

Consultation response

Mayor of London: Economic Development Strategy

Response from the Money Advice Service

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1. About us

- 1.1. The Money Advice Service (MAS) is a UK-wide, independent organisation set up by government to improve people's ability to manage their financial affairs. Our free and impartial money advice is available online and by phone or webchat.
- 1.2. As the statutory body for financial capability, MAS has led work with financial services firms, the third sector, government and regulators to develop the Financial Capability Strategy for the UK¹. This 10-year strategy aims to give people the ability, motivation and opportunity to make the most of their money.
- 1.3. We are funded by a statutory levy on the financial services industry, raised by the Financial Conduct Authority (FCA).
- 1.4. The *Financial Guidance and Claims Bill 2017*, which makes provisions establishing a new financial guidance body was introduced in the House of Lords on 22 June 2017.
- 1.5. We have a statutory function to assist members of the public with the management of debt. Our latest data shows 8.3 million adults in the UK are living with over-indebtedness².

2. Executive summary

Financial capability

- 2.1. The Mayor can help create a fairer London by playing a major role in the success of the Financial Capability Strategy. This could be through:
 - Convening employers and financial services to explain why it is in their interests to help Londoners build financial resilience and how they could do that.
 - His duty to create plans and policies for the capital covering either business and the economy or health.

¹ Money Advice Service, *Financial Capability Strategy for the UK*, (October 2015)

² Money Advice Service, *Press release: 'One in six people in the UK burdened with financial difficulties'*, (19 September 2017)

- An existing project. For example, the Skills for Londoners Taskforce, Skills for Londoners Capital Fund, London Health Board, or Thrive LDN.
- Promoting effective and coordinated financial education in London schools.

Personal debt

2.2. The Mayor can use his influence and reach to ensure Londoners are aware of the availability of high-quality, free financial guidance and debt advice.

2.3. MAS is creating a Debt Commissioning Strategy for London, which will help advice providers target appropriately the groups most in need of help. We would appreciate the Mayor's thoughts on the Commissioning Strategy when it's published.

Working together

2.4. There are great opportunities for the Mayor and MAS to build the financial capability of Londoners. Initially we see the following as ways in which we can work together:

- Influence the sector (including financial technology companies) who have an interest in improving money management skills by speaking at our Financial Capability Conference 2018.
- MAS creating new data on levels of debt in London so we can see where action needs to be taken.
- Visits to see MAS financial capability projects in London in action to get a sense of what can be achieved.
- A challenge to organisations in the city to get involved in efforts to support financial capability.

3. Response

Q4: What more could the Mayor do to achieve his economic fairness goals?

Financial Capability

3.1. Improving the financial capability of Londoners will help the Mayor achieve his economic fairness goal.

3.2. Low financial capability is a brake on aspiration and can limit the ability of individuals and families to manage their money, plan and make financial decisions that are right for them. Throughout their lives all UK consumers need the ability to cope with financial shocks, which can include low and fluctuating income,

redundancy, serious ill health, relationship breakdown or bereavement. They must plan for life events like renting or buying a home, or starting a family. Some of these challenges, particularly where they relate to accommodation, are particularly acute in London.

3.3. But more than 8 million people across the UK often have difficulty paying bills and meeting credit commitments³ and almost three-quarters of working-age people don't have savings equal to or exceeding three months' pre-tax income⁴.

3.4. We have taken the opportunity of this consultation to produce new, and unique, data on the financial position of Londoners⁵. It shows:

- 65% have less than £500 in savings
- 1.5 million are financially 'struggling' (meaning they are in the most financially precarious position according to the MAS segmentation model)
- 18% have been refused credit in the past.

3.5. Research shows saving grows labour market participation, helps prevent divorce, and improves health outcomes⁶. Increased low-income saving reduces poverty, and children in households with higher levels of saving achieve more academically and enjoy better employment and income prospects⁷.

3.6. The Money Advice Service's Financial Capability Strategy is driving radical improvements in the UK's financial capability⁸. This 10-year plan aims to give people the ability, motivation and opportunity to make the most of their money. Over its first two years the Strategy has made ground-breaking progress creating a coalition of actors dedicated to its objective. Nearly 200 events took place across the country in our Financial Capability Week 2017, including 34 in London, 100 organisations have signed up to our financial capability IMPACT principles and there are over 190 studies on our financial capability Evidence Hub⁹ which is a place for organisations to share evidence about what is effective. MAS has

³ Money Advice Service, *Numeracy and Financial Capability: Exploring the links*, (November 2017)

⁴ Money Advice Service, *Savings evidence review*, (July 2017)

⁵ Money Advice Service analysis, *Financial Capability Survey 2015*

⁶ McKay, S. and Kempson, E. (2003). Savings and life events, DWP Research Report Number 194

⁷ Searle, B. and Köppe, S. (2014), Assets, savings and wealth, and poverty: A review of evidence; Bynner, J. and Paxton, W. (2001), The asset effect London, Institute for Public Policy Research

⁸ Money Advice Service, *Financial Capability Strategy for the UK*, (October 2015)

⁹ https://www.fincap.org.uk/evidence_hub

established Steering Groups, chaired by external organisations, to advance the goals of the Strategy. Currently these cover debt advice, children and young people, young adults, working age people, savings, retirement planning and older people. Each would be a good forum for the Mayor to discuss his objectives and gain stakeholder support.

- 3.7. The Mayor can play a major role in the Financial Capability Strategy, helping Londoners build resilience, supporting his drive to create a fairer London economy. This could be through convening employers and financial services, his duty to create plans and policies for the capital covering business and the economy or health and by embedding the MAS segmentation model within his strategy. Our segmentation model divides the UK population into three groups, the 'squeezed', 'struggling' and 'cushioned', each with their own distinct financial needs¹⁰. Combining this modelling with the GLA's existing data will likely be a powerful way to understand the challenges facing Londoners and respond appropriately. It would potentially allow a much deeper insight into the financial position of the most vulnerable people in the capital, in terms of their income, savings and financial attitudes.
- 3.8. Our What Works Fund (WWF) could help the Mayor integrate the most effective money management approaches into his programmes¹¹. The WWF funds pilot projects designed to increase the financial capability of consumers, providing evidence on which approaches are most effective. Valuable insights provided by projects so far include on the role of employers in boosting financial capability and on how improved financial capability can be positive for health outcomes. The Mayor could advance financial capability through an existing project. For example, the Skills for Londoners Taskforce, Skills for Londoners Capital Fund, London Health Board, or Thrive LDN.
- 3.9. Our website contains a range of tried, tested tools, such as on Universal Credit or retirement planning, and frameworks to support employers and financial services providers improve the financial capability of their customers and staff. The Mayor can encourage stakeholders, including employers, financial services providers and utility companies, to engage with these tools. One "quick win" might be the GLA website hosting MAS money management content.
- 3.10. Stakeholders could further signpost Londoners in severe financial difficulty to free debt advice services. MAS has a statutory objective to work with organisations that provide

¹⁰ Money Advice Service, *Market Segmentation – An overview*, (May 2016)

¹¹ <https://www.fincap.org.uk/what-works-fund>

debt services to improve the availability, quality and consistency of those services¹². Our innovative debt behavioural communications pilots will be of interest to the Mayor in this regard. These identified the best approaches to providing guidance and advice to consumers¹³. All the pilots were based in London and model the values of low cost, cross-sector collaborations of the kind the mayor could broker.

Financial education

- 3.11. One area where the mayor can use his influence is in promoting effective and coordinated financial education in London schools. Our research has shown childhood and adolescence is a key time to influence development of the skills, knowledge and mindsets needed to manage money as an adult¹⁴. There is a vital need for financial education, only half of children aged 7-17 save regularly and 6 in 10 couldn't read a payslip. Just 40% of children and young people say they have learned about managing money in school but 90% of those who had found it useful¹⁵.
- 3.12. The Mayor can ensure London becomes a centre for excellent practice in teaching financial education through the Schools for success programme, the London Schools Excellence Fund and the Subject Knowledge Hubs. There could be core financial capability content taught in all schools at primary and secondary level and in alternative provision, in all key areas of the curriculum. This should make use of existing good quality financial education resources, such as those that have the Financial Education Quality Mark. We would be more than happy to provide further information on the financial education provision we are aware of in London and offer support in evaluating existing activity.
- 3.13. The Mayor could support Local Authorities in equipping and training foster carers and support workers to help young people learn how to manage money. We are running a pilot training LA practitioners who work with vulnerable children and young people to improve support around financial capability, and would be happy to share lessons from this.

Personal debt

¹² <https://www.moneyadvice.service.org.uk/en/corporate/background>

¹³ Money Advice Service, *How to use behavioural science to increase the uptake of debt advice*, (September 2017)

¹⁴ Money Advice Service, *Habit Formation and Learning in Young Children*, (May 2013)

¹⁵ Money Advice Service, *Habit Formation and Learning in Young Children*, (May 2013)

3.14. Debt problems harm families. Our research shows¹⁶:

- 74% are unhappy because of their debt
- 70% often feel anxious
- 56% report a negative impact on their family life

3.15. MAS data on debt levels in London show 1.2 million adults in the capital are over-indebted (17.2% of all adults). In some Boroughs, the situation is far worse. In Newham, Tower Hamlets, Barking and Dagenham, Hackney and Greenwich over 20% of the adult population is over-indebted¹⁷.

- In 2017-18 MAS will fund over 23,000 face-to-face debt advice sessions in London. This is an increase of 25% since 2014-15.

3.16. As well as harming families, debt problems bring a heavy social cost for businesses and government, both national and local. Our research estimates the total benefit of debt advice to be between £445 and £960 million annually.

3.17. The breakdown of the total benefit of debt advice annually across the UK:

- **Health:** £74-145 million
- **Productivity gains:** £67-137 million
- **Creditor recovery:** £268-596 million
- **Debt recycling** (not including debt prevention)¹⁸: £25-48 million¹⁹

3.18. The research found additional societal benefits due to improvements in family and child relationships, reduced risk of homelessness, improved credit ratings and improved business continuity.

3.19. When people are in financial difficulty it is crucial they receive professional, independent advice that is suitable for their circumstances. However, people are only getting help with a quarter of the key financial events they face and only half of all working-age people are aware that they can get free or low-cost financial support²⁰. We must build awareness and

¹⁶ Money Advice Service, *Indebted lives: The complexities of life in debt*, (November 2013)

¹⁷ Money Advice Service, *A picture of Over-indebtedness*, (March 2016)

¹⁸ Where individuals who have already been through one debt cycle, enter an additional debt cycle.

¹⁹ This figure reflects social benefit only. Due to the lack of a time dimension of the primary research data, it was not possible to assess if debt advice entirely prevents debt recycling. Thus, entire prevention was not included in the total impact.

²⁰ Money Advice Service, *Right place, Right time – Helping people with their finances when they need it most*, (November 2017)

trust in what's available. The Mayor can use his reach to ensure people are aware of the availability of high-quality, free financial guidance and debt advice. There is the option of using the Mayor's or TfL's marketing to promote the availability of financial guidance and debt advice. Potentially the GLA could run a 'London Debt Week', bringing together organisations from across the capital to address financial capability.

3.20. In addition to ensuring Londoners can access the financial guidance and advice they need, we must also ensure individuals with money worries are treated fairly by creditors, both in the private and public sectors. There is a vast spectrum of creditor behaviour. Good practice can relieve stress and anxiety for people in arrears but sub-optimal approaches can further disrupt an individual's financial circumstances, leaving them in a debt spiral from which it can be hard to escape. MAS has worked closely with debt advice agencies, creditors and trade associations to share expertise around good practice and produced a creditor toolkit²¹. The Mayor can support a better approach by encouraging creditors operating in the capital, including Local Authorities, adopt our toolkit.

3.21. MAS is currently working hard to raise the quality of debt advice in the capital. We are creating a Debt Commissioning Strategy for London, which will help advice providers pinpoint the groups most in need of help and target services appropriately. Alongside this we will be helping the sector implement, in London, recommendations from the Wyman Review of debt advice²². This will help increase the supply of debt advice, its efficiency and quality, and ensure creditors improve their collections behaviour. We would appreciate the Mayor's thoughts on all these issues, in particular the Commissioning Strategy when it's published.

Q12: How can you or your organisation contribute to the Mayor's vision for the economy and pledge to support the final strategy?

3.22. As illustrated in our response to Q4, there are opportunities for the Mayor, MAS and other London-based organisations to collaborate through the Financial Capability Strategy. We would be keen to meet to discuss this further, but in summary we see the following as ways in which we can work together:

²¹ Money Advice Service, *Working collaboratively with debt advice agencies*, (July 2017)

²² Peter Wyman *Review of Debt Advice Funding*, (January 2018)

- **Engagement with the financial capability sector for the Mayor at our Financial Capability Conference 2018:** This would present an excellent opportunity for the Mayor to speak to a wide range of stakeholders dedicated to building a fairer London economy. At our 2017 Conference, in central London, 40 organisations participated by speaking or presenting and we had 300 delegates attend.
- **Data on debt in London:** We have included unique data on the financial position of Londoners in this response. There is a range of other data we could produce for the Mayor, including on a Borough basis, if it would be of use.
- **Visits to see financial capability projects in action:** The projects we fund in the capital through our What Works Fund offer an exciting variety of interventions aimed at improving the financial capability of Londoners. We would like to invite the Mayor, or one of his team, to visit a project, see the work being done and explore how this practice can be spread and developed. Currently MAS funding 25 projects from organisations based in London. Of these 8 are targeting people aged under 25 and 9 are designed specifically for working-age adults.
- **A challenge to organisations in the city to support financial wellbeing.** This could be held during Financial Capability Week 2018 and target one or more of the following:
 - **Employers** – build on the London Living Wage and/or Healthy Workplace Charter to challenge employers to do more to support financial wellbeing in the workplace, including young apprentices and young workers.
 - **Health** – financial worries lead to health problems, challenge London’s health sector to increase their role in promoting services to help with money worries, particularly where mental ill-health may be a contributing factor.
 - **London councils** – challenge London’s Local Authorities to improve how they support financial wellbeing by better coordination of borough-level financial inclusion and capability strategies.
 - **Education** – challenge London’s schools and further education providers to do more to support financial education.
- **Delivery of money advice through organisations accredited to the Healthy Workplace Charter:** We can support workplace financial well-being with advice and guidance shared from our 700 free assets on the Money Advice Service website.

- **Supporting London residents with money advice:**
We can provide a free content sharing service that allows organisations to deliver our advice and tools through their public websites and employee intranets, reaching the public at point of

need. We also have a range of printed guides to support the digitally excluded and for those organisations supporting people face to face. There is an opportunity for the Mayor to encourage more organisations to support financial capability by making use of our assets.