Essential
FINANCE

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Another season and another edition of Essential Finance! As I write, the leaves on the trees outside the window are turning the most beautiful shades of red, orange and yellow, giving very much a sense of normality and consistency in this not so normal (and often inconsistent) world.

If the beautiful image on the front cover makes you long for a nice glass of red wine then look no further than pages 12 and 13 where Rob Hoult of Hoults Wine Merchants provides his advice on wine consumption - what we should be buying and how we should be drinking it. I'm hoping we'll be able to persuade Rob to write for us again and if you aren't already familiar with Hoults then I would highly recommend them and suggest that you take a look at their website.

Many of you will know Tim Ball here at Eastwood Financial Services? Well Tim's had a very good few months... not only has he become a Chartered Financial Planner but he's delighted to have recently had the pleasure and privilege of spending time in the company of an African Hoopoe... have a look at our news pages to find out more. You'll also see from our news pages that we've welcomed Ash Gibbs to our team and welcomed baby Willow to the world. In terms of charitable endeavours, there are some in the pipeline... despite the challenging times we find ourselves in.

We have a great bunch of people working within our business and are very proud and delighted with how they've adapted to these unprecedented times and very simply, have just 'mucked in' and got on with things.

In terms of other articles in this edition, they are as usual very interesting and informative... I'm not sure I'm allowed to have favourites but if I am, I really like the article on page 4 regarding how to put lockdown savings to good use (I plan to keep this in my mind every time I get the urge to call for a takeaway latte) and of course, our feature on environmental, social and governance (ESG) funds on pages 6 and 7 is an absolute must.

So that's it from me... until next time, best wishes to all of you from all of us and take good care of yourselves.

Karen

Karen Wynard

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Lockdown savings boost

A surprising number of people have picked up the savings habit in recent months as lockdown has curtailed opportunities to spend. How can this unexpected nest egg be put to good use?

In some cases, the savings have been substantial, with average households holding on to £2,879 during the 13-week lockdown. According to Bank of England figures, the population saved £16.2bn in April, the first full month of lockdown. The average in the six months to February was just £5bn a month.

It is not hard to see where these savings have come from: commuting costs have been slashed and holidays have been postponed. Meanwhile, those day-to-day expenses — a coffee on the way to work or a pint afterwards, haircuts, theatre and cinema trips — soon add up over a period of months.

Of course, for some people, lower spending has been offset by more serious reductions in income, from salary cuts, redundancy and straitened times for the self-employed. But for those able to work from home or whose income has been supported by the government's furlough scheme, the question is how to make the most of this temporary savings boost.

Surplus uses

Many have used these funds to clear debts. The Bank of England figures also show a record £5bn of credit card debt cleared in April, significantly more than the £300m cleared in a standard month.

For others it may make sense to use some of these surplus funds to boost longer-term savings, top-up pensions and add to investments, either through a one-off payment or by increasing regular monthly savings.

Of course, before putting additional funds into share-based investments it is important to consider whether you are likely to need this money in the shorter term. Those concerned about their employment status in the months ahead should look to build up cash savings, even if interest rates are low.

Whether you choose to reduce debt, build up a cash safety net or boost pensions and investments, it makes sense to think about where and how you have saved money during the lockdown and whether you can make more permanent changes to your spending habits.

Most of us won't necessarily want a 'staycation' every summer, but cancelling unused gym memberships or cutting out the cappuccinos as we resume our old routines can help turn these 'unintended savings' into a more thoughtful budget that could bolster your finances over the longer-term.

Ethical vs ESG funds

Ethical funds
These funds may screen out whole sectors or companies. For example, many ethical funds avoid investing in tobacco, alcohol or armament companies for moral reasons. Guidelines vary from fund to fund. Some ethical funds take a 'best of breed' approach, particularly about such issues as climate change.

ESG funds
Rather than making moral judgements, ESG investing relies on a screening or risk assessment tool, that the fund managers use to assess potential risks and opportunities. They analyse a range of environmental, social and governance factors to see how these might affect share prices.

ESG investment comes into its own

Taking a more principled approach to investing doesn't mean you necessarily have to sacrifice returns.

This year has been a rollercoaster ride for investors, with markets falling sharply in March as the economic effects of the Covid-19 pandemic became clear. There has been some recovery, although prices remain volatile.

Yet certain funds seem to have fared better than others during this period of turbulence. In many cases, these are funds that engage with a range of environmental, social and governance (ESG) factors alongside standard financial metrics for selecting shares. This is also often labelled 'responsible investing'.

Whereas some ethical funds (see text box) automatically avoid whole sectors, ESG funds do not. Instead they assess how, for example, a company's environmental policies — or lack of them — might impact its future share price. These are investment judgements, of course, so may not always turn out to be correct in retrospect.

ESG funds have generally weathered the recent market storms well. Research from Morningstar shows that in the first quarter of 2020 70% of ESG funds were ranked in the top halves of their investment categories which consist of funds invested in the same assets or geographic region. By contrast, just 11% of ESG funds were in their category's bottom quartile, indicating that they performed better than funds that did not look at these wider ESG factors when selecting stocks.

Bear in mind that this information covers a very short timeframe and there is no guarantee that ESG funds will continue to outperform. However, there are several reasons why these funds may have performed better during recent volatile markets and may continue this trend in the coming years.

One factor is that many have less exposure to oil companies, which have been hit by collapsing oil prices. The Covid-19 crisis has boosted other sectors too, such as those delivering technology solutions to help businesses and people work remotely. This may play into ESG themes about reducing travel and carbon emissions.

While much of the focus around ESG is on environmental issues, it's important to remember that the selection process most of these funds undertake also considers how well a company is run and its corporate polices on such issues as executive pay, gender equality and transparent supply chains.

Over the longer term it remains to be seen whether ESG fund managers will identify the companies that will prosper in future, but with many more people thinking carefully about where to invest their savings, ESG investment is no longer a fringe area. As with all investment decisions, you should take expert advice.

The value of your investments and the income from them can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.

A buy-to-let opportunity?

Cuts to stamp duty land tax (SDLT) and its Scottish equivalent have reduced the purchase costs of buy-to-let property. But property investors should also evaluate other factors.

In his Summer Statement, the Chancellor increased the nil rate threshold for SDLT in England and Northern Ireland from £125,000 to £500,000 for all purchases until 31 March 2021. At most that means a saving of £15,000 in SDLT on a property purchase.

The Scottish Government then increased its equivalent nil rate threshold from £145,000 to £250,000. Both governments kept their surcharges on the full purchase price for buy-to-let (BTL) properties and second homes (3% in England and Northern Ireland and 4% in Scotland). Wales took a different stance and excluded BTL and second home buyers from the n ew Welsh £250,000 nil rate threshold (up from £180,000).

The higher thresholds prompted press headlines suggesting that the BTL market would enjoy a recovery (outside of Wales). While the tax saving can be significant, particularly in London and south east England, investors should consider the other tax changes from past years before making a BTL purchase:

- If you are borrowing money to make the purchase, then you can no longer offset the interest you pay against the rent you receive for income tax relief at your highest marginal rate. Instead you will be given a tax credit equal to the basic rate of income tax on the interest charged. This could mean that all the rent is included in your income tax calculations, minus non-interest expenses, resulting in more income tax or even tipping over one of the tax system's income thresholds.
- Capital gains tax (CGT) is levied at a higher rate on disposals of non-exempt residential property than on other assets. Higher and additional rate taxpayers face a 28% tax charge once they have used up their CGT annual exempt amount.
- Any CGT due on residential property is now payable within 30 days of the completion of the sale, along with an appropriate interim tax return.
- The days of a 10% 'wear and tear' allowance for furnished properties are long gone: relief is now only given for actual expenditure.

More changes could be coming in England on the non-tax front. Last year the government consulted on "resetting the balance of rights and responsibilities between landlords and tenants". The consultation's proposals included the potential abolition of assured shorthold tenancies and an end to 'no-fault evictions.' Both measures could reduce the value of BTL property in England by making it less readily saleable.

The tax holiday may already be driving up prices. Nationwide reported a 1.7% monthly increase in July 2020 after taking into account seasonal factors, more than reversing the 1.6% fall in June. If you are considering investing in BTL property in the current market, however, take advice on alternative investment options first. As ever, you shouldn't let the tax tail wag the investment dog.

The value of your investments and the income from them can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

The levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice or buy-to-let properties.

What to drink over Christmas

This festive period is going to be very different. The biggest change is going to be socially, because this year anti-social is quite literally the 'in thing'.

Those big gatherings in restaurants are off the menu and even a cosy meal out for two just seems like hard work. So what can we do? Well firstly you need to make sure your cookbook collection is up to date and secondly you need to ensure that you have plenty of wine in the house. If there is one thing that has helped us all through lockdown and beyond it is wine, lots of lovely wine. Christmas wouldn't be Christmas without a glass or two and if you want to find a big positive in the midst of all this chaos then you should look no further than your wine rack.

With delicious wines always at the forefront of my thoughts I have put together some rules for ensuring that you get the maximum enjoyment from your wine this winter.

1. Spend, spend, spend, well sort of

I'm not suggesting that the only way to get great wine is to spend triple figures and upwards on your bottles. Rather it's to remember that dining at home is replacing the restaurant and that on average you would pay £18 for a bottle of house wine. So if you spend nearer to that mark at home then you are going to get a lot, lot more bang for your buck. Especially when you consider that a £15 bottle of wine would generally set you back over £40 in a restaurant. The absolute sweet spot for wine buying in terms of getting the best flavour to value ratio is between £10 and £15, so you really don't have to re-mortgage the house to have great wine.

2. Know when to go big and when to lighten the load

Wine comes in many various styles and knowing when to pour which one can seem a little daunting. It isn't as scary as it might be and you certainly won't need your own sommelier because the biggest mistake people make is a simple one, going for too much oomph. Especially on a day like Christmas where we tend to start drinking a little earlier and we certainly tend to drink for longer. It is common to go for big 'treat' wines such as Malbec, Amarone and Chateauneuf-du-Pape for the reds and Marlborough Sauvignon Blanc for the whites. Now there's nothing wrong with these wines but they are all very 'in yer face' and if you try drinking these for an entire day then your tastebuds will get tired and you'll likely be asleep before Her Majesty has finished chatting to the nation. So go for reds with a little less weight and whites which have more subtlety and elegance. Good Cru Beaujolais and Pinot Noir are such pretty wines and are perfect for prolonged drinking along with being very food friendly. A proper Chablis or a good Gavi from Italy have the perfect balance of sophistication, subtlety and flavour. None of these wines lack anything in flavour but they aren't big and shouty either so they creep up on you rather than beating you about the tastebuds and that way you can stay awake and 'happy' right to the end of the day.

3. A little extra effort goes a long way

If you really want to get the most out of your wine then there are a few handy things you can do to maximise the flavour. Firstly temperature, and this is for both red and white wines, it makes a massive difference to the way your wine tastes. We generally serve white wine far too cold and this just tightens up all of the flavours. Take a white wine out of the fridge 20 minutes before serving and you will see a huge difference in flavour. Reds we serve too warm, room temperature comes from a time before central-heating and double-glazing so be aware. A red wine which is too warm will become flabby and you will wake up the alcohol element and your wine will seem a little burny on the throat. Pop it in the fridge for 10 minutes if you want to get it back in shape.

> "Make sure you have enough wine, nobody wants to run out

The other thing that really helps is letting wine breathe. This isn't done by opening the bottle and leaving it on the sideboard as only the tiny amount of wine at the top of the bottle gets any air. My favourite way to breathe a wine is to pour it in to a 1 litre Pyrex jug, nice and steadily. This will ensure that any sediment remains in the bottle. Once you've poured the wine out rinse the bottle and pour the wine back in. The Pyrex jug will ensure that you don't spill any and you can then pour it from the bottle again. Bottles these days look very pretty and decanters are as good for pouring wine out of as those little metal teapots at motorway service stations are for tea. You can breathe a white wine just as you would a red and it will have the same effect. It's all about breaking down the structure and allowing the flavour to wake up a little more.

4. The numbers game

Make sure you have enough wine, nobody wants to run out and whilst you may not have a house full of thirsty guests an empty wine rack is a real first world problem. Firstly remember that we never drink as much as we think we might drink so you certainly don't need to panic buy. Wine however is incredibly robust and unlike the rest of the festive groceries it will still be fine in February, March, heck even next Christmas. So if you do over order it certainly won't go to waste.

5. Explore your options

Whilst the majority of wine we drink is just red and white there are many other options. Rose has become a wine you can enjoy even in the depths of winter and a nice pale Provence with roast chicken is a delight whatever the weather.

No fridge should be considered 'stocked' without a bottle or two of bubbles. It doesn't have to be Champagne but a glass of great fizz adds something special to any occasion. A glass of Champagne with breakfast on Christmas Day is a tradition in our house.

Buy good Port. Port is brilliant in as much as you have so much more time to drink it once the bottle is opened so you can just dip in and out of it. Tradition dictates Ruby Port and Stilton but a good Tawny Port is really where the action is. Tawnies aged from 10 years to 40 years old are so full of flavour. All of the ageing has already been done for you so they are ready to drink and once you're used to them you will never go back. A glass of chilled 10 Year Old Tawny served over ice with some good Wensleydale is a match made in heaven.

Hoults

Article courtesy of Rob Hoult of Hoults Wine Merchants.
hoults.com | 01484 510 700

Women's state pension shortfall

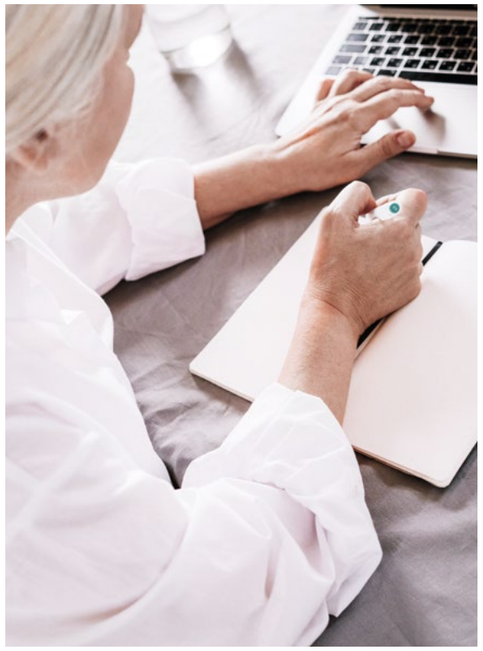
More women should ask the Department for Work and Pensions to check their state pensions, according to former pensions minister Sir Steve Webb.

Rumours abound that the government may need to loosen the pension triple lock to help recover stretched public finances following the Covid-19 pandemic. Meanwhile, research from a leading law firm has highlighted how relying on the intricacies of the state pension system could mean many are losing out.

Under the previous system, married women who reached state pension age before 6 April 2016 were able to claim a basic state pension of 60% of the full rate based on their husbands' contribution record, if this was larger than the pension they could get based on their own contributions.

This uplift in the state pension should have been given automatically since 17 March 2008, but before then a married woman had to make a 'second claim' when her husband reached age 65 – and many women did not make this claim.

The Department for Work and Pensions (DWP) is checking its records, but the chances are that many women will miss out and should call the department to see if they have been underpaid.



The main groups of people affected, according to the research, are:

- Married women whose husbands turned 65 before 17 March 2008 and have never claimed the 60% uplift.
- Widows with pensions that weren't increased after their husbands' deaths.
- Widows who think they may have been underpaid when their deceased husband was still alive, even if their pension is now correct.
- Women in their 80s receiving a basic pension of less than £80.45 per week, if they satisfied the basic residence test at age 80.
- Widowers and heirs of women who have now died but were underpaid state pension while alive.
- Divorced women who might not be benefiting from their ex-husbands' contributions.

Some married women who did not realise they needed to make a claim for the uplift pre- March 2008 are planning to make a complaint of maladministration to the Parliamentary Ombudsman. They will say that the DWP failed to make sure that they knew about the need to make the second state pension claim when their husband turned 65. Currently the payments for women in that category can only be backdated 12 months rather than the 12 years or more of pension uplift that has been missed.

If you think you or someone in your family may be affected, please get in touch.

Higher education costs: to pay or not to pay?

The Covid-19 pandemic has changed the way higher education is delivered, with a new emphasis on online learning mixed with some in-person teaching. But this hasn't reduced the cost of going to university and the debt that will come with it.

This autumn sees the latest intake of undergraduates begin their studies. Most students in England will have taken out tuition loans (of up to £9,250 a year) plus maintenance loans to cover living costs. Different systems apply in the devolved nations, with Scottish students charged up to £1,820 a year in tuition fees at Scottish institutions.

In general, it usually makes sense to use surplus funds to pay off debts early. But graduates – or parents looking to help out – should think carefully before using capital to repay student loans. This is because of the way repayments are structured, with any outstanding debt wiped out after 30 years.

Student loans attract interest like any other debt. This is charged when students are studying, at a rate of the Retail Prices Index (RPI) plus 3%— giving a current rate of 5.4%, with rates afterwards dependent on earnings.

Repayments on student loans only start once graduate salaries reach a certain threshold. For the 2020/21 year this is £2,214 a month — or around £26,500 a year. Students then pay 9% of their salary over this amount. So those earning £3,000 a month will pay 9% of £786 — or £70.74 a month. This is the same monthly repayment whether they owe £20,000 or £80,000 — so paying off a chunk of capital will not reduce this monthly bill.

The larger the loan, the longer it will take to repay. But this still does not necessarily mean students will pay back more overall, as current projections suggest that 83% of students who have taken out a loan since 2012 (when this system was introduced) will not repay the full amount.

For these students there may be little financial benefit to paying part of this debt off early: it will not reduce monthly repayments and may simply mean a smaller sum is written off at the end of the term.

Pandemic lessons

The Covid-19 pandemic has highlighted the low level of social security benefits.

Do you know the weekly value of Statutory Sick Pay (SSP)?

Before Covid-19, most people would probably have struggled to give even a half-accurate answer. Now that so many people have received SSP for the first time, there is an increased awareness. The size of the sum was a surprise for many – just £95.85 per week for up to 28 weeks. The same could be said for other benefits that came under the spotlight because of the pandemic, such as Universal Credit (UC) and Employment and Support Allowance (ESA).

The government's partial response was to increase some benefits temporarily, e.g. adding £1,000 a year to the UC standard allowance. More important was the introduction of the furlough scheme, which meant that over nine million people remained 'employed' on up to 80% of their pre-pandemic pay. Without the scheme, a large group of its beneficiaries could otherwise have lost their jobs and received the markedly smaller UC payments.

The furlough scheme is due to close by November, while the rest of the temporary social security increases are set to finish next April. One of the many lessons from the pandemic is that the UK's social security system supplies minimal benefits and these are often subject to means-testing. Another lesson is that private insurance cover, such as income protection which pays out if someone is ill and unable to work, can have a vital role in filling the gaps.

Sharp fall for dividends

UK dividends were down more than 50% in the second quarter of 2020.

The pandemic has hit the global economy hard and devasted the dividend payments of many leading UK companies. Between April and June 2020, total UK dividend payments were 57.2% lower than in the second quarter of 2019, according to Link Asset Services. Many companies – notably the big banks – stopped dividend payments altogether.

Despite the cuts, Link's worst-case-scenario is that UK shares will provide an income yield of 3.3% over the next year – still much better than current deposit rates.

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Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

News round-up

Beat the scammers
Investment and pension scams are becoming ever more sophisticated, from fancy fake websites to the 'cloning' of authorised businesses. Rule number one is always to reject unexpected offers. Rule two is that, if it looks too good to be true, it probably is. If in doubt, check the FCA ScamSmart site (fca.org.uk/scamsmart) and ask our advice.

A long wait...
A third of people born in the 1980s will be over age 70 when they receive an inheritance from their last surviving parent, according to the Institute for Fiscal Studies (IFS). This is a big change compared with the experience of the previous generation. The IFS reports that the average age of inheritance is 58 for those born in the 1960s.

Video witnessing for wills
The government is changing rules to allow remote witnessing of wills via video calls in England and Wales. It is already legal in Scotland, but not yet in Northern Ireland. New legislation in September will backdate the measure to 31 January 2020, but two witnesses will still be required. The change will last through to 31 January 2022 or as long as necessary through the pandemic.

The FCA does not regulate will writing.

Our EFS News

Welcoming Ash

We're delighted that Ash Gibbs, Paraplanner, has recently joined our team. Now all settled in, Ash said "Since starting at Eastwood's, the support which I have received has been second to none.

I have been made to feel welcome, not just from colleagues in my team, but from all staff. The atmosphere, although not as busy due to the unprecedented times we face, is great. Everybody has time for their colleagues and the organisation as a whole is well structured. I am very pleased to have joined and I see this as the start of a long journey". Welcome to EFS, Ash!

New Baby

Congratulations to Becky Brooke who welcomed Willow Louise Jones to the world on 19th Aug 2020 weighing 6lb 16oz. Both are doing really well and Becky is getting used to being a new mum!

Our Newest Chartered Financial Planner

Tim Ball has become the latest member of staff to become a Chartered Financial Planner after recently passing his Advanced Diploma. Tim has put a huge amount of work into his studying and the whole team is extremely happy that the hard work has paid off. Well done, Tim!

Walking for Charity

In recent months, it has become clear that any sort of mass gathering is not going to be likely. Therefore, Kirkwood Hospice made the difficult decision to cancel their Midnight Memory Walk. Instead, they're encouraging people to take part in a Virtual Memory Walk - taking place whenever and wherever you like!

We are delighted that, rain or shine, Hayley Hartley and her daughter, Kayleigh Senior and her sister, Rachael Craven and her daughter and former employee Hayley Kenyon will be taking part (albeit not at midnight and COVID restrictions permitting).

If you can help sponsor them at all, any amount, small or large, would be very much appreciated. Like many charities, the recent pandemic has had a huge impact on their income streams and we would like to do all that we can to support them through this challenging time.

To donate, please visit:
justgiving.com/fundraising/hayley-hartley1

Also, later this year our Private Client Administrator Sean Flather will be tackling the 3 Peaks to raise money for Andy's Man Club, a local charity that raises money for men's mental health. He said: "With everything that is going on at the moment Ithink this is a good time to be giving money towards a mental health charity, hopefully the weather isn't too bad!"

gofundme.com/f/3-peaks-for-andys-man-club

Rare Bird Spotting

Our resident nature guru and keen bird watcher Tim Ball heard on the social media grapevine that Collingham cricket pitch, near Wetherby had a special visitor of the feathered variety.

Not being one to miss an opportunity, Tim packed his camera and decided to venture over on a weekend in October to try out his luck in spotting an African Hoopoe and he was not disappointed!

The Hoopoe, named after its soft 'hoop hoop' call, was most likely blown off course from south Europe to Africa where they spend winter. Only around 100 visit the UK annually, usually down south, and one hasn't been seen in Yorkshire for 40 years.

Plenty of likeminded birdwatchers and photographers descended on the Yorkshire village cricket club after hearing that a rare Hoopoe bird had moved in.

Delighted ornithologists (Tim included) were spotted piling on to the pitch at Collingham in West Yorkshire, as the small exotic-looking bird, native to Africa and Asia, hunted for worms. It was not put off in the slightest by all the attention and had, in fact, become something of a local celebrity.

Giving you financial freedom

Eastwood Financial Services is committed to offering independent, careful and comprehensive financial planning to both businesses and private clients.

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