ABCUL Scotland
Association of British Credit Unions Limited

Graeme Perry,
Accountant in Bankruptcy
Emailed to: OPC@aib.gsi.gov.uk
27 October 2017

Dear Graeme,

I would like to respond to your consultation on the use of the Standard Financial Statement as the common tool across statutory debt solutions in Scotland, on behalf of the Association of British Credit Unions (ABCUL). I appreciate the opportunity to do so.

ABCUL is the main trade association for credit unions in Scotland, representing the majority of credit unions and credit union members. Credit unions are deposit-taking financial co-operatives primarily providing savings and loans facilities to their members and have a key role in promoting financial inclusion. The sector has enjoyed the support of successive Governments, both in Scotland and in Westminster.

We take a particular interest in matters of insolvency as, although credit unions do not necessarily experience a higher amount of insolvency cases as a percentage of their overall activity than other creditors, their structure means that they generally do not have the margins to 'soak up' losses in the same way that a bank or a high interest credit provider might. Indeed, legislation in place means that credit unions cannot generate income through means other than lending, and also sets a limit of what credit unions can charge in interest. This unique arrangement means that credit unions are automatically at disadvantage compared to those organisations they are competing with in the lending market.

However, credit unions largely see providing access to affordable credit an important part of their purpose and wish to continue to be able to lend to those who are generally excluded from mainstream financial services. It is therefore vital that the arrangements in place for when an individual finds themselves in financial difficulty are fair to everyone.

I would like to begin by noting that the consultation documentation states in the introduction that "*Applied appropriately, either tool should produce the same outcome.",* which is of course acknowledging that the trigger figures are neither limits nor allowances, and actual spending should be the main influencer of what an individual can contribute towards repaying outstanding debts.

However, the analysis published alongside the consultation sets out how contributions would differ in identical cases under the two tools, which appears to suggest that the analysis does indeed take into account how the money adviser would respond to the two sets of figures. The AiB's guidance into the use of a Common Financial Tool states that all spending needs to be evidenced, and it is therefore disappointing that the AiB's own consultation seems to suggest that the trigger figures should be used as an allowance. We feel this sends out the wrong signal.

Turning to the contents of the consultation, we would broadly welcome the adopting the Standard Financial Statement in Scotland for the following reasons.

It would seem that the Standard Financial Tool is increasingly being used as the standard tool in the rest of the UK. We feel that adopting this in Scotland is an opportunity to try and improve consistency and standards in a sector where both have often been lacking. We are aware that creditor engagement is often lacking and, again, having a standard tool across the UK may help improve this.

Secondly, we note that the analysis published by the AiB suggests that the trigger figures will be activated slightly more frequently under the proposed SFS than the current tool, particularly in certain categories. In terms of contributions, our sector takes the view that individuals should only be paying what they can afford. However, we are concerned that the proposals received by members often suggest significant manipulation by the debtor/money advisor. We note, for example, that a large number of debtors seem to spend the same maximum allowed on food before the trigger figure is activated. It is typical that, when they question this, our members are informed that the amount is within the trigger figure and so no further explanation or evidence is owed.

We are not blind to the challenges faced by money advisers in trying to evidence every piece of spending, and we absolutely agree that discretion needs to be applied in many instances. However, it is clear to everyone that many IPs are working neither within the letter nor spirit on the legislation. Therefore, if this new statement results in more scrutiny of more cases, then we feel this could hold many IPs to a higher standard than is currently the case.

On the second question you are consulting on, mainly the timetable and the ability to adjust our systems in time, we have no concerns to raise about this at this time.

We hope that the above feedback will be taken into account and, of course, we will continue to engage with the AiB throughout the process to ensure the best outcome for everyone. Please do let me know if you have any questions, or would like to discuss further.

Yours sincerely,

Karen Hurst
Policy Officer, ABCUL Scotland