Further to my response to Committee’s Stage 1 report on the Bankruptcy and Debt Advice (Scotland) Bill, I promised to write with more information relating to the Common Financial Tool to be introduced by the Bill.

I very much welcome Committee’s support for our decision to select the Common Financial Statement, devised by the Money Advice Trust to fairly assess the income and expenditure of people living with problem debt. Any surplus income identified through the CFS assessment can be directed to making a fair contribution back to an individual’s creditors.

As you know, the money advice community has demonstrated its support for the CFS and this gave weight to our decision to select this as the tool to be used in Scotland in future. The Committee has expressed an interest in the guidance that will be issued in support of consistent application of the tool and the arrangements for review. I have indicated that a Working Group which will include a range of interested stakeholders will meet to discuss the guidance in due course. I would also expect that AiB will monitor annually how the tool is being used across Scotland.

Following a letter in the Herald newspaper in December, which suggested that vulnerable people were being asked to pay a contribution to their bankruptcy for longer, I convened a meeting involving representatives of the Law Society, The Church and Society Council of the Church of Scotland, Christians Against Poverty and the Association of British Credit Unions.

I used this opportunity to explain the importance of the CFS in calculating whether or not an individual is able to make a contribution to their bankruptcy. An important consideration is that only one third of all bankruptcies result in a contribution being made and it is specifically prohibited now, and in the future, to take a contribution from an individual whose sole income is benefits. With this in mind, only those who are assessed as being able to make a contribution will be asked to pay and I continue to believe that 48 months is an appropriate term.
In order to discuss the CFS I have invited Joanna Elson, Chief Executive of the Money Advice Trust, to meet with me. Additionally, my officials at Accountant in Bankruptcy will be involved in future meetings of the Money Advice Trust Board for the CFS.

I am aware that my officials have previously provided Committee with detailed information on the CFS but I am attaching it again for your information.

Finally, I understand that my officials have also agreed to provide a short addendum, to the Scottish Government’s response to Committee’s report on the BADA(S) Bill at Stage 1, in relation to financial education. This is as follows:

“You will be aware that Education Authorities and schools are responsible for the management and delivery of the school curriculum in Scotland and that the Curriculum for Excellence sets out the broad framework around the totality of the educational experience of young people aged 3 to 18 years. In addition, the Scottish Qualifications Authority now have a suite of qualifications (at national 3, 4 and 5 levels) which explicitly cover financial capability. These are new features of the education system, in line with Curriculum for Excellence.

Financial Education, including issues about money and debt management, is delivered as part of a wider programme of numeracy across learning and is the responsibility of all practitioners. Improving money management is a way of reducing poverty and the impact of poverty. When individuals have control over their money, they can gain a greater sense of self determination as they deal with daily life, face financial shocks and plan to achieve positive future outcomes.”

As I have said before, I am grateful to you and your members for your sensible, considered and helpful approach to scrutinising the Bill and I look forward to discussing it further with you, when we meet for stage 2 next week.

FERGUS EWING
Common Financial Statement

Background Note

1. The Common Financial Statement is a standard budget format which helps creditors, advisers, and people with debt get a clear picture of an individual’s or household’s financial situation.

2. The Common Financial Statement represents a commitment from its sponsors in the credit and advice sectors to create a uniform approach to how individual and household budgets are prepared, in order to encourage consistent responses from creditors to offers of debt repayment.

3. When someone is faced with a debt repayment arrangement that they are struggling to maintain, it is important for them to contact their creditor to explain their circumstances and ask the creditor to consider a new repayment plan. In the past, many people in this situation often found it hard to get creditors to accept that their current financial position meant they were unable to meet previously agreed repayments. Advice agencies would encourage people to write to creditors and enclose a personal or household budget to explain and justify their new offer of repayment, but it was hard for creditors to build a clear and consistent understanding of what payments were justifiable and sustainable.

4. To improve this situation, the Money Advice Trust worked with the Finance and Leasing Association and the British Bankers’ Association, and used its partnership connections with advice agencies and creditors, to agree a standardised budget sheet format with built-in trigger figures for four discretionary spending areas. This standardised budget format, which we called the Common Financial Statement (CFS) could then be used by creditors to ensure repayment offers were fair and could be sustained in the long term.

5. The Money Advice Trust manages the CFS to ensure that it is up to date by maintaining trigger figures in line with inflation.

6. The CFS represents an important agreement between creditors and the advice sector, and provides a great example of these two groups working together to create a step change in helping people in financial difficulty.

7. The Common Financial Statement (CFS), which was published by the British Bankers’ Association (BBA) and the Money Advice Trust (MAT) in 2002, is a budgeting tool that can be used by advice agencies and other third party organisations to make debt repayment offers to creditors on behalf of clients. This and the StepChange (previously CCCS) tool contain budget guidelines for certain areas of discretionary expenditure, known as trigger figures.

8. The trigger figures represent pre-agreed levels for certain areas of discretionary household expenditure. The trigger figures help identify levels of monthly expenditure deemed reasonable when using the tool. There are
trigger figures for telephone, travel, housekeeping and 'other' costs. Fixed expenditure categories such as rent and mortgage payments do not have a trigger figure as spending on these items varies widely from household to household.

9. The CFS trigger figures are calculated using research from the Government's Living Costs and Food Survey (previously known as the Family Expenditure Survey). The Costs and Food Survey is based on a random sample of around 6,000 households and is produced by the Office for National Statistics. The CFS take a quintile (20%) of the lowest income households for the data sample which means the budget is based on expenditure of a sample of around 1,200 household. Their sample does not differentiate between whether households are indebted or not.

10. The CFS trigger figures are reviewed annually and published in April. Interim changes to the figures may be made if there is a significant increase within any expenditure category.
Accountant in Bankruptcy (AiB) report on analysis of current financial tools

Introduction

1. As part of the Bankruptcy and Debt Advice (Scotland) Bill 2013, the development and delivery of a single financial tool was proposed. The use of a single tool will be mandatory for money advisers in respect of all statutory debt relief and debt management solutions in Scotland. It will determine whether an individual is able to make a contribution towards repayment of their debts and what the level of their contribution should be, ensuring consistency and transparency across all solutions.

2. A working group consisting of representatives from the IPA, ICAS, the free money sector, the banking sector, the credit union sector and AiB was set up with a remit to identify or develop a single financial tool, either adopting one of the current main tools or developing a new tool.

Background

3. The main tools currently in operation are the StepChange tool and the Common Financial Statement (CFS). The CFS (published by the British Bankers' Association (BBA) and the Money Advice Trust (MAT)) is a budgeting tool that can be used by advice agencies and other third party organisations to make debt repayment offers to creditors on behalf of clients. This and the StepChange (previously CCCS) tool contain budget guidelines for certain areas of discretionary expenditure, known as trigger figures.

4. Currently the contribution is calculated from the individual's surplus income. However, there is no one single tool that is used for assessing the appropriate contribution. In AiB, the StepChange financial budget tool is used for debtor applications for bankruptcy and the Common Financial Statement (CFS) is used for DAS applications.

5. In February 2012, AiB launched a consultation on Bankruptcy Law Reform. Amongst other proposals, the consultation introduced the concept of a mandatory single tool to be used by all money advisers in Scotland in assessing contributions, for all those accessing debt relief or debt management products. Respondents to the consultation were strongly in favour of a single tool, however there was less support for the development of a new Scottish-specific tool. Of those who were keen to use an existing tool, the majority favoured the CFS.

6. The CFT working group met in February and March 2013. At the March meeting it was agreed that AiB would undertake analysis of the two main tools using a sample of current cases.
7. This paper sets out the findings of the analysis and outlines a recommendation based on the analysis and other factors such as sustainability of payments and feedback from stakeholders.

Analysis and comparison of tools

8. AiB’s statistician undertook analysis comparing the two tools using a sample of 50 cases from 2012 who are currently making a contribution to the administration of their bankruptcy and considered the impact of AiB adopting the Common Financial Statement (CFS) trigger figures for debtor applications when the 48 monthly payment period is applied. This payment period is currently proposed in the Bankruptcy and Debt Advice (Scotland) Bill. These debtors had all been assessed using the StepChange tool in order to determine their surplus income and therefore the appropriate monthly contribution to be paid.

9. The data from each of these debtors’ records was then applied to the CFS tool in order to analyse the impact this would have. This also allowed a comparison of the tools to be made, both at a theoretical level and an actual level (using the actual monthly spending values).

10. The sample only considered debtors where an Income Payment Agreement (IPA) contribution calculation file existed in MIDAS (AiB’s case management system). Hence, the analysis only relates to those debtors making a monthly contribution.

11. As the debtors in the sample were originally assessed using the StepChange trigger figures, the actual information on each case file was used to calculate the total actual surplus income for the 50 debtors. The CFS trigger figures were then applied to each case to allow the impact of using the CFS trigger figures instead of the StepChange ones to be measured. The appropriate trigger figures were used depending on the date of the case (as there were two sets of CFS trigger figures in 2012).

12. The tables below illustrate the profile of the households which were sampled for this analysis and highlight some of the key findings which are summarised in the following section.

<table>
<thead>
<tr>
<th>Profile</th>
<th>Number of Cases</th>
<th>Percentage of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 adult, no dependents</td>
<td>23</td>
<td>46%</td>
</tr>
<tr>
<td>1 adult, 1 dependent</td>
<td>7</td>
<td>14%</td>
</tr>
<tr>
<td>1 adult, 2 dependents</td>
<td>4</td>
<td>8%</td>
</tr>
<tr>
<td>2 adults, no dependents</td>
<td>8</td>
<td>16%</td>
</tr>
<tr>
<td>2 adults, 1 dependent</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td>2 adults, 2 dependents</td>
<td>2</td>
<td>4%</td>
</tr>
<tr>
<td>2 adults, 3 dependents</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100%</td>
</tr>
</tbody>
</table>
### Table 2: Debtors Exceeding Trigger Values

<table>
<thead>
<tr>
<th>Tool</th>
<th>Number of Cases</th>
<th>Percentage of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>StepChange (Actual)</td>
<td>39</td>
<td>78%</td>
</tr>
<tr>
<td>CFS (Theoretical)</td>
<td>17</td>
<td>34%</td>
</tr>
</tbody>
</table>

### Table 3: Tool Favourable to Debtor

<table>
<thead>
<tr>
<th>Tool</th>
<th>Number of Cases</th>
<th>Percentage of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>StepChange</td>
<td>24</td>
<td>48%</td>
</tr>
<tr>
<td>CFS</td>
<td>26</td>
<td>52%</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Summary of findings**

- Based on the sample of 50 debtors, applying the StepChange tool provides a larger monthly surplus than if the CFS tool had been applied.
- However, in terms of the debtor population, it is unlikely that the average surplus figures for each tool are significantly different.
- The total monthly contribution in the sample is 61% of the available surplus income.
- The total monthly surplus is 5% lower when the CFS tool is applied to the sample.
- Adopting the CFS tool and increasing the period to 48 months would provide a 107% increase in the amount ingathered by AiB, assuming all available surplus is taken as a contribution.
- However this increase is likely to be due to increasing the contribution period and assuming all available surplus income is taken, rather than changing the tool applied.
- Potentially the StepChange tool could more favourable to AiB as in this analysis, it resulted in a higher monthly surplus income in 60% of the cases and therefore may result in higher contribution figures.
- Car ownership does not impact on which tool produces the higher monthly surplus income.
- Applying the CFS tool to the sample increased the number of debtors with a negative surplus income figure and this was due to their high claims for monthly expenditure on food, which would be allowed under the CFS tool but are rejected under the StepChange tool.
- The CFS tool results in fewer instances of trigger values being exceed than the StepChange tool.
- In theory, single debtors are more likely to find the StepChange tool more favourable in terms of the total maximum discretionary expenditure accepted.
- In theory, the CFS tool, in terms of maximum discretionary expenditure, is more favourable to debtors with a car.
Conclusion

13. Both the StepChange and CFS tools are able to fulfil the criteria set out in the Common Financial Tool Project Initiation Document. The mandatory adoption of either tool would provide consistency and clarity for debtors entering a debt relief product, and transparency for creditors in addressing income and expenditure. Both tools will see an increase in the amount ingathered. This is due to the number of payments and the proportion of surplus to be paid, increasing.

14. AiB have been looking closely at the benefits of both tools against our high level objectives. The evidence suggests that the benefits of adopting the CFS tool are more than the benefits of adopting the StepChange tool. These include:

- Sustainability – the trigger figures are breached less often in the CFS, this suggests that it is a more accurate reflection of actual spending habits, and therefore debtors are more likely to be able to sustain payments.
- Financial rehabilitation – the “other” category in the CFS tool includes an allowance for saving, this supports the Bankruptcy Vision Project’s aim that debt relief products will also provide an element of financial rehabilitation.
- Clarity for creditors – the British Banker’s Association (BBA), Finance and Leasing Association (FLA) and major utility companies already recognise this tool as industry standard.
- Fair to debtors – the CFS is overseen by a sub-group consisting of representatives from the BBA, FLA, Building Society Association, Advice UK and Citizen’s Advice. Any changes to the CFS trigger figures are approved by the sub-group.
- Consistency – the CFS structure and uniformity encourages a consistent response from creditors, and reduces queries.
- Money advice – the majority of money advice services currently using the CFS, and therefore are already familiar with the rules and the software.
- Consultation – responses to the Bankruptcy Reform Consultation indicated that stakeholders strongly favoured the adoption of one tool. Of those that expressed a preference between the CFS and StepChange tools, 25 supported the adoption of the CFS, and only 4 supported the StepChange model.

15. AiB recommend that the Common Financial Statement is adopted as the mandatory tool to be used in Scotland when assessing the financial contributions to be paid towards debt management or debt relief products.

Next Steps

16. It has always been the intention to consider the impact on the cost of living in rural and remote parts of Scotland and how this impacts on trigger figures, therefore AiB will undertake some additional research drawing on various sources including the research published by Highlands and Islands Enterprise.
on 4 July relating to the cost of living at an acceptable living standard in remote rural and islands in Scotland.

17. AiB will work with the group to develop guidance on how the CFS tool is applied in Scotland.

Accountant in Bankruptcy
July 2013