# Achieving Better Co-ordination in Scotland

## Discussion Paper – August 2010

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**with comments and responses to questions by 3 September 2010.**

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# Introduction

Financial inclusion is a well established aspect of Scotland's broader approach to tackling poverty and will make a contribution to sustainable economic recovery. *Achieving our Potential*[1]*,* COSLA and the Scottish Government's framework for tackling poverty and income inequality, signals commitment to addressing the inequalities that are undermining Scotland's drive to create a wealthier and fairer society.

> *"All the evidence tells us that reducing poverty and the gap between the richest and the poorest support increased economic participation, improved social cohesion and stronger communities. By reconnecting large numbers of people in disadvantaged groups and communities to the mainstream economy, and encouraging work that pays fairly, we will help more people in Scotland to fulfil their potential; increase economic growth and participation in the labour market; and create greater social equity across Scotland." Achieving our Potential.*

*Achieving our Potential*, together with the Scottish Government's social policy framework on health inequalities, *Equally Well*[2], and the Early Years Framework[3] set out a vision and supporting actions which seek to address the causes and effects of poverty, disadvantage and inequality. These frameworks are underpinned by the Government's Solidarity Purpose Target to "increase overall income of the proportion of income earned by the lowest three income deciles by 2017".[4]

Financial inclusion can be defined as access for individuals to appropriate financial products and services. This includes people having the skills, knowledge and understanding to make the best use of those products and services. Policy and practice driving forward financial inclusion at a local and national level continues to gain momentum. We are seeing the results of earlier work, for example to promote the take up of basic bank accounts, and in 2008 just 5%[5] of households in Scotland did not have any banking facilities. Until now, our focus has been on creating products and services for those who are excluded. This is still a key objective but the next stage is to sharpen our focus on early intervention and prevention; connecting people to the right products and services and supporting them to use them in an effective way. For example, 44% (and 54% of those in the lowest income quartile) of newly banked consumers use

[1] Achieving Our Potential: http://www.scotland.gov.uk/Publications/2008/11/20103815/0
[2] Equally Well: http://www.scotland.gov.uk/Publications/2008/06/25104032/0
[3] Early Years Framework: http://www.scotland.gov.uk/Topics/People/Young-People/Early-years-framework
[4] Scotland Performs: http://www.scotland.gov.uk/About/scotPerforms/purposes
[5] Scottish Household Survey 2008

their accounts solely to receive pay or benefits, withdrawing the money and operating in cash and therefore not gaining the benefits of account holding[6]. We believe that this is the right time to prioritise financial capability but that this will require concerted leadership, capacity building across services and development of more effective measurement and evaluation. Previously, the Scottish Government has funded projects and activity to promote financial capability and identify good practice. This paper, and the accompanying Financial Capability Evidence Review by the Employment Research Institute at Napier University[7] is the starting point for the development of a more coordinated policy and we are keen to gather your views. We are looking for feedback on a number of questions throughout the paper to inform our future policy on financial capability which we will develop in partnership with COSLA. In particular, we are interested in feedback on the suitability and priority of possible work by the Scottish Government at section 6. Our target audience is decision makers, policy makers, service planners and practitioners we hope the paper will also give easy access to information that may be useful in prioritising and planning services, making links and influencing decision making about resources.

[6] Mainstreaming Financial Inclusion: Managing Money and Access to Banking (2010) Financial Inclusion Task Force.
[7] Financial Capability Evidence Review: http://sh45inta/ Topics/People/tackling-poverty/TacklingScottishPoverty/EvidenceReview

# 1) Policy Focus

Financial capability plays an important part in wider financial inclusion support. Alongside income maximisation, debt advice and measures to ensure access to affordable credit, improving financial capability should help people participate more fully in society and reduce poverty. Improved financial capability alone will not transform the lives of those living in poverty, financial exclusion is driven by a variety of factors including low incomes, the “poverty premium” associated with living in deprived areas and the policies of financial institutions. People on low incomes are often, by necessity, highly skilled at budgeting but there is only so far a small budget can be stretched, which leaves them vulnerable to financial shocks. However, improved financial capability does contribute to wellbeing, employability and resilience of individuals and communities and is part of the answer to financial exclusion. This paper does not tackle the supply side issues around income levels or financial products and services, instead it sets out why Local Authorities, Community Planning Partnerships (CPPs) and local service deliverers should seek to build financial capability, looks at how this might be done and asks some questions about the way forward.

The UK Financial Services Act 2010 set up a new Consumer Financial Education Body (CFEB), to take on the education function of the FSA, with a statutory duty to enhance:

> **Tony Hobman – Chief Executive – Consumer Financial Education Body**
> *“I look forward to continuing our work with the Scottish Government to achieve lasting change in people’s financial capability.”*

- The understanding and knowledge of members of the public on financial matters (including the UK financial system)
- The ability of members of the public to manage their own financial affairs.

CFEB delivers a substantial financial capability programme in Scotland under its National Strategy for Financial Capability[8], which was developed in partnership with stakeholders, including the Scottish Government. The creation of a new body with a broader scope than that of the FSA offers opportunities for partnership working to achieve greater coordination in financial capability, facilitating connections at the national level. Early in 2011, CFEB will roll out a free national financial advice service across the UK. The service, branded Moneymadeclear, gives information and advice on financial matters. It will provide an independent proactive, early intervention service aiming to help people make confident, informed financial decisions and make the most of their money. CFEB has also been asked by the UK Government to develop a free family financial health check.

The Scottish Government has been active in supporting financial capability

[8] Financial Capability in the UK: Delivering Change (2006) FSA

through:

- Supporting work in schools through the Scottish Centre for Financial Education.
- Funding work by Local Authorities and CPPS via the Financial Inclusion Fund and then the Fairer Scotland Fund which supported a range of school based and post school work.
- Supporting pilots with a number of organisations; for example six pilot projects by Citizens Advice Scotland, a financial capability programme by Greater Easterhouse Money Advice Project and phone and web support for young people provided by Young Scot.
- Providing support and resources, for example the Financial Learning Online website, train the trainer training for those working with offenders with Apex Scotland and promoting practice via the Community Regeneration and Tackling Poverty Learning Network.
- Responding to the recession, working with CFEB and Skills Development Scotland to add a financial capability component to the PACE offer for people who are being made redundant.

From August 2010, Curriculum for Excellence will be the core educational framework in Scotland, and will include financial education as part of numeracy, the teaching of which will now be the responsibility of all teachers. Learning and Teaching Scotland will shortly be publishing a Framework and Delivery Plan for Financial Education which will demonstrate how financial education can effectively be delivered within Curriculum for Excellence. The Scottish Government will also launch a refreshed Adult Literacy and Numeracy Strategy in December 2011. These developments offer a significant opportunity to improve financial capability in Scotland in the longer term.

> ***Alex Neil – Minister for Housing and Communities***
> *"Current economic problems have brought the impact of financial problems on people's lives in to sharp focus. Despite the difficult funding situation we all face, we need to fix our sights on the long term gain, on building resilience in individuals and communities so that they can cope better and fulfil their potential. Financial inclusion and financial capability interventions are key among the levers we can use to improve the income and other circumstances of those most vulnerable to poor outcomes."*

There is a wealth of materials, expertise and experience in financial capability generated locally by Local Authorities, schools, colleges, the community and third sectors, including credit unions and financial institutions. Often work is driven by the enthusiasm and commitment of a few individuals. This can generate innovative practice but often means that projects are not sustained when people move on.

Further work is needed to get the most value from the financial capability activity that is already underway, and to link people to the right help when and where they need it. The Scottish Government believes that a more coordinated approach to financial capability post school, including an effective integration of the new national financial advice service, would make a significant contribution to tackling poverty and inequality. We are keen to support those working to improve financial capability, with a focus on individuals, families and communities:

- At greatest risk from the impact of poor financial decisions,
- At risk of financial crisis without some form of intervention.

There is a strong overlap between these target groups and vulnerable groups using existing advice services for example, people without access to a bank account, those in social housing, people on low incomes, people with unsustainable debt, excluded and hard to reach groups.

Our aim is to:

- Develop a consistent policy on financial capability to guide the Scottish Government's own activity,
- Influence and support Community Planning Partnerships (CPPs) and Local Authorities to promote, integrate and coordinate financial capability work in their areas.

We recognise that reduced budgets in coming years makes this a difficult time to give this work priority. However, by building awareness of the benefits of financial capability as an early intervention, we hope to influence policy makers and service planners as they develop financial inclusion and poverty strategies and make difficult decisions about cutting and re-configuring services.

**A. Discussion Question: *Does the paper focus on the right client groups?***

**Financial Capability – Evidence Review (2010) Employment Research Institute Edinburgh Napier University**

"It is the most deprived and vulnerable members of society (such as those living in disadvantaged communities and younger adults) who are most at risk. The current high levels of unemployment and individual indebtedness mean that the need for improved financial capabilities is likely to grow across Scotland. Those who lack financial capability are likely to experience a variety of associated problems such as poor health, lower employment levels and an increased level of debt. There may also be negative consequences for local and national economies. Improving an individual's financial capability can enable them to participate more fully in society and help reduce poverty."

# 2) What do we mean by financial capability?

Drawing on a range of definitions of the components of financial capability, this paper uses a definition of financial capability developed in the accompanying Financial Capability Evidence Review:

- The motivation to efficiently manage finances and effect change.
- Day-to-day management of finances, for example effective budgeting and use of a bank account.
- Planning ahead for retirement, other life transitions and unexpected events for example by saving.
- Efficient selection of financial products and the ability to understand these products, for example by comparing repayment costs before taking a loan, and
- Knowing where, and how, to seek appropriate financial advice.

There is more discussion about the definition of financial capability and related terms such as financial education, learning and literacy in the Financial Capability Evidence Review, published alongside this paper.

At a basic level, a financially capable person will be able to:

- Understand bank statements, bills, payslips and other basic financial records.
- Understand the implications of borrowing money and that it must be paid back, usually with interest.
- Use cash and non-cash methods of payment.
- Manage a day to day budget and prioritise essential and non-essential spending.
- Understand why we pay tax and national insurance and how this affects wages.
- Understand percentages and how interest rates have an impact on the amount of money borrowed or saved.
- Seek advice when needed, knows where to go to get it and has the confidence to ask.[9]

The recession and other changes in the economy, demography, labour market and society mean that the financial decisions people face are constantly increasing in complexity, requiring ever-greater skill to evaluate options. Competition between financial institutions is fierce and they are constantly innovating in order to sell more products. Individuals need the skills, knowledge, and confidence to compare products and services.

[9] Drawn from Raising the level of literacy and numeracy in Wales through the context of financial literacy (2007) Basis Skills Agency

# 3) Why focus on financial capability now?

**a) To contribute to economic growth, reducing poverty and promoting income equality**

Improved financial capability reduces poverty and the impact of poverty and has a beneficial effect on local economic growth. We can deduce from the evidence that increased financial capability:

- Can make it easier for some people in poverty to cope on a limited income by minimising expenditure through effective budgeting, shopping around for the best deal on goods and credit; Or by maximising their income by accessing benefits, for example, by selling unwanted possessions on auction sites.
- Contributes to the increased wellbeing and resilience of the individual. This has a positive effect on their mental and physical health, their employability and the experience of their children.
- Benefits the community and the local economy by improving the health, wellbeing and employability of the workforce, increasing household income (benefits maximisation or employment income), reducing demand for crisis-led services such as money advice, homelessness etc, and reduces debt and arrears.

We need to co-ordinate existing work, generate more practice and, importantly, measure the impact of the work being done in order to build evidence to inform decision making. Evidence exists to support some links in the chain but there is a lack of long term data to support the overall intuitive conclusion. Financial capability and resilience heavily interlinked with other forms of capability and this complexity also makes it difficult to prove causality. More evidence on the consequences of a lack of financial capability can be found in the Financial Capability Evidence Review, published alongside this paper.

Developing financial capability helps to reduce (or contain) the need for and the cost of responding to crises, which divert resources from more productive alternatives. It also reduces financial and other costs to individuals by stopping crises arising and the resulting drain on the economy while they cope with the consequences. Conversely, financial capability makes a positive contribution to the economy by improving the skills, health and wellbeing of individuals who are more employable and in a better position to contribute, for example through fewer working days being lost to stress related illness. It can therefore be argued that investing in financial capability will make a positive contribution to economic growth in the longer term. Achieving this virtuous cycle requires timely interventions and support. For example, a person who re-enters the workforce without the financial capability or support to manage the payments of council tax or council tax arrears for which they become liable may find that their wages are arrested, reducing their income and making the certainty of a regular and predictable benefit cheque more attractive. In 2008-09, over £100m of council tax bills were uncollected in Scotland, representing 5.6%. Annex A brings together some of the costs to the individual and institutions of poor financial capability.

> *"Achievement of the Solidarity target – which will require total income to increase and the share of income held by the lowest 3 deciles to rise – will make a vital contribution to Scotland's trend economic growth performance over the longer-term. The main avenue in which this will occur is through increasing the number of people in employment; and better utilising the potential workforce, thereby increasing the productive potential of the economy. Evidence indicates that increasing levels of employment – by allowing people to move from unemployment and economic inactivity into work – is an important driver in reducing income inequality. Policies focussed on allowing people to move into work and enabling them to increase their skill levels will, over time, make a positive contribution to economic growth."*
> *The Government Economic Strategy*

The Solidarity Purpose Target is about narrowing the gap between the richest and poorest, measured as the 3 lowest income deciles. Progress in meeting the Solidarity target will be influenced by a mix of specific levers and activities, for example the new socio-economic duty on public services, and the way in which mainstream services are delivered. Collectively these should add up to a coherent package for people to ensure that they have access to opportunities to improve their life chances and can make the most of those opportunities, with additional support for those that need it. Building capability is fundamental to achieving Solidarity. Financial responsibility starts early and, particularly for young people on a low income, the decisions made can have a significant impact on their future lives and social mobility. Financial skills developed by young people now can have a significant and long-term impact on their ability to get the education, training and housing they need, the job they want and retirement they aspire to.

**b) The move to an outcomes based approach and early intervention -** ***Achieving our Potential, Equally Well and the Early Years Framework***

> *"We are committed to an approach which supports empowering people to make a difference to their own lives. We must adopt an approach that improves the capacity of individuals and their families to lift themselves out of poverty by developing their resilience."*
> *Achieving our Potential*

Improving financial capability is the early intervention for financial inclusion work. The aim is to prevent problems rather than simply to treat the effects i.e. to invest in education/skills development in order to increase financial capability. This, in turn, will improve overall wellbeing and resilience of individuals and communities and reduce the likelihood of their falling in to debt, with all its associated problems. The themes of early intervention and capacity building run across all three of the social policy frameworks. Financial capability supports the Early Years Framework because improving the financial capability of parents and prospective parents will contribute significantly to National Outcome Number 5 ‘every child has the best start in life and is ready to succeed.’ It also supports Equally Well Recommendation 17 - Universal public services should build on the examples of effective financial inclusion activity, to engage people at risk of poverty with the financial advice and services they need.

Improving financial capability can contribute to achieving a number of fundamental national outcomes, in particular:

- “We have tackled the significant inequalities in Scottish society”.
- “We realise our full economic potential with more and better employment opportunities for our people”.
- “We live longer, healthier lives”. [10]

Annex B contains more details on the national outcomes and indicators.

**An Investigation of the Relationship between Financial Capability and Psychological Well-being in Mothers of Young Children in Poor Areas in England (2008) FSA**

“In this sample of mostly disadvantaged mothers of young children living in disadvantaged communities, there were clear relationships between our index of financial capability and all five psychological state measures. Higher financial capability was associated with higher life satisfaction, lower depression, less malaise, higher self esteem and higher locus of control. These findings clearly indicate that financial capability was linked to greater well-being… “

### c) Recent experience – the economic downturn

The recession has revealed a lower level of financial capability in the population than might otherwise have been assumed. The experience of money advice practitioners and Citizens Advice Bureaux suggests that many people did not have the skills and knowledge needed to plan for and withstand a financial shock. The climate of the economic downturn has created an increased openness in discussing financial issues and changed attitudes to financial institutions offering an opportunity to engage in a more open discussion than before. This opportunity needs to be taken to improve access to, and support for, financial capability which will be sustained beyond the recession.

Emerging evidence suggests that the recession has worsened existing inequalities, for example by vulnerable people, who already find difficulty in getting a job, being displaced by people with greater skills and experience and therefore being pushed further from the labour market. Concern is building about

[10] Scotland Performs: http://www.scotland.gov.uk/About/scotPerforms/purposes

the potential long term impact of the recession on the confidence and expectations of the generation of young people affected by it, particularly those from low-income families. Building financial capability can make a contribution to building resilience in those who have been affected by recession and reducing the potential long-term impact on them.

### d) The opportunity of the national financial advice service - Moneymadeclear

**Employability and financial inclusion: examining the links (2008) – Toynbee Hall**

"- Financial exclusion and attendant lack of financial capability are cited as causes of lower employability, and vice versa, thus entrenching poverty and social exclusion, but the nature of the relationship is not clear. Cause and effect are difficult to ascertain owing to the complex nature of entrenched social exclusion.
- This research found generally lower levels of financial capability amongst unemployed than employed people, and also found particular elements of financial capability where this was more pronounced.
- a far greater proportion of the employed respondents (64.7%) exhibit high financial capability than the unemployed respondents (38.7%). Those in employment are therefore twice as likely to exhibit high financial capability."

The national financial advice service is delivered by the new Consumer Financial Education Body and is funded by a levy on the financial services industry. The service is available online, over the phone and face to face in priority areas across the UK, including Glasgow. The face to face service will be rolled out to the rest of Scotland during early 2011. The details of the configuration of the service will be determined during contracting but, as an indicator of anticipated scale, it is planned that around 8,800 sessions would be delivered in Scotland in the first year of the service, increasing in future years. The launch of the service presents an opportunity, but it will only reach its target audience with an effective network of signposting and referrals. The service is sales free and aims to help people make confident, informed decisions to allow them to make the most of their money covering:

- Coping with changing circumstances.
- Getting the most out of a budget.
- Saving for a special event, or just a rainy day.
- Borrowing wisely.
- Planning for retirement.
- Understanding tax and welfare benefits.
- Explaining what financial jargon means.

Advisors will work with local trusted intermediary organisations, particularly those with greatest engagement with financially vulnerable people, such as Local Authorities, Jobcentres, employers, advice agencies, third sector organisations, housing associations and credit unions. As part of the national financial advice service the UK Government has asked CFEB to introduce an annual financial health check. The health check will be tested and piloted this year, ahead of a full roll-out across the UK in spring 2011.

The evaluation of the Moneymadeclear pilots[11] shows that face to face interventions have a greater positive effect on the financial capability than telephone or web; and that those using the face to face service start with lower financial capability scores than users of the other two channels. The face to face service saw more budgeting, credit, benefits and tax credit enquiries than the telephone and web services. Two months after they had used Moneyguidance there were discernible improvements in levels of financial capability among users of the face-to-face service with the improvements being greatest in relation to making ends meet and choosing products.

**B. Discussion Question: *What do you need to know from CFEB in order to plan for the introduction of the national financial advice service - Moneymadeclear?***

**Money Guidance Pathfinder - A Report to the FSA (2010) CFEB**

"An important part of the Pathfinder delivery model was the relationship between the Money Guidance providers and other organisations. This included referral partners, who were able to provide assistance that was beyond the scope of Money Guidance (including regulated financial advice) and intermediaries who would act as 'signposters' to the Money Guidance service and/or offer a venue for face-to-face appointments. They included a wide range of organisations such as housing associations; children's centres, credit unions, local advice and information centres and faith groups."

[11] Moneyguidance Pathfinder – a Report to the FSA (2010) CFEB

# 4) Who is in most need of help?

Analysis of who is affected by a lack of financial capability and the impact on them can be found in the Financial Capability Evidence Review published alongside this paper. The Review also includes an analysis of the financial questions from the Scottish Household Survey, comparing Scotland as a whole with the 15% most deprived areas.

There are two broad groups that will gain most from financial capability support:

- Those with very poor financial capability and money management skills.
- Those who cope day to day but who do not have the skills or ability to plan for, or deal with, a financial crisis or a change in circumstances which reduces income or increases costs, that is life events such as being made redundant or having a baby.

Analysis of Scottish Household Survey data shows a concentration of problems in the 15% most deprived areas where 18.9% of households are doing poorly in financial terms as opposed to 7.6% elsewhere. 65.2% of those living in deprived areas have no savings, compared to 34% in less deprived areas. The data also shows differences between local authorities and indicates that, among the more deprived areas, the urban and accessible rural areas seem to have relatively more households with financial problems.

The Thoresen Review of Generic Financial Advice (2008)[12] provides an analysis of vulnerability from the impacts of poor financial decision making based on the FSA Baseline Survey of 2005 and Experian data. The analysis shows that a person who is financially vulnerable is more likely to:

- Have low household income.
- Be female than male.
- Be single, separated or divorced than part of a couple.
- Be a single parent.
- Not have a bank account.
- Have lower than average education levels.
- Be non-white.
- Be younger (under 45).
- Live in social housing, unlikely to be a home owner.
- Live in areas with high levels of multiple deprivation.

Drivers of vulnerability identified include:

- Lack of access to commercial advisers.

[12] The Thoresen Review of Generic Financial Advice – Final Report (2008) HM Treasury

- Not knowing where to go for advice when problems occur.
- Poor skills for planning ahead.
- Very limited savings or protection.
- No pension provision.
- Owning limited financial products and not having the knowledge and skills to determine whether a product is suitable for their needs and represents value for money.
- Difficulty making ends meet and over-indebtedness.
- Literacy and numeracy problems.

There is a strong overlap between the groups identified by the Thoresen Review and the existing client group seen by advice agencies, support services and voluntary groups. An obvious route for identifying people in need of financial capability support is via debt advice and income maximisation services.

Research by the FSA in to the impact of life events on financial capability quantifies the reduction in capability resulting from specific events. For example, becoming unemployed leads to a 63% increase in financial problems even when income is accounted for; and divorce or the death of a partner have large negative effects on financial capability, larger for women than for men[13]. Some of the drop in capability can be explained by additional costs or reduced income but these are compounded by the psychological effects of coping with major and often unwelcome change alongside multiple unfamiliar, complex decisions. Other life events that have a major negative effect on financial capability include having a baby, poor health and eviction. Life stages also have an effect on capability with those under 40 being less capable, on average, than older people. Those between 18 and 30 have the lowest financial capability. This is true even after taking into account factors such as their lower average incomes and relative inexperience in dealing with financial institutions. [14]

**Financial Capability – Evidence Review (2010) Employment Research Institute Edinburgh Napier University**

"In summary this section has highlighted that poor financial capability of individuals has an impact on the individuals and their households, but also on the demand for local services, for example debt advice, housing, mental health and employment support. There are also costs for financial institutions and service providers, such as social landlords, relating to bad debt, and inappropriate and unsustainable financial decisions. "

[13] The impact of life events on financial capability: Evidence from the BHPS (2009) FSA
[14] Financial Capability in the UK: Establishing a Baseline (2006) FSA

## 5) What would a framework for service delivery look like?

**Cllr Harry McGuigan, - COSLA Spokesperson for Community Wellbeing and Safety**
**"** *It is vital that in these times of economic hardship all partners reinforce our political and professional commitment to supporting the most vulnerable in our communities who struggle with poverty and debt. Financial inclusion and financial capability interventions are crucial to improving levels of income for struggling individuals, families and communities. There is much that we can do despite the economic circumstances we are in, to promote the interests of and protect those most in need of help and support. I look forward to progressing this important work in partnership with the Scottish Government."*

It is easy to see the potential benefits of financial capability work and it has attracted cross party support in the past. The challenge is in prioritising early intervention, particularly at a time when budgets are under increasing pressure and crisis services are facing significant and increased demand due to the economic downturn. There is much activity underway to develop financial capability services to different degrees of formality, and the National Financial Advice Service represents an opportunity to enhance this. CPPs have a key leadership role, setting an example by prioritising early interventions and creating a direction for the many organisations which have some interest in financial capability. More can be achieved with the same resources by CPPs facilitating a more co-ordinated approach which embeds responsive financial capability support into public sector services for those most vulnerable to poor outcomes. Service re-design driven by reducing budgets offers an opportunity to take a person centred approach and embed financial capability alongside other interventions. The aim is to prevent crises or to help people gain better control of their finances once a crisis has been dealt with, so that it doesn't happen again.

**C. Discussion Question: *How can we create a focus on financial capability when the pressure on resources is so severe?***

Improved capability results from a combination of increased knowledge, understanding and newly acquired skill and motivation. Attitudes to money are bound up in a complex interface of social attitudes and psychological attributes. Education and information do not necessarily translate into changes in behaviour. Improving capability will require a coordinated partnership approach, bringing together those who have contact with individuals at times in their lives when they have the motivation to make change with good quality support and materials.

The Scottish Government is in the best position to provide leadership and national infrastructure, while CPPs must take a strong local role in coordinating interventions which are most likely to change attitudes and behaviour, and in encouraging the embedding of financial capability in service pathways.

## Some suggested roles:

**The role of Government**:
The Scottish Government should provide leadership by demonstrating commitment to financial capability, mainstreaming through policies and projects and in its role as an employer. The Scottish Government has a role in co-ordinating, facilitating and brokering connections between organisations with a role, or an interest in, supporting financial capability work so that organisational strategies come together to have an impact. It will undertake this role in partnership with CFEB. The Scottish Government should seek to influence the UK government and other relevant national organisations. It is also in the best position to support and develop the necessary infrastructure, for example for training, identification and promotion of good practice, via the Scottish Centre for Regeneration Learning Networks; and developing a framework for evaluating progress. See Section 6.

**The role of Community Planning Partnerships:**
CPPs have the overview to systematically identify need, provision and priority groups, and bring local partners together to meet the need by offering or signposting services and learning opportunities. Approaches will vary according to the structure of the partnership and services already in place but there are obvious links with work on tackling poverty and regeneration, lifelong learning, including literacy and numeracy, employability, health improvement and more choices more chances partnerships. Some CPPs already have financial inclusion forums which offer an obvious point for co-ordination, for example West Lothian. Glasgow City Council includes financial capability as a core service in its financial inclusion contracts, allowing for cross referral between advice services. South Lanarkshire has taken a project approach, bringing partners together around a multi-channel approach. More information on these approaches is included in case studies at Annex C. Annex D includes basic information on links to a variety of policy areas.

**Some organisations which might have a connection or interest in financial capability are:**

Citizens Advice Bureaux, Credit Unions, schools and colleges, adult literacies providers, community learning and development teams, prisons, probation service and youth offending teams, housing associations, Jobcentre Plus and other employability services, PACE teams, careers service, community groups, for example single parent or women's' groups, youth workers and voluntary groups working with hard to reach or excluded groups such as those with mental health issues or veterans organisations.

Frontline workers across CPP partners, with training, are in a good position to spot warning signs and identify who is in need of financial capability support, before they reach a crisis point. They do not, however, have the expertise or time to deliver a complete service. The national financial advice service provides a universal service for signposting and referrals, but ideally this would be supplemented locally. This may involve working across service boundaries, and with third sector organisations to maximise the use of available resources and skills. Options for targeting would include:

- Adding a financial capability element to a suitable existing service.
- Setting up a referrals mechanism based on the life events or stages.
- Outreach to established groups for example carers support groups.

The process is the same as for other policy areas, segmenting and identifying priority groups for a service and thinking about how to reach them most effectively, for example:

| **Groups** | **Needs** | **Possible Approach** |
|---|---|---|
| Very low capability – often vulnerable or excluded groups, e.g. MCMC. | Build basic skills and confidence – budgeting, access to bank accounts, affordable credit, link to benefits maximisation. | Outreach and targeted interventions, integration in to existing services and pathways or learning opportunities. |
| Low income but some capability. Require support to manage financial change e.g. following debt crisis, redundancy, parenthood. | Address specific issues for example affordable credit, managing credit, savings or pensions, shopping around. | Signposting/ referral to the national financial advice service or other service. Referral to websites for self help. |

**D. Discussion Question: *Should co-ordination of financial capability work be the role of the Community Planning Partnership?***

**Partner Roles:**

**a) Local Authority**: Two main areas are:

- **Education -** Financial education in schools is key. Attitudes about money are formed young and schools have an opportunity to lay robust foundations. Financial capability is now being embedded in the numeracy strand of Curriculum for Excellence; and Learning and Teaching Scotland will shortly be publishing a Framework and Delivery Plan for Financial Education. There is a strong link between literacy, numeracy and financial capability and money is a relevant context for learning by children and adults. Community learning and development partnerships, led by Local Authorities, can offer learning opportunities and support for individuals and groups that meets their needs. Scotland's Colleges are currently implementing a financial capability programme in the further education and CLD sector, including whole area approaches with CPPs in Stirling, Dundee, Inverclyde and Highland.

- **Advice and support services -** Have an important role in identifying need and signposting/referral to an appropriate service. Services already in touch with clients will include debt and other advice services, housing and social work, welfare rights. Employability services in particular can provide valuable support to ensure that financial issues such as access to banking are resolved before starting work, through the transition from benefits to earned income and in aftercare to make sure that financial issues do not interfere with sustaining employment.

The DWP Financial Inclusion Champions are producing a Financial Inclusion Toolkit, which is a simple guide to developing financial inclusion activities across the various council functions. A link to the toolkit will be available on the Scottish Government website. The Champions are also working with a number of Scottish Local Authorities to implement a three stage approach to building financial capability for their employees. The project involves financial capability sessions in the workplace provided by CFEB, support for employees to improve take up of tax credits and promoting savings and access to credit unions.

**Summary of New Light on Adult Literacy and Numeracy in Scotland (2008) Scottish Government**

"The economic disadvantage surrounding people with poor literacy and numeracy skills from an early age continued into their thirties. For example, men and women with SCQF Level 2 or 3 literacy or SCQF Level 2 numeracy were six times more likely than those with SCQF Level 5 skills to receive state benefits. They were the most likely to be part of a non-working household and the least likely to be able to save regularly. Adults with poor skills living in the Central Belt tended to be financially worse off than those in other parts of Scotland."

*"The NHS as a universal service can help connect with vulnerable people to provide information, advice and referral on appropriate financial products and services. These, in turn, can contribute to reducing poverty and alleviating the impact on mental and physical health related to debt and managing life on a low income."* Equally Well Volume 2

**b)NHS:** Promoting financial inclusion is part of the role of all health service staff. Health professionals often identify financial issues as part of a holistic approach and can provide effective referral for support. NHS Greater Glasgow and Clyde has formalised their approach in a strategy which was endorsed by The Equally Well Review, published in June 2010 in the recommendation "NHS Boards and other public sector organisations should look to mainstream successful approaches to income maximisation and financial inclusion, such as those developed by NHS Greater Glasgow and Clyde in 2010."

**c) Third/voluntary and community sectors:** Voluntary and community organisations are likely to be in contact with people at times when they are most likely to need help to, and benefit from, changing the way they deal with their finances. These sectors often provide the services which help develop other life skills which sit alongside financial capability and have the sustained contact that is needed to support people as they develop skills. Importantly they are trusted and confided in, and can provide critical advice, support and referral. For example "You First" is a holistic intervention provided by Barnardos, designed to help improve a range of capabilities among participants, including financial capability, and to facilitate access to universal and specialist services. Credit unions are actively involved on a day to day basis in improving the financial capability of their members and have an objective related to "the training and education of the members in the wise use of money and in the management of their financial affairs" [15] Some have financial capability officers to take this role forward.

**Financial capability and wellbeing: Evidence from the BHPS (2009)**

"There is a strong association between financial capability and psychological wellbeing and also between changes in financial capability and changes in psychological wellbeing. We find that greater financial incapability is associated with greater mental stress, lower reported life satisfaction, and a greater likelihood of reporting health problems associated with anxiety or depression."

"Moving an individual with relatively low levels of financial capability to an average level of capability improves their psychological wellbeing by about 6% (compared to an 8% deterioration in wellbeing associated with being divorced, and a 10% deterioration from being unemployed)."

**d) Registered Social Landlords (RSLs):** RSLs are very active in the financial inclusion field, providing benefits and welfare advice services, raising awareness of home contents insurance and providing access to credit unions. This helps to reduce rent arrears, tenancy instability and abandonment and write offs of former tenant arrears. Those working in the housing sector are ideally placed to support tenants to learn good money management skills. Some housing associations have specific financial capability projects for tenants (in particular young tenants) for example tenancy sustainment projects. Hilcrest Housing Association in Dundee has a pre-tenancy project which saw 85% of clients stay out of rent arrears as well as improving take up of benefits and use of social tariffs. During 2008-9 the service saw 394 clients and all of them have been re-housed and are sustaining their tenancies[16]. Half of those identified by the Thoresen Review as being most vulnerable to the effects of poor decision making are in social housing. Support for housing associations is available from the Scottish Federation of Housing Associations and the Chartered Institute of Housing.

[15] Section 3(d) of the Credit Unions Act 1979
[16] Case Study – Hillcrest Housing Association Pre-tenancy project http://www.scotland.gov.uk/Publications/2010/01/18113326/1

**Private Sector:** Businesses have an interest in building the financial capability of employees both as a skill for work and to reduce absence due to stress and related ill health. CFEB runs a programme of free workplace seminars including a tailored seminar looking at the financial impact of redundancy. Support at this time not only helps the individual avoid bad decisions and concentrate on finding alternative employment or training, but can have a beneficial effect on the morale of the remaining workforce by demonstrating that employees are valued. Financial institutions and associated charitable foundations provide extensive support for financial capability, predominantly in schools.

## Some suggested principles for services:

- Services should target groups who evidence suggests are most at risk from the impact of poor decisions such as those on low incomes, young people and single mothers.
- People are most likely to make changes at turning points or when experiencing significant life events; leaving home, having a baby, redundancy. These are also the times when people are most vulnerable to falling in to unsustainable debt. Interventions should accompany/anticipate these life events to have a preventative effect.
- Services should seek to build capacity rather than address 'one-off' problems. That is, provide advice and information in a way that is most likely to result in changed behaviour, for example using peer support or interactive approaches.
- Services should be designed, drawing on accepted good practice, for example by involving attendees in the design of the session, making sure that learning materials are tailored to the group.
- Publicly provided services are part of the drive to tackle poverty and financial exclusion, where an individual has the appropriate resources, they should be visiting an independent financial adviser.

CFEB has been exploring the impact of psychological factors in financial decision making and has recently published *Transforming Financial Behaviour* [17] which looks at how a person's decision making environment or 'choice architecture' impacts on what they do. The study puts forward a number of factors to bear in mind when designing an intervention or a product to give the best chance of achieving a change in behaviour. These are reproduced at Annex E. More information on current practice is available on Financial Learning Online http://money.aloscotland.com/flo/44.28.html, in the Financial Capability Evidence Review published alongside this paper, and at Annex E.

**E. Discussion Question: *How can links be made to other early interventions and work to build capabilities, taking a person centred approach?***

[17] Transforming Financial Behaviour (2010) CFEB

# 6) Possible work for Scottish Government

In order to support practitioners in financial capability and CPPs in co-ordination, the Scottish Government is considering work on the following areas and would welcome your views. If there are other areas where you think the SG could add more value, please let us know.

a) **Influencing national policy and delivery**:

- Provide visible leadership, promoting financial capability through speeches and policy.
- Build relationships with the Treasury and work in partnership with CFEB to achieve greater coordination in financial capability, facilitating connections at the national level.
- Work with CFEB to embed the National Financial Advice Service and ensure that Scottish users gain the greatest possible benefits from it.
- Make links with existing and emerging financial inclusion and income maximisation services and broader connections with other policies – Curriculum for Excellence, the Early Years Framework, Equally Well, employability etc.
- Test innovative new approaches, for example the "You First" project with Barnardos and the Glasgow based Healthier, Wealthier Children project.

b) **Work to fill the gaps in the evidence base and to promote effective practice:**

- Develop a logic model for financial capability and explore the potential to address the gap in longitudinal evidence.
- Explore the development of a toolkit for measuring/evaluating financial capability activity for CPPs. The toolkit would allow self evaluation, comparison between CPPs and generation of a Scotland specific evidence base;
- Carry out an Equality Impact Assessment to highlight equalities aspects of financial capability.

c) **Training for frontline staff**:

- Identify existing availability of financial capability training resources and courses for frontline staff, covering issues such as raising awareness of financial capability needs, identify underlying issues, dealing with minor aspects of financial capability and signposting further help. Identify gaps in training provision and work with relevant partners to fill them.

d) **Supporting Practice:**

- Maintain and develop Financial Learning Online as a resource for workers involved in supporting financial capability out-with schools. Reviewing the site, identifying what users need, promoting new examples of good practice etc.
- Explore whether practitioners would find opportunities for face to face

discussion useful for example topic based networking events and work with the Scottish Centre for Regeneration to meet the need.

- Supporting CPPs by providing a short term national support worker to help them develop a more coordinated approach in their area. The worker would support a number of CPPs for example to identify and bring together organisations with a financial capability interest, agree objectives, map existing activity, resources and opportunities to reach key target groups. The worker would arrange information sharing opportunities between the participating CPPs, for example for analysing relevant data, making links with the SOA, planning referrals for the National Financial Advice Service (Moneyguidance). This group of CPPs could be involved in developing/trialling an evaluation framework for financial capability work (see b above). The learning from the work would be captured and disseminated to stakeholders via the Community Regeneration and Tackling Poverty Learning Network and Financial Learning Online.

**F. Discussion Question: *Would your CPP be interested in support to take forward your financial capability approach?***

**e) Support financial capability development for young people:**

- Fund Young Scot to provide a web-based and telephone service, targeting 16-26 year olds, which gives information about money and finance related topics in a variety of media, including moving to independent living, and signposts young people to specialists for more in depth advice and counselling.
- Explore the potential for an online credit union for Young Scot members in order to raise the profile of credit unions among young people, start the savings habit and offer opportunities for learning and work experience.
- Fund the Scottish Book Trust to develop a graphic narrative resource to support financial capability work with people aged 16 – 26 years.

**f) Targeting groups, settings or services:**

- Employability – Work with the Employability Network to explore opportunities to include financial inclusion and capability in employability support services at the critical points in the employability pipeline.
- Bankruptcy – Work with the Institute of Chartered Accountants in Scotland to develop a resource for people going through the bankruptcy process to help them understand and manage the short term implications for their finances and build financial capability to avoid reaching crisis point again in the future.
- Health - Explore how the NHS can best make links to the national financial advice service and other financial capability support at key life stages for example via NHS inform, the national health information service and through the proposed network of independent Patient Advice and Support Services and the Keep Well /Well North health checks.

- Post 16 learning – Work with Learning and Teaching Scotland to explore the support needs of young people and adults outside and beyond school e.g. via community learning, young people in youth work, literacy and numeracy support.

**g) Employer role, support development of financial capability among Scottish Government staff by:**

- Working with CFEB to make workplace financial capability sessions available to staff.
- Promoting credit union membership.

**G. Discussion Questions:** ***Are these the right actions to support financial capability? Which are the most important areas of work proposed by Scottish Government?***

## Conclusion and Next Steps

The Scottish Government is committed to achieving better coordination in financial capability both at a national and a local level. Key to achieving this will be:

- Effective leadership in prioritising early interventions as we plan for reduced budgets.
- Genuine partnership working
- Building awareness and understanding of the value of financial capability among frontline staff and creating an effective network of signposting and referrals.
- Developing approaches to measurement which allow for informed decisions on the effectiveness of interventions in the future.

The Scottish Government will use the feedback received on this document in the short term to prioritise activity outlined in section 6 and, in the longer term to develop a more co-ordinated approach to financial capability policy in conjunction with COSLA.

## DISCUSSION QUESTIONS

**Please contact:**
**Dorothy.ogle@scotland.gov.gsi.uk**
**Tel: 0131 244 7661**
**with comments and responses to questions by 3 September 2010.**

A. ***Does the paper focus on the right client groups?***

B. ***What do you need to know from CFEB in order to plan for the introduction of the national financial advice service - Moneymadeclear?***

C. ***How can we create a focus on financial capability when the pressure on resources is so severe?***

D. ***Should co-ordination of financial capability work be the role of the Community Planning Partnership?***

E. ***How can links be made to other early interventions and work to build capabilities, taking a person centred approach?***

F. ***Would your CPP be interested in support to take forward your financial capability approach?***

G. ***Are these the right actions to support financial capability? Which are the most important areas of work proposed by Scottish Government?***

# ANNEX A

## ECONOMIC IMPACT OF FINANCIAL CAPABILITY

The purpose of this Annex is to consider the economic and monetary costs of having poor financial capability, not only to the individual, but also to service providers.

### Overall "Costs of Poverty"

A report by Save the Children[18] provides an overall summary of what they view as the costs of poverty – a "Poverty Premium" including the higher cost of insurance from living in a deprived area, and pay-as-you-go rather than a pre-pay mobile phone. The overall conclusion is that the **"Poverty Premium is in the region of £1000 per year**.

| | Typical costs | Costs to low-income households |
|---|---|---|
| One expensive consumer good | £159.99 | £405.00 |
| One £500 loan | £539.00 | £825.00 |
| Three cashed £200 cheques | £0.00 | £49.50 |
| Annual gas bill | £609.70 | £673.70 |
| Annual electricity bill | £339.30 | £368.20 |
| One mobile phone | £315.96 | £395.44 |
| Home contents insurance | £465.85 | £618.80 |
| Car insurance | £475.48 | £571.55 |
| **Total** | **£2,905.28** | **£3,907.19** |
| **Poverty premium** | | **£1,001.91** |

### Purchase of consumer goods

Customers with poor credit histories will struggle to buy electrical goods and other products with credit, and will have difficulty in saving to buy them outright. Some stores have specialised in catering fro this market, offering "white goods" almost exclusively on credit, at high interest rates. The best known example is Brighthouse www.brighthouse.co.uk. With a typical APR of 29.9% goods bought

[18] http://www.savethechildren.org.uk/en/docs/poverty_briefing.pdf

from Brighthouse can attract a total payment of up to twice the immediate cash price. An example[19] is a typical small fridge-freezer, advertised on the Brighthouse website at £238.40 for immediate cash payment. At 3 years worth of weekly £2.20 payments, the overall cost rises to £343.20. When the cost of the (optional, but heavily sold) Service cover is included, the total cost rises to **£529 – a premium of 122% over the original cash price.**

### Access to Bank accounts

People who do not have access to bank accounts can face difficulties in securing employment, getting paid, receiving benefits and undertaking other financial transactions. The establishment and availability of Basic Back Accounts (BBAs) has helped in this matter, but some banks are still confused over the provisions of BBAs. Evidence exists of banks offering people who request details of BBAs (which do not include an overdraft facility) information about normal current accounts. Access to BBAs is particularly difficult for people who have previously been made bankrupt – a recent study by Citizen's Advice found that only 2 out of 17 banks were prepared to offer BBAs to undischarged bankrupts.

If someone does not have any type of bank account, it is difficult for them to gain employment, particularly legitimate employment as opposed to the grey / black market of cash-in-hand employment. Most employers strongly prefer to pay by direct transfer into a bank account, rather than by cheque or cash. Even if a person is able to find an employer who is willing to pay by cheque, non-bank cheque cashing service will take a commission, of the order of 4%, on the value of every cheque cashed. For a person working a full-time job earning the National Minimum Wage, with an gross annual salary of £11,460, these cheque-cashing fees would total more than **£450 per year.**

### Pre-Payment meters

In 2007, Customer using pre-payment meters pay an average of **£215 per year** more for energy than those paying by direct debit, according to Transact, a consortium of debt advice agencies. Pre-payment meters are typically only installed in homes of people who have had difficulty with energy bills in the past, meaning that those in greatest need of affordable energy have imposed on them some of the highest prices.

Customers who have pre-payment meters installed do not always know that there could be a cheaper option available for their energy, and satisfaction rates with pre-payment meters are relatively high. There is also a problem associated with "back-billing, where an energy company alters it's price levels, but is unable to make the necessary adjustments to pre-payment meters immediately. This can

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[19] All prices taken from Brighthouse website July 2010.

lead to people unwittingly running up arrears and receiving large bills when the underpayment is resolved, eliminating one of the key advantages of pre-payment meters, namely the ability to manage a families' energy budget.

### Citizen's Advice

Statistics for 2009/10[20] show that, of the 7.1 million cases that Citizen's Advice dealt with, debt accounted for the largest single topic on which advice was requested. 2.37 million cases of debt advice were dealt with, a rise of 23% over the previous year. Over half of all enquiries to Citizen's Advice were with regard to either debt, or benefits and tax credits – topics which are disproportionately relevant to the poorest sectors of society, and which have the highest potential to be reduced through increase financial capability. **During 2009, Citizen's Advice Scotland dealt with cases of consumer debt totalling £271m**

### Health implications

A lack of financial capability, leading to debt, can result in health problems. Evidence from AXA[21] suggests that a quarter of all adults in the UK, and 46% of those in Scotland have hidden or concealed the amount of debt that they have from a partner or family member for fear of their reaction. AXA also suggest[22] that, in 2006, 3.8m people across the UK had taken time off work as a result of money worries. On the very conservative assumptions that each of these people took only 1 day off work, and that they earned only the minimum wage, the first-order costs to the economy of the **lost working time would be in the order of £165m per year**. In addition, there will be costs to the NHS associated with GP appointments and potential hospital treatment with regard to the illnesses caused or exacerbated by debt, but these are not specifically identifiable from the data available.

### Council Tax

In Scotland, in 2008-09, over £100m of council tax bills were uncollected in Scotland, representing 5.6% of the total amount due. No data are available on the reasons behind the non-payment of Council Tax bills, but at least a portion of the non-payment will be due to unaffordability and poor budgeting caused by a lack of financial capability.

### Social costs of a lack of financial capability

[20] http://www.citizensadvice.org.uk/index/pressoffice/press_index/press_20100517.htm
[21] http://www.axa.co.uk/media-centre/media-releases/news-story?id=20091112_1200
[22] http://www.axa.co.uk/media-centre/media-releases/news-story?id=20060120_0900

In purely economic terms, the costs associated with a lack of financial capability are not necessarily negative in social terms. For example, the additional money paid through buying consumer goods in instalments through Brighthouse or similar companies does not vanish into the ether. The money is retained within the economy, through increased profits, dividends etc, and continues to circulate. However, such money may well be lost from the local, or Scottish economies.

In addition to the costs to the individuals and families directly involved, there are other, social, costs associated with a lack of financial capability. We have seen how the costs of stress associated with poverty and poor financial knowledge can lead to a loss to society in terms of days off work leading to lower productivity. Other potential costs to society, which are very hard to quantify, include the costs of health treatment with regard to debt-induced illnesses, the costs associated with relatively high crime rates in areas of deprivation, and the public costs of ensuring quality housing is available for those who cannot afford market rents.

A final relevant factor is the cost to the taxpayer of additional benefits / tax credits that may be necessary to provide people suffering from a lack of financial capability with enough income to maintain an adequate standard of living. In the current public finance situation, any additional money to be paid by the public purse is a matter of concern, but in economic terms, these payments are transfer payments, and do not necessarily represent a net loss in overall economic welfare.

**Leeds City Council Financial Inclusion Initiatives Economic impact and regeneration in city economies**

Research commissioned by Leeds City Council in order to understand the economic impact of their financial inclusion work found that it delivers up to £26 million of increased disposable income to the city of Leeds and an impact on the regional economy of over £28million. This is achieved through interventions such as providing access to affordable credit, increased benefit up-take and reduced financing costs through debt advice. This economic impact is produced from total operating costs of £3.3 million, which means that for every £1 invested in financial inclusion initiatives £8.40 is generated for the regional economy. This is a link to the full report:

http://www.leeds.gov.uk/Advice_and_benefits/Community_advice/Financial_inclusion_project_Research_2009_on_Economic_impact_of_initiatives.aspx

**Thoresen Review – Economic Impact Assessment for Moneyguidance**

The Thoresen Review carried out a detailed cost benefit analysis in relation to Money Guidance and the analysis was updated using data from the pathfinders to produce the impact assessment for the Financial Services Act. Benefits delivered to consumers, government, the financial services industry, the wider economy and society from the Money Guidance service alone are estimated at £644m a year, when averaged out over a lifetime, while the average annual cost of CFEB is £79m.

The cost benefit analysis identifies benefits for consumers, the financial services industry and for government:

- Benefits to **consumers** and their families are measured in terms of better budgeting, management of debt, "shopping around", investment in pensions, increased protection. By helping people manage their finances better and plan for the future, financial capability interventions can help them to avoid the distress of financial difficulty and improve their financial and overall wellbeing
- The **financial services industry** will benefit from more informed and capable consumers resulting in a reduction in the cost of default, reduced marketing and distribution costs, increased propensity to purchase financial products and reputational benefits as consumers understand the industry better.
- Examples of the long term benefit to **Government** are savings in the funding for debt advice agencies, increased take up of benefits and a decrease in pension credit in future years and increased tax receipts from the increase in financial services product holding.

The Treasury's benefit forecasting is based only on the impact on the proportion of people using the service who are most vulnerable to the consequences of poor financial decision making. Benefits based on total usage of the service could be significantly higher.

Financial Services Bill Impact Assessment: www.hm-treasury.gov.uk/d/fin_**bill**_ias.pdf

Thoresen Review of Financial Services: http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/thoresenreview_final.pdf

# ANNEX B

### NATIONAL OUTCOMES AND INDICATORS

Work to improve financial capability supports the Economic Strategy, Solidarity target, and strategic objectives, Wealthier and Fairer and Smarter in particular. Outcomes and indicators where financial capability makes the greatest contribution:

**National Outcomes**

- We have tackled the significant inequalities in Scottish society
- We realise our full economic potential with more and better employment opportunities for our people
- Our children have the best start in life and are ready to succeed
- We live longer, healthier lives

**National Indicators**

- Decrease the proportion of individuals living in poverty
- Reduce number of working age people with severe literacy and numeracy problems
- Increase the average score of adults on the Warwick-Edinburgh Mental Wellbeing Scale by 2011

**Local Indicators**

Financial capability may also make a contribution to local indicators, for example economy, poverty and employability indicators.

**Financial Inclusion Indicators** - Source – Scottish Household Survey

- Proportion of households where respondent or partner has a bank, building society or credit union account
- Proportion of Households that are coping well or very well financially
- Proportion of Households that have some savings (i.e. more than none at all).

The DWP Financial Inclusion Champions are developing a Financial Inclusion Toolkit which will include Area Profiles for each Local Authority which set out relevant Financial Inclusion indicators. A link to the toolkit will be available on the Scottish Government website when it goes live.

**Links to COSLA Priorities**

The Scottish Government and COSLA have agreed priorities for action and investment across three main areas, all of which financial capability can make a contribution: -

- ***Tackling Income Inequalities***: by making work pay, maximising opportunities to work and maximising income for all.

- ***Addressing Long-Term Drivers of Poverty***: through providing all children and young people with the best start in life, promoting equality and tackle discrimination, dealing with health inequalities, delivering good quality affordable housing and regenerating disadvantaged communities.

- ***Supporting Those Experiencing Poverty Now***: by delivering a fairer system of local taxation, supporting more citizens who face hardship as a result of rising energy prices, and measures to ensure greater financial inclusion.

# ANNEX C

**PRACTICE EXAMPLES – CPP Approaches**

## 1) Approach to Financial Capability Glasgow

**Summary of approach:**
Glasgow City Council commissioned a Financial Awareness Strategy in 2005. Lack of financial capability was identified in a 2002 review of advice and information services. The strategy focused on 'education, awareness raising and early intervention' targeted at vulnerable groups at key transition points in life. The strategy had four key workstreams, Learning, Families, Employment, and Retirement. In practice, financial capability involves providing advice and information in key areas:

- Budgeting, keeping track of finances and value for money
- Borrowing. Understanding how credit operates, becoming able to compare the cost of credit, and identifying sources of affordable credit
- Benefits. Understanding welfare benefits, eligibility and knowing how to apply for them
- Banking. Understanding the benefits of having a bank account and advice on how to open, and operate, one effectively.

The Scottish Executive's Financial Inclusion Action Plan (2005) and the FSA's National Strategy for Financial Capability (2003) also influenced Glasgow's strategy significantly.

**The issues:**
Financial exclusion, and lack of financial capability, mean that the most vulnerable in society pay more for credit, fuel and others goods and services. Lack of financial capability also makes people far more vulnerable to problem debt. It can also affect someone's ability to sustain a job or a tenancy, and have a negative impact on their health and wellbeing. Increased financial capability makes it easier for those in poverty to cope because they can achieve a better standard of living, on the same level of income, by budgeting effectively, using banking services effectively, ensuring they are paying the minimum necessary for fuel costs, changing their borrowing habits and shopping around for goods and services.

**The approach to the issues:**
Funding was provided to advice agencies to provide a dedicated financial capability service aimed at vulnerable groups. Work was also done with employability services to encourage them to embed financial capability in mainstream employability services.

A programme of financial education in schools was developed in partnership with Learning and Teaching Scotland's Scottish Centre for Financial Education and the Council's Education department. Key partners were "Determined to Succeed's" Enterprise & Employability Officers. The Council worked with FSA's (now CFEB) "Make The Most of Your Money" and "Young People & Money" programmes to target clients not accessing mainstream advice services.

**Evidence of success:**
Monitoring and evaluation of projects demonstrated many positive outputs, such as; opening a bank account, taking advantage of direct debit discounts, saving and borrowing with a credit union rather than home credit, switching fuel provider, shopping around etc. But financial capability involves attitudinal and behavioural changes which contribute to longer term outcomes which are more difficult to measure.

**Lessons Learnt:**
- Financial capability is a cross cutting issue that affects many people, not just those with problem debt.
- Working closely with intermediaries and partners who have direct contact with clients at the right time is crucial.
- Financial capability is most effective when incorporated into other work such as employability, tenancy sustainment, and energy awareness etc.
- Partners generally acknowledge the benefit of increased financial capability and are willing to incorporate it into mainstream services.

**What next:**
The Council has moved to a commissioning approach for Financial Inclusion and Housing Information & Advice Services, with three year contracts which commenced in July 2009. Financial capability is a 'core service' which is delivered by each contractor, which means that it is embedded in the mainstream activity of advice agencies across the city. The Council continues to work with Learning and Teaching Scotland to develop a 'planned, coherent approach' for financial capability in all the city's learning establishments, in accordance with curriculum for excellence. The Council continues working with CFEB's workplace seminars, Money Guidance and Young People & Money programmes.

**Contact:** Alasdair Watt, Glasgow City Council
**Tel:** 0141 287 8486
**Email:** Alasdair.watt@fs.glasgow.gov.uk

### 2) Approach to Financial Capability West Lothian

West Lothian Financial Inclusion Network is a registered charity and partnership organisation. Their aim is to ensure that all West Lothian residents are aware of their financial choices and to promote access to financial advice, products and other services, particularly for the most excluded social groups. Over 60 organisations are involved in the network, with services including credit unions, employability, welfare advice, health and financial capability.

**The issues**

Clients facing financial hardship can be unaware of the financial choices, products or advice available to them. This is especially true for the most excluded social groups. This can lead to insecurity, stress, spiralling debt and a reliance on high interest doorstep lenders.

**The approach to the issues**

The network works closely in partnership with a range of public, voluntary and private organisations to achieve its goals. Activities include organising seminars, events, training courses, the production of training/educational tools and administering a small projects fund.

**How we got started**

The organisation evolved from a network with members to an organisation with staff. Unusually for a Financial Inclusion Network it is now a registered charity with management committee (committee members represent West Lothian Council, West Lothian Credit Union Forum, Skills Development Scotland, the Pension Service, Department for Work and Pensions ( DWP), and the Federation of Small Businesses).

**Evidence of success**

- Seminars each attended by more than 50 intermediaries from all sectors
- Closer partnership working between agencies leading to successful outcomes, eg over 4800 new credit union members in three years, advice services exceeding targets
- Small projects funded include the launch of the Money Minefield board game (being distributed to 100 organisations), a Divali event attended by 200 people and the production of 500 booklets on benefits available to parents of children with disabilities
- Recognition by Community Planning Partnerships (CPP) of the contribution towards achieving Single Outcome Agreement (SOA) targets.

**Lessons learnt**

- Partnership working is key
- Need support from all sectors at all levels
- Need for innovation

**What next**

The network is employing a development officer until 31 March 2011 funded by DWP to build closer links with the business community and to develop a formal referral structure and joint training initiatives with a range of local organisations in the public, private and voluntary sectors. The expected outputs over this period include a training and information toolkit to identify help for customers at risk of financial exclusion.

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### 3) Approach to Financial Capability South Lanarkshire

#### Summary of Approach

South Lanarkshire Council (SLC) Financial Education and Advice Team is part of the Consumer and Trading Standards Service, mainly funded by the Scottish Government via the Fairer Scotland Fund. The principal objective is to develop financial competence by improving understanding and capability of the residents of South Lanarkshire and encourage behaviour and skills for lifelong change. Partnership working with public, private and voluntary organisations, plus an outcome based approach, was designed into the project. Although there is a focus on the socially and financially excluded, the project works with an extensive client group and so delivers both preventative and crisis led programs.

#### The Issues

Lack of financial capability is common, particularly among certain excluded and vulnerable groups. This leads to poor financial choices which have long term detrimental effects, such as a reliance on high charging 'non-status' lenders. Even individuals facing financial hardship due to a change in life circumstances can be unaware of the impact of their financial decisions; and their lack of skills, knowledge and confidence on financial matters can lead to further problems which impact on other areas such as relationships, health and wellbeing.

#### The approach to the issues

The project provides group training seminars, one-to-one coaching, advice, support and assistance and also carries out awareness raising campaigns. A 'multi-channel and preventative approach' was adopted, focussing on not just certain excluded social groups, but also on Primary and Secondary Schools. Creating and developing relevant and engaging materials for client groups was integral, the most recent launch being an interactive animated DVD for primary school children 'The Treasure of Money Island', plus an information folder for the 50+ .

#### How we got started

In 2006, Consumer and Trading Standards were part of a successful SLC bid for funding from the (then) Scottish Executive to develop and deliver financial inclusion initiatives. The project initially employed five staff, and started with a 'clean slate' with regard to its service model and delivery mechanisms. Funding was then continued by the Scottish Government by way of the 'Fairer Scotland Fund'. However, this has been rolled up into all Local Authorities general revenue funding for 2010-11.

**Evidence of success**

- Outcomes set have been met, and in most cases exceeded; and an increase in demand for the service year on year
- The service contributes towards, and helps partners achieve the following:
  - SLC Environmental and Strategic Services Objectives
  - SLC Single Outcome Agreement priorities
  - Lanarkshire Community Justice authority Area Plan
  - National Strategy for the Management of Offenders, offender outcomes
  - Curriculum for Excellence; money/numeracy outcomes, plus national outcomes
- Assisted other Local Authorities in Scotland o establish similar projects, plus sold materials to them
- Request from other Local Authority in England and Wales, plus the UK Local Government Regulation body, for advice, information and assistance.

**Lessons learnt**

- The skills, commitment and enthusiasm of staff are key to success.
- Engaging with partners and the client groups are vital.
- Using materials and information specifically developed for particular groups is vital (one size does not fit all); it has to be accessible and delivered in a range of formats.
- Use of technology to improve engagement and interactive contact, and to ensure inclusion of the more vulnerable or those with additional support needs.
- Adaptability and responsiveness; if the delivery model or plan is not successful, change it.

**What next**

- Encourage other organisations and agencies to embed financial capability training into their work, and encourage closer working relationships with other services that can assist their client groups (e.g. money and benefit advice services, credit unions, mental health services, veterans organisations etc.)
- Secure funding to continue the project and satisfy demand from agencies and organisations outwith Lanarkshire, develop a strategic co-ordination and co-operation project providing support at the point of need by the best method and looking at personal support, technology and other tools to deliver this; and link our work to a research project with a Scottish University.

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# ANNEX D

**FINANCIAL CAPABILITY – LINKS TO OTHER POLICY AREAS**
Source - Financial Capability – Local Public Sector Funding – Citizens Advice Financial Skills for Life

**Housing/Maintaining Tenancies**
Improving tenants' financial capability has the potential to reduce rent and council tax arrears, lost income due to writing off former tenant arrears, costs associated with tenant turnover, evictions, court actions and abandonment and the staff time involved.

**Employment**
Financially capable individuals are more likely to gain, sustain and progress in employment. They will be more able to control their wages, remain out of bad debt, avoid illness (for example stress) and therefore remain in employment.

**More Choices More Chances**
Improving the financial capability of those in need of more choices and more chances will improve their confidence along with their money management skills and will allow them to move into education, employment or training. This could either be direct to young people or through their youth workers. E.g. housing officers, young offenders teams etc.

**Adult Learning and Skills**
Financial capability can be delivered as part of an accredited course. It is also a means of increasing the confidence/life skills of, for instance, young adults to return to education and cope financially as a student.

**Learning Disabilities**
Many people with learning disabilities have little control over their own resources. Providing financial education can give them more independence and therefore confidence in finding and sustaining accommodation and employment.

**Mental Health**
People with mental health conditions are three times more likely to be in debt. Sufferers often need extra support around their finances. Working with them on financial capability can help them to increase confidence and life skills and therefore help them settle into accommodation and employment.

**Offenders/Young Offenders**
There are many factors that contribute to re-offending, including debt, disrupted benefits advice and insufficient funds. Good budgeting and money management skills are key in addressing these problems. Financial capability can help offenders settle back into the community. It helps them acquire and sustain accommodation and employment, as well as increasing general confidence

which could then help in other areas of their everyday lives. This training may be particularly important if the offender has been in prison for a lengthy time or since the introduction of changes to the system e.g. chip and pin.

**Domestic Violence**

Providing financial capability to victims of domestic violence can give them the confidence to leave their partners and live independently. Additionally, domestic violence often includes financial abuse, i.e. restricted income from partners, so improving confidence around finance might also offer the impetus to move away from a violent partner.

**Child Poverty**

This is linked to helping people claim benefits and deal with debt. Targeting financial capability towards low income families and in particular lone parents can help them to budget, borrow and save more effectively and also to become more aware of benefits available to them.

**Fuel Poverty**

Financial capability training will help clients to switch towards alternative suppliers and understand how to make energy savings. This can help alleviate the problem of fuel poverty as well as providing the general financial capability elements of budgeting, borrowing, saving etc.

# ANNEX E

## GOOD PRACTICE IN INTERVENTIONS

### A –Transforming Financial Behaviour – CFEB Research on Behavioural Economics

Transforming Financial Behaviour discusses the automatic element of decision-making, not influenced by information giving or education and the potential to build an environment which pre-disposes people to make better decisions. The study explains the MINDSPACE framework (Messenger, Incentives, Norms, Defaults, Salience, Priming, Affect, Commitments, Ego) and goes on to suggest ten points for checking that policy interventions take automatic processes into account:

1. Use the best person or channel to provide education/information.
2. Provide incentives to change behaviour.
3. Use mental accounting to encourage provision for unexpected outcomes.
4. Provide relative information on peer group, i.e. people like you.
5. Use a default behaviour to encourage action.
6. Provide feedback to encourage money management.
7. Present outcomes in such a way that invokes particular feelings or influences behaviour.
8. Make a commitment to an action or behaviour.
9. Set realistic targets and goals.
10. Financial health checks that challenge negative self-beliefs and norms.

Read more about the research and its applications at: http://www.cfebuk.org.uk/about_us/publications/index.shtml

### B. Sharing a Wealth of Experience - What makes a successful financial learning project?

Sharing a wealth of experience: Scottish models of financial learning for adults
http://money.aloscotland.com/flo/44.28.html drawing on 14 case studies, published online by the Scottish Government in September 2009.

There is no one rule for success. Different approaches work in different contexts, in different geographical areas, with different audiences. However, the case studies suggest that anyone developing a financial capability project should bear in the mind the following:

- A *partnership* approach so that learners have access to support and guidance
- *Engaging learners* e.g. sessions to existing groups
- Learning *activities* delivered in an environment where learners feel comfortable

- *Materials* appropriate for the learners and relevant to their situations.
- *Progression* and *support* to further learning

**C. Key learning points – Scottish Government Pilots**
Drawn from "Evaluation of six financial education projects, Citizens Advice Scotland, Niall Alexander, 2006" and "Evaluation of Greater Easterhouse Money Advice Project – Financial Education Programme, Blake Stevenson Limited, 2007"

- Partner relationships required time to come to fruition.
- Key financial inclusion partners, such as credit unions, help sustain the projects in the long term.
- Flyers, leaflets and letters proved unsuccessful for capturing partner interest. Business cards, emails and cold calling proved more fruitful.
- A steering group proved effective, which met quarterly, with representatives from local voluntary, private and statutory agencies. This allowed for networking and maintaining a close interest in progress and the overall focus of the project.
- Project champions proved to be a key factor in the increase in project partnerships and beneficiaries.
- Pre-meeting with partner organisation and/or beneficiaries ensured maximum impact during sessions.
- Partnerships were particularly productive when there was a "captive" or mandatory audience.
- Relationship building between the officer and the beneficiaries were crucial in the success of the project.
- An "opt out" approach to key target groups proved more fruitful than "opt in".
- A focus on resolving immediate issues prior to preventative measures were effective.