rather than consumers who are excluded or vulnerable.

Q8. How should the SFGB ensure that it engages consumers at the right time for them?

The question of timing is crucial, particularly in the targeting of financial capability interventions. As we outline in our answer to Q3, research has shown that "just in time" interventions are most effective. Several respondents to our survey were of the view that the SFGB should find new ways to engage consumers at the point when they are about to make a specific financial decision. The upcoming Help to Save scheme may yet provide an example of this type of opportunity. In our response to the HMT consultation on Help to Save, we advocate a model where deductions are made from payroll or Universal Credit awards.[7] The example of auto enrolment – where the actual opt-out rate of 10 per cent has been far lower than the expected rate of 28 per cent – shows that consumers can be effectively engaged to make positive financial decisions using the nudge theory. This is a method of engaging "the unengaged" consumer that the new SFGB may wish to explore further.

Moreover, research from the US Financial Diaries Project suggests that the propensity to save is not correlated to financial literacy:

> Households are generally aware of the need for, and have goals for, emergency savings. However, neither financial literacy as currently conceived nor higher incomes (within the limited incomes of the households in the study) make a material difference in these households' ability to build up their emergency savings cushion.[8]

At a time when the Bank of England forecasts the savings ratio to fall to record low levels, this research underlines that a more innovative approach is required to change consumer behaviour.[9] **We call on the SFGB to work alongside government and the financial services sector to review the products available to financially excluded consumers that will help them build up financial resilience.**

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[6] The Money Advice Service website had 13m customer visits in the first six months of 2016/17. MoneySavingExpert.com has about 15m users per month.
[7] Money Advice Scotland's response to HM Treasury's consultation on Help to Save can be accessed here http://bit.ly/29ZRNWN
[8] US Financial Diaries, *Emergency Savings,* June 2015
[9] Bank of England, *Inflation Report,* February 2017

Q9. Do you agree that the SFGB should be able to exercise some flexibility in the way funding is directed?

The consultation document notes that the SFGB should have some flexibility to decide how to use funding to respond to emerging consumer needs. This seems reasonable in principle but we would welcome additional details about how this might work in practice. Above all else, **we call on HMT to commit to retaining the existing levels of funding for public financial guidance via the levies.**

In terms of funding more generally, a vast majority of our respondents were in favour of an extension to the debt advice levy to include other creditors, despite HMT ruling this out for now. Fuel debt increasingly features as one of the main causes of financial difficulty for clients. Again, this reflects the growing prevalence of debts that are closely associated to living costs rather than consumer credit. As one adviser noted:

> Fuel debts are not treated the same through the courts as general consumer debt and, as a result, are often at a critical stage by the time a client comes for advice. These debts are a large reason for people not being able to pay other bills as they are in fuel poverty.

A number of advisers also made the case for the telecommunications industry and car finance companies to be subject to the levy. **We recommend that HMT reconsider its proposals not to extend the debt advice levy to other creditors.**

Q10. Would these proposals have any impact on the delivery of public financial guidance in Scotland, Wales or Northern Ireland?

Application of policy across the UK can often fail to capture the distinct features of the sector in the devolved nations and the SFGB should be attuned to these differences. Several respondents to our survey were concerned that information provided by UK-wide helplines is often inaccurate and lacks understanding of the Scottish advice landscape. This may yet become increasingly relevant as more powers are devolved to the Scottish Parliament in the years ahead and tax rates and welfare entitlement diverges from policy in the rest of the UK.

We call on HMT to establish a Scottish specific delivery branch as part of the new SFGB. This would contribute to an enhanced understanding of the issues facing both consumers and the advice sector in Scotland. The debt advice options available to Scottish consumers differ considerably and delivery from a UK level can overlook these distinctions. A recent example of this is the implementation of the Standard Financial Statement. This was heralded as bringing consistency to the sector by effectively melding the Common Financial Statement with other statements used by debt advice providers to create a universal income and expenditure form. In Scotland, however, inconsistency was not an issue as current legislation requires that a single statement (the Common Financial Tool) should be used across all statutory debt solutions. Initial testing of the Standard Financial Statement suggests that an issue could arise whereby applicants for the Minimal Asset Process – an insolvency option specific to Scotland with no direct equivalent in England and Wales – will be pushed into full bankruptcy.[10] The upshot of this is that an initiative that was underpinned by aims not required by the Scottish advice sector may yet cause detriment to

[10] Minimal Asset Process is a route into bankruptcy for people with few assets. A debtor does not pay a contribution and (as long as certain requirements are met) is discharged from bankruptcy after six months. A £90 application must be paid. By contrast, under Full Administration Bankruptcy a debtor will pay a contribution for 48 months and a £200 application fee must be paid.

Scottish consumers. With this example in mind, **we recommend that when new policies are implemented for the UK advice sector as a whole, robust impact assessments are undertaken in advance to foresee repercussions for each of the devolved nations.**

The creation of a single public financial guidance body should also review current funding allocations. In 2016/17, the Money Advice Service Business Plan showed that the budget allocated to Scotland for the delivery of frontline services from a total of £39,120,000 is 7.1 per cent – less than its UK population share of around 8.2 per cent. For 2017/18, this ratio slips still further and for the second consecutive year, the budget allocated for frontline delivery services is not representative of Scotland's population share. Even using the figure of £2,759,000 quoted in the footnotes, this still represents only 6.5 per cent of the overall budget of £42,252,000.

We call on HMT to implement a per capita funding allocation for the delivery of frontline services across the devolved nations. Recent research from the Improvement Service has underlined the extent of cuts to money advice services in Scotland.[11] In 2015/16, investment in money advice services was reduced by around 15 per cent on the previous year. In that context, advice agencies in Scotland will require a proportionate level of support to ensure that people in financial difficulty can secure the help they need.

Q11. Do you have any other comments about the proposed delivery model and consumer offer?

The consultation document sets out a clear position on the SFGB's role in setting standards, noting that respondents in the previous phase had questioned whether the Money Advice Service was acting like a regulator without a remit:

> The government thinks that the new SFGB should continue the good work that MAS has done in meeting its statutory requirement to promote best practice, and placing requirements on providers through contracts to encourage providers to develop better guidance options for consumers. However, the government does not think that the new SFGB should have a formal role in setting standards for the sector; it remains the role of the regulator to set and monitor appropriate standards.

Perhaps unsurprisingly, this statement attracted the attention of our members. Respondents were supportive of standards in principle, although they noted that this should not be at the expense of providing direct assistance to those who need it most:

> I believe that a common standard is important however I would agree that this needs to be streamlined and slim line (not top heavy) with resources concentrated on front line service and not administration and management.

Again, respondents emphasised the importance of understanding the distinctive features of standards in a Scottish context. One respondent noted:

> The SFGB should not have a role in setting standards because Scotland already had a set of relevant standards for advice giving prior to the Money Advice Service's standards framework, namely the Scottish National Standards for Information and Advice Providers. Having the additional Money Advice Service standards framework

[11] Improvement Service, *The Future of Money Advice Services in Scotland*, 2017

has increased the burden of administration on free debt advice providers and should not continue into the SFGB.

Several members echoed these comments and the prevailing view was that standards should be left to the regulator and the Scottish Government. **We support the position that the SFGB should not have a formal role in setting standards for the sector.**

The consultation encompasses a vast remit, but certain important issues are omitted. The endeavour to build up financial resilience is laudable, yet as we argue throughout this response, it is crucial to acknowledge that there are a range of factors out with a consumer's control that affect their ability to manage money well. Another example of this that is not mentioned within the consultation is the poverty premium – the extra costs incurred by low income household when accessing essential goods and service. Recent analysis from the Joseph Rowntree Foundation estimates the cost of the poverty premium at £490 per year for low income households.[12] For some households, however, the poverty premium can be as high as £1,860 per year in circumstances where they are relying on several forms of high cost credit.

It is disheartening that there is no mention of the SFGB's potential role in addressing the poverty premium. The SFGB will be tasked with helping consumers build savings and improve financial resilience, but it must also be cognisant of issues such as the poverty premium that may hinder this aim. Working alongside regulators, **we recommend that the SFGB has a stated objective to tackle the poverty premium.** This is an essential barrier to overcome if the SFGB is to prove successful in helping consumers to manage money well.

[12] Joseph Rowntree Foundation, *Acting on unfair poverty premiums must be a 2017 priority*, January 2017