Consultation Response

StepChange Debt Charity response to Money Advice Service consultation on: The Standard Financial Statement

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We are an independent charity dedicated to overcoming problem debt. Our advice and solutions are effective, tailored and importantly, free. Foundation for Credit Counselling. Wade House, Merrion Centre, Leeds LS2 8NG. Company No 2757055. Charity No 1016630. www.stepchange.org

Introduction

StepChange Debt Charity welcomes this opportunity to respond to the Money Advice Service consultation on the *Standard Financial Statement.* StepChange Debt Charity is the largest specialist debt advice charity operating in all four UK nations. In 2013 over 500,000 people contacted our free telephone helpline or online debt remedy tool for advice and support about problem debt.

We believe our detailed experience in budgeting guidance, debt advice and helping people make payments to their creditors makes us well placed to comment on the issues raised in this consultation. Our comments follow on from our participation in the working group discussions prior to the consultation.

Question 1: Do you have any comments about the income and expenditure headings and categories?

StepChange Debt Charity broadly agrees with the income and expenditure headings and categories set out in Annex 3 as these closely match the existing headings we have developed through 20 years' experience of supporting our clients with budgeting advice.

Therefore our comments relate more to the format of the Standard Financial Statement than to the content of the categories. We make some specific observations on format in our response to question four.

Here we set out comments on two important issues not raised elsewhere in the consultation questions:

- Standardisation of long form detailed budgets and
- The use of trigger figures by advisers

We question the need for a standardised long form detailed budget. The headings and categories are not significantly different from the budget already used by StepChange Debt Charity advisers and changing to a new format will add no significant benefits while adding extra costs.

We do not see any benefit to our clients from sending out the proposed standard long form budget. The proposed standard long form budget takes up six pages where our current budget is contained concisely and usefully for our clients in one page While the standardised long form budget may prove to be a useful tool in some face to face and self-help advice processes it does not add any value to the existing phone and internet process of budget advice and data capture used by StepChange Debt Charity. We believe that a longer and more complicated budget format will be less useful as a tool to help people organise their household money than our existing client budget.

We would question whether there is a need or role for a Standard Financial Statement process to prescribe how debt advice organisations communicate with their clients, as this is covered by Financial Conduct Authority rules. The Money Advice Service quality assurance framework does have a role in ensuring that debt advice organisations use budgets that are fit for purpose, but that is not the same thing as detailed prescription of content.

It is not clear from the consultation whether advice agencies will be required to forward the long form budget to creditors, although the current format suggests this. We do not see any value in requiring advice agencies to send copies of the long form budget to creditors. Given that creditors are asked to accept offers where flexible expenditure is within the trigger figures, we believe that such a requirement would be significant step backwards. The main point of a standardised financial statement process is to agree that acceptance of offers need not be conditional on scrutiny of detailed budget information.

In contrast StepChange Debt Charity strongly supports standardisation of the short form financial statement that would be sent to creditors **after** the advice process has determined a recommended course of action in accordance with best advice principles and the client's stated wishes. This will aid transparency and ease of administration for creditors.

We also question the assumption that standardising the format of the long form budget will have any significant effect on advice quality or consistency. While we agree that there is a need to ensure that the budgets currently used by debt advice agencies are fit for purpose, we do not believe that income and expenditure categories and headings are the issue here as most debt advisers will use very similar budget sheets.

Instead the way advisers approach budget counselling and in particular the flexible expenditure categories (trigger figures) are likely to have a much more significant impact on consistency and quality.

For instance, if an adviser counsels their clients to include flexible expenditure up to the trigger point in each case, there may be an impact on the debt solution options available to clients of that adviser. Conversely, cutting expenditure back to the trigger figures when there is a reasonable need for higher expenditure could create unsustainable debt repayments and ineffective debt solutions. At the centre of the debt advice process is the need to give people a budget that reflects what they actually need to spend as a useful money management tool. If the triggers are used as allowances the budget sheet may not achieve this.

The point here is to highlight that the Standard Financial Statement is not a substitute for the core debt advice skills and standards that are the key to the quality and consistency of debt advice.

The Income and Expenditure Working Group discussed at length the importance of ensuring advisers understand that the trigger figures should not be used as a set of 'allowances' in budgets. The Working Group agreed that the Standard Financial Statement must send a clear message to advisers that good practice means constructing a budget around the values that a client gives for their spending needs.

But the guidance for advisers in Annex One is currently silent on this point. It says nothing about good practice in constructing client budgets or how the trigger figures should be used. Conversely the guidance only mentions discussing spending levels where expenditure exceeds the trigger figures. This implies a role for trigger figures that is at odds with the Working Group discussions. We would ask the Money Advice Service to reword the good practice guidance for advisers to clarify this point.

The trigger figures have been developed to set an agreed level of discretionary or flexible expenditure which creditors should not ***require*** people to go below in order to

make debt repayments. They are not designed to overdetermine the debt solutions that might be available in line with best advice principles and a client's stated wishes.

It may well be that a regulator may wish to establish an income or expenditure line below which debt repayment remedies are not to be considered suitable or sustainable long term remedies. Indeed StepChange would support such an initiative. But the trigger figures are not that line. Debt advice needs a range of possibilities between what creditors ought to accept and what our clients - advised according to advice principles and standards - might offer. The Standard Financial Statement guidance for advisers needs to make this explicitly clear.

Finally we would point out that the Standard Financial Statement is likely to be used as the basis for income and expenditure calculations for statutory insolvency remedies across the UK nations. The adviser good practice guidance tells advisers to provide an explanation for creditors where there is a good reason for exceeding a trigger figure that cannot be avoided. However it is not clear how the equivalent of an explanatory note would work in legislation and practice around statutory debt remedies. There is a need to ensure that people are not denied access to an otherwise suitable debt remedy because of expenditure above a trigger figure when this is reasonable

Question 2: Do you have any comments about the savings category and our proposal for the way in which the savings amount is calculated?

StepChange Debt Charity welcomes the proposals to include a savings element in the Standard Financial Statement. As UK's largest charitable provider of debt management plans (DMPs) we know that people recovering from problem debt will meet unexpected expenditures from time to time.

These can sometimes be dealt with through flexibility in DMP payments. But an ability to build precautionary savings gives more certainty, for larger unexpected expenditures in particular. Forthcoming research commissioned by StepChange Debt Charity also shows that holding precautionary savings can significantly reduce the odds of falling into problem debt. So encouraging a savings habit may also have longer term benefits for future financial planning and reducing the risk of future debt problems.

A key point here will be ensuring wide ranging buy-in from creditors to the concept of people on debt management plans building up precautionary savings.

That said, StepChange Debt Charity would raise three questions about the savings element of the Standard Financial Statement that are not covered in the current consultation.

Firstly the summary version of the Standard Financial Statement and the text of paragraph 2.4 suggest that the savings element would be included as a fixed cost before any disposable income is established for priority debt repayment. This cannot be the case. It makes absolutely no sense for someone to make provision for savings and not deal with (say) rent or mortgage arrears that could otherwise lead to eviction. We believe that the guidance and format of the summary statement should be amended to ensure clarity on this point.

Secondly we would ask for clarification that the proposed savings level of 10 per cent of available income works as a trigger figure rather than an allowance. In other words, creditors should commit to accepting offers based on a financial statement with up to 10 per cent of (post priority debt repayment) income being saved rather than available for non-priority debt repayment. But people submitting offers to creditors should not be compelled to accrue savings at that rate.

Different people may prioritise building precautionary savings and accessing a viable debt solution option in different ways, depending on their circumstances and immediate needs. So we would ask the Money Advice Service to ensure that guidance on this point highlights the need to consider the savings level flexibly in the context of overall need.

Thirdly we would also ask the Money Advice Service to consider whether there should be a maximum savings limit after which people might be better off making increased payments to clear their debts quicker. Our savings research found that the relationship between precautionary savings and reduced debt risk is subject to diminishing returns – after a certain point, additional savings deliver little extra protection against debt.

This suggests that a savings target might make more sense than an open ended savings provision from income. Or that the balance between savings and debt repayment might change once a certain amount of savings has accrued. The Money Advice Service might also consider including a monthly savings ceiling of say £50, rather than a flat proportion of available income for the relatively few people with a budget surplus over £500 per month

Of course, for many people seeking debt advice the savings element may never be enough to reach this target. But we would welcome the opportunity to discuss this further with the Money Advice Service to inform thinking in this area.

We agree with the proposal that a Standard Financial Statement would not normally require an amount for savings where this would be less than £10 per month.

Question 3: Do you have any comments about the spending guidelines methodology?

StepChange Debt Charity would make the following points:

- The choice of the four flexible speeding categories for trigger figures seems reasonable.
- Has the Money Advice Service benchmarked the trigger figures against any other income or expenditure standards to ensure they are adequate and sustainable?
- What is the basis to adjust (equivalence) expenditure for different household types?
- Who will 'own' the Standard Financial Statement and take responsibility for updating the trigger figures?
- The consultation paper states that the trigger figures will not be made publically available. We would ask how this would work for on-line self-help debt advice tools (for instance) where the trigger figures would need to be transparent to users. We are mindful that Financial Conduct Authority rules on communications to clients require debt advice agencies to ensure

communications to clients are clear, fair and not misleading. The FCA rules in CONC 3 specifically highlight the need for debt advice providers to ensure that a communication does not hide or obscure important information and to consider whether the omission of any information could lead to unclear or misleading information. CONC 8 also requires debt advice agencies to ensure clients receive sufficient information on available options and explain the reasons why options are considered suitable or unsuitable.

- We would also ask whether this decision might limit the potential beneficial impact of the Standard Financial Statement methodology on other regulatory or legislative processes that seek to determine reasonable creditor behaviour on accepting repayment proposals.

Question 4: Do you have any comments about the format?

As stated above, StepChange Debt Charity would not support a requirement for advice agencies to use the proposed long form budget. However we have the following brief comments on the layout and format of the long form budget:

- The tick box to on assets could be misleading that that it asks two questions in one. It firstly asks a person whether they have any assets, but gives no facility to list any assets a person does hold. Secondly it asks people to confirm that they have no assets that could be used to make lump sum payments. This is a different question that is likely to require a discussion with an adviser about those assets before it can be answered. A person might have assets but not know if they can be realised, or not understand how realising assets may affect for their options for dealing with their debts. If the detailed budget is primarily designed to help an adviser fact find, then more detail on assets might be needed.
- It is not clear why details such as date of birth or employment status are included on the detailed budget, as these would be picked up during a debt adviser's interview with a client.
- It is not clear why the number of vehicles in the household is to be recorded given that transport is no longer a flexible spending category.
- We are not sure what the 'licence number (licence holders) refers to
- There is nowhere on the long form budget to list information about priority and non-priority debts

We have the following comments on the summary statement:

- We are not clear why the information point listed above are also required on the summary statement
- The order that information presented in the statement is confusing. Income and expenditure should be shown together on one page, so the reader can clearly see the surplus money available for creditors and how this has been derived. This does not appear to be shown anywhere on the current summary statement. Then payments for priority creditors and non-priority creditors should be shown together. The current format with some expenditure on one page, then more expenditure, income and creditor payments on another page is not clear and looks confused.
- We are not clear what the payments section is for, given that this can be totalled for priority and non-priority debts.

- It is not clear why the fixed cost items are expanded to detailed budget lines, while the flexible costs items (that need explaining if the trigger figures are exceeded) are collapsed to a single budget line for each.
- It is not clear whether the column 'owed' in priority creditors would apply to the balance outstanding or the arrears. Both these bits of information might need to be shown.

Finally we have the following brief comments on the guidance and principles set out in the consultation:

- As stated in our response to question one, we are concerned that the adviser good practice guidance (Annex one) does not tell advisers how to integrate the trigger figures into their budgeting advice. Specifically it does not direct advisers that the trigger figures are not an allowance. More guidance is needed here to achieve any progress towards consistency.
- The first bullet point raises the possibility that a creditor may reasonably refuse an offer that is not compliant with the Standard Financial Statement. Would this only be the case where an adviser uses an out of date statement, or does this open the possibility to creditors objecting to other smaller perceived instances of non-compliance?
- Point three of the guidance requires advisers to take reasonable steps to verify income and regular outgoings. This is repeated in the principles. But there is no attempt to define what might be considered reasonable, raising the possibility of disputes over adequate verification.
- More generally, the guidance expands beyond the statement itself into more general areas of advice practice which are beyond the scope and competence of the document. These points could perhaps be better made as part of the debt advice quality framework.

Question 5: Do you have any comments about the timescales?

StepChange Debt Charity does not believe that we can realistically integrate the Standard Financial Statement into our systems until the start of 2016. We are already committed to a programme of service development in 2015 to benefit our clients and improve the efficiency of our services even further. We will also be fully focused on preparing our application to the Financial Conduct Authority for authorisation.

As a result we do not have free resources for a new systems project introduced this late into the planning cycle for next year. Unless the Money Advice Service can support us with new resources to make the necessary systems changes we would ask that a new achievable implementation date is set for early 2016.

Also we would point out that that as a result of legislation by the Scottish Government; the Accountancy in Bankruptcy is also introducing a new prescribed method for assessing income, expenditure and surpluses for debt repayment in respect of Scottish debt remedies.

This directs advisers to use the Common Financial Statement from April 2015 for all assessments for relevant Scottish debt remedies. However if the Standard Financial Statement were to commence in July 2015, we would need to change our working practices for three months to use the Common Financial Statement only to possibly

change them again to use the Standard Financial Statement when it comes into force for statutory debt remedies in Scotland.

The will put an unnecessary strain on our service in Scotland. It now seems unlikely that the Standard Financial Statement can be implemented in Scotland in time for the April change over. Therefore we would ask the Money Advice service to consider postponing implementation in Scotland to avoid two major practice changes in a short period. Again, we would suggest early 2016 for implementation in Scotland.