DEBT RESOLUTION FORUM
Promoting Professional Standards

Consultation Response

The Standard Financial Statement	Money Advice Service
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Response to: debtconsultation@moneyadviceservice.org.uk

Debt Resolution Forum (DRF) is a representational, training, monitoring and complaints handling body for fee-charging debt resolution businesses.

DRF provides an independently accredited qualification for members' staff (the Certificate in Debt Resolution), monitors members compliance with DRF's standards (and other regulation and guidance, including that provided by the FCA), through an inspection service provided by an insolvency recognised professional body, the Insolvency Practitioner's Association (IPA) and has an independent complaints and disciplinary committee for dealing with any consumer complaints.

DRF holds the MAS Quality Standard for Debt Advice For Organisations.

DRF also funds independent research into the work of fee-charging debt resolution firms and outcomes for our clients.

Further details can be found at www.debtresolutionforum.org.uk

DRF's chairman is David Emanuel Merton Mond: david.mond@debtresolutionforum.org.uk

For queries, discussion or further details relating to this response; please contact:

Andrew Smith andrew.smith@debtresolutionforum.org.uk 0161 968 6825

Summary

DRF fully supports the need for a single standard financial statement for use across the debt advice sector and welcomes MAS's intention to encourage the use of the Standard Financial Statement by Government Departments, HM Courts and Tribunal Service and others.

DRF is concerned that the scheme may not be used by creditors in IVAs and that they may continue to modify IVAs on the basis of the considerably less generous guidance contained in StepChange figures.

Consultation questions and responses.

1.	Do you have any comments about the income and expenditure headings and categories?	DRF welcomes the detailed headings and categories and is supportive of the way these have been set out. However (as also commented below) the fact that most major creditors in IVAs will not currently accept CFS figures (which they regard as too generous) poses an issue. Additionally, the changes required in commercial sector software systems to implement this have implications both for case management and for system development and timescale. DRF has the following detailed comments: 1. MAS may wish to consider changing “client” to customer throughout the document as this appears to be the term FCA are most comfortable with. 2. We believe dates of birth should NOT be optional but should be required for all parties. They affect planning of the review process when a customer is likely to retire during the period of a plan. Date of Birth’s also help assess eligibility and access to all benefits, both currently and in the foreseeable future. They are also needed in order to identify customers as part of the DPA process. 3. We believe it is insufficient to ask just for numbers of dependent children under and over 14. Dates of birth and status as to whether or not older children are in fulltime education are necessary both for initial advice and to plan future reviews. 4. Any other dependants in the house should be listed as their care needs may affect advice. 5. Does the “number in household” question refer to total number of inhabitants or number of children? 6. It is insufficient just for a declaration to be included that the debtor has no assets (and, in the summary, merely to confirm that the use of assets to make lump-sum payments has been discussed). The debtor may have assets and this must be provided for. 7. The Pensions and Insurances section should require more specific information for life and health cover. That which had been bought to protect a mortgage or dependants would be more justifiable in terms of permitting their retention.

8. Fixed costs in the outgoings section refers to "Mortgage endowment". Stating a single specific product could dismiss other appropriate repayment vehicles such as an ISA, pension fund etc., which, if discounted in this section, could be deemed an asset and thus inappropriately encashed to repay creditors. The term "Mortgage repayment vehicle" leaves scope for a variety of savings and investment products to be noted as well as the option "none". None could then perhaps help justify the "savings subject" as a specific and appropriate purpose.

9. There is no mention of how to handle or identify arrears on essential expenditure (rent, council tax etc,).

10. Will MAS ensure the summary version is identical to the income and expenditure format used in the Insolvency Service's Debt Relief Order template?

11. Employment details will be required for both customers.

12. 'Boarders' has been misspelt as 'borders'.

13. Likely to need more than one box for magistrates/court fines.

14. County Court Judgments appear to no longer be treated as a priority debt - should this be so?

2.	Do you have any comments about the savings category and our proposal for the way in which the savings amount is calculated?	DRF welcomes the addition of a savings category but we have a number of concerns regarding its implementation and the consequences it may have for debtors. In its favour, DRF believes the savings category will: 1. Confer financial capability – simply by creating a less hopeless position for the debtor and a perception of early rehabilitation. 2. Decrease breakage rates – by providing a means to finance smaller unanticipated expenditure later in the life of the solution. However, DRF believes there are some key issues that need to be addressed to make this a realistic prospect: 1. There must be creditor agreement to this across all debt solutions. DRF would be concerned if this was to pertain in debt management plans but if creditors were to modify it out in IVAs, making this often more certain and achievable debt solution less attractive. 2. The effect on debt solutions available to lower income debtors needs to be carefully assessed. In particular, DRF would welcome clarification of the statement in the consultation that a minimum level of £10 will be set "where the amount of available income is sufficient". 3. We are concerned that, amongst low income debtors, this requirement could materially affect the time taken to repay debt, increasing breakage rates, or convert some schemes to minimum or token payment schemes, also potentially leading to detriment. What thought has been given to thresholds that will ensure this isn't the case? 4. Is this a genuine savings allowance, to create the beginning of a long-term savings habit or is it designed to replace any allowance for "contingencies". 5. How will compliance with this element be assessed? Will customers be required to show that they have set up a savings account? Will statements be required on review? When can a customer withdraw funds from the account? Can the customer use the funds in any way they see fit? If a customer does not wish to set up a savings account should the amount to be distributed to creditors be increased?

6. In the case of weekly or fortnightly paid debtors (about 5% of commercial debt management customers and we think, a larger proportion of free-to-client providers' customers) will the savings element be calculated on the basis of half or a quarter of the calendar month contribution or on the basis of ten per cent of 52/12ths or 26/12ths of the debtor's contribution? In the case of a minimum contribution will this be taken at £2.50 per week, for example, thus accruing £10 pa more than a monthly paid debtor?

7. Is it clear that any interest accrued on savings belongs to the customer and not her/his creditors?

3. Do you have any comments about the spending guidelines methodology

1. DRF's major concern is that most large creditors in IVAs currently refuse to accept CFS guidelines and modify proposals to increase disposable income to amounts in line with Stepchange trigger figures. We do not support this – but it happens. If creditors indicate they will be prepared to accept these figures in all forms of debt resolution plans they DRF is content: But we believe this does need to be confirmed.

2. DRF would wish to see more details of the methodology used to calculate allowances for households of different compositions. In the past this has been believed by some to contain some anomalies – for example some believe that in certain circumstances a pet may trigger a greater increase in acceptable expenditure than an additional child in a multi-child family. It would be useful to have greater transparency concerning these methodologies.

3. We are unsure why the trigger figures will be based on levels of expenditure observed among typical households in the bottom income quintile. Given debt is clearly an issue for middle-income consumers and above, DRF believes the third quintile would be more appropriate.

4. DRF believes that the opportunity should be taken to move to, at least for certain classes of spending, a more frequent update than annually. For example, changes in fuel costs or benefit payments can have an instant and predictable detrimental effect on the viability of any debt repayment plan. Waiting until an annual review takes place will make the plan's failure highly likely. Sufficient information exists to enable this easily to be done.

		5. It is not clear how household costs would be split across associated parties. This makes it difficult understand how expenditure would be split in the event of two debt solutions being recommended within a single household, not an uncommon occurrence.
4.	Do you have any comments about the format?	DRF has no major comments about the detailed format – other than noted above. However, concerning the summary format, many commercial debt solutions firms have Data Protection Agreements with many large creditors so, the facility to deliver the summary information in a defined electronic format that the creditors are prepared to accept is important. The ability to explain excessive expenditure is also important and consideration should be given to allowing this on a line-by-line basis, against each expenditure item, rather than in the summary alone. The summary currently does not allow for projecting the plan duration or for adequate description of management fees.
5.	Do you have any comments about the timescales?	We are concerned that, until we understand methodologies behind trigger figures, etc., that the proposed timescale for the Standard Financial Statement may be challenging for software suppliers to the commercial debt solutions sector.