

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

Response from the Money Advice Service  
27 October 2017

## About us

- 1.1. The Money Advice Service (MAS) is a UK-wide, independent service set up by Government to improve people's ability to manage their financial affairs. Our free and impartial money advice is available online, and by phone or webchat.
- 1.2. We are responding to this consultation in light of our statutory role working with the debt advice sector, and our role in improving the financial capability of the UK.
- 1.3. Our statutory objectives are set out in the Financial Services Act 2010. In 2012<sup>1</sup>, we were also given responsibilities under statute to improve the availability, quality and consistency of debt advice across the UK. We are funded by a statutory levy on the financial services industry, raised by the Financial Conduct Authority.
- 1.4. As the statutory body for financial capability, MAS has led work with financial services firms, the third sector, government and regulators to develop the Financial Capability Strategy for the UK. This 10-year strategy aims to improve financial capability, giving people the ability, motivation and opportunity to make the most of their money.
- 1.5. The Financial Guidance and Claims Bill 2017 to make provision establishing a new financial guidance body was introduced in the House of Lords on 22 June 2017.

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<sup>1</sup> Financial Services Act 2012 <http://www.legislation.gov.uk/ukpga/2012/21/contents/enacted>

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

2.1 Yes, the Money Advice Service (MAS) supports the adoption of the Standard Financial Statement (SFS) in Scotland.

### Background

2.2 In November 2014 MAS ran a UK-wide public consultation on the need for a universal income and expenditure statement to replace the variety of approaches currently in use across financial services and the debt sector.

2.3 The consultation showed strong support for a standardised statement that would bring consistency for clients and creditors in the way that affordability is assessed.

2.4 Since the consultation MAS has been working with a broad governance group to develop the SFS, featuring expertise from the debt advice and creditor sectors around the UK, as well as a range of trade bodies and central and local government representatives. The AiB, Money Advice Scotland and Citizens Advice Scotland are all members of the governance group.

2.5 This collaborative approach has been crucial in reaching an agreed format and function of the SFS which reflects a diverse range of organisations and their respective customers.

### Adoption of the SFS

2.6 The SFS launched in March 2017 and there is now a range of organisations using the SFS or signed up as members of the SFS in anticipation of adopting the format.

- Over 1000 organisations have signed up for SFS membership, agreeing to the principles included in the SFS Code of Conduct and SFS user guidance<sup>2</sup>
- Over 150 organisations are now using the SFS format, including a large number of advice providers within the Advice UK network and many creditor and collections firms adhering to the new Pre-Action Protocol
- The SFS is now in use by UK-wide debt advice organisations National Debtline and PayPlan. Christians Against Poverty and StepChange will be live no later than mid-2018
- Citizens Advice in England and Wales and Citizens Advice Northern Ireland will be live in November 2017

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<sup>2</sup> SFS Code of Conduct and SFS user guidance can be obtained from the [SFS website](#) by those with an approved membership and login

- The Insolvency Service in England and Wales began using SFS in April 2017. The Insolvency Service in Northern Ireland will use SFS from November 2017
- Trade bodies including the CSA<sup>3</sup>, UK Finance<sup>4</sup>, FLA<sup>5</sup>, DRF<sup>6</sup> and DEMSA<sup>7</sup> are members of the SFS governance group and have recommended their respective memberships switch to SFS
- Several large banks have switched to using SFS internally, or will do before April 2018, including HSBC, Barclays, Lloyds, Santander, Clydesdale, Nationwide, Co-Op and others.
- Commitment from central government departments to review current affordability practice against the SFS, via the Cabinet Office Fairness Group which also sits on the SFS governance group
- 67 local authorities have signed up to the SFS with several dedicated pilots testing SFS in use across all internal departments at a local authority

### Benefits of the SFS

#### 2.7 The SFS includes:

- A single standard format for gathering income and expenditure
- A single set of spending guidelines
- Capacity to build a savings contribution into debt solutions
- Greater consistency to the debt advice process for consumer, advisers and creditors
- Principles and best practice guidance for users

#### 2.8 MAS believes the implementation of the SFS with the above features will bring the following benefits.

- Consistency across the UK for clients in terms of how advice providers, creditors, central and local government and other financial services assess their affordability

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<sup>3</sup> Credit Services Association – over 400 members in the debt collection and debt purchase industry

<sup>4</sup> UK Finance - 300 firms providing finance, banking, markets and payments-related services in or from the UK

<sup>5</sup> Finance & Leasing Association – leading trade body for the asset, consumer and motor finance sectors in the UK

<sup>6</sup> Debt Resolution Forum – promotes professional standards for the commercial debt management industry

<sup>7</sup> Debt Managers Standards Association – promoting good practice for commercial debt management

- This will reduce clients having to repeatedly give their income and expenditure information to advice providers and creditors with differing approaches
- A universal format will enable a more seamless transfer of clients' data alongside emerging technologies, again reducing the significant strain on clients to go through budgets with a variety of different creditors. This will also help reduce handling times for creditors.
- Industry-wide agreement on what constitutes fixed, or essential expenditure and flexible or discretionary expenditure, meaning a common understanding on the components of a sustainable income and expenditure
- Improved efficiency of client referrals between all organisations related to a client's debts, particularly in efficient transfer of data between digital systems all using the SFS
- Evidence to show that collections strategies based on a standardised, sustainable SFS will reduce payment arrangement failure rates, reduce unnecessary enforcement action and improve returns for collections departments over the long term<sup>8</sup>

#### Adoption of the SFS in Scotland

2.9 MAS is aware of concerns within the Scottish advice sector around the adoption of the SFS, and in particular the suitability of the SFS spending guidelines.

2.10 The SFS team at MAS has been in regular contact with the AiB, Money Advice Scotland and Citizens Advice Scotland over the last 12 months to understand the concerns and has frequently attended sessions with advisers in Scotland to further comprehend the challenges for front line staff at advice providers and creditors in the country.

2.11 However, for the reasons given below, MAS strongly believes that the adoption of the SFS in Scotland remains crucial to uphold the benefits of a consistent approach to affordability across the UK.

#### Governance representation

2.12 The AiB and advice sector in Scotland has been represented on the governance group since its inception to ensure that the specific circumstances in Scotland are represented and reflected.

2.13 MAS welcomes the inclusion of both representatives on the new in-life SFS governance group and believes this membership demonstrates a

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<sup>8</sup> Case studies of positive creditor impact of sustainable approach to affordability included within recent MAS report '[Working Collaboratively with Debt Advice Agencies toolkit](#)'

commitment to supporting the concept of the universal financial statement and ensuring its continuous improvement to best suit consumers across the UK.

### Spending guidelines

- 2.14 MAS strongly supports the principles laid out within the SFS Code of Conduct and SFS User Guide (not to mention the AiB's introduction to this consultation paper) that the spending guidelines should not be used as spending limits for clients.
- 2.15 Rather they should be seen as a reference for advisers and creditors on average expenditures by the lowest income quintile across certain categories. Breaches of guideline figures should simply trigger the provision of an explanation for the expenditure in this area.
- 2.16 MAS recognises the testing by the advice sector in Scotland and that of the AiB referenced in the consultation and shares the concerns that breaches of spending guidelines with the SFS appear higher than with the CFS.
- 2.17 However, this must be viewed in conjunction with testing by other governance group members and particularly in light of the experiences of those organisations now using the SFS in the rest of the UK.
- 2.18 Prior to the launch of SFS on 1 March 2017, numerous governance group organisations completed testing of archive CFS cases by transferring them into SFS cases.
- 2.19 All organisations testing in this way noted the inaccuracies involved in attempting to transfer completed CFS cases to the SFS format, where case record detail varies and some categories must be split between fixed and flexible areas. All agreed that testing of live usage of the SFS figures would be the most reliable impact assessment.
- 2.20 While some found the guideline figures to be lower than CFS, none found breaches of figures to be as frequent as testing in Scotland. None found reason in their testing to question their commitment to adopting the SFS before April 2018.
- 2.21 The responses below were stated by governance group members in the SFS governance meeting held in January 2017, though MAS do not hold the individual external organisation data:
- MAS tested 80 cases from a mixture of telephone and face-to-face providers. Of these cases, 19 breached spending guidelines using SFS compared to 16 with CFS<sup>9</sup>
  - PayPlan tested 30 cases using their QA team to review call recordings to enable the completion of the SFS to be done based on a real client conversation, as opposed to a direct mapping of CFS case notes to SFS.

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<sup>9</sup> The results of this testing is Excel-based and can be shared on request

Data was not submitted, but PayPlan stated “no noticeable issues” in the test

- Christians Against Poverty tested 40 CFS cases mapped to the SFS format. It reported “no significant issues” but did note some additional breaches of spending guidelines. However, these margins were small and thought likely to be attributed to the limitations of transferring archive data into the new format
- StepChange undertook a high-level mapping of 1000 cases using their own guideline figures against the new SFS figures. Of these, approximately 10% of cases within certain household compositions breached SFS guidelines. This is consistent with the thresholds StepChange would typically apply when setting its own budget guidelines. These results have remained consistent with later tests using increased sample sizes

2.22 While MAS does not have reporting data from PayPlan, we have been in close contact since they went live in July 2017. The front line team has not reported any negative impact on clients from using the new spending guidelines. Anecdotally, advisers noted some teething issues around how the SFS changed the flow of conversations with clients across different advisers, but this was resolved quickly and otherwise the feedback has been positive.

2.23 Likewise, the Insolvency Service has been live with SFS since April 2017. Applications before SFS were based on custom internal figures rather than the CFS. The Insolvency Service has very limited data on the impact of SFS, but has stated that Income Payment Agreements (IPA) since switching to SFS have seen a minor increase of 1%. Anecdotally staff welcomed the new calculator giving more detail and improving their conversations with debtors in agreeing the level of an IPA.

2.24 Approximately 50 advice providers within the Advice UK network are now live with SFS and none have reported any negative impact of the spending guidelines on their clients.

#### Joseph Rowntree Foundation MIS comparison

2.25 In recognition of the concerns over spending guidelines levels, the MAS team has commissioned a report by the Joseph Rowntree Foundation to compare the levels of SFS spending guidelines against the Minimum Income Standard (MIS) and its corresponding expenditure guidelines.

2.26 The intention of the report is to give an indication of any disparities in expenditure guidance figures across the three Flexible expenditure categories in the SFS or in relation to particular household compositions when compared with the MIS.

2.27 It was hoped the report would be completed in time to submit to the consultation, but it has been delayed until early November. MAS is happy to submit the report directly to the AiB once complete.

### New SFS spending guideline figures for 2018

- 2.28 As with the CFS trigger figures, the SFS spending guidelines are updated each year on receipt of the new Living Costs and Food survey from the LCF.
- 2.29 This review is intended to ensure the guideline figures remain current in regard to socio-economic factors.
- 2.30 While the new SFS guideline figures have not yet been approved by the governance group (they are due to review them at the next meeting on 6 November), we do have the draft numbers and are happy to share them directly with the AiB.
- 2.31 Our intention is to continually analyse and improve the methodology used to develop the guideline figures, to improve the appropriateness of the figures for both clients, advisers and creditors.
- 2.32 For example, with this year's figures a small improvement has been made to the methodology regarding the make-up of households in the lowest quintile income band used to generate the figures.
- 2.33 For last year's figures, any household reporting income below the minimum Job Seekers Allowance (JSA) were removed from the sample to reduce the risk of misreported incomes impacting the sample.
- 2.34 However, it was noted that this approach did not take into account differing household compositions and as such this year's figures generate a minimum income level based on Universal Credit allowances for each adult, additional adult, and children<sup>10</sup>.

### Evidence requirements

- 2.35 MAS did also note through engagement with the advice sector in Scotland a clear concern around the interpretation of spending guidelines in Scotland and the consequences of breaching them.
- 2.36 This issue is frequently discussed in regard to the current CFT, so is not specific to SFS.

### Conclusion

- 2.37 MAS believes the benefits of the universal format of the SFS, as outlined above, provide a strong case for adoption in Scotland. There is no other industry-developed financial statement developed with the collaboration and stakeholder engagement behind it as the SFS.
- 2.38 The benefits for consumers, advice providers and creditors of utilising a shared format across the UK are significant and this is the crucial element of the SFS.

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<sup>10</sup> A full report explaining the methodology used to generate the SFS spending guidelines is available on the [SFS website](#). An updated report will be published in due course alongside the new 2018 figures.

- 2.39 The principle of spending guidelines is already established within the CFT and the governance group will continue to monitor the figures and methodology to ensure against any negative impact on users of the format.
- 2.40 As with the CFS, the spending guidelines will be reviewed annually and it is within the remit of the governance group to change the methodology behind the guidelines figures if it is deemed unsuitable.

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

- 3.1 MAS has not specified within the current SFS guidance a recommended approach for conducting a review with existing clients.
- 3.2 This has been a common point of discussion with a range of advice providers and creditors, though opinion has been fairly divided on the approach of continuing to use an old method versus reassessing with SFS.
- 3.3 Some advice-giving firms suggested that they would rather switch to SFS as soon as possible for reviews to avoid prolonging the inconvenience of managing two affordability approaches with clients. They would expect creditors to agree that where a change in the circumstances and eligibility for certain solutions occurs on reviewing with the SFS, and there has not been significant change in the client's actual circumstances, creditors should apply some discretion and not seek an amendment to the current solution (in a similar fashion to the principle on accepting a spending guideline breach where there is a reasonable explanation provided).
- 3.4 Others organisations favour maintaining their previous method for existing cases being reviewed to avoid any potential confusion over the client's suitability for their current solution, and over a new format of budget for the client to understand.
- 3.5 While for the CFS there would not be updated trigger figures from autumn 2018, some had suggested that a simple uprating of figures to account for inflation would suffice for the interim period.
- 3.6 MAS recognises the differing challenges for individual organisations and the relationships they have with stakeholders and partners and would therefore be satisfied with either approach.

**4. Question 3 – N/A**

**5. Question 4 – N/A**

**6. Question 5: Is 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?**

6.1 MAS supports the April 2018 release schedule, but recognises from the experience of assisting organisations across England, Wales and Northern Ireland in implementing SFS that the required level of work can vary.

6.2 The SFS team at MAS has developed a number of resources to help support implementation. Key among these is the SFS Developer toolkit. This provides technical teams a schema for producing the SFS in a variety of formats (XML, JSON, HTML etc.). This has assisted organisations implementing to large-scale internal systems (Citizens Advice, NDL, StepChange), commercial software providers, and smaller operators in reducing the cost and resource required. The tool also enables future amends to the SFS to be implemented instantly.

6.3 In other cases support has focussed more on granting access to e-learning materials or assisting in developing custom, in-house training. There have also been requests to help interpret the SFS guidance and Code of Conduct for specific scenarios or to review implementation models before launching.

6.4 While MAS recognises this will not offset the costs of implementations directly, the support has been welcomed and particularly effective in many cases, particularly where large systems operators have utilised the developer toolkit. The toolkit may also be of assistance in updating the CFT itself.

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