

Teacher's notes

Understanding how to budget is the key to getting to grips with money and keeping control of finances.

The idea of budgeting is to add up all the money a person has coming in over a set period of time. If you they paid weekly or monthly it is best to do the calculation on that basis.

Work out all the expenses during that period. Then subtract the expenses from the income and see what is left. The remainder is the disposable income.

$$\begin{array}{r} \text{Income} \\ - \\ \text{Expenditure} \\ = \\ \text{Disposable income} \end{array}$$

Knowing the difference between essential spending and non-essential spending helps people avoid getting into difficulties.

One of the tools we use to budget is an income and expenditure sheet.

This list covers possible areas of spending. If you think any not included here you can add your own.

<p>Housing Rent or Mortgage Property Taxes Council Tax</p> <p>Food Groceries Restaurant Meals Lunches at Work School Dinners</p> <p>Utilities Electricity Gas Telephone Mobile phone Water & Sewerage</p> <p>Personal Prescriptions Laundry / Dry Cleaners Hair Care Clothing Toiletries</p> <p>Family Medical / Dental / Opticians Pet Food / Supplies / Vets bills Child Support Maintenance Child minding Baby Sitting Children's pocket money Parent Support</p>	<p>Gifts / Contributions Religious group Charities Birthdays Weddings</p> <p>Savings Regular Occasional Retirement Contributions Investments Bonds</p> <p>Miscellaneous School Tuition / Materials Union Fees Professional Fees Lessons Legal Fees Credit Card Current Account Charges</p> <p>Taxes Income Tax National Insurance</p> <p>Insurance Car Life Property Disability Contents</p>	<p>Basics Furniture Appliances Linens Utensils Tools Home Cleaning / Repair Supplies</p> <p>Travel Car purchase Fuel Oil, etc. Repairs & Servicing Tyres Car Tax Public Transport (Bus, Train etc) Parking</p> <p>Recreation and Entertainment Hobbies Vacation Sporting Events Dining / Entertaining Club Dues Alcohol Tobacco Lottery Tickets Cable TV Newspapers</p>
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INCOME AND EXPENDITURE CALCULATOR

NAME	DATE
ADDRESS	TELEPHONE

INCOME		weekly/monthly	
Earnings		Income Support	
Partner's earnings		Child Benefit	
Board from children		Maintenance	
Pensions/Other Benefits		Other (please state)	

TOTAL INCOME

EXPENDITURE			
Rent		Clothes	
Mortgage/Secured loan		Pets	
Endowment policy		Laundry Costs	
Council Tax		TV Licence	
Water Rates		TV Rental	
Sewerage Rates		School Meals	
Food/Household Items		Travel Costs & Maintenance	
Electricity		Car insurance	
Gas		Car Tax	
House Insurance		Telephone	
Life insurance		Cigarettes	
Children's pocket money		Newspapers	
Prescriptions/Health Costs		Personal	
		Other (please state)	

TOTAL EXPENDITURE

INCOME minus EXPENDITURE

Example

Jim is 23, he has a full time job which pays him £850 a month, he has no other income.

Income	
Earnings	850
Total Income	850

Jim rents a flat for £350 a month and that includes all bills. He does have to pay for a TV licence which costs £10 a month.

Jim estimates he spends around £100 on food and household items and about £50 a month on clothes.

He doesn't have his own car yet and he spends £80 a month on bus and train fares

He spends around £50 a month on his mobile phone and around £60 a month on cigarettes.

At a guess he spends about £100 a month on various things like CDs, socialising etc.

Let's total those figures.....

EXPENDITURE			
Rent	350	Clothes	50
Mortgage/Secured loan		Pets	
Endowment policy		Laundry Costs	
Council Tax		TV Licence	10
Water Rates		TV Rental	
Sewerage Rates		School Meals	
Food/Household Items	100	Travel Costs & Maintenance	80
Electricity		Car insurance	
Gas		Car Tax	
House Insurance		Telephone	50
Life insurance		Cigarettes	60
Children's pocket money		Newspapers	
Prescriptions/Health Costs		Personal	100
		Other (please state)	
TOTAL EXPENDITURE	800		

So

£850 income

minus

£800 monthly spending leaves Jim with

£50 left at the end of each month

Putting everything on paper has shown Jim that his financial situation is OK, perhaps a bit better than he realised. He's not overspending and still has something left over at the end of each month which he could put into a saving account.

He can also see certain things which he could reduce, such as how much he spends on clothes, mobile phone and cigarettes – all non-essential spending.

Fact: In November 2004 the Bank of England announced that the amount of money borrowed by UK consumers had reached 1 trillion pounds. That's: £ 1,000,000,000,000

That's the equivalent of every man, woman and child in the UK owing £17,000

We live in a society where borrowing money is “the norm”. Credit companies push borrowing by offering you more and more credit. They don't often consider whether you will be able to pay it back. Debt problems can affect people's ability to borrow money in the future including preventing them from being able to get a mortgage.

The media often portray people being in debt as a result of careless spending and buying too much on credit. Sometimes this is true. There is a lot of influence from advertising and peer-pressure to wear the right clothes, have the latest gadgets and keep up with the latest trends.

Pressure to borrow money can lead to problems if people don't know exactly what they are getting themselves into. Statistics show that better-off people use the most credit. People with less income usually face the most debt problems because they are often charged more to borrow money.

Easy access to credit is not the biggest cause of debt problems. More often, unexpected changes in circumstances make it difficult to keep up repayments. This could be because income has gone down or because expenses have gone up. This can be caused by things like unemployment, redundancy, ill-health, accidents, relationship breakdown, pregnancy and death.

PRIORITY DEBTS

Some debts can have serious consequences and can affect people's liberty or everyday living.

These are things like:

- rent or mortgage
- Gas and Electricity
- Council Tax.

It is important that these debts are dealt with as soon as possible. They should also be paid in priority over other debts.

Non-Priority Debts

All other debts such as credit cards, unsecured bank loans etc are of lower priority. There can still be serious consequences to non-payment.

Reminders

If a payment is missed a reminder letter is sent after a couple of weeks. This is usually written in red ink and is known as a “red letter”. A reminder gives a second chance to pay within around 7 days. If the required amount is paid within this time no further action should take place.

Debt Collectors

After sending a reminder some debts will be passed to a debt collection agency. They will write demanding payment and they will charge each time they write, adding to the amount owed. Debt collectors may visit debtors in person to discuss repayment. They must not harass or intimidate people – if they do they can be reported to Trading Standards. A debtor may be able to agree a repayment plan with the debt collectors. If not they may take further action in the court.

Court Action

If a debt is not paid after a reminder the debtor can be summoned to court. The court can decide to take certain measures to instruct the debtor to pay the debt, either in whole or in part. They may be issued with a County Court Judgement against them which states what they have to pay. The County Court judgements can be used by a bailiff to recover the money owed. County Court judgements will also affect a debtor's credit rating making it more difficult to borrow money in future.

Bailiffs

Bailiffs have authority to recover money owed after a court judgement has been made. They will usually visit the debtor at home to arrange repayment. They have the right to enter a debtor's home in certain circumstances. If the debtor is unable to agree repayment with them they make take items from their property and sell them. The money raised will be taken off the total debt.

Credit Rating

When a debtor applies to borrow money from a bank building society or other lender they check their credit rating to see if they are an acceptable risk. The credit rating is a score which allocates points to various pieces of information such as age, occupation, if they are a home owner, as well as credit history.

If you have a poor credit rating a consumer may be refused when they apply to borrow money. This may prevent them from obtaining credit or a mortgage. It can also affect job prospects as some employers will enquire about this information

Failing to pay back money borrowed can result in a poor credit rating.

If a consumer is refused credit the lender does not have to tell them why but they should say if it is because you have a poor credit rating. They should also tell them which credit reference agency they have used.

A credit rating is held by one of three Credit reference agencies. It is vital that the information they hold on people is correct and everyone has a right to have a copy of their file. There is a small charge for receiving this. Details on how to correct any inaccurate information on a credit record will be sent with the file.

The credit reference agencies can be contacted at:

Callcredit PLC

Consumer Services Team
PO Box 491
Leeds
LS3 1WZ
Helpline: 0870 060 1414
www.callcredit.plc.uk

Equifax PLC

Credit File Advice Centre
PO Box 1140
Bradford
BD1 5US
Tel: 08705 143700
www.equifax.co.uk

Experian Ltd

Consumer Help Service
PO Box 8000
NOTTINGHAM
NG1 5GX
Tel: 0870 241 6212
www.experian.co.uk

Credit Repair Agencies

Some companies advertise a service that offers to repair a bad credit rating. A credit report can be sorted out by anybody or with expert help free of charge. There is no need to pay for credit repair advice. The process is started by contacting the credit reference agencies, contact details shown above.

For further advice visit your local Citizens Advice Bureau for free confidential help.

BANKRUPTCY

If debts get out of control and cannot be repaid this can result in bankruptcy. Bankruptcy is a decision made by the court to hand over control of someone's finances to a trustee. A person can apply for bankruptcy or the creditors (the people owed money to) can apply.

What are the effects of bankruptcy?

- Lose control of assets including a house if the debtor is buying it.
- A debtor may be publicly examined in court.
- A debtor cannot borrow over £250 without advising the lender of their bankruptcy.

- A debtor cannot act as a company director or take any part in a limited company without the permission of the court.
- A debtor may not be a
 - Chartered Accountant
 - Lawyer
 - Justice of the peace (JP)
 - Member of Parliament
 - Member of the local authority.
- A debtor will find it more difficult to obtain credit for years after the bankruptcy has ended

Sources of Help

The Citizens Advice Bureau offers free, confidential advice and can help you get to grips with your debts.

If you have any questions or require some assistance or advice for dealing with debts contact or visit your local Bureau.

Direct Debtline telephone 01323 481111

www.directdebtline.com

National Debtline telephone 0808 808 4000

www.nationaldebtline.co.uk

Financial Services Authority

www.fsa.gov.uk

Office of Fair Trading

www.of.gov.uk

Financial Ombudsman Service

www.financial-ombudsman.org.uk

UK Credit Repair

www.ukcreditrepair.co.uk