Children & Young People

Financial Capability
Strategy for the UK

Children and Young People

- Adult financial capability is developed throughout childhood and adolescence.
- There is a need to know what works in the short, medium and long term to ensure children and young people get the high-quality financial education they need; and to identify intervention models and techniques that can be delivered cost-effectively at scale.
- It is clear that there are ‘teachable moments’; that the messenger matters; and that ‘just-in-time’ education works.
- It is also clear that whilst there are many examples of well delivered financial education, existing interventions are not operating at sufficient scale to meet need, and some teachable moments, such as at primary and pre-school are being missed.
- Funders and commissioners do not have the insight they need to target their funding and there are provision gaps for interventions involving children, peers, parents, vulnerable children and young people, and learning by doing.
- Teachers and schools need more support to deliver effective financial education.
- The Strategy will focus on: understanding what works; targeting effective provision to those who need it most; and supporting schools to deliver their statutory responsibilities effectively.

Introduction

The aspiration is to have ‘all children and young people receiving the high-quality financial education they need by 2025.’

Approximately 750,000 young people in the UK turn 18 each year,[17] but too few are fully equipped with the mindset and skills needed to navigate the adult world of financial responsibility. The work in this strand provides a plan of action, for the vital fifteen-year window of opportunity from the ages of 3 to 18, to transform the UK’s future financial health.

Adult financial capability is a direct consequence of what is seen, learned and experienced in childhood and adolescence.

Currently the evidence for whether financial education is working is mixed. What is clear is that effective approaches tend to be practical, relevant and delivered by someone trusted. This is why the priority for the first few years of the Strategy will be understanding what works and then scaling up effective interventions more widely.

This section of the Strategy provides an overview of evidence and key issues for children and young people. It is focussed on preventative education in advance of the transition to independent living which is covered in the following young adults section. It is acknowledged that there is no set age at which this transition begins to happen and there may be some areas of overlap, for example, young people attending further education colleges. The respective Steering Groups for these work strands will, therefore, share information effectively and at times collaborate.

Some of the areas of policy covered in this section are either wholly devolved or have separate delivery mechanisms in the devolved nations. Where this is the case the priorities for action and initial action plan apply to England only. Other actions are UK-wide. Please refer to the separate documents for Scotland, Wales and Northern Ireland for further detail on the specific actions being taken forward for children and young people in the devolved nations.

[17] Mid-year population estimates for the UK 2014 (Office of National Statistics, 2015)

Evidence and key issues

For children and young people today money management is less visible than ever before, but opportunities to spend have increased exponentially and the consequences of mistakes made early on can be significant.

Cashless transactions have now overtaken physical money payments[18] and 34% of parents pay their child's pocket money into a digital bank account.[19] This lack of visibility is a problem as the events which trigger a money conversation have rapidly reduced. Research shows that parents teach financial capability as and when the opportunity presents itself, in a reactive rather than planned way.[20] Financial education is now on the curriculum across the UK (although only at secondary level in England). This provides a mechanism for proactive financial education - but as discussed later, this isn't necessarily filling the gap effectively.

Children have an increased opportunity to spend more at an ever earlier age – pocket money has increased by twice as much as earnings over the last 25 years.[21] Online gaming has become increasingly popular, with membership fees to take part in some of the most popular children's games becoming more and more accepted. Access to spending has increased through the rapid increase in access to smartphones and tablets. By the age of 8-11 20% of children and young people already have their own smartphone and 34% have their own tablet. By 12-15 this increases to 65% and 43% respectively, yet of this age group only 56% are aware that personalised advertising takes place online.[22]

The stakes for good money management are higher than ever before. This generation of children and young people is the first that is likely to be worse off than their parents by many measures. This means there is less room to make mistakes.[23] The increased financial pressures that many young adults face are discussed in more detail in section, see page 37.

Children and young people in vulnerable situations

Some children and young people face further challenges and will need more support due to the additional responsibilities they face at an early age. The most significant of these are: children in care and care leavers; young carers; and those eligible for Personal Independence Payment (PIP).

There are 90,033 children in care.[24] The majority leave care at age 18 but 36% in England leave school at 16 and 17.[25] Care leavers have to deal with significantly more financial responsibility at an earlier age, and few have had positive money role models to look up to or turn to for advice. There have been efforts made to support those in care, and there are a variety of resources available to help local authorities and others. It is unclear how English local authorities are implementing the requirements of the Children's Act 2010 to address care leavers' financial needs and skills for independent living. What is taking place now does not appear to be enough as over half of care leavers have to borrow money to pay for food, rent or bills.[26]

Young disabled people are eligible for Personal Independence Payment from the age of 16 in England and Wales. While many will have a family to turn to that can help them determine how best to use their weekly allowance, not all will. Those who do not may require more intensive support to help them budget.

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[18] Payments Council, 2015
[19] Intelligent Environments, 2015
[20] Money Advice Service unpublished parenting research, 2015
[21] Halifax Pocket Money Survey 2014 (Halifax, 2014)
[22] Children and Parents: Media Use and Attitudes Report 2014 (Ofcom, 2014)
[23] State of the Nation 2013: social mobility and child poverty in Great Britain (Child and Poverty Commission, 2013)
[24] Getting a fair deal? (Action for Children, 2015)
[25] Care leavers in England data pack (Department for Education, 2012)
[26] In the red: homeless young people's experiences of debt (Centrepoint, 2013)

Young carers are more likely to face additional financial responsibility during childhood and adolescence, with many having to manage the family budget on behalf of their parents. Schooling can also be disrupted. There are 170,000 carers under the age of 18 in England and Wales and nearly 15,000 provide 50 or more hours of care a week.[27] Whilst the 2014 Care Act provided increased statutory responsibilities for English local authorities to identify and support young carers, they are not yet treated with the same attention as many other vulnerable groups. They are not eligible for the 16-19 bursary fund for vulnerable young people and they are not exempt from the '21-hour rule' meaning they lose their weekly carer's allowance if they learn for longer than 21 hours a week.[28]

How financial capability is learned

With the stakes so high and the consequences of low financial capability so severe it is absolutely vital that any learning opportunity is based around what we know is most likely to make a difference. Financial capability is learned (or not) through what is seen in the home, what is taught and what is experienced. The evidence suggests there are a number of issues that need to be considered to ensure financial capability is developed well before the age of 18.[29]

There are teachable ages

The Money Advice Service commissioned research in 2013 to understand the habits that can impact on financial capability later in life. It highlighted how the brain is in a period of rapid development throughout childhood and adolescence, creating, strengthening, and discarding the connections which govern everything we do. This includes our attitudes about, and our ability to manage our money, potentially from the age of three years old.

The mind is highly malleable in the early years, but as the brain matures, learning and behaviour that is not embedded is likely to be lost, whilst that which is firmly ingrained becomes habitual. Attitudes and habitual responses such as whether we avoid bills, or value money above all can be shaped by the age of seven. Other aspects of financial capability, such as the ability to override your habitual responses reach adult levels by the age of 12.[30]

This has a long-term impact. Children's self-control ability is as likely as IQ and socio-economic status to predict adult financial wellbeing outcomes such as future savings and investment behaviour, home and retirement account ownership, and self-reported money and credit management success.[31] The ages of 3 to 6 should focus on developing the appropriate executive functions, such as self-control; ages 6 to 12 on financial socialisation and basic skills development, e.g. understanding consumer culture; and age 13 and over on experiential learning and 'just-in-time' financial skills education, e.g. managing your own money with parental oversight.[32]

[27] Providing unpaid care may have an adverse effect on young carers' general health (Office of National Statistics, 2013)
[28] Ten policies for ten people (NIACE, 2015)
[29] See Children & Young People evidence paper (Money Advice Service, 2014)
[30] Habit formation and learning in young children (Money Advice Service, 2013)
[31] A Gradient of Childhood Self-Control Predicts Health, Wealth, and Public Safety (Moffitt et al, Proceedings of the National Academy of Sciences, 2011)
[32] Foundations of Financial Well-Being: Insights into the Role of Executive Function, Financial Socialization, and Experience-Based Learning in Childhood and Youth (Drever et al, The Journal of Consumer Affairs, 2015)

The messenger is important

Parents and carers play a key role in developing their child's financial capability, providing the main opportunity for their children to see, talk and experience money. Below the age of seven, children are most receptive to their parents' advice.[33] In turn they may be able to influence their parents' behaviour through what they are learning. Throughout adolescence, young people are still most likely to turn to their parents for advice, but peers become increasingly important. There are promising indications that slightly older peers who have experienced money problems and resolved them could be an effective messenger for those on the cusp of financial independence.[34]

Learning has to be put into practice

Theoretical learning, without the opportunity to put that learning into practice, rarely works with life skills. Education that takes place just before making a financial decision has the largest impact on financial behaviour, meaning that skills-based interventions for 17-18 year-olds are an absolute necessity.[35] Almost everyone will make mistakes as they learn to manage their own money – whether that is forgetting to budget for an important item, or impulse spending affecting a longer-term goal.

The most financially capable young adults are those who have had the opportunity to make those mistakes before the age of 18, by having some of their own money to manage and experiencing some elements of financial responsibility and consequences. Those who did not have that opportunity found that the first time they had to manage their own money – with any real responsibility and consequences – attached they did so in an environment where the stakes were much higher and the consequences serious and potentially long-lasting.[36]

Current provision of financial education in schools and colleges

Financial education in schools and colleges provides an opportunity to deliver financial learning at scale, Around 2.5 million 11-16 year olds in secondary schools across the UK should be receiving financial education,[37] and we know that interventions funded by the financial services sector are estimated to reach one million children and young people a year.[38] There are also a wide range of not-for-profit resources, training and workshops, largely focused on secondary school age.

When asked, only 31% of 15-16 year-olds stated they had received financial education at school this year, a significant drop from 53% last year. Only 30% of 17-18 year-olds said they received financial education this year, despite the evidence showing that this could be one of the most effective ages for conducting financial education.[39]

Financial education can be delivered by teachers using existing curriculum resources, some of which have been developed by funding provided by financial services firms, who also provide training for the teachers involved. The private sector also fund a variety of third-sector organisations to go into schools to deliver financial education programmes.

The majority of interventions funded by financial services firms take place in schools and colleges from age 11 and over, and are delivered by teachers. A review of these interventions identified support for a number of primary school interventions but all were comparatively small in scale. Only one programme was identified to reach pre-school children.

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[33] ibid
[34] It's time to talk: Young people and money regrets (Money Advice Service, 2014)
[35] The Effect of Financial Literacy and Financial Education on Downstream Financial Behavior (Fernandes et al 2013)
[36] It's time to talk: Young people and money regrets (Money Advice Service, 2014)
[37] Calculation = all 11-16 year olds in Northern Ireland, Scotland and Wales and half of 11-16 year olds in England, Mid-year population estimates for the UK 2014 (Office of National Statistics, June 2015)
[38] Money Advice Service unpublished financial services funded programmes research (March 2015)
[39] Financial Education and the young person's money index 2015 (ifs University College, July 2015)

There is a lack of widespread interventions in primary and pre-school, so many teachable moments are missed, leading to the much harder task of behaviour change, rather than habit formation. One of the key learnings shared by organisations working on financial education in the devolved nations is that financial education being on the curriculum is not enough.[40] If the school values financial education, teachers either need to have the ability to deliver financial education well, or they need to be able easily to identify external programmes which they could use. There are a mixture of people delivering financial education currently, including teachers, financial services volunteers and not-for-profit organisations. Whoever delivers, the confidence and relatability of the facilitator, the relevance of the learning, and the quality of the content are what matters.

More can be done to make the link between effective financial education and helping schools deliver the outcomes on which they are measured. Currently an English school's main source of discretionary spending – the pupil premium – is unlikely to be used on financial education until a link with attainment can be robustly made. Making this link will provide a compelling reason for schools to deliver effective financial education; it will help monitoring bodies to know 'what good looks like'; and it will enable publishers of education resources to have a commercial reason to make an impact beyond basic curriculum requirements.

Well delivered financial education is currently too reliant on a passionate teacher or head teacher who recognises the importance of equipping their students with money skills – and passion is difficult to scale up. Teachers are time-poor and the financial education landscape is complex.

Is provision out of school targeted effectively?

Provision needs to be targeted to where there are gaps, aimed at those most likely to benefit and delivered based on the evidence of what works. At the moment this does not always happen, but many funders are now in the process of reviewing their corporate social responsibility funding and share the desire to increase their impact.

There are significant gaps in learning opportunities for children that help them develop positive attitudes and the self-control strategies needed to manage money well. There are also limited interventions that equip parents with the techniques and practical strategies to develop children's financial capability. Opportunities to leverage existing contact with parents are not always used. There could also be significant further investment in equipping 17-18 year-olds with the money skills they need directly before, and as they start to engage with adult financial products and take on increasing financial responsibility.

Funding is shifting away from standalone financial education programmes towards integrating financial capability into employability and entrepreneurial programmes. Concern has been expressed by this shift in emphasis, but this may be a more effective way of engaging young people, particularly young people in vulnerable situations.[41] There are a number of programmes and learning resources targeting 'at risk' groups, but the interventions do not meet the full scale of need and resources are not shared consistently. It is difficult to calculate the size of the gap in terms of numbers, as vulnerable young people interact with multiple different services both via their local authority and in the community. What is important, is that there is the opportunity for learning about financial capability during any one of these interactions.

[40] Feedback from UK Strategy consultation events, 2014

[41] Financial Education for vulnerable young people (All-party parliamentary group on Financial education for young people, 2013)

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Whilst young people in vulnerable situations are a priority, they can also be the hardest to reach – as shown by the work of Big Lottery Fund's 'Improving Financial Confidence' project. It proved so difficult to reach and maintain contact with young social housing tenants that the programme was expanded to include all social housing tenants in order to meet programme targets.[42] Co-ordinated activity is key for this target group and some local authorities have taken on the challenge by developing financial inclusion partnerships, e.g. Derbyshire's 'Financial Action and Advice' partnership which brings together over 50 organisations to address issues of financial exclusion, early intervention and debt. This model is yet to be widely replicated.

Are learning opportunities making a difference?

Internationally, evidence of whether financial education really works is mixed. A comprehensive evaluation of a flagship financial education programme in Brazil showed evidence of increased numbers of students and parents saving, and the amount saved. This programme has since been rolled out to over 3,000 new schools.[43] At the same time, a meta-analysis of just over 200 studies, carried out in the United States, found that whilst financial education programmes did improve longer-term financial behaviour, the impact was "minuscule" and the effects of interventions decreased over time.[44]

These studies, and others, have been placed on the Money Advice Service Evidence Hub. What emerges from these studies is the importance of the messenger; the age at which interventions happens, especially the need to capture those 'teachable' moments; and, the frequency of the intervention. It is unrealistic to expect financial capability to improve in the long term based on one single intervention.

What the Evidence Hub also demonstrates is the shortage of robustly evaluated programmes aimed at improving the financial capability of children and young people.

Existing evaluations too often focus on customer satisfaction and reach, with limited assessment of sustained behaviour change. Analysis by the Money Advice Service earlier this year suggested that the vast majority of financial capability programmes delivered or funded by the financial services sector, and aimed at children, are not evaluated in terms of outcomes. That is why a key focus for the Strategy will be to continue to scrutinise and build the evidence base in this area.

Doing this will build on the ever-growing desire amongst funders and delivery organisations to improve the evidence base on financial capability for children and young people. Effective interventions do exist and the key challenge is to be able to identify more clearly what works before scaling up provision more widely. Building sufficient evaluation funding into all commissioning should significantly improve the evidence base in this area and ensure that children and young people are reached by the interventions most likely to develop their financial capability.

[42] Improving Financial Confidence evaluation report 2014-15 (Big Lottery Fund et al, 2015)
[43] World Bank. 2014. Enhancing financial capability and behavior in low- and middle-income countries. Financial Literacy and Education Russia Trust Fund. Washington, DC : World Bank Group. http://documents.worldbank.org/curated/en/2014/01/19770351/enhancing-financial-capability-behavior-low--middle-income-countries
[44] Fernandes, D., Lynch, J.G. and Netemeyer, R.G. (2014). 'Financial literacy, financial education and downstream financial behaviours', published in Management Science, 60(8), 1861-1883).

Priority areas for action

In ten years' time the Strategy wants all children and young people to receive high-quality financial education targeted to the times they are most receptive to learning, and tailored with content most relevant to their needs.

The priorities for action have been designed to deliver this and are deliberately focused in the early years of the Strategy on getting funders, commissioners, providers and the research community working more effectively together.

Priority 1: Understanding what works

What is needed is financial education that makes a real difference to people's financial behaviour as adults. There is a substantial amount of work that needs to be done to identify which models and techniques work best. This involves defining more precisely what the desired outcomes are; designing effective models of evaluation against these agreed outcomes, including for different priority groups; and encouraging an approach to funding that incentivises improving the evidence base, including through innovation.

Priority 2: Targeting effective provision to those who need it most

The Strategy will look to combine the improved evidence base about what works with a greater understanding of the current need, and provision to help funders and commissioners make informed decisions on where resources can be most effectively allocated. The greater understanding of what works will also provide the basis for new funding partnerships with organisations who already reach children and young people.

Priority 3: Supporting schools to deliver their statutory responsibilities effectively

Helping the education sector deliver the most evidence-based, effective programmes of work is vital. Focusing efforts concurrently on why and how schools can deliver effective financial education will be a key priority of the Strategy.

Action plan

This section outlines the proposed interventions to address the priority areas outlined above. It will be for the Children and Young People Steering Group to further refine, prioritise, and evolve the action plan for delivery. This will be published and updated in response to growing evidence on the Financial Capability website.

The Money Advice Service will conduct a Financial Capability Survey for Children and Young People which will provide useful baseline data. In the early years of the Strategy the focus is very much on getting the right systems and processes in place to improve the evidence base; identifying key gaps in provision; testing interventions; and building and sharing the business case for why financial capability interventions for children and young people are important. Once this evidence is in place the Strategy will focus on ensuring that effective provision is scaled up across the UK and supported by ongoing innovation and monitoring. Towards the final years of the Strategy this work should be able to provide longitudinal evidence about what is effective, with the results shaping future priorities and delivery.

1 Understanding what works

a. Enable existing interventions to robustly evaluate and publicise their effectiveness:

- finalise free-to-use outcomes frameworks and measurement tools for 3-18 year-olds, parents and teachers, working with *NatCen* and *Young Enterprise/pfeg*;
- launch an evaluation toolkit pilot with a range of not-for-profit delivery organisations.

b. Identify what works for current priority gaps: 3-11 year-olds, 17-18 year-olds, vulnerable young people. Seek to involve parents and carers where appropriate and possible, peers for older ages and incorporate experiential learning:

- The *Money Advice Service* conduct a parenting pilot project aimed at parents of children aged 3-11 to test the effectiveness of integrating financial capability content in existing parenting programmes. This will be achieved in partnership with *Welsh Government, 11 local authorities, and the Family Links Nurturing Programme.*

c. Cultivate a funding landscape that fully resources and incentivises innovation, evidence based design, outcomes led delivery and robust evaluation (for detail see Evidence and Evaluation action plan).

2 Targeting effective provision to those who need it most

a. Provide UK analysis to enable the sector to identify priority gaps:

- conduct quantitative survey into the financial capability of children and young people and their parents;
- collate and aggregate provision, reach and evaluation data from funders and providers;
- enhance the *Money Advice Service's* role in providing the sector with more detailed analysis of provision and evaluation data.

b. Scale up effective non-statutory provision to meet priority gaps by brokering funding relationships for effective interventions.

c. Support local authorities to integrate and co-ordinate financial education opportunities, particularly for vulnerable young people:

- integrate financial capability into existing programmes that already reach children and young people either directly or indirectly;
- conduct a review of resources for vulnerable young people then identify and fill gaps in resource provision and publicise;
- conduct a landscape review of non-financial capability programmes by target age groups and broker partnership agreements to integrate financial capability content; and
- investigate how to support local authorities to integrate and co-ordinate financial education and learning opportunities, particularly for vulnerable young people.

3 Supporting schools to deliver their statutory responsibilities effectively

a. Develop and publicise a clear evidence base on how financial capability supports the delivery of wider school outcomes:

- deliver a Children and Young People evaluation fund (jointly funded by the *Money Advice Service* and the *Education Endowment Fund*) to provide rigorous evidence of impact on financial capability and attainment;
- run a publicity campaign targeted at the education and learning sector on the business case for financial education.

b. Help schools make informed decisions on how financial education is implemented:

- develop schools and learning portals to include information on all types of financial capability interventions including curriculum requirements, cost per pupil and impact;
- support Schools appointing a financial education lead to:
  - ensure that financial education is integrated across the curriculum and other relevant programmes where possible, e.g. enterprise and employability;
  - identify and signpost vulnerable young people to services that can help them;
  - equip teachers and learning professionals to deliver effective financial education and learning through training and professional development, including initial teacher training; and
  - consider how teachers and those in the learning community and external delivery partners can work more effectively together.

c. Enable each national curriculum to be informed by the evidence on what will most likely deliver financially capable adults by:

- supporting monitoring bodies to assess how schools deliver financial education with effective practice defined as what will have the most impact on financial capability;
- conducting analysis so that future revisions of the national curriculums are informed by the evidence of what will most likely improve financial capability;
- supporting financial education becoming part of the primary school curriculum in England; and,
- assisting publishers in developing resources that support effective financial capability learning.