moneyadvicescotland

Scotland's Money Charity

RESPONSE

SCOTTISH GOVERNMENT CONSULTATION ON SOCIAL SECURITY IN SCOTLAND

28 October 2016

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, independent, impartial, confidential money advice.

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

Introduction

Money Advice Scotland welcomes the opportunity to respond to the Scottish Government's consultation on social security in Scotland.

Our comments are focused on the sections on advice services and managing overpayments and debts. That said, we also add our support to calls made by other groups within the third sector who are responding to the consultation.

The response from the Child Poverty Action Group will include the proposal to provide a £5 a week top up to child benefit that was initially set out in its *Programme for Scottish Government 2016–2021*. Analysis shows that this would mean 30,000 fewer children in poverty. We fully support this call. More and more people on low incomes are presenting to money advisers with debts that are not the result of profligacy or reckless spending, but instead are caused by rising living costs and the stagnating value of wages and benefits. This proposal would help protect the lowest income families from falling into debt or relying on foodbanks.

Similarly, we fully endorse the response of the Scottish Working Group on Funeral Poverty and its recommendations on the future of the funeral payment. Money advisers typically assist clients with debts that are a consequence of being unable to afford the cost of living, but increasingly, the poorest are also unable to meet the cost of dying.

On Universal Credit, we welcome the previous commitment to enabling the option of the rent element being paid direct to social landlords, as well as the option of the frequency of payments being twice monthly instead of calendar monthly. Both of these flexibilities will mitigate previous concerns about budgeting difficulties for Universal Credit recipients. As we elaborate in our answer to section 14, the potential still exists, however, for closer collaboration with financial capability providers to help build up basic budgeting skills for people who are receiving Universal Credit.

Once again we welcome the opportunity to help shape the first ever Scottish social security system and hope this marks the first step in continuous engagement with the sector to ensure the best outcomes for those who most need its support.

Section 14. Advice, representation and advocacy

What role[s] should publicly funded advice providers to play in the development of a new Scottish social security system?

The scope of the consultation on the development of a new Scottish social security system across the third sector and beyond in Scotland has been on a scale that is fitting with the significance of the upcoming changes. Above all else, we welcome the move to engage with at least 2,000 people who have first-hand experience of receiving benefits. This certainly meets the principle of treating individuals with respect and will put their own experience at the heart of the new system.

Advice providers, too, can often find themselves at the sharp end of changes to policy and legislation. Indeed, advice providers are often a bellwether for determining the trends in what is not working within the social security system. With that in mind, it will be useful for the Scottish Government to draw on this experience to help assess how the changes are taking effect in practice. A number of our members also stressed the importance of consultation with advice providers throughout the transition to a new Scottish social security system and not only at the outset.

What steps need to be taken, to understand the likely impact of the transfer of the devolved benefits on publicly funded advice in Scotland?

The introduction of a new social security system in Scotland and the transfer of devolved benefits will almost certainly lead to additional queries to advice providers. The money advice sector in Scotland is already facing challenges with demand for advice often surpassing resources. Data from the Bank of England shows that consumer debt continues to rise towards pre-recession peak levels. The cost of living (food and energy bills, in particular) is also set to increase as a consequence of the falling value of the pound. This combination of circumstances could stretch struggling household budgets to breaking point and lead to a spike in requests for advice, even before we consider the impact of transferring devolved benefits.

Certain aspects of the impact can be anticipated – and perhaps mitigated – even at this early stage in the transition to a new Scottish social security system. For example, as we mention in our response to section 17, changes to the provision of social security in Scotland may inadvertently result in an increase in overpayments and subsequent enquiries to advice agencies.

Information about the changes to the social security system should be presented clearly so that advisers can in turn offer the best service to individuals. A recurring complaint amongst advisers and individuals alike is that changes are poorly communicated.

A number of our members also noted that this consultation represented the opportunity to undertake an assessment of the areas in Scotland where social security payments are most prevalent and to compare this against the availability and take-up advice in these areas. This process would not only help understand the impact of the transfer of the devolved benefits on publicly funded advice in Scotland, but also help to inform how resource for publicly funded advice is best allocated. Any assessment – including the prior mentioned survey of 2,000 individuals with direct experience of receiving benefits – must include proper representation of the views from rural and island communities where individuals and advice providers alike are faced with different challenges.

How could the transfer of the devolved benefits to Scotland be used to drive improvements in the provision of publicly funded advice?

Research from the Money Advice Service shows that only one in five people with financial difficulties are seeking advice. A central aim of the new Scottish social security system must be to ensure that those who require to do so are able to access advice and assistance. This is very much in line with the pledge in the ministerial foreword that no one should fall through the gaps. As part of any drive to increase awareness of these changes to the social security system in Scotland, this should also be accompanied by information campaigns on where people can access advice.

The anticipated increase in enquiries on social security issues must also be reflected in the funding assigned to advice services. In some scenarios, and particularly for smaller agencies, time spent completing funding applications can detract from the time available to help clients. Annual or biannual funding agreements can also have the effect of undervaluing the work of advisers. It is perhaps unsurprising, then, that our members were of the view that longer term funding agreements will lead to improvements in the provision of publicly funded advice.

Although not necessarily categorised as advice, the consultation should also consider the value of activities undertaken to potentially reduce the burden on advice services further down the line. An example of this is financial capability which attempts to build up the skills and knowledge necessary to manage money better and protect against problems in future. As a charity that works to improve financial wellbeing for the people of Scotland, we believe that prevention is often more effective than cure when it comes to dealing with debt.

In terms of the remit of this consultation, this may be most pertinent for recipients of Universal Credit. For example, one of the main criticisms levied at Universal Credit is that payments are made directly as a single monthly payment. Whilst the powers available to the Scottish Government go some way to providing flexibilities that may yet counteract these difficulties, budgeting may still be a challenge for many individuals. To help address the problems, affected individuals could be referred to financial capability providers with the aim of building up skills in the short term that will guard against financial difficulty in the long term.

Do you think that Independent Advocacy services should be available to help people successfully claim appropriate benefits?

Yes

Please explain why

Advocacy services are a key source of support for some of the most vulnerable in society. By making this type of support available at the outset of a claim, this may prevent the need for advice or advocacy at a later date if things go wrong. For example, earlier this year, figures released by the Department of Work and Pensions showed that 52 per cent of refused ESA applications are overturned on appeal. Whilst this is not a benefit that will be devolved to the new Scottish social security system, the example suggests that certain problems can be avoided if more support and information is available at the start of a claim.

What next steps would you recommend that would help the Scottish Government better understand the likely impact of the transfer of the devolved benefits on independent advocacy services?

As stated throughout our response, the introduction of a Scottish social security system may lead to an increase in demand for assistance. Advocacy services are unlikely to be exempt from this trend. Again, we would restate our recommendation that provision of services is reviewed in line with the areas where social security claims are most prevalent so that gaps in availability can be addressed. Advocacy services should also be supported towards the Scottish National Standards, particularly the Type II and III categories.

Section 17: Managing overpayments and debt

Could the existing arrangements for recovering social security overpayments be improved in the new Scottish social security system?

Our members report concerns that, under current arrangements, deductions in recovering certain benefits are initially proposed at the maximum rate by default with the onus on the claimant to contact the appropriate agency if this is unaffordable.

Before recovering overpayments, we would recommend that a person's income and expenditure is assessed to first ensure that the person has a socially acceptable living standard. If this test is not met, recovery of the overpayment should be suspended until the person is in the position to afford repayment. This process will also help to determine if the person has any debts or financial difficulties and could be referred on for further advice. Crucially, the recovery of overpayments should not in itself result in financial distress for the claimant.

What's more, we can anticipate a scenario where a change of circumstances could result in overpayments owed to both the UK Government and Scottish Government social security agencies. Again, this underlines the risks of applying automatic deductions to existing payments as this could represent a significant proportion of a person's income if both agencies pursue this method of recovery at the same time. To help avoid this, close and effective collaboration will be required so that a person with an overpayment does not experience further financial difficulty.

Even with the best intentions and principles in place, the introduction of a new social security service may in and of itself inadvertently increase the volume of overpayments as an individual may be unaccustomed to reporting to two or more distinct agencies. Again, this reiterates the requirement for effective communications to increase awareness of the changes to social security system in Scotland.

What are your views on the role that financial advice can play in the recovery of overpayments?

For the purposes of this answer, we interpret ‘financial advice’ to mean money or debt advice – financial advice typically refers to paid for advice via an independent financial adviser.

We welcome the recognition in the consultation document that people in receipt of benefits are already at risk of financial hardship and that this may be exacerbated when payments are reduced to recover an overpayment.

Recent analysis shows that people on low incomes are much more likely to be experiencing financial difficulties. During the consultation period, the Scottish Household Survey for 2015 was published and revealed that households relying mainly on benefits were the most likely to say they are not managing well financially (16 per cent). This compares to only seven per cent of households relying on earnings as the main source of income.

More and more clients are presenting to money advice agencies with debts relating to the cost of living such as utilities and council tax. This is perhaps unsurprising during a time of stagnating wage growth and the falling real value of benefits. The onset of rising inflation following the post-EU referendum drop in the value of the pound will stretch struggling household finances still further. In this context, the inability to repay an overpayment may also be an indicator of an underlying debt problem or financial difficulty and robust referral mechanisms should be set in place for referrals between the new Scottish social security agency and money advice services.

As well as referral procedures for money advice agencies, it may also be appropriate in some cases to refer individuals to financial capability providers. In recent years, greater focus has been placed on financial capability and financial education with the view of building up financial resilience and avoiding debt in the long-term. From our own experience as financial capability practitioners, we know that this is effective. The aim of providing assistance to people on low incomes also featured in the recent Fairer Scotland Action Plan with the pledge to

> develop a Financial Health Check service for people on low incomes to help them make the most of their money and to secure the best energy tariffs and access to bank accounts.

This pledge made specific reference to assisting older people in particular and our members agreed that this age group is often somewhat overlooked within the debate on advice and financial wellbeing more generally. Whilst it is important to recognise that the primary reason that people on low incomes struggle to manage money is itself a lack of sufficient income rather than a deficiency of knowledge or education, it remains important to provide these households with as much assistance as possible towards improving financial wellbeing.