

# Budgeting, Savings and Debt

Complete the following 'Budget Quiz':

Do you need a budget or can you do just fine without one?

1. When you get a present or a surprise amount of money do you:
  - a) Treat yourself to something you've had your eye on and then save the rest
  - b) Go on a shopping spree
  - c) Save all the money
  
2. You're at the shopping centre and you see something you have been longing for but can't really afford. You know you could live without it if you tried. What do you do?
  - a) Think about buying it but decide not to because there is something else you'd rather have
  - b) Buy it immediately. When the money's gone it's gone!
  - c) Keep your money in your purse/wallet – you know you don't really need it.
  
3. At the end of the month:
  - a) You look forward to spending what you've saved
  - b) You have no money at all
  - c) You have managed to save a lot, spend a little and have enough left for a present for mum
  
4. You really want the beautiful new bike you have seen in the shop. What do you do?
  - a) Try to borrow the money from mum or dad, promising to pay it back
  - b) Save for a short time and then blow it all on something else
  - c) Make a Saving Plan and stick to it
  
5. When your favourite shop announces a sale you:
  - a) Take all your savings out – you are going to shop till you drop
  - b) Badger mum or dad to buy you things because you don't have any money
  - c) Give yourself a limited amount of your savings to spend to get what you really need
  
6. Which best describes your budgeting style?
  - a) You've noticed you want to spend more when you feel happy, sad or bored (or any other excuses you can think of!)
  - b) Spend all your money quickly and then try to borrow from your mum or dad
  - c) You plan your spending carefully, keeping to your long and short term savings goals
  
7. If your financial habits were a song, the title would be:
  - a) 'We Can Make It Through'
  - b) 'The Low Down No Dough Blues'
  - c) 'I'm Savin' It All Up For You, Babe'

**Look at your answers:** How did you do?

**Mostly 'a's:** You are 'Miss or Mr Close to Careful' but a budget would help you save to buy some of those things you really want.

**Mostly 'b's:** You are 'Shopping Spree Sal or Si' – you really need a budget to help you manage your money.

**Mostly 'c's:** You are 'Miss or Mr Budget Bonanza'. You are already using a budget to stretch your money.

**Budgeting:** Why do we budget? What does it mean?

Budgeting is when we look at how we are spending money now and plan our spending to improve our circumstances, e.g. so we can save for things or not get into debt. Remember our learning last week about needs and wants.

Use the 'Budget Cards' on the next page – you can print them out or just refer to the number. You need to put the cards in order of importance to yourself as an adult earning a wage. Remember, budgeting can help you manage your money as you get older.

Complete this sentence: *Having a budget is a good idea because ....*

**Savings:** Think of all the ways that you make savings.

Hopefully, you have included the following:

- look for recreation instead of entertainment *e.g. cinemas etc are expensive and one-off experiences, but walking, football and other hobbies can be low cost and lasting;*
- use the library, DVDs, CDs, books, book sales and the internet;
- avoid shopping centres when you have no money; shop with a list and avoid impulse buying;
- give yourself treats but not too many;
- beware of promotions and sale items – calculate to see if there are savings and ask yourself if you really need it.



Other ways to save money in school or at home:

- *using resources carefully and not wasting them;*
- *using things as they are meant to be used (trainers for playing, smart shoes not for playing);*
- *turning off taps and lights, using electricity carefully;*
- *avoiding food waste and buying unnecessary things – buying cheaper own-brand items.*

**Look at the Family Budget Sheet and work through the questions on there.**

# Budget Cards

A budget helps you sleep better at night because you don't lie awake worrying about how you're going to make ends meet.

1

A budget can help you meet your short and long term savings goals, because you can plan them in.

2

A budget tells you if you are living within your means (spending less than you earn). Using credit cards can make this much less obvious. Many people don't realise they are living far beyond their means until they have big debts.

3

A budget actually frees up money for you to use on things that matter to you, instead of frittering it away on things you don't even remember.

4

A budget can help your whole family focus on common goals – things they all want.

5

A budget helps you prepare for emergencies or large unexpected expenses that might otherwise knock you off balance financially.

6

A budget lets you control your money – instead of your money controlling you.

7

A budget shows you where you are spending too much money so you can rearrange your spending to focus on your most important goals.

8

A budget can *keep* you out of debt or help you *get out* of debt.

9

# Family Budget

Keeping a budget sheet helps individuals, families, businesses and schools keep a record of what they spend and earn. This helps to show where the money is going and helps stop them spending more money than they have and going into debt.

Here is an example of a simplified family budget sheet. The family has three children. It shows one month's income and expenses. NB: A mortgage is when you borrow money to pay for a house and then pay it back with lots of interest – money we pay to have the loan.

Income		Expenses	
Parents' wages	£ 2,750	Mortgage/rent/council tax	£1100
		Car (travel, petrol, maintenance)	£450
		House Insurance	£60
		Utility Bills (gas, electricity, water)	£170
		Phone Bill	£80
		Clothing	£200
		Food/groceries	£350
		Household items	£75
		Children's pocket money	£60
Total Income:	£ 2750	Total Expenses:	£2545
Balance (Income minus expenses):			£205

The budget for this family shows that they have £2940 income (money coming into the household). Their expenditure (money they spend) is £2545, which means they have £205 left over. Is this a realistic budget for today?

Look at what the family has spent – they have only really spent on necessities. There are no treats or luxuries (cinema, holiday, presents). They haven't given anything to charity to help others and they haven't saved anything or allowed anything for emergencies like house repairs.

Would your budget for this family look like this? How would you divide the £205 left each month?

Play [this game](#) on the NatWest website to learn how to budget.

**Debt:** When we buy a house we don't usually have the money we need to pay for it, so we get a mortgage. We include the amount we have to pay the mortgage in our monthly budget. This is a manageable debt – one that is planned for and we can afford to repay, including the interest. We might do this with big items by Hire Purchase (HP) too.



What do you think unmanageable debt is?

*This is debt we have run up without planning and cannot afford to pay back, usually because paying it back either involves a large amount of interest, so the debt grows, or because it means we don't have enough for the essentials. These debts can quickly spiral out of control.*

What different ways might you pay for utility bills (gas, electricity, water)?

*A Direct Debit is something that is set up to automatically come out of your bank account monthly, quarterly (every three months) or annually (yearly). This can be a bit cheaper than paying them in one lump. This is safer because you don't spend what you will need to pay for those things so that when the bill comes you have no money.*

Click [here](#) to go to the BBC Bitesize website about 'The Danger of Debt'.

**Summary Task:** Consider all the information you have learned this lesson. Write down **five** 'top tips' or important facts that you need to remember about budgeting, savings and debt.

