moneyadvicescotland

Scotland's Money Charity

MANIFESTO 2016

Our objectives

1. Leading and improving the education, training and qualifications of money advisers in Scotland

2. Leading and improving the financial health and wellbeing of the people of Scotland

3. Leading and improving public and social policy in Scotland

Foreword

In May 2016, voters will go to the polls in Scotland to elect the next Scottish Government.

With more powers coming to the Scottish Parliament, there can be little doubt that the next Scottish Government will be the most powerful and influential since its inception in 1999. This manifesto sets out how Money Advice Scotland and its members believe the next Scottish Government could best use its remit to improve the financial wellbeing of the people of Scotland.

Opportunities will, of course, be tempered by considerable challenges. The 2016 Scottish Parliament election takes place amidst a backdrop of uncertainty. Growth is returning to the economy – albeit at a slower pace than forecast – and perhaps a more pertinent consideration is who exactly is experiencing the benefits of recovery?

The latest Office for Budget Responsibility outlook that the household debt to income ratio will continue to rise steadily is also met with concern by many in the money advice sector and adds to existing fears that people are borrowing to meet basic living costs.

To help prepare our very first manifesto, we conducted a survey of our membership, staff and Council of Management to form the basis of our response. More debt will likely mean more work for money advisers and that is why these views are so important.

The quotes featured throughout this manifesto are taken directly from our members and provide an invaluable snapshot into the concerns of advisers working on the frontline.

We are grateful for these thoughtful contributions that covered a broad spectrum of policy areas and concerns. This serves as a reminder that the decisions we take about our money affect every aspect of our lives and often in ways that we might not expect.

Amongst our membership, it is both understandable and unsurprising that the funding of debt advice and financial capability resources is a universal concern. The abolition of the Money Advice Service announced in the UK Government's 2016 Budget also raises more questions than answers in how debt advice will continue to be funded in Scotland and throughout the UK.

In the last five years, the principle of financial capability was enshrined in legislation. As part of the Bankruptcy and Debt Advice (Scotland) Act 2014, a debtor is now required to undertake financial education under certain circumstances. That set a benchmark in acknowledging that prevention in the long-run can be more effective than attempts to find a cure in times of crisis. This was another recurring theme in the responses to our membership survey and we hope that the next Scottish Government will also remain cognisant of this in the years ahead.

As an umbrella organisation with over 27 years of experience in the sector, we are well accustomed to dealing with change and look forward to the next five years with optimism.

In all of this our mission remains the same – to be the driving force towards financial wellbeing for the people of Scotland.

Yvonne MacDermid OBE

Chief Executive, Money Advice Scotland

Executive Summary

1. We call on the next Scottish Government to make long-term core funding for debt advice a priority in the next Parliament.

2. We call on the next Scottish Government to embed the delivery of financial education by third sector groups in the Curriculum for Excellence.

3. We urge the next Scottish Government to work to find a better balance between the interests of creditors and the impact on debtors.

4. We urge the next Scottish Government to put financial inclusion at the heart of its attempts to address poverty and inequality.

Funding

Our membership, staff and Council of Management were unanimous in responding to our survey with concerns about the funding of money and debt advice services.

At local government level, in particular, job insecurity affects the service that advisers are able to offer to clients. A respondent noted that the mental health of money advisers may also be put under strain in the attempts to balance more clients with less resources.

As local government capacity is reduced, this will also add pressure to third sector agencies. In certain areas of Scotland, free advice is only available via local authority providers. Equally, in some local authority areas, the third sector is the sole provider. If provision is reduced, indebted people may have nowhere else to go.

> "Clients need input over a number of months as a minimum and are often left high and dry if the project comes to an end mid-way through sorting out their problems"

Annual or biannual funding agreements can also have the effect of undervaluing the work of advisers. A person with mental health problems is five times more likely to be in crisis debt. The wider benefits to society of free and impartial advice for those with problem debt are therefore resoundingly clear.

Debt problems that are often years in the making can take an equally significant time to unravel and resolve. Our membership noted that you can be close to reaching a solution only to find that funding expires and the client is left in what is described as a "limbo" situation.

We know, too, that more and more people are taking on debt. The reasons behind this are wide-ranging but concerns continue to grow that people are borrowing to merely sustain an adequate living standard. **Our respondents agreed that the next Scottish Government should do more to help understand the underlying causes of debt.**

When a person faces up to debt problems and reaches out for help, it is also crucial that the advice they receive is of a high quality. **We call on the next Scottish Government to support money advice agencies to work towards the Scottish National Standards.**

Old habits die hard and even after the deepest economic recession in living memory and the slowest recovery since the 1930s, more and more people are still turning to debt.

Data from the Bank of England shows that consumer credit debt is rising at a faster rate than at any time since June 2005.[1] Again, this would suggest that the services of money advisers will be in even greater demand in the years ahead.

The need for debt advice is not a temporary episode. All indicators tell us that some people will always take on more debt than they can afford and will subsequently need somewhere to turn when things go wrong.

We call on the next Scottish Government to make long-term core funding for debt advice a priority in the next Parliament.

This should also encompass longer term funding for training and second tier support for debt advisers to ensure that the service offered to debtors is of a high quality.

In the view of our members, this will provide security and stability for advisers as well as providing assurance for indebted people that there will always be somewhere to turn to for help in times of crisis.

Financial capability

Financial capability is emerging on the policy agenda at a time when personal debt continues to climb towards pre-recession peak levels and savings fall to levels not seen since 1963.[2] Worryingly, the recently published Financial Capability Strategy for Scotland also noted, however, that financial capability levels continue to be “frustratingly low.”[3]

More than three quarters of respondents to our survey were of the view that **improving the financial capability of consumers should be a priority for the next Scottish Government.**

> “Prevention is better than cure. A focus on lifelong financial education from school onwards should be a priority for our national strategy”

For no age group is financial capability more pertinent than for young people. Research from the Money Advice Service suggests that attitudes to money are set by the time a child reaches the age of seven.[4] This underlines the need for early intervention.

Young people growing up today will also have tougher decisions to make about their finances than any previous generation, with the Institute for Fiscal Studies finding that this generation will be poorer than their parents at every stage of their lives.[5] Most young people have grown up during an unprecedented period of low inflation and low interest, leading to concerns about how they will cope when prices start to rise and rates eventually increase. **In this environment, it will be important to impart sound financial capability skills and resilience in young people from an early age.**

The most recent Scottish Survey of Numeracy and Literacy shows that numeracy levels continue to fall across Scotland, and particularly for those living in the poorest communities. In P7, 53% of pupils in the most deprived data zones were performing well or very well in numeracy. By S2, only 25% of pupils in the most deprived data zones were performing well or very well in numeracy.[6]

Numeracy and financial capability are, of course, inextricably connected. That is reflected in the positioning of financial education in the Curriculum for Excellence under the broader category of ‘numeracy across learning.’

We know that teachers often do not have enough time available alongside existing workloads. A survey by the Educational Institute of Scotland found that teachers in Scotland are already currently working an additional 11 hours each week.[7] **In our view, this is where third-party organisations have a valuable role to play.**

The Scottish Government’s Evaluation of Financial Education in Scottish Primary and Secondary Schools also found that some teachers lack confidence in delivering financial education and would welcome any support that was available.[8]

We call on the next Scottish Government to embed the delivery of financial education by third sector groups in the Curriculum for Excellence.

The expertise that the third sector can offer in embedding financial capability in young people – be that via money advisers, credit unions, or other agencies – is without parallel.

This focus will help ensure that the next generation of young people in Scotland have the best chance possible of managing their money effectively and avoiding financial difficulties in future.

Debt

In recent years, the sector has witnessed a raft of changes in bankruptcy and debt legislation in Scotland, not least the consolidation bill that currently traverses its way through Parliament.[9] In the survey of our members, this subject generated the most responses.

A number of our members noted that the Debt Arrangement Scheme (DAS) has become cumbersome with applications declining in recent quarters. **We call on the next Scottish Government to consider the removal of 'all debts' within DAS.** This was a recurring point in the survey of our membership. At present, this can put off debtors and undermine the effectiveness of the individual's attempts to take responsibility for their debts.

We also urge the next Scottish Government to commit to ensuring that DAS remains separate and distinct from the consolidation of bankruptcy legislation. It remains our view that its inclusion would act as a further barrier to people who cannot access bankruptcy or protected trust deed because these are insolvency solutions that are precluded by certain types of employment.

Our respondents also called for the **scrapping of land attachment from the legislation.** Whilst this has not been commenced as yet, this form of diligence is widely considered to be excessive when other options are already available.

> "Inflexible interpretation of rules surrounding the CFT can cause a bottleneck in applications and has put some clients off debt relief all together"

Many of our members were also concerned about the Common Financial Tool (CFT). At present, a person who enters into a statutory debt solution must first complete the CFT, effectively a calculation of what surplus income is available to pay towards the debt. If a client works overtime, however, 100 per cent of this income goes towards the debt. **We call on the next Scottish Government to review this policy which removes the incentive to earn additional income so that creditors and debtors alike lose out.**

The CFT system is set to be replaced by the new Standard Financial Statement (SFS) that is being developed by the Money Advice Service. Concerns have arisen in the development stages that the spending guidelines will be more stringent than the CFT. By basing guidelines on the spending behaviours of the bottom income quintile of the Living Costs and Food Survey – effectively the spending patterns of the poorest – then we are basing it on people who spend what they can afford, rather than what they need.

This, too, deserves review and **we urge the next Scottish Government to only adopt the new SFS when it is established that this will not result in a debtor falling below a socially acceptable living standard.**

Our respondents were generally concerned that some measures can still deter debtors from entering statutory solutions.

We urge the next Scottish Government to work to find a better balance between the interests of creditors and the impact on debtors.

In the best case scenario, debt solutions should offer peace of mind to debtors and fair redress to creditors. This should be the aim of all involved in the sector, with government being no exception.

Financial inclusion

Across Scotland, people with the least continue to pay the most to access credit. If that was the case with any other service or product, this would justifiably attract considerably more opprobrium.

Yet as was borne out by the Carnegie UK Trust's *Gateway to Affordable Credit* report, the poorest members of society continue to be unable to borrow money through the same channels as the majority of the population.[10] Previous research also indicates that young people and those already in debt were more likely to turn to high cost short term credit.

> "The crackdown on payday lenders reduced the number of people coming to us with these debts, but you worry where they are going now instead"

Following changes to the FCA regulations on high cost short term loans, the Consumer Finance Association reported a 70 per cent drop in this type of lending.[11] However, there is no evidence to suggest that this has diminished the demand for fast, affordable credit for those on the lowest incomes. Concerns continue to grow that people are turning to exploitative illegal lenders.

To address the needs of those who are on low incomes, **we call on the next Scottish Government to establish an independent centre for financial inclusion.** This centre would promote impartial free advice and signpost people towards basic bank accounts, affordable credit and ethical lenders such as credit unions and community development finance institutions. Such a measure would also contribute towards tackling the poverty premium.

Certain communities also find it harder to access basic financial services and products. Research from the Money Advice Service indicates that people in the BME population also 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.[12] **The next Scottish Government should work to ensure that the specific needs of BME groups are adequately recognised and addressed.**

In Scotland, the links between over-indebtedness and inequality are clear. The Scottish Households Survey shows that the areas where educational attainment is at its lowest and deprivation at its most pronounced are the same areas where people are coping least well financially.

We urge the next Scottish Government to put financial inclusion at the heart of its attempts to address poverty and inequality.

Our membership is of the view that addressing the gaps in financial inclusion should be central to the future anti-poverty agenda.

The debate on tackling inequality is typically focused on the health, social and education disparities that are riven throughout our society. In our view, it is important to recognise that financial exclusion is also a kind of inequality that, left unchecked, will continue to inflict extra costs on the poorest.

References

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[2] Office for National Statistics, UK Household Saving Ratio, 2016

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

[6] Scottish Government, Scottish Survey of Literacy and Numeracy 2013

[7] Educational Institute of Scotland, *Teachers and Lecturers Job Satisfaction and Wellbeing Survey*, April 2014

[8] Scottish Government, *Evaluation of Financial Education Scottish Primary and Secondary Schools*, 2009

[9] Read our response to the consultation here http://www.moneyadvicescotland.org.uk/content/consultations

[10] Carnegie UK Trust, *Gateway to Affordable Credit*, 2016

[11] Consumer Finance Association, *Credit 2.0*, July 2015

[12] Joseph Rowntree Foundation, *Poverty and ethnicity: key messages for Scotland*, January 2016

[13] Scottish Government, Scottish Survey of Literacy and Numeracy 2013 (Numeracy); Scottish Index of Multiple Deprivation 2012

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