

FINANCIAL CAPABILITY DISCUSSION

SUMMARY OF RESPONSES AND UPDATE ON PROGRESS

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Introduction

In July 2010, the Scottish Government produced a discussion paper and evidence review on financial capability. These documents are the starting point in developing a consistent policy on financial capability to guide Scottish Government activity and to influence and support Community Planning Partnerships (CPPs) and Local Authorities to promote, integrate and coordinate financial capability work in their areas. The target groups are individuals, families and communities:

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

This paper summarises the responses to the discussion paper and gives an overview of developments since it issued. For more policy background, information on definitions of financial capability, groups in particular need and the components of service delivery, please see the original Financial Capability Discussion Paper and Evidence Review at: <http://www.scotland.gov.uk/Topics/People/tackling-poverty/TacklingScottishPoverty/Financial-Capability>

1) Scottish Government and COSLA Commitment

Financial inclusion and financial capability can be seen as ‘two sides of the same coin’. Capability relates mainly to the skills, knowledge and motivation of individuals while inclusion relates more to the design of the systems and products they encounter. Both have equal relevance. Scottish Government is committed to progressing both the financial capability and the wider financial inclusion agenda. In recognition of the priority given to tackling poverty, the SG social inclusion budget for 2011-12 remains unchanged from 2010-11.

Many families living in poverty have developed effective financial skills to cope with living on a low income, budgeting to within a penny. The Scottish Government recognises that financial capability alone is not the answer to the complex financial exclusion issues faced by vulnerable and excluded groups.

Choices are limited by poor access to alternative products and services, low income and often by the prevailing culture. The individual cannot overcome financial exclusion on his or her own, the supply side (the products and services available) and the demand side (the skills, knowledge and motivation of the individual) need to be tackled in parallel. Financial capability is a key part of this approach, building skills and resilience so that crises can be avoided in the future.

The Scottish Government also understands that the current funding situation and the impact of welfare reform make this a very difficult time to give a focus to financial capability. Despite the financial challenges and alongside other financial inclusion activity, we need to concentrate 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 that can be used to improve the income and other circumstances of those most vulnerable to poor outcomes. The long term ideal is for integrated money advice where financial capability sits alongside income maximisation and debt advice. The client would be supported to look at what they can do to protect themselves, plan ahead and avoid a crisis as well as being provided with specialist advice e.g. on benefits or debt. Recent research for the Consumer Financial Education Body has confirmed that “improving people’s current financial management skills – and in particular relating to their ability to make ends meet – will not only have immediate effects on, for example, their psychological wellbeing, but also have longer lasting effects on their mental health, living standards, savings behaviour and household income”¹. We need to think about how we can give priority to financial capability now so that we can reduce demand for crisis services in the future and prevent the personal and social damage caused by unsustainable debt.

Financial capability requires a different approach to some other financial inclusion interventions and specific co-ordination in Scotland because:

- infrastructure and delivery mechanisms for financial capability are relatively undeveloped. The network of people delivering financial capability is complex and diffuse.
- financial capability seeks to build on positive attributes rather than to address a deficit – an asset based approach.
- policy is devolved to the Scottish Government and policy development is linked to the wider shift to early intervention, a focus on outcomes and the implementation of the three Scottish Government and COSLA social policy frameworks; *Achieving Our Potential*, the Early Years Framework and *Equally Well*. This means taking a more holistic, approach, mixing specialist and targeted services with problem identification and signposting in mainstream frontline services.

COSLA has for a long time recognised the need to move towards preventative rather than reactive spending. COSLA recognises that this is particularly

¹ CFEB Consumer Research Report 03 - The long term impacts of financial capability: Evidence from the BHPS

important given the increasing financial challenges which we are all now faced with, and highlights the need for immediate action to develop a model jointly across the public sector which will support and allow for the process of early intervention and prevention.

This view is endorsed by the Scottish Parliament Finance Committee, whose recent inquiry to consider and report on how public spending can best be focussed over the longer term on trying to prevent, rather than deal with, negative social outcomes concluded:

“Considerable and sustained planning and investment will be required over the long term to ensure that the transition to a more preventative approach can be achieved. The Committee is therefore greatly encouraged by the widespread recognition that current patterns of reactive spending are not sustainable. “

2) Tackling Poverty Board - Financial Capability Recommendation

A Tackling Poverty Board was established by the Scottish Government and COSLA in September 2009 to review policy and practice to reduce poverty in Scotland in the light of the additional challenges and opportunities created by the economic downturn, and the developing experience of the Scottish Government's performance framework and concordat with local government. The Board comprises 12 representatives from central and local government, the private sector and the third sector.

The Tackling Poverty Board has taken an overview of the implementation of *Achieving our Potential*, as well as considering broader approaches to tackling poverty in Scotland. It is keen to support and endorse the underlying early intervention principle of the three social policy frameworks (*Achieving our Potential*, *Equally Well* and the Early Years Framework) and to highlight the increasing importance of safeguarding disadvantaged individuals, families and communities from the effects of the cuts in public sector expenditure. The Board has developed some additional principles to drive forward progress and these are outlined in its statement which was published on 27 January 2011: www.scotland.gov.uk/Topics/People/tackling-poverty/tacklingpovertystatement

The Board commissioned a range of work around financial capability including an evidence review and logic model. Its findings prompted specific recommendations in relation to financial capability in the Tackling Poverty Board statement:

- “The Board wishes to reinforce the importance of financial inclusion as a powerful lever in tackling poverty. It endorses the recommendations in the financial capability discussion paper and the tackling poverty-related recommendations in the *Equally Well Review*, in particular that public sector organisations should look to mainstream successful approaches to income maximisation and financial inclusion.

- Financial capability services, which help people build the skills and motivation to make informed decisions about money, should be regarded as preventative spend and protected on that basis against cuts to funding levels. There is a need to highlight the huge impact that low income has on financial capability, and that low income should be seen as part of the problem. Financial capability shouldn't however be regarded as a substitute for the provision of simple and accessible financial products and services."

The evidence review and logic model will be published on the Tackling Poverty Board pages of the Scottish Government website: www.scotland.gov.uk/Topics/People/tackling-poverty/Initiatives/TacklingPovertyBoard and will be further developed by the Financial Inclusion Team and the Financial Capability and Inclusion Advisory Group. See 3. below.

Part of the future work for the Tackling Poverty Board will be to look at how to shift resource from crisis intervention to early intervention and prevention work in relation to poverty.

3) National and Local Coordination

The newly established Consumer Financial Education Body (CFEB) (soon to be re-named the Money Advice Service) provides a universal financial capability service at a national level and has a statutory duty to enhance:

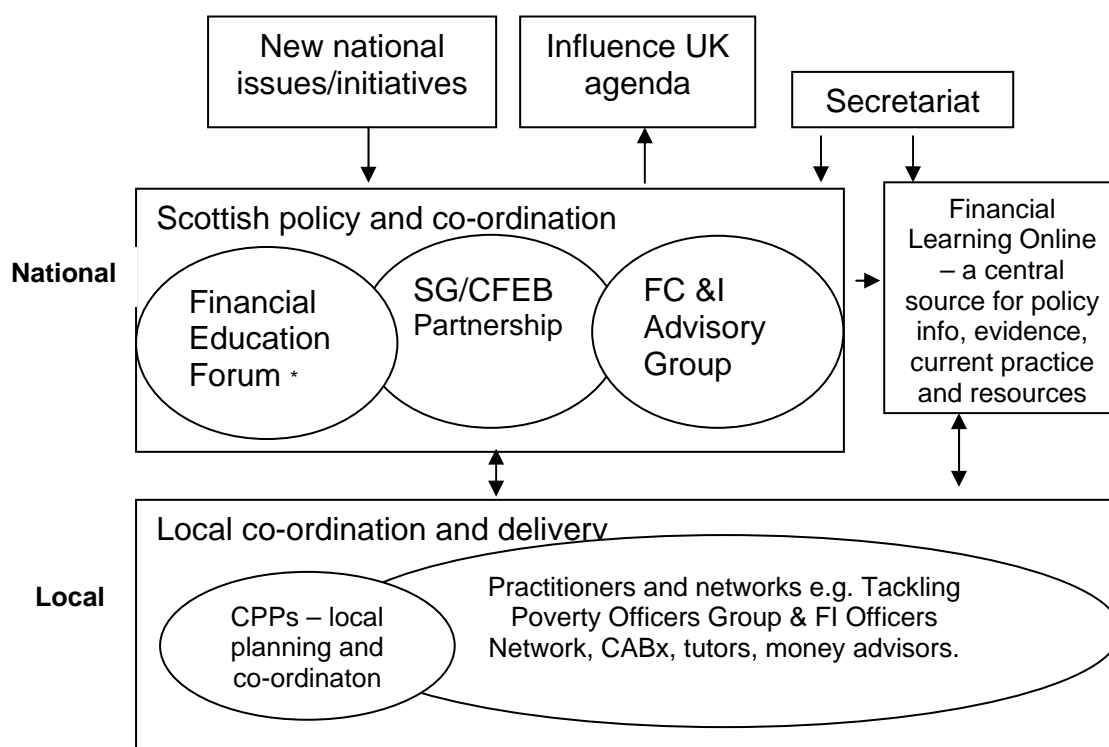
- the understanding and knowledge of members of the public of financial matters (including the UK financial system); and
- the ability of members of the public to manage their financial affairs.

The CFEB is developing its long term plans as an independent organisation, including the roll out of the National Financial Advice Service and financial health checks. Citizens Advice Scotland (CAS) will be delivering the National Financial Advice Service in Scotland, starting on 1 April 2011.

The Scottish Government and CFEB are working in partnership to put in place a framework for co-ordination and communication on financial capability issues in Scotland. This is intended to give financial capability a national focus and profile and to provide leadership and coordination. The Scottish Government and CFEB will be supported by a stakeholder group drawn from a range of organisations involved in financial capability, the Financial Capability and Inclusion Advisory Group. The papers for the Financial Capability and Inclusion Advisory Group will be available on Financial Learning Online (FLO): http://money.aloscotland.com/flo/CCC_FirstPage.jsp. FLO will be upgraded and re-launched as FLOScotland in Summer 2011. The aim is for it to be the main Scottish web-based resource for workers and policy makers involved in financial capability out-with schools, providing easy access to relevant information.

At a local level, 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. The Financial Capability Discussion Paper offered a suggested framework for service delivery for financial capability which was broadly supported by comments from those who responded to the paper: www.scotland.gov.uk/Topics/People/tackling-poverty/TacklingScottishPoverty/Financial-Capability

This diagram shows how organisations and groups might work together:



*supported by Learning and Teaching Scotland

Improving national and local co-ordination is intended to allow for:

- Local views on priorities and emerging issues to be heard at a national and UK level.
- The implications of UK wide issues or projects to be considered at a national level and information passed on to the local level.
- Easy access to relevant information and resources as well as the sharing of good practice via Financial Learning Online.
- Identification of opportunities for disseminating information and practice and for networking.

- Linking activity across the lifetime and life experiences of the individual i.e. improved connection between work in schools and post and outside school work.

4) Financial Capability Discussion Responses

The discussion paper was distributed through a variety of networks and circulation lists, inviting comments and discussion around a number of questions. There were 21 responses to the discussion paper, covering a good range of sectors and interests, in particular, community planning partnerships or partners and third sector organisations. Key points emerging from the discussion were:

- There is clear support for financial capability work but great concern that CPPs will not be able to divert resources in the current financial climate. Where there is provision already, it may be under threat and expertise is likely to be lost.
- Partnership working is key. CPPs are the natural coordination and planning mechanism for financial capability and some are already taking this role but it can be difficult for third sector organisations and national organisations to engage at CPP level.
- Holistic approaches, signposting by frontline staff to a specialist service and the integration of financial capability in to relevant existing services were seen as the key to delivery.
- Financial capability interventions need to be developed alongside and not instead of other financial inclusion activity.

A summary of the main points raised in responses is below at Annex A. The Scottish Government will use the information gathered in the discussion process to inform policy development and renew the focus on financial capability as an early intervention.

5) Current and Future Work

The Scottish Government has used comments from stakeholders to inform its current and future work plan. The table below gives an update on current and future work:

Objective	Work Under Way
a) Influencing national policy and delivery:	<ul style="list-style-type: none"> • Offering visible leadership, promoting financial capability through speeches and policy development. • Build relationships with the Treasury and a partnership with CFEB to achieve greater coordination and better national connections on financial capability, including improved connections between work in schools and post and outside school. • Make links with existing and emerging financial inclusion and income maximisation services and broader connections with other policies – Curriculum

	<p>for Excellence, the Early Years Framework, Equally Well, Welfare Reform, employability/the Work Programme, housing etc.</p> <ul style="list-style-type: none"> • Test innovative new approaches, for example the “You First” project with Barnardos and the Glasgow based Healthier, Wealthier Children project. • Work with CFEB and CAS to embed the National Financial Advice Service to ensure that Scottish users gain the greatest possible benefits from it.
<p>b) Work to fill the gaps in the evidence base and to promote effective practice:</p>	<ul style="list-style-type: none"> • A logic model for financial capability was developed and published as part of the work of the Tackling Poverty Board. The Financial Inclusion Team will work with the Financial Capability and Inclusion Advisory Group to explore its implications for policy and practice, refine it further and fill gaps in evidence. • Financial Capability questions to be included in the next phase of the Growing Up in Scotland study. • Explore the possibility of using Royal Bank of Scotland Moneysense data in the evaluation of financial education in Curriculum for Excellence. <p>For future consideration:</p> <ul style="list-style-type: none"> • Consider the development of a toolkit for measuring/evaluating financial capability activity. • Carry out an Equality Impact Assessment to highlight equalities aspects of financial capability and identify evidence gaps.
<p>c) Training for frontline staff:</p>	<p>To inform future provision, research is being commissioned to:</p> <ol style="list-style-type: none"> 1. Map what’s available, including who the training resources are for and what their focus is; 3. Explore whether the financial capability sector can learn lessons from other sectors about provision of training resources e.g. adult literacy services or the debt advice sector. <ul style="list-style-type: none"> • SG will work with CFEB and the Financial Capability and Inclusion Advisory Group to put in place suitable support for the financial capability sector including training provision, networking, online support, qualifications and professional development. • Seek to include financial capability in the National Standards for Information and Advice Professionals.
<p>d) Supporting Practice</p>	<ul style="list-style-type: none"> • Financial Learning Online has been subject to a detailed review, identifying what users need, updating and identifying gaps in content and developing a plan for promotion. The site will be migrated to a new platform with a more accessible

	<p>URL and re-launched in Summer 2011 as FLOScotland. The aim is for it to be the main Scottish web-based resource for workers and policy makers involved in financial capability out-with schools, providing easy access to relevant information.</p> <ul style="list-style-type: none"> • An event for financial capability practitioners is planned for Summer 2011. This will bring together the wide range of people interested in financial capability and explore what support they need to progress their work. <p>For future consideration:</p> <ul style="list-style-type: none"> • Explore with CPPs who responded to the discussion paper and the Financial Capability and Inclusion Advisory Group what is required to support CPPs in planning and coordinating financial capability activity.
<p>e) Support financial capability development for young people:</p>	<ul style="list-style-type: none"> • Funding will continue for Young Scot to provide a web-based and telephone service, targeting 16-26 year olds, giving 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. • A scoping study has been completed and initial plans developed 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. Young Scot is taking this work forward with Scotwest Credit Union. • The Scottish Book Trust has been funded to develop a graphic novel to support financial capability work with people aged 16 – 26 years. “Skint” has accessible story lines and has been welcomed by tutors and youth workers as an excellent way to engage harder to reach and excluded young people in discussion about money. It will be published in September 2011.
<p>f) Targeting groups, settings or services:</p>	<ul style="list-style-type: none"> • Employability – a section on financial inclusion has been added to the Employability Network website • Post 16 learning – Work with Learning and Teaching Scotland to support the Bank of Scotland funded Money for Life initiative. Scotland’s Colleges is working with Local Authorities, Community Learning and Development, Adult Literacies, CABx and others in a variety of ways, for example providing introductory workshops or identifying specific training

	<p>needs, to extend financial capability provision by equipping staff in a range of agencies.</p> <ul style="list-style-type: none"> • Employability – As the Work Programme is introduced, 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. • Health - Explore how the NHS can best make links to the national financial advice service and other financial capability support at key life stages <p>For future consideration:</p> <ul style="list-style-type: none"> • 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.
<p>g) In its role as an employer - support development of financial capability among Scottish Government staff by:</p>	<ul style="list-style-type: none"> • An ongoing programme of workplace financial capability sessions is now included in the CPD menu for Scottish Government Staff. • Two rounds of workplace presentations have been conducted by Capital Credit Union. • Scottish Government will promote the National Financial Advice Service and financial health check with its own and wider public sector staff.

Financial Inclusion Team

February 2011

Annex A

Financial Capability Discussion – Summary of Responses

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

There was general agreement with the broadly defined client group specified. Several respondents highlighted the needs of older people. Other specific target groups mentioned were: lone parents, kinship carers, people with basic bank accounts, people opting for the LILA route to bankruptcy, people with long-term illnesses, people with learning disabilities, people with mental health problems, young people leaving care.

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

Several questions about the organisational and practical details of operation were raised. Information is needed to inform decisions on associated services and to make appropriate connections. The contract for the national financial advice service in Scotland has been awarded to Citizens Advice Scotland (CAS). CAS is in the process of gearing up and delivery will commence on the 1st April. For more information, please contact Vida Gow at vida.gow@cas.org.uk

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

Key Points Responses reinforced that it will be very difficult for CPPs to divert resources in the current financial climate, additional short-term funding is needed. Many projects finish at March 2011 and expertise will be lost. The provision of Moneymadeclear face-to-face service may be seen as a disincentive to invest.

Following options were offered:

- Scottish Government giving a clear leadership steer.
- Using a community planning approach, targeting resources based on demographic analysis, assessment of need and sharing information.
- Recognition and development of existing provision by the third sector.
- Embedding financial capability in existing services which deliver to the same target audiences e.g. literacy, numeracy, debt advice, employability, early years and child poverty interventions, activity agreement pilots for young people, 16+ learning choices, refer unsuccessful crisis loan applicants.

- Making links with health and wellbeing, joining up the three social frameworks.
- Training for frontline staff in recognising signs of need and appropriate signposting e.g. to MoneyMadedclear. Training should include the benefits of improved financial capability.
- Diverting resource from areas which might benefit from the increased capability of service users e.g. due to reduced arrears or reduced debt levels.
- Developing an evaluation framework to evidence the benefits.
- The public sector needs to play its part (despite some genuine conflicts of interest, for example on pre-payment meters) by ensuring that it doesn't compound the problem for example by ensuring continuity of benefits, access to fund in crisis situations
- Tackling the supply side, for example by capping the rates for doorstep lending.

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

The majority agreed and some CPPs respondents pointed to existing activity in co-ordinating financial capability work. However, there were reservations about whether CPPs would link sufficiently well with third sector and private sector organisations and how national organisations could make links with multiple CPPs. The difficulty in diverting funding was raised again and there was concern that financial capability would not be given priority unless it was included in the local SOA.

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

N.B. Responses to this question overlapped significantly with question C: "How can we create a focus on financial capability when the pressure on resources is so severe?"

The value of these approaches was mentioned in several responses:

- The value of partnership working - mapping where partners are involved in early intervention and bring them together to build in financial capability activity. Capacity building to be built in to partner strategies to implement Equally Well, AOP and Early Years Frameworks.

- Integration of financial capability with existing services, for example pre-tenancy and employability programmes and third sector providers of bespoke services to vulnerable groups.
- The need for awareness raising among frontline staff in holistic services such as health and social care so that they can identify need and signpost to specialist services.
- Building integrated strategies for delivery as with employability. This would include structured referral pathways. Credit for referrals should be included in evaluations to overcome competition between agencies for clients.
- Supporting the voluntary sector and social enterprise, particularly credit unions to develop existing financial capability work. Building capacity and empowering communities and individuals for example by training life coaches/community listeners/mentors who are respected and have the right skills.
- Addressing other financial inclusion issues such as income maximisation and access to affordable credit to ensure that people have access to products and services in order to exercise choice.
- A national marketing campaign to highlight the high cost of some sources of credit.

Other suggestions were:

- Using the ages and stages model to mainstream financial capability through public services e.g. in apprenticeship programmes, pre-tenancy, supporting young people through transitions.
- Making financial capability training a condition of receiving services or funding e.g. training allowance etc.
- Developing and promoting innovative approaches such as You First.
- Support for the sector using a re-instated financial inclusion network, allowing for local and national issues to be addressed.
- Use of Social Return on Investment to highlight the role of partners and benefit of engagement.
- Development of a tracking system like the citizens account which could help build a picture and anticipate need. Picking up case notes from an existing system could reduce adviser time taken per case and release time for FC work.

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

4 CPPs were interested. One more might want to be involved, subject to shaping the support given. Several national organisations expressed an interest in being involved further.

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

There was no clear consensus on what is needed. Most agreement was around the need for:

- Leadership and co-ordination from Scottish Government
- Supporting practice and training for practitioners/frontline staff
- Developing the evidence base
- The importance of financial capability in the curriculum

Development of additional resources was not seen as a priority. Some responses highlighted the need to address broader issues such as the high lending rates and the poverty premium.