



# **Future of the Common Financial Tool Consultation 2017**

# Future of the Common Financial Tool – Consultation 2017

## Introduction

1. There have been significant reforms to Scottish statutory debt solutions in recent years following on from a wide-ranging consultation conducted in 2012/13. The Bankruptcy and Debt Advice (Scotland) Act 2014 (“the 2014 Act”) and associated Regulations, which came into force on 1 April 2015, implemented the bulk of these reforms, although other legislative changes have also been introduced in relation to the Debt Arrangement Scheme and for protected trust deeds. This legislative programme culminated in the consolidation and simplification of bankruptcy legislation and the commencement of The Bankruptcy (Scotland) Act 2016 (“the 2016 Act”) on 30 November 2016.
2. One of the key changes implemented from 1 April 2015 was the introduction of the Common Financial Tool (CFT) as a standardised method to assess the debtor’s income and expenditure to help establish the amount of the debtor’s contribution. The CFT was introduced - using a tool initially developed by the Money Advice Trust in 2002 - for use across all statutory debt solutions in Scotland to help ensure consistency and transparency.
3. While Scotland was the first part of the United Kingdom to adopt the concept of a CFT in legislation under-pinning debt solutions, further work has since been carried out to develop a Standard Financial Statement (SFS). The SFS is intended to provide a single format for assessing a debtor’s income and expenditure for all debt management and relief products across the whole of the UK. This will provide consistency and assurance for both the money advice sector and creditors that the debtor will be paying no more and no less than is appropriate towards their debts.
4. This work has been led by the Money Advice Service (MAS) in partnership with a governance group composed of debt advice organisations, creditors and other key stakeholders. Although many of these organisations have UK-wide remit, Scottish organisations on the governance group include Accountant in Bankruptcy (AiB), Citizens Advice Scotland and Money Advice Scotland. The primary purpose of the governance group is to ensure agreement with the principles, guidance, format and functions of the SFS.
5. All parties - creditors, debtors, insolvency practitioners and third sector money advisers - have recognised the value of adopting a standard income and expenditure tool. The intention is for the SFS to be used by government and private sector organisations across the UK.
6. The SFS was launched on 1 March 2017. The SFS figures are based on the [Living Costs and Food Surveys](#) (LCF) conducted by The Office for National Statistics throughout the year. The LCF collects information on spending patterns and the cost of living that reflect household budgets across the UK.

7. MAS is currently working with central and local governments and local authorities in order to promote the wider use of the SFS across the UK. A significant number of organisations have already committed to using the SFS including major banks, Scottish local authorities, Scottish free-to-client advice service providers and the Insolvency Service.

The full list of SFS member organisations is on the [SFS website](#).

8. In Scotland, legislation currently prescribes the CFT as the Common Financial Statement (CFS). It is clear, therefore, that action would be required if a consistent and sustainable solution is to be applied across the UK.
9. AiB is carrying out this consultation to establish:
  1. Whether you agree that the SFS should be adopted as the CFT for all Scottish statutory debt management and debt relief solutions? and, if so
  2. Whether adoption of the SFS from 1 April 2018 will allow sufficient time for an orderly and effective transition?
10. We are inviting you to provide feedback on specific questions regarding the SFS (see Annex). Your responses will be analysed and used, along with a range of other available information and evidence, to determine the recommendations AiB will make to Scottish Ministers in the autumn.

## **Background**

11. The 2014 Act and The Common Financial Tool etc. (Scotland) Regulations 2014 introduced important changes to the process and operation of statutory debt solutions in Scotland. In particular, the CFT was adopted as the single mechanism for assessing a debtor's contribution in all of the available Scottish statutory debt solutions.
12. The policy aim of this legislation and the use of a single tool are to help achieve consistency and transparency in relation to the determination of the amount of contribution a debtor might pay if they are in a Scottish statutory debt solution.
13. During the consultation on bankruptcy reform, stakeholders were asked about the preferred option for the CFT. A majority of respondents expressed the view that the CFS, available under license from the Money Advice Trust (MAT), should be adopted. When the Scottish Parliament accepted that view, and passed Regulations adopting the CFS as the Scottish CFT, it also accepted there was no need for a specific Scottish tool – and a UK tool, such as the CFS, included the flexibility to fully reflect Scottish debtors' circumstances.
14. The launch of the SFS provides a new UK-wide option which was not available when the decision to adopt the CFS was made.

15. There are several advantages in using the same tool across the UK – and one endorsed by such a wide range of different organisations. These include:
- A single format for gathering income and expenditure information
  - A single set of spending guidelines
  - Increased efficiency in conducting reviews of spending guidelines
  - Consistency in the debt advice process for the consumer, advisers and creditors
  - Potential for more streamlining, system alignment and data sharing amongst organisations involved
16. All other things being equal, it can also be expected the SFS will, over time, replace all the other available tools used to assess debtors' incomes, expenditure and contributions. But there are two issues relevant in considering adoption of the SFS for Scottish statutory debt solutions:
- i) The likely impact on the income and expenditure calculation in changing the method of assessment from the CFS to the SFS; and
  - ii) The practicalities of changing systems and processes necessary to facilitate a change in tool

### **The Impact on Income and Expenditure Calculation**

17. Both the CFS and the SFS are only tools for use in assessing income and expenditure – they do not automatically determine what contribution the debtor should be required to pay. Applied appropriately, either tool should produce the same outcome.
18. AiB has been made aware of some concerns raised by the money advice community based on some early analysis comparing the CFS to SFS. In particular, this appeared to show an increase in excess income over expenditure figures in some cases. The early analysis showed a greater number of breaches of trigger figures, potentially resulting in higher contributions were expenditure to be capped at the trigger figure limits. But there should be no direct correlation between the level of the trigger figures and the level of the resulting contribution.
19. The Accountant is very clear that trigger figures are not and should not be seen as spending limits – and justifiable spending above trigger figures will be allowed whichever tool is used. The Accountant is equally clear that Scottish bankruptcy legislation is based on the principle that debtors who can pay either all of their debts or a contribution towards them, should do so – so unnecessary spending, even within trigger figures, should not be allowed under either tool.
20. It is acknowledged it is not always easy for debtors to provide evidence to support necessary spending above the trigger figure limit, so trigger figures can be perceived as spending limits. As the CFS and SFS spending categories differ, the trigger figures and the need to provide a rationale for

higher spending, will apply in different areas when using the SFS. However, the same basic principles will continue to apply and the role of money advisers and insolvency practitioners in assessing and evidencing a debtor's income and expenditure will remain the same whichever tool is in use.

## **Analysis**

21. AiB has conducted an initial and illustrative comparison exercise to determine any potential differences in debtor contributions were the CFS and SFS trigger figures treated as if they were limits. Following discussion with stakeholders, a specific comparison was also completed on the Housekeeping spending category within the SFS.
22. It must be emphasised the analysis did not give any consideration to the potential for evidence or acceptable explanations to justify any trigger breach. Further, it must be accepted that any exercise to model existing data and transpose to a new tool does place a caveat over the level of analytical assurance that can be expected.

The statistical analysis presentation and findings is on [AiB's website](#).

## **Practicalities**

23. Moving to a new tool requires both changes to systems and processes and training of those who have to use them. Within AiB, we are confident we will be able to adapt our systems and guidance notes to the use of the SFS before the proposed adoption date of 1 April 2018, provided the Scottish Parliament makes a final decision on going down this route by the end of the year, and we do not believe this will involve significant cost. Without detailed understanding of the systems and processes our key delivery partners and stakeholders use, we are not in a position to judge whether or not this time period would be sufficient for you to also make the necessary changes, and would welcome your views.
24. When the CFT was introduced, transitional arrangements were put in place to make the CFT the means for undertaking any future review of income and expenditure irrespective of whether the CFS was used for the initial calculation of the existing contribution. Similar arrangements would need to be agreed for any transition to the SFS and your views on these issues are sought in the questions set out in the Annex.
25. The SFS is not intended for the public to use and all organisations who wish to use the SFS must first [apply for](#) and receive a membership code number and agree to abide by the [SFS Code of Conduct](#).
26. MAS has a statutory responsibility to improve the quality, consistency and availability of debt advice services across the UK. To achieve this, MAS is collaborating with representatives from the debt advice and creditor sectors to ensure agreement with the principles, guidance, format and function of the SFS.

27. An SFS governance group was established when the SFS was being developed for the purpose of monitoring and contributing to the development of the SFS. AiB is a member of the governance group and we will represent the views of Scottish stakeholders for the Scottish statutory debt management and debt relief solutions.

### **The Alternative**

28. The Accountant considers the case for adopting the SFS is a strong one, and if this case is accepted, then the SFS should be adopted without undue delay. However, if the responses to this consultation show either moving to the SFS from the proposed date of 1 April 2018 would impose significant practical burdens on the stakeholder community, or Scottish stakeholders do not accept the case for adopting the SFS, then the default position is to continue with the status quo. One major draw-back in this approach is that it would result in a wider UK debt management system involving more than one tool – defeating the original policy intention behind the introduction of the CFT.
29. The Money Advice Trust has said it will maintain the availability of the CFS for as long as it takes those who use it to move to adopt the SFS, and they are aware of the additional time requirements that reflect the need for us to amend legislation. This means the status quo is an option for the short to medium term. If respondents to this consultation felt strongly that maintaining the CFS was a better option for the longer term than moving to the SFS, AiB would continue current discussions with the MAT to establish how that can be achieved.

### **Consultation Process**

30. Your views and suggestions will be analysed and used as part of any decision making process, along with a range of other information and evidence. If you would like your responses to be kept confidential, please tick the appropriate box at the end of this paper.
31. The responses to this consultation will be summarised and published on AiB's website and will also contribute towards AiB's decision on recommendations put to Ministers on the future of the CFT.

### **Your Feedback**

32. Your feedback is important to us – please take the time to answer the questions and send your response to AiB by 27 October 2017.

## Annex

### QUESTIONS

1. **Do you agree that the Standard Financial Statement (SFS) should be adopted in Scotland as the new Common Financial Tool?**

Yes

No X

Don't know

**If you answered 'No' to Q1 - please go to Q3**

2. **If introduced, should the SFS be used in the review of existing contributions which were not originally determined using the SFS?**

Yes

No X

**If you answered 'No' to Q2, what would be the appropriate method for reviewing the contribution amount?**

Answer: Any review of contributions should be done using the system that was in place at the time the contribution was originally agreed. As Money Advisers we are constantly working with our clients to improve their financial capability. We advocate making informed decisions about their finances and ensuring they are able to maintain agreed payments. To change the system under which they are reviewed, particularly to a system that appears to have less generous trigger figures and considerably more trigger figure breaches flies in the face of this.

**Please now go to Q5**

3. **For what reason(s) do you believe the SFS is not the appropriate tool for all Scottish statutory debt management and debt relief solutions?**

**Please provide information and any evidence that supports your reason(s).**

Answer: Firstly I do not believe that there is a strong case for adopting the SFS. I do not believe that there is a need for a single tool to be used across the UK. Scotland has different system of debt management and debt relief solutions therefore I fail to see the need for a single tool in relation to contributions.

I have huge concerns in relation to the increased number of trigger figure breaches and lower trigger figure limits. I would argue that the existing trigger figures are not generous; this coupled with the 100% of disposable income contribution can and does create financial hardship for clients. My concern is a move to the SFS would increase the likelihood of this.

As a money adviser working with clients whose income is often made up in part or wholly from state of benefits, I find the 100 % disposable income contributions to be

a disincentive to clients to move in to work, increase their working hours or in any way improve their financial situation. A move to SFS would mean a further disincentive as spending would have to remain extremely low to prevent trigger figure breaches.

I have further concerns that an increase in the number of trigger figure breaches would significantly increase the amount of evidence Money Advisers would need to collect and provide to AIB in a bid to demonstrate that expenditure is justifiable. This is already an extremely time consuming and difficult process. Any increase in this would further stretch an already overloaded Free Money Advice Service. This in turn could mean a longer wait for clients who are already struggling to access services.

Lastly, and perhaps my greatest concern is that the spending guidelines are not linked to living standards. They are linked to the bottom income quintile, the majority of who are state benefit recipients. I have worked as a Money Adviser for 12 years and in my experience those who rely on benefit income spend on food what they have left, not what they need to adequately feed their families. I think this is clearly demonstrated by the huge increase in food bank vouchers we are handing out to our clients.

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**4. What do you consider an appropriate method for determining a debtor's contribution for a Scottish statutory debt management and debt relief solution?**

**Please provide information and any evidence that supports this and detail who you consider should manage and fund this process.**

Answer: I would favour a system like that used by the Insolvency Service of Ireland. This is a system based on consensual budgeting. Equally I would advocate a system like the SFS or CFS if the 100% disposable income rule was removed and any spending guidelines were placed on a higher income quintile.

I feel that any system that is adopted should look seriously at whether or not a reasonable living standard can be achieved. I believe that this would benefit both my clients and their creditors as there would be an increase in the ability of the debtor to maintain the agreed payments. I also believe that any system that is adopted should be flexible enough to take account of regional variations in living costs. It should also allow for emergency and unexpected expenditure. If 100% of disposable income is used for contributions it does not allow any contingency for unexpected or emergency situations.

**5. If the SFS is to be introduced from 1 April 2018, will you be able to make any required changes to your IT and other operating systems, in time to use the SFS from this date?**

Yes  No X

I DO NOT SUPPORT THE INTRODUCTION OF THE SFS

**If you answered 'No' to Q5, how long after 1 April 2018 do you believe you will be ready to use the SFS?**

Up to 3 months  3 to 6 months  a longer period (Please specify) \_\_\_\_\_

## RESPONDENT INFORMATION FORM

Please note that this form must be returned with your response to ensure that we handle your response appropriately.

### 1. Name/Organisation

Organisation Name

Title Mr  Ms X  Mrs  Miss  Dr  *Please tick as appropriate*

Surname

Forename

### 2. Postal Address

<input type="text" value=""/>		
<input type="text" value=""/>		
<input type="text" value=""/>		
<input type="text" value=""/>		
Postcode	Phone	Email
<input type="text" value=""/>	<input type="text" value=""/>	<input type="text" value=""/>

### 3. Sector

*Please tick as appropriate*

Advice Sector

Creditor

Local Authority

Solicitors/Advocates

Insolvency Practitioners

Debtor

Sheriff Officer & Messenger at Arms

Judiciary

Other  If other please specify \_\_\_\_\_

#### 4. Permissions - I am responding as...

Individual

/ Group/Organisation

Please tick as appropriate

(a) Do you agree to your response being made available to the public (in Scottish Government library and/or on the Scottish

(b) Where confidentiality is not requested, we will make your responses available to the public on the following basis

**Please tick ONE of the following boxes**

Yes, make my response, name and address all available

or

Yes, make my response available, but not my name and address

or

Yes, make my response and name available, but not my address

(c) The name and address of your organisation **will be** made available to the public (in the Scottish Government library Are you content for your **response** to be made available?

**Please tick as appropriate**

Yes  No

(d) We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

**Please tick as appropriate**

Yes

Please return your response to [OPC@aib.gsi.gov.uk](mailto:OPC@aib.gsi.gov.uk) or to: Graeme Perry, AiB, 1 Pennyburn Road, Kilwinning, Ayrshire, KA13 6SA by 27 October 2017.