Proposal to the Tackling Problem Debt Working Group
By Alan McIntosh

Proposal

That the Scottish Government Tackling Problem Debt Working Group discusses the viability and appropriateness of creating a statutory debt solution levy in Scotland to fund the provision of free money advice services. This levy would be applied on all formal debt solutions.

Background

Local authority money advice services in Scotland have had seen their funding cut since 2014-15 by 45% (MAPMF 2014-15; MAPMF 2015-16; MAPMF 2016-17), from approximately £21 million in 2014-15 to £11.72 million in 2016-17.

Over the same period, the number of financially distressed consumers taking up formal debt solutions has also fallen. This is by 32% for sequestrations, protected trust deeds by 23% and debt payment programmes by 46%.

The reasons for this are difficult to understand, as over the same period we have seen levels of personal debt in the UK begin to increase again and are now at pre-credit crunch levels.

It is possible the fall in the number of clients taking up formal debt solutions in Scotland may be attributable to a number of factors, rather than just one reason. These being:

- A tougher regulatory framework being imposed on private and for free money advice services since 2014 by the Financial Conduct Authority;
- The introduction of changes, including the Common Financial Tool, by the commencement of the Bankruptcy and Debt Advice (Scotland) Act 2014; and
- Funding cuts to local authority money advice services, as noted above.

It is also widely accepted across the UK that the provision of free money advice services across the UK are now operating at 50% below capacity and in the coming period it is anticipated demands on such services will begin to increase (Peter Wyman Review of Debt Advice Funding).

Although there has been much discussion of how services can be delivered more effectively in future, using a wider range of channels for delivering advice and the FCA Debt Advice Levy will be devolved to the Scottish Government in August 2018, it must be noted this FCA funding is not new money and is currently funding many front line services. Equally, although we need to embrace new channels for delivering advice, we must also acknowledge this is largely an untested theory, and there is no evidence that channel shifting in itself will be sufficient to meet current unmet needs or growing demands going forward.

However, we must also acknowledge that the effect of the commencement of the Bankruptcy and Debt Advice (Scotland) Act 2014 was to place the provision of money advice at the heart of all formal debt solutions in Scotland. We also need to ask whether this arrangement is sustainable going forward, if people will struggle to access appropriate debt advice going forward. We may have to consider whether the requirement to seek advice will act as an obstacle and prevent consumers from accessing solutions.

Statutory Debt Advice Levy on Formal Debt Solutions

An obvious way that the problem can be addressed is by looking at how investment in free money advice services, including face to face money advice services can be increased to meet not only the current unmet need, but increased demand in future.

One possibility is to look at the funds that are currently being distributed to creditors through formal debt solutions. In 2016-17, this was £81 million via protected trust deeds, sequestrations and debt payment programmes. This is the net sum, after the Accountant in Bankruptcy, private insolvency practitioners and payment distributors have taken their fees and outlays.

Although local authority funded money advice services perform a vital role in the formal debt solutions framework, they do not recover any of their costs from these solutions. The argument is it would be fair for them to do so.

This would ideally be done on the basis of all sums ingathered for creditors across all solutions, but equally could be on the net sums that are distributed after the AIB and the private sector have recovered their fees and outlays. Even if it was on the latter, a 5% levy would recover what would amount to, at current figures, 34% of what local authorities are spending on the provision of free money advice services (although not even this would return us to the 2014-15 levels of funding).

The justification for such a levy would be:

- The theoretical basis justifying it would be similar to that which exists for the FCA Debt Advice Levy, which the Scottish Parliament cannot increase, as it is a reserved matter;
- It would be possible for the Scottish Government to apply such a levy on the basis of it is a service charge, in the same way that other service charges are applied for other services to provide for the framework that supports the provision of those services;
- It widely accepted that for every £1 invested in free money advice services, there is a multiplier effect that works to increase the returns to creditors. Such a multiplier

effect would continue to work up until the point that free money advice services are no longer under capacity and, therefore, any appropriately set levy would ultimately result in increased returns for creditors;

- The AIB are already looking to increase the payment distributor fees for the Debt Arrangement Scheme with a view to increasing provision of advice services to ensure greater access to consumers, with some of those fees being returned to the free sector. There is no reason why that principle should not be applied across all formal debt solutions;
- A Scottish Levy would have advantages over the current FCA Debt Advice Levy, which is only applied to consumer credit lenders, in that the Scottish Levy would be applied to all creditors who benefit from formal debt solutions, including local authorities and HMRC etc.
- Many creditors already accept the principle of contributing towards the cost of the provision of free money advice services with their Fair Share Scheme, which local authority funded money advices services do not participate in. Why should the principle not be extended to local authority funded free money advice services?
- The Levy would allow investment in local authority funded money advice services to be increased without an increased cost to the public purse.