STANDARD FINANCIAL STATEMENT

With the SFS coming into force in April, David Kerr MCICM, explains the entry process and its benefits.

FROM the beginning of March this year, multiple advice providers will start to use the new Standard Financial Statement (SFS) when advising debtors and assessing their ability to repay debt. The SFS is a single set of common fixed and flexible expenditure categories developed by the Money Advice Service (MAS) as part of its statutory duty to enhance understanding about financial matters and improve the quality and consistency of debt advice across the UK. It has been developed in collaboration with advice providers, creditors, trade bodies and regulators.

The SFS replaces separate models used by the sector previously (three in England and Wales alone), and it introduces some new elements designed to build financial resilience for debtors and help with the sustainability of any repayment plans they enter into.

The roll out of the SFS has involved preparation with creditors so that they are ready to receive information in the new format, and dialogue with local authorities and Government departments including the Insolvency Service, and members of the IVA Standing Committee overseeing the working of the IVA Protocol. MAS has presented information about the SFS and its launch at various events, including the IPA's Personal Insolvency Conference. Throughout this month, there will be a period to allow advice providers to transition to the SFS, alongside using some of the previous models for a time, with full implementation expected from 1 April, when those previous model statements (such as the Common Financial Statement) should be 'switched off'. The Accountant in Bankruptcy in Scotland also intends to switch to the new SFS from 1 April.

One of the changes is an allowance for savings – up to £20 a month in a debtor's budget. This should build resistance to financial shocks, and major creditors have supported this as a sensible move. Guidance to debt advice providers will cover use of this provision and other aspects of the new Statement. Other changes include recognising travel, school and health costs as 'fixed' in most budgets and ensuring proper account is taken regarding those essential items. Spending guidelines have been derived using data on typical household expenditure, and will be updated annually.

Debtors shopping around for advice will receive more consistent responses on what is allowable and what creditors expect. And where debtors move into a new debt solution or through advisors to an Insolvency Practitioner they should find the same approach being adopted. The new standardised system should help creditors reach decisions on debt plans more quickly, as familiarisation with the new SFS grows.

Creditors voting on IVAs and reviewing other proposals will want to be sure that application of the new SFS is fair not only to debtors but also to creditors, and that allowances for expenditure do not become new norms or upper limits in each category, reducing the sum available for repayment. However, one standard statement used by all in the sector, including the Official Receiver in bankruptcy cases, and in Scotland too, represents a significant improvement on the current position. It brings a fairer and more consistent method of assessment, and should give much greater certainty in calculations of what debtors can afford to repay their creditors.

Further information may be obtained from MAS via its website https://sfs.moneyadviceservice.org.uk

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