moneyadvicescotland
Scotland's Money Charity

Manifesto 2017

Foreword

On 8 June, voters in Scotland will return to polling stations for the sixth time in three years following the announcement of a snap general election.

In the shadow of the vote to leave the European Union, it is perhaps inevitable that this campaign and subsequent parliament will be dominated by constitutional questions, yet it remains imperative that the challenges and difficulties facing households are not overlooked.

To help form the basis of our Manifesto 2017, we surveyed our membership for views on the issues that the next UK government should prioritise in the next parliament. Respondents included money advisers from local authorities, Citizens Advice bureaux, housing associations and other advice agencies. Money advice services are so often a bellwether for emerging issues and policymakers will benefit immeasurably from drawing on this knowledge and experience.

The outlook for consumers in the coming years remains a disconcerting one. Personal borrowing continues to escalate to levels last seen in the run-up to the financial crisis. Total outstanding consumer credit presently stands at £197.4bn — if we use the last general election as a yardstick, this is the equivalent to £23m in additional consumer borrowing each and every day since May 2015. This figure does not include mortgage debt or student loans.

At the same time, rising inflation is starting to bite as low income households are faced with ever more difficult decisions on how to balance limited resources. Bank of England Governor Mark Carney has warned that it is going to get difficult for those on the lowest incomes as we move from zero inflation to some inflation and this reflects what advice agencies are currently experiencing.

More and more people within the money advice sector already attest to the growing prevalence of debts that are directly related to living costs: people who are borrowing not out of recklessness, profligacy or due to a lack of financial capability, but borrowing because their level of income cannot sustain a socially acceptable standard of living.

Over the course of the last 12 months, the plight of the just about managing households (or the JAMs) has been well documented. That said, our members are far more likely to encounter people who are not managing at all — the lowest income households, for whom rising inflation must also be reconciled alongside stagnating wages and the falling value of benefits payments. All considered, it's easy to see how this cocktail of factors could stretch household budgets to breaking point.

Our Manifesto 2017 sets out how we believe the next UK Government can best act to improve living standards, tackle the poverty premium, enhance levels of consumer protection and ensure that people who are financially excluded can access essential services.

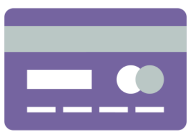
These are the factors that so often determine whether a person will experience financial difficulty. In our view, the next UK government must make these policy areas a priority over the course of the next parliament to improve financial wellbeing for consumers across these islands.

David Hilferty

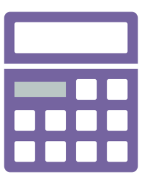
Executive Officer (Policy and Support)

Address the squeeze on living standards

Over the past decade, real earnings have grown at the slowest rate since the mid-19th Century



Consumer credit continues to rise towards pre-recession peak levels and now stands at £197.4bn



Money Advice Service note that a person is more likely to be over-indebted if their income is <£10,000 – well below the Minimum Income Standard of £17,100 for a single person

According to the Institute for Fiscal Studies, real income growth is 10% lower than might have been expected before the recession. Moreover, young people are more acutely affected – incomes for the 22 to 30 year-old age group are only now recovering to 2007–08 levels.[1]

Money advisers consistently point to low incomes as a primary trigger for financial difficulty and there are few more effective barriers to indebtedness than a level of income that is socially acceptable in the first instance.

Alongside this contraction in real incomes, over 910,000 people in the UK are now employed on zero hour contracts – a record number and one which underlines the insecurity of the modern labour market. The rise of the gig economy may also bring implications for long-term financial security with the Work and Pensions Committee recently noting that "levels of retirement saving amongst the self-employed risk storing up grave problems of potential hardship and reliance on the welfare state in later life."[2]

As the squeeze on living standards persists, consumer credit continues to escalate to levels last seen in the run up to the financial crisis. Again, our members point to the growing prevalence of people who are borrowing to live. This cocktail of stagnating incomes, insecure employment and rising borrowing to meet basic living costs means that improving living standards to protect people from financial difficulty must be a priority for the next government.

A central pillar within the money advice process is the financial statement used to calculate a person's repayments – effectively an income and expenditure form with limits on what a person can spend across certain categories.

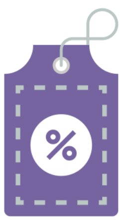
However, these limits (set by Money Advice Trust's Common Financial Statement and Money Advice Service's Standard Financial Statement) are based on the spending patterns of the bottom income quintile, rather than on a recognition of what constitutes a socially acceptable living standard. A person might get into debt because they cannot meet their basic living costs, but when they get advice and agree a solution, they can then be put back in a scenario where they are living below a minimum income standard.

We call on the next UK government to:

- Commit to a true living wage that reflects a socially acceptable living standard
- Ensure that the welfare system (and particularly Universal Credit) is responsive to the growing insecurity of work – both in terms of immediate impact and long term financial wellbeing
- Undertake an urgent review of the unabating rise in consumer borrowing
- Ensure that people who are repaying debts do not fall below a socially acceptable living standard by incorporating this methodology within the financial statement

Commit to eliminating the poverty premium

Nearly one million people across the UK are now employed on zero hour contracts



A household which is "highly exposed" can incur a poverty premium of up to £1860 each year

Inflation is currently at a four year high of 2.7% and is rising faster than wages (2.3%)

The poverty premium refers to the extra costs that people on the lowest incomes face when accessing essential goods and services. Research from Bristol University suggests that a "very highly exposed" household – that is one that uses prepayment meters and depends on high-cost credit, for example – incurs a poverty premium of around £1,860 per year.[3]

The extra costs incurred through the poverty premium mean that people on low incomes are more likely to borrow to make ends meet, but it also ensures that it is still more difficult to repay existing debts.

A recent research paper from Toynbee Hall suggests that an average debt client could be debt-free seven years earlier if their current poverty premium was diverted to paying off their debt.[4]

Energy bills form a significant part of the poverty premium. A prepayment meter user will pay an average of £220 per year more than a direct debit customer. The recurring recommendation that these consumers simply switch to another supplier or payment method is naïve – this overlooks the cost of removing and replacing meters as well as the enhanced control that PPM consumers often find preferable.

Consumers are encouraged to take control in almost every other aspect of their finances, but can be penalised for doing so in terms of energy use. Whilst the move to smart meters may mitigate this premium, more action is required now in the context of rising costs and stagnating incomes.

The number of consumers for whom direct debit is an unsuitable payment method may yet grow as employment patterns continue to shift dramatically with the growth of the gig economy and the unrelenting increase of workers on zero hour contracts.

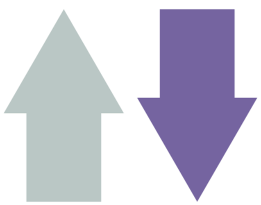
As incomes become increasingly volatile, adequate payment systems must be put in place to ensure that people in insecure and precarious employment are not hit with extra costs when accessing the essential services that the rest of us can take for granted.

We call on the next UK government to:

- Provide the new public financial guidance body with a stated objective to tackle the poverty premium
- Introduce additional protections for energy customers – particularly PPM users – and put more responsibility on suppliers to ensure that customers are not paying over the odds for utility bills
- Review the current limitations of the direct debit system and introduce a flexible payments system that works for the changing labour market

Improve levels of protection for consumers

The Consumer Finance Association report a 70% drop in pay day loan volumes since the HCSTC price cap



The number of Protected Trust Deeds increased by 6.1% in the last year. Approved applications to the Debt Arrangement Scheme declined by 50.9% over the same period

The most income deprived areas in Scotland are 5 times more likely to host gambling businesses as the least income deprived

In recent years, much of the debate around public financial guidance has centred around raising the low levels of financial capability and knowledge amongst consumers in the UK. That said, consumers should not have to be financial experts to ensure that they are not exposed to detriment and robust protections must be set in place.

The high-cost short term credit (HCSTC) price cap has proven an effective intervention in protecting consumers with our members noting a significant drop-off in the number of client presenting with these debts. Analysis from the Consumer Finance Association estimated a 70 per cent drop in this type of lending under the new regulations.[5]

Nonetheless, the FCA's Chief Executive, Andrew Bailey, has referred to the prospect of a “waterbed effect” whereby pushing down on one part of the problem leads to the creation of new problems elsewhere. Our members note an increase in clients presenting with other types of high-cost credit such as doorstep lending, rent-to-own and logbook loans.

Whilst debt and insolvency options are devolved responsibilities in Scotland, part of the regulation is overseen on a UK wide basis. We are concerned about the growing number of people in debt options – particularly Protected Trust Deed – when other solutions may be more suitable. Much of this is driven by lead generators and this practice requires closer scrutiny.

Even out with financial products, consumers are exposed to other dangerous products that can harm financial wellbeing. A recent run of stories on high-profile footballers highlights the financial consequences of gambling addiction, but the impact is often felt most acutely by people on low incomes.

More than one in five of Scotland's most income deprived accessible communities have gambling businesses within them. This compares to around one in 14 of Scotland's least income deprived communities. In Glasgow, the most deprived communities are nearly five times as likely to host gambling businesses as the least income deprived communities.[6]

Money advisers report an increase in gambling-related debt as the industry evolves into a relentless 24/7 marketplace fuelled by pervasive advertising campaigns. Consumers require extra protection during this shift with our members voicing specific concerns around both the younger generation and people who are socially isolated such as carers.

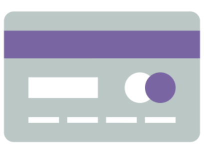
We call on the next UK government to:

- Extend the price cap to further types of high cost credit such as doorstep lending, rent-to-own and logbook loans
- Crack down on lead generators in response to the increasing number of people in unsuitable debt repayment options
- Introduce a gambling levy that is reinvested in education and treatment
- Take action to mitigate the proliferation of betting shops and pervasive marketing

Financial products that work for everyone

Households are saving just 3.3% of their disposable income – the lowest ratio since records began in 1963

1 in 10 people in deprived communities in Scotland have no access to a bank or building society account



In the UK, there are 65m active current accounts

A central part of financial inclusion is ensuring that everyone can access essential financial services. In Scotland, the number of people with a bank or building society account declined slightly according to the latest Scottish Households Survey. Households in the 20 per cent most deprived areas of Scotland are also less likely to have a bank account than the rest of Scotland (90 per cent compared to 94 per cent).[7]

Basic bank accounts offer access to direct debit and standing order facilities, but unlike current accounts, are free from all charges. The right to a basic account is provided under the European Parliament's Payment Accounts Directive, however, a lack of awareness means that the people who would benefit from this product are continuing to miss out.

Basic bank accounts protect consumers from unfair charges, but more also needs to be done to protect customers with current accounts. At a recent consultation event, Money Advice Scotland members noted that almost every client now reports overdraft debt and this underlines the case for greater protection from unfair interest and charges.

Across the UK, households are saving a smaller proportion of disposable income than at any time since records began in 1963. The household saving ratio is at just 3.3 per cent with the Bank of England forecasting that this will fall still further as inflation starts to bite.

The forthcoming Help to Save scheme offers an incentive to save via a 50 per cent government bonus. More still needs to be done to help people on low incomes save with far more development presently focused on products such as the Help to Buy ISA and the Lifetime ISA – products aimed at people who may already be managing quite well, rather than not managing at all.

We call on the next UK government to:

- Review the uptake of basic bank accounts to make it as simple as possible for those eligible but currently financially excluded to access this essential service
- Introduce a real cap on overdraft charges
- Extend the Help to Save scheme to low income households and adopt an auto enrolment type model

References

[1] Institute for Fiscal Studies, Incomes and inequality: the last decade and the next parliament, May 2017

[2] House of Commons Work and Pensions Committee, Self-employment and the gig economy, April 2017

[3] University of Bristol Personal Finance Research Centre, Paying to be poor: Understanding the scale and nature of the poverty premium, November 2016

[4] Toynbee Hall, The effect of the poverty premium on debt advice service users, December 2016

[5] Consumer Finance Association, Credit 2.0: A commentary on borrowing and spending in the 21st century, July 2015

[6] Scottish Parliament Information Centre, Gambling in Scotland, December 2014

[7] Scottish Government, Scotland's People Annual Report: Results from the 2015 Scottish Household Survey, September 2016

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