Understanding your money

Practical guidance to help lone parents make sense of their cash

A work book for money advisers to help lone parents who:

• find it hard to make ends meet
• find managing their finances stressful
• want to find out how to take more control of their money

Helping you with

Your Money

Your Education

Your Work

Supported By
“I thought I knew how I spent my money, but it wasn’t until I actually did a budget that I realised how much money I was wasting.”

Jacqui
This publication is designed to help you if you are working with lone parents who are struggling to manage their finances. The booklet is divided into sections and you can work through them all or pick the ones that help the most.

The booklet is designed to be worked through with your client. There are pages that can be photocopied at the start so your client can complete tasks and make notes during the advice session. They may also find the contacts list useful.

Depending on the client you may wish to go through one or all of the quizzes in this booklet. They are not designed to be a daunting test but a way of finding out which sections would be useful.
Contents

Welcome to Horizons…

Understanding my money: client notes
Pages to photocopy and give to your client to complete
during the advice session 7

1. An understanding of money matters 15

2. Keeping track of income and expenditure
Using a budget sheet and working out weekly/monthly figures 17

3. Savings and accounts
The benefits of saving and the types of account available 21

4. How to make borrowing work
The arguments for and against credit and the type of credit available 27

5. Managing debts with less worry
The five steps to dealing with debt 33

6. Planning for the future
Setting goals to keep the momentum going 37

7. Want to know more?
Contacts for help and advice 39

8. A – Z of financial words
Financial terms explained 41
Acknowledgments

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Bedworth, Rugby and Nuneaton CAB
North Liverpool CAB
Toynbee Hall

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Please note: The figures and costs throughout this workbook are correct as of July 2010.
About Horizons

Supported by Barclaycard, Horizons brings together three expert partners specifically to help one parent families:

Citizens Advice Bureau
Family Action
Gingerbread

Working together we help build brighter futures for one parent families by giving support and advice on money matters. We do this by providing grants towards training and education costs and by helping lone parents to get back to work.

This workbook is used as part of the Your Money programme.

Did you know?

There are more credit and charge cards in the UK than people – 71.3 million (January 2009)
Your Money

Horizons Your Money is a completely free programme run by twelve Citizens Advice Bureaux in the following areas:

- Basildon
- Bedworth
- Blackpool
- Cardiff
- East London
- Newcastle
- Northampton
- North Liverpool
- Stockton
- Toxteth
- Washington
- Wolverhampton

Your Money programme sessions are open to anyone in these areas who are bringing up children on their own. This workbook is available to all.

The CAB service helps a large number of lone parents, and we understand the financial pressures that one parent families face.

Through the Your Money programme, we provide support and advice to lone parents on a range of money matters, from managing your money and budgeting to dealing with loans, credit and debt.

More information: www.yourhorizons.com and click on Your Money.

Your Education

Horizons Your Education has been developed in partnership with Family Action. The Your Education programme helps lone parents with the costs of education and training that will help improve job prospects.

We understand that finding the extra money for education and training can be a real strain on family finances so the programme offers grants and support towards the cost of fees. It can also help with associated costs such as books, travelling expenses and childcare.

More information: www.yourhorizons.com and click on Your Education.

Your Work

Horizons Your Work is a free, three-week programme run by Gingerbread. The programme is specifically designed to give lone parents valuable advice and support on all aspects of returning to work as well as two weeks’ work experience.

Attending a Horizons Your Work programme can help you:
- boost your confidence and explore your options
- build your skills for work
- gain practical experience in a real workplace
- make an informed decision to see if returning to work is right for you.

More information: www.yourhorizons.com and click on Your Work.
Understanding my money

Section 1 Quiz 1: Me and my money
*Circle the answer next to the statement you most agree with.*

**Question 1**
A. I usually know exactly how much money I have.
B. I think I know how much money I have but get some nasty surprises.
C. I never have a clue how much money I have or should have.

**Question 2**
A. I put aside a little each month.
B. I try to save but as soon as I get a little put aside, I spend it.
C. I never have enough to put aside.

**Question 3**
A. I control my money.
B. Life circumstances control both my money and me.
C. My money controls me.

**Question 4**
A. I’d rather we go without and stay out of debt.
B. I don’t like debt but I sometimes need to borrow for essentials.
C. I’d rather be in debt than go without the things I want for me and my children.

**Question 5**
A. I have no debt.
B. I know how much I owe and when I will be out of debt.
C. I sort of know how much I owe but I can’t see ever being out of debt.

**Question 6**
A. I budget so that my bills are always covered by my income.
B. I know how much I have coming in but I don’t keep track of what I spend.
C. I spend money as I get it and hope it covers all my bills.

**Question 7**
A. I have a bank account and check my statements every month.
B. I’m happy as long as I know my current balance.
C. I don’t have a bank account.

**Question 8**
A. Christmas is a joy because I’ve saved over the year for the presents.
B. I save a bit for Christmas but it’s still a burden financially.
C. Christmas equals debt.

Now add up the As, Bs and Cs to find out how well you cope with your money.

Number As: ____ Number Bs: ____ Number Cs: ____
Section 1 Quiz 2: What do I know about money?
Circle the answer you most agree with. You may not know all the answers.

1. What does APR stand for?
   a. Average Payment Rate
   b. Annual Percentage Rate
   c. Alternative Payslip Return

2. If I borrowed £500 from a doorstep lender what is the typical amount that I would have to pay over 1 year?
   a. £563.50 (an APR of 12.7%)
   b. £680 (an APR of 36%)
   c. £1,387 (an APR of 177.4%)

3. If I borrowed money from a credit union, what is the sort of interest that I would have to pay?
   a. 12.7%
   b. 39.9%
   c. 200%

4. If you buy from a catalogue and fail to pay the money back, your home can be at risk.
   True/False

5. To open a bank account you need to show proof of identity and address.
   True/False

6. If you have a bad credit history, you can’t get a bank account.
   True/False

7. Which of the following are priority (very important) debts and which are non-priority (less important) debts?
   a. Unsecured bank loans? Priority/Non-priority
   b. Maintenance/Child support arrears? Priority/Non-priority
   c. Unpaid TV Licence Priority/Non-priority
   d. A catalogue debt? Priority/Non-priority
8. Bailiffs can use force to enter domestic property.
   True/False

9. Bailiffs can enter your home through an open door or window.
   True/False

10. Bailiffs can take things that don’t belong to you.
    True/False

11. If you don’t repay a secured loan, you can lose your home
    True/False

12. An interest free loan is when you are not charged any interest?
    True/False

13. An unsecured loan is secured on your home?
    True/False
Section 2
Budget sheet

<table>
<thead>
<tr>
<th>Income</th>
<th>Weekly</th>
<th>Monthly</th>
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<tbody>
<tr>
<td>Wages</td>
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<tr>
<td>Benefit payments</td>
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<td>Tax credits</td>
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<tr>
<td>Maintenance</td>
<td></td>
<td></td>
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<tr>
<td>Other</td>
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<tr>
<td><strong>Total Income</strong></td>
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<td></td>
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<tr>
<td><strong>Expenditure</strong></td>
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<td></td>
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<tr>
<td>Rent/mortgage</td>
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<td>Council tax</td>
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<td>Gas</td>
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<td>Water</td>
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<td>Electricity</td>
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<td>Telephone – land line</td>
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<td>Mobile phone</td>
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<td>Housekeeping/food</td>
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<td>TV licence</td>
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<td>Insurance</td>
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<td>Travel</td>
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<td>Clothes</td>
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<td>Entertainment</td>
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<td>Cigarettes/alcohol</td>
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<td>Presents</td>
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<td>Eating out/takeaways</td>
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<tr>
<td>Newspapers/magazines</td>
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<tr>
<td>Other e.g. nappies. Pocket money, school trips</td>
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<td>Other</td>
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<td>Other</td>
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<td><strong>Total expenditure</strong></td>
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<td><strong>Total income</strong></td>
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<td><strong>Minus total expenditure</strong></td>
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<td><strong>Balance left</strong></td>
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<td>NEED?</td>
<td>WANT?</td>
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What is coming up for the month ahead?

What do I need to plan for?
Section 2 Quiz 3: working out your budget

Using the method explained by the adviser convert the following ...

into weekly amounts:

a. £89 per month ________
   b. £156.50 per quarter ________
   c. £565 per year ________

into monthly amounts:

a. £2.89 per week ________
   b. £132 per quarter ________
   c. £1,298 per year ________

Section 2: small change challenge

The non-essential item I spend money on during the week is:

Weekly cost is: £
Annual cost is: £

If I didn’t buy these items – or bought them less often – I would:

__________________________________________________________________________
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Section 3: steps to deal with debt

Step 1 – my creditors

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<tr>
<th>Who I owe (name and address)</th>
<th>How much</th>
<th>Priority</th>
<th>Actions:</th>
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Who I need to write to:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

(Sample letters to send to creditors can be found on the National Debtline website, www.nationaldebtline.co.uk.)
Section 4: Planning for the future
What I would like to do with spare cash (for example increasing my income, reducing a debt or saving).

<table>
<thead>
<tr>
<th>I want to:</th>
<th>I aim to have done this by:</th>
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Barriers are things that I need to overcome, develop or experience in order to achieve my goals.

Positives are things that could help me achieve my goals (for example personal experience, training, education, attitudes, habits, support or connections including personal contacts).

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<tr>
<th>Barriers</th>
<th>Positives</th>
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Action points:

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Section 1
An understanding of money matters

“Money does not manage itself.”

Alvin Hall, TV presenter
You and your money, friend or foe?

Use this section to get an idea of how your client copes with money and see how much they currently know about money matters.

You will need to photocopy the quizzes and work through them with your client. Ask them to circle the answer next to the statement they agree with. The results will help you to find out which section will provide the best advice in this workbook.

Don’t expect your client to know all the answers – the sections will give more detail. Read each question and explain in more detail if required.

Answers to quiz one

Count the number of As, Bs and Cs circled in quiz 1 and read the comments below according to the largest score. Ask your client if they have any questions.

Mostly As

You have things in order and seem to have your money matters sorted. This workbook may give you some ideas on how to keep things that way.

See if your client has any specific questions that result from the quiz. Go through the contents and see if there are any sections that are of interest and work through them. Point to other organisations who may answer specific issues.

Mostly Bs

You are not doing too badly but things could go wrong quickly. This workbook will help you to keep a track of your finances and find ways of managing your budget successfully.

All of the workbook will be useful for this client - but have a look at the contents list and start with a section that your client is most comfortable dealing with first.

Mostly Cs

You are not in control of your money – but you are not alone. You may feel confused about your finances, or be struggling with debts, or on a really tight budget. This workbook will give you some ideas on how to sort things out.

Suggest starting with section 2, Controlling your money, would be a good place to start.

Did you know?

UK personal debt (including mortgages) stands at over £1,400 billion (Mar 2009)
Answers to quiz two

Go through the answers below with your client.

1. b
2. c
3. a
4. False
5. True
6. False – you can get a basic bank account
7. a. non priority. Failure to pay will not result in you losing your home or other asset, but you could end up in court. A secure loan would be a priority debt.
   b. priority because failure to pay could result in bailiff action, money being taken from benefits or wages or a prison sentence.
   c. priority because failure to pay could result in bailiff action, money being taken from benefits or wages, a fine or a prison sentence.
   d. non priority. You cannot be imprisoned, but you could end up in county court.
8. False
9. True
10. False
11. True and False - It may be safe but a secured loan is usually secured against your home. If you do not pay it, you may lose your home.
12. True
13. False

Does your client know the difference between priority and non priority debts? As this is important suggest you read through Section 5.
“Money is only a tool. It will take you wherever you wish, but it will not replace you as the driver.”

Ayn Rand
Keeping track of income and expenditure

If you’re broke

Do I need it?
Do I want it?
Can I find it cheaper anywhere else?

If you’re not broke

Will I use it?
Is it worth it
Can I find it cheaper anywhere else?

In this section looks at:
• helping to budget
• working out a weekly or monthly spending
• reducing spending or increase your income.

Easy steps to budgeting

Copy the budget sheet and go through income and expenditure with your client. If most of your client’s money comes in weekly, use weekly figures. If monthly, use monthly figures. Consider unexpected payments such as car bills or the fridge breaking down.

Step one: working out income

Go through with your client exactly what money they have coming in. Ask them to write down all sources of regular financial income such as benefits, salary, child support. Work out the total income on either a weekly or monthly basis and encourage them to make it accurate and realistic (ie not listing money that is not guaranteed to be paid).

Step two: working out expenditure

Now ask your client to write down exactly what they spend money on, and again, encourage them to be accurate and realistic. The list should go beyond bills such as rent, but take into account smaller everyday items such as snacks, travel, etc

Step three: “need” or “want”?

Go through the expenditure list and ask which they consider to be something they need to pay for and which they want to pay for. Ask them to look at the week/month ahead and consider what outgoings may happen – including birthdays, nights out, school dinners, the gas bill …

The items in the ‘need’ list should be things your client has to pay for. Ones where failure to pay could lead to problems.
Once your client has paid all the things they need to pay for, can they get all the things they want? Ask them to consider:

- prioritising the items they would like to pay for
- if there’s something else they could have instead
- if the expenditure could wait until next month.

If your client is uncertain about working out a weekly or monthly budget go through quiz three, ‘cost conversions’ to help them get to grips with the concept.

**Quiz three: Cost conversions**

Before your client starts quiz three go through with them how to work out the weekly and monthly amounts needed to budget for regular bills.

How to budget weekly for a:
- monthly bill — multiply monthly amount by 12 and divide by 52
- quarterly bill — multiply quarterly amount by 4 and divide by 52
- yearly bill — divide annual amount by 52

How to budget monthly for a:
- weekly bill — multiply weekly amount by 52 and divide by 12
- quarterly bill — multiply quarterly amounts by 4 and divide by 12
- yearly bill — divide by 12

Remember if using a calculator to round up figures you only need to note the two after the decimal point, which are the pennies we are trying to look after.

Ask your client to go through the following costs using the method above and work out what the budget would be weekly or monthly. Ask your client to write the answer they come to on the copied page (see page 12).

**Convert the following to weekly amounts:**
- a £89 per month. **Answer** = £20.53 (89 x 12 ÷ 52 = 20.53)
- b £156.50 per quarter. **Answer** = £12.03 (156.50 x 4 ÷ 52 = 12.03)
- c £565 per year. **Answer** £10.86 (565 ÷ 52 = 10.86)

**Convert the following to monthly amounts:**
- a £2.89 per week. **Answer** = £12.52 (2.89 x 52 ÷ 12)
- b £132 per quarter. **Answer** = £44.00 (132 x 4 ÷ 12)
- c £1,298 per year. **Answer** = £108.17 (1,298 ÷ 12)

Once your client has understood how to do monthly or weekly budgeting, go through their finances and see if they have money left over or if they’re expenditure exceeds their income.

**Money left over**
If the budget sheet showed money to spare is this what happens in reality? If not, go back to the budget and make sure everything was included. If money is left over – or your client has noted some unnecessary spending - see the next section, ‘keep your money safe’ for ideas on saving.
Expenditure exceeds income
If more money is leaving the account than coming in then check outgoings. Is there anything your client can cut back on? Then have a look at the section on managing debts.

Ways to make money go further

The lists below may give your client ideas on ways of making their money go further. If so, go through how the ideas could be put into practice.

• Prioritise. Put what you have to spend your money on first.
• Use cash instead of cards so you can see what you’re spending.
• Visit moneysavingexpert.com, a website that offers a weekly e-mail with money saving tips.
• Cook at home rather than buy ready meals or eat out.
• Brew your own beer and wine.
• Roll your own cigarettes.
• Pay cash and ask for a discount.
• Freecycle (www.uk.freecycle.org), a network where you can ask for and donate items for free.
• Swap favours with people i.e. child cover for child cover, DIY for dinner, child care for haircut, etc.
• Grow your own fruit and vegetables.
• Shop around – on foot, on the internet, in newspapers, in magazines, etc.
• Look out for BOGOFs (‘buy one get one free’) deals.
• Buy multi-packs. If it’s too much, split with friends.
• Look out for special offers for things you need.
• Use ‘money off’ vouchers.
• Buy the shop’s own brand.
• Buy in bulk – e.g. stewing steak, cook in bulk and freeze.
• Look at the reduced section in the supermarket for items close to their ‘sell by’ date.
• Save loyalty card points in shops you use regularly.
• Go to charity shops or buy at car boot sales.
• Look out for the sales! Shops often put a red or black dot on the laundry label of a garment to secretly indicate to staff that it’s going to be lowered in price. If you see something – check for the dot before you buy at full price.
• Use shopping lists to limit impulse buys.
• Look at what triggers a spending spree. Emotions can affect when you spend.
• Buy at auction, or through the small ‘ads’ in the paper, shop windows, etc.
• Buy services in advance – e.g. bus passes and train tickets.
• Check if cheaper to go by public transport rather than car.
• Check you’re getting the right mobile phone deal.
• Use direct debits – some companies give discounts for paying on this method.
• Shop around for gas and electricity provider. Review your utility providers for electricity, telephone, television, water and gas. Use a switching site like www.gocompare.com.
• Review insurance policies for home, contents, car and any additional insurance for payment protection, mobile phones, pets etc. Could you get the same protection for less. Do you really need them?
Ways to increase your income

- Rent a room out in your home. Make sure you follow all the correct processes incase the income could be taxable. Check www.direct.gov.uk for further information.
- Check with your local tax office that you have the right tax code.
- Check you are being paid at least the minimum wage.
- Sell not needed items at car boot sales or hold a garage sale.
- Make sure you are getting any child maintenance you are entitled to.
- Ask for contributions from grown up children or others living in your home.
- Are you getting all the benefits and tax credits you are entitled to? Contact your local benefits agency or CAB for further advice.
- Apply for a home improvement grant from your local council.
- Take on other paid work.
“Take care of the pence and the pounds will take care of themselves.”

William Lowndes
Savings and accounts

This section looks at:

- the advantages of saving
- where to put your spare money
- how to open a bank account

Go through this section if your client has money left over in their budget sheet or needs information on different methods of saving.

Why bother to save?

- To deal with the unexpected such as major repairs to the car or your home, loss of work or sudden illness.
- To buy the ‘bigger’ things such as new furniture, a holiday or car without having to resort to credit (which costs money).
- Money makes money (depending on where you keep it). You will earn interest, not pay interest.

Taking care of the pennies …

Go through the ‘small change challenge’ to see how the small things your client buys can add up over the year.

Get your client to think of something non-essential that they spend money on during the week (for example a newspaper, magazine, lottery ticket, cigarettes). This would be something they don’t have to buy. Then multiply the weekly cost by 52 to get the amount they spend annually on these items.

Now ask the to imagine not buying these items – or buying them less often – what would the do with the extra money?

Saving 25 pence a day will give you more than £90 over a year.
Saving 20 pence a day will give you more than £80 over a year.

Getting into the saving habit

Go through the benefits of saving – the main one being that by saving rather than borrowing your client will be earning interest not paying it. That means more money for them to spend.

- A small amount saved regularly will soon add up. [Work out how much your client can afford to save by checking the weekly/monthly budget.]
- Put it somewhere you can’t reach it so easily but you can see it grow. Set up a standing order from a basic or current account to a savings account so you don’t have to think about it. [Go through the ‘where to save’ section and how standing orders work with your client.]
• Start children young and get them into the savings habit. [Go through special children’s accounts.]
• Reward yourself for saving by using some of the money to buy the things you can’t afford out of your regular income. To keep you motivated stick a picture of the thing you’re saving for on the fridge or notice board. [See also Section 6, ‘planning for the future’]
• Try not spending 20 pence pieces when you are given them in change. Put them into a jar and how much you have after a month or two.

Where to save

Go through the ways your client can save money. They are summarised below and include saving:
• at home
• with a credit union
• in a bank/building society account
• in a Post Office account.

Saving at home
Putting money into a piggy bank or coin jar at home is the easiest way to save money. But because the money is available there is more temptation to spend it! Money saved at home will not benefit from interest and it could be easier to steal.

Credit union
Credit unions are financial co-operatives where members can save money and borrow money at affordable interest rates. They are local, and know what their members want. The rates of interest charged on loans are usually some of the cheapest available at about 12-26%.

Some credit unions now offer current accounts as well as savings accounts and there are unions are across the UK. Find a local credit union at www.abcul.org.

Bank/building society or Post Office accounts
Banks and building societies are usually the safest place to keep your money. You can arrange to have regular bills paid from your account, which saves time and sometimes money as well as helping you budget. An account may also pay interest on your money if you stay in credit.

Most accounts fall into three categories.

1. A basic account

With this account you:
• can pay money into your account
• can get cash from ‘the hole in the wall’
• can have your regular bills paid by direct debit
• cannot go overdrawn. By doing so you risk being charged by the bank.
2. A current account

This account does everything a basic bank account does, plus you:
- can have a cheque book and cheque guarantee card
- can have a debit card (that allows you to buy things in shops and pay for them out of your current account)
- can negotiate an overdraft with your bank (if you go spend more money than you have in your account without getting your bank’s agreement they might refuse cheques and direct debits and charge you quite a lot of money).

You can also open an internet current bank account which has the same features as any other current account but you can arrange things and check your statements online.

3. A savings account

This account pays a higher rate of interest and is designed to help you save up for things.
- Usually there is no cheque book or debit card.
- You cannot pay bills from this account.
- Some accounts, especially those paying the highest rate of interest may require you to give notice before you can withdraw your money and may limit the number of withdrawals you can make.

The next page has further details of the different types of account available. Either photocopy the pages for your client to read in their own time, or go through the options in more detail to answer any questions they have.

Remind your client that incentives or free gifts are sometimes offered if you take out a bank account. Clients should pay more attention to the account itself: the free gift is nice but they could pay twice its price if they go overdrawn.
<table>
<thead>
<tr>
<th></th>
<th>Basic bank account</th>
<th>Current account</th>
<th>Internet account</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pros</strong></td>
<td>Can get if low credit score. Can use cashpoints. Can’t get overdrawn.</td>
<td>Lets you have direct debits, debit cards and cheque books.</td>
<td>Lets you have direct debits and debit cards. You can sort stuff without going to the bank.</td>
</tr>
<tr>
<td><strong>Cons</strong></td>
<td>Not all of these let you make payments by direct debits or debits cards. Banks not always keen to give out forms for this sort of account.</td>
<td>May let you go overdrawn with no warning and cost a lot. Need an ok credit score to get one.</td>
<td>Need your own internet access to be secure. It’s harder to talk to someone at the bank.</td>
</tr>
<tr>
<td><strong>How can I sort stuff?</strong></td>
<td>At your bank, building society, and at the Post Offices, cash points.</td>
<td>At your bank or building society, post offices, cash points, by phone, or post.</td>
<td>On the internet, at cashpoints and by post.</td>
</tr>
<tr>
<td><strong>Where can I get out money?</strong></td>
<td>At cash points and often at Post Office counters.</td>
<td>At cash points and sometimes at post office counters.</td>
<td>At cash points and sometimes at post offices.</td>
</tr>
<tr>
<td><strong>Need money to open account?</strong></td>
<td>Not usually, may need £1.</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Credit checks?</strong></td>
<td>May check. Can be refused if fraud record</td>
<td>Yes, can be refused on credit scoring results or credit history.</td>
<td>Yes, can be refused on credit scoring results or credit history.</td>
</tr>
<tr>
<td><strong>Direct debits?</strong></td>
<td>Possibly</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Debit card?</strong></td>
<td>Sometimes a limited one</td>
<td>Usually</td>
<td>Usually</td>
</tr>
<tr>
<td><strong>Overdraft?</strong></td>
<td>No, but sometimes a buffer, so can get money from cashpoint.</td>
<td>Yes - Can have higher charges if not agreed in advance.</td>
<td>Yes - charges if overdraft not agreed in advance.</td>
</tr>
</tbody>
</table>

There are a few websites that compare bank accounts (including accounts for young people) that may help your client choose the account that works for them. If your client has internet access the following websites are examples of some which do comparisons.

- www.fool.co.uk
- www.uswitch.com
- www.needtobankaboutbanking.com
- www.moneysupermarket.com
- www.gocompare.com
<table>
<thead>
<tr>
<th>Pros</th>
<th>Savings account</th>
<th>Post Office card account</th>
<th>Credit union</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gives you some money back <em>(interest)</em> on the money you save.</td>
<td>Can get if on benefits.</td>
<td>Can get if low credit score. Can save and borrow locally at good value.</td>
</tr>
<tr>
<td>Cons</td>
<td>Can’t do direct debit payments.</td>
<td>Can only pay in benefits. Can only get money out at the Post Office.</td>
<td>May not be able to use cash points or direct debits.</td>
</tr>
<tr>
<td>How can I sort stuff?</td>
<td>At the bank, building society or post offices, at cash points, by phone or post.</td>
<td>At Post Offices.</td>
<td>At your local credit union and by post.</td>
</tr>
<tr>
<td>Where can I get out money?</td>
<td>May be at cashpoints, or just at the bank or building society.</td>
<td>Only at Post Office counters.</td>
<td>Only at credit union collection points.</td>
</tr>
<tr>
<td>Need money to open account?</td>
<td>Yes</td>
<td>No</td>
<td>Yes – about £1 needed.</td>
</tr>
<tr>
<td>Credit checks?</td>
<td>No credit checks usually</td>
<td>No credit checks</td>
<td>No credit checks – unless borrowing.</td>
</tr>
<tr>
<td>Direct debits?</td>
<td>Not usually</td>
<td>No</td>
<td>No - but may do bill budgeting service.</td>
</tr>
<tr>
<td>Debit card?</td>
<td>Not usually</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Overdraft?</td>
<td>No</td>
<td>No</td>
<td>No – but can borrow at low interest, once saved a while.</td>
</tr>
</tbody>
</table>

How do I open an account?
If your client wants to open a bank account they will need some proof of their identity and address. Normally this would be one of each, but some banks now accept a single item showing both, such as a driving licence. Some banks are more flexible than others. Check to see which of the following items your client can provide as proof of identity and residence.
Proof of identity can include:
- passport
- driving licence
- EU national identity card
- NUS student ID card
- birth certificate
- NHS medical card
- benefits book or DWP agency notification letter
- HMRC PAYE coding notice.

Proof of address can include:
- any item on the above list that gives your current address as long as it is not used to prove your identity. In some cases a driving licence can be used as proof for both identity and address.
- a bank, building society or credit union statement or passbook
- a recent gas, electricity, water or telephone bill (but not a mobile phone bill)
- a recent council tax bill, council or private tenancy agreement
- motor or home insurance or vehicle registration document
- a TV licence.

Before opening an account check:
- whether a minimum amount is required to open the account
- whether a minimum amount is required before you can use the account
- if the account lets you go overdrawn and if so check how much it charges as you may get caught out with high charges
- if you can set up a standing order or direct debit. It may be worth paying bills this way as they are often cheaper than other methods
- if there are direct debit facilities check if there is a charge for unpaid direct debits as this can be as much as £37.

Your client should ask bank staff if there is anything they do not understand about the account before they open one. They can also consider changing to an account or bank that suits their needs better if they are really unhappy with the account or the bank they are with.

Did you know?
On average, CAB debt clients owe nearly £17,000 (July 2008)
Section 4
How to make borrowing work for you

“Use the same guidelines as you would at the fruit and vegetable market – if something looks too good to be true, it probably is.”

Adam Shaw, TV presenter
How to make borrowing work for you

There are times when your client will need more money than their budget and savings will cover, which involves borrowing money. Borrowing means ‘getting things on credit’ or ‘taking on debt’. This section will look at:

- the arguments for and against credit
- the kinds of credit available
- what borrowing money or relying on credit will cost you
- choosing the best deal.

What are the advantages (and disadvantages) of credit?

For credit
- You can get what you want now.
- You can worry about paying for it later.
- You don’t have to save up for it.
- It’s good for emergencies.

Against credit
- It can be expensive.
- It will always cost you more than paying cash (unless you take advantage of an interest free deal).
- By making monthly payments you will be paying for something long after you bought it.
- Your situation may change and you can no longer afford the repayments, this will also count against your credit scoring.

If your client needs to borrow money ask them to go through these questions giving an honest response, ideally!

1. Can I wait, save and buy it without borrowing?
2. Do I really need or want this item?
3. Can I afford the repayments - is it within my budget?
4. What happens if I miss a payment?
5. How long will I have to pay for?
6. How much will it really cost me with the total interest on top of the cash price?
7. Can I get a better deal elsewhere?
## What kinds of credit are available?

<table>
<thead>
<tr>
<th>Credit option</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bank loan</strong></td>
<td>Interest rates are fixed for the period of the loan. Can be easy and quick to get as long as your credit rating is good.</td>
<td>When economic times are hard banks restrict who can qualify. There may be a penalty for paying the loan off early. Amount you can borrow is based on money coming in. You will pay interest on the money.</td>
</tr>
<tr>
<td><strong>‘Buy now pay later’ shop</strong></td>
<td>Can be easy and quick to get. Can be small amount to pay back each week or month. Some deals mean you won’t pay any interest if you pay it all by a certain time.</td>
<td>Can end up paying back a lot more. Can end up having to buy extras you may not need, like payment protection insurance.</td>
</tr>
<tr>
<td><strong>Catalogue</strong></td>
<td>Can be easy to sort out. Can be small amount to pay back each week.</td>
<td>Can cost more than some shops.</td>
</tr>
<tr>
<td><strong>Credit card</strong></td>
<td>Free if you pay it all back each month. Can be useful if caught short for a few weeks only. Minimum monthly payment. You only have to pay a small amount each month – but you can pay more or all of your debt.</td>
<td>Have to fill in a form and get a credit check. You may not be able to get a credit card without a job. It’s expensive to take cash out. It’s expensive if you only pay a small amount each month. £600 paid off at £12 a month costs £937 and takes seven years.</td>
</tr>
<tr>
<td><strong>Credit union</strong></td>
<td>Often nearby. Can be small amount to pay back each week.</td>
<td>May only be open only once or twice a week. You may have to save for up to 8 weeks before borrowing.</td>
</tr>
</tbody>
</table>
### Credit option

<table>
<thead>
<tr>
<th>Credit option</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Family and friends</strong></td>
<td>Can be quick to get, cheap and easy.</td>
<td>They may not have the cash to spare.</td>
</tr>
<tr>
<td></td>
<td>Might be able to pay back when you can.</td>
<td>Might be a long time to pay back.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Can be awkward if you can’t pay them back or they want the favour returned someway.</td>
</tr>
<tr>
<td><strong>Hire purchase</strong></td>
<td>Can be easier to get than a credit card.</td>
<td>You are paying to borrow the money and hire the item.</td>
</tr>
<tr>
<td></td>
<td>Usually sorted out at the shop or garage.</td>
<td>Can be an expensive way to buy things like cars or music equipment.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>You don’t own what you’ve bought until the last payment. The shop can take it back if you stop paying.</td>
</tr>
<tr>
<td><strong>Local doorstep lender</strong></td>
<td>Can be easy and quick to get.</td>
<td>Need to pay back much more than you borrowed. For £100 you could pay back £165 or more.</td>
</tr>
<tr>
<td></td>
<td>Can be small amount to pay back each week.</td>
<td>Some doorstep lenders are un-regulated, so before using one, check they are regulated by the Financial Services Authority.</td>
</tr>
<tr>
<td><strong>Local loan shop</strong></td>
<td>Can be small amount to pay back each week.</td>
<td>Need to pay back much more than you borrowed. At a higher costs than a bank/building society.</td>
</tr>
<tr>
<td></td>
<td>Could be paid back as soon as you get paid.</td>
<td>Usually need a job before they’ll give you a loan.</td>
</tr>
<tr>
<td><strong>Pawnbroker or buyback shop</strong></td>
<td>Can be quick to get some money.</td>
<td>Need to leave them something like jewellery or electrical item to get the money. If you don’t pay the money back, they can sell what you left to pay some of the credit off.</td>
</tr>
<tr>
<td></td>
<td>Don’t need a job or a good credit score.</td>
<td>Need to pay back more than you borrowed.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>For £40 borrowed for a month you could have to pay back £50.</td>
</tr>
<tr>
<td>Credit option</td>
<td>Pros</td>
<td>Cons</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Overdraft on your bank account</strong></td>
<td>Can be cheap and easy if you've sorted this out with your bank before you get the money out.</td>
<td>Need an account that lets you have an overdraft.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>If you don’t sort it out with your bank before you take the money out it can be expensive.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Money going into your account can get used up to pay this off before you can get at it.</td>
</tr>
<tr>
<td><strong>Social fund</strong></td>
<td>Repaying it is straight from your benefits.</td>
<td>Need to be on benefits.</td>
</tr>
<tr>
<td></td>
<td>No interest to pay.</td>
<td>Have to fill in a form and wait for a decision.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>May not get the money.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Get less benefits while paying it back.</td>
</tr>
<tr>
<td><strong>Store card</strong></td>
<td>Free if you pay it all back each month.</td>
<td>Have to fill in a form and get a credit check.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Your credit score may not be good enough to get one.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Just like a credit card it’s expensive if you don’t pay it back each month. Often more expensive than a credit card.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>You have to use it in that shop.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>What you want could be cheaper in other shops.</td>
</tr>
</tbody>
</table>

* There is a leaflet on hire purchase that can be downloaded from www.moneymadeclear.org.uk. Follow links to consumer info > useful tools > publications.

What will it cost me?

Go through costs with your client including the annual percentage rate (APR).

- APR is the total charge for credit and a loan should not be taken out unless the APR is stated.
- The lower the APR is the better, so comparing what deals are on offer will show the best one available.
- A person’s credit history will affect the APR offered on the loan.
Show the table below to your client – noting that APR is risk based and the figures in the table are only examples.

<table>
<thead>
<tr>
<th></th>
<th>Typical interest is</th>
<th>Example: On a £300 loan over one year:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>8.9% APR</td>
<td>£26.22 each month</td>
<td>£314.66</td>
<td></td>
</tr>
<tr>
<td>Credit union</td>
<td>12.6% APR</td>
<td>£26.74 each month</td>
<td>£320.87</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>On a £300 loan over three years:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>£10.05 each month</td>
<td>£361.82</td>
<td></td>
</tr>
<tr>
<td>Credit card</td>
<td>18% APR</td>
<td>£27.50 each month</td>
<td>£330.05</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>On a £300 loan over three years:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>£10.85 each month</td>
<td>£390.45</td>
<td></td>
</tr>
<tr>
<td>Doorstep lender</td>
<td>177% APR</td>
<td>£54.75 each month</td>
<td>£657.06</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>NB: A doorstep lender will only make a loan over a 1 year repayment period</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is possible to get an interest free credit deal and if your client can is able to pay for the goods before the end of the interest free period this is probably a good deal. With a credit free loan advise that the APR should be checked should it be necessary for payments to continue after the interest free period ends.

*Example:*
A shop offers a £1,000 TV/DVD on interest free credit for 12 months. If you pay in 12 months this is a great deal. If not you will need to pay 36 instalments of £48.88 (with an APR of 26.9%). This means the total you repay is over £1,750, which is not such a good deal after all!
Choosing the best deal

To put the information in this section to use, read Tamara’s story, below, and then look at the questions that follow. Ask your client what they would you do if they were Tamara?

“Tamara is 28 and has recently separated from her husband. She’s going back to work for the first time in a few years, and it’s important to her that she looks smart. She has just opened her first bank account to pay her wages into.

“She wants to buy at least two new suit’s but doesn’t have any savings. She guesses that with shoes, blouses and the suits she will need to borrow at least £200.

“Her sister has suggested using the same catalogue as she uses. She could pay for the clothes over the next year. There is no APR, but the clothes are more expensive than shops she’s looked in.

“She also knows a local woman called Tracey who might be able to help. She works for a company that visits people at home and lends them cash. She doesn’t know the APR but knows you can payback a little each week, maybe only £5 or £10.

“As she now has a bank account Tamara wonders if she can borrow from the bank. Friends with bank accounts suggest asking her bank for an overdraft. The APR is 15%.”

Questions to ask:

1. What things should Tamara consider when deciding between the three options – catalogue, loan company and overdraft?

Answer: Tamara might ask how much she would pay back each week. How much in total she will pay back and how long it will take her to pay back the loan.

2. Is there anything else Tamara should think about or find out?

Answer: She should perhaps check the APR for both the loan company and the bank. (Remember the lower the APR the cheaper the loan).

3. Can your client think of any other options for Tamara to get the clothes she wants?

Answer: Tamara could look around some of the better charity or second hand shops. She could ask friends or family to help out. Tamara could also ask her local credit union for a loan.

Nearly all of us borrow money for one reason or another, so paying back money we owe is a reality we all face. If you stay in control and keep struggling through paying off those loans, you will manage to avoid falling badly into debt.

THINK CAREFULLY BEFORE BORROWING MONEY AND REMEMBER – IF IT LOOKS TOO GOOD TO BE TRUE THEN IT PROBABLY IS.
Section 5
Manage your debts with less worry

“Credit is debt under control. Debt is credit out of control.”

Anon
Manage your debts with less worry

If at the end of section 3 your client is more in debt than in credit, then this section may help. This section looks at:

- the difference between a priority and non-priority debt
- how to manage debt.

What to do if you’re in debt

The most important thing to do is to face the problem and work out what to do to stop it getting worse. At this point you need to identify your client’s debts, explain how creditors can get their money back, and go through the process of how to negotiate with them.

Key points to remember:

- If you contact those you owe money to as soon as possible and let them know you’re having problems many companies will be helpful.
- If you’re struggling with store or credit cards stop using them.
- Do not borrow further money to pay off debts without getting some advice.
- Don’t ignore the situation – it won’t go away!

What’s a priority and a non-priority debt?

Go through priority and non-priority debts with your client. Understanding the difference is important.

- Priority debts are for things that are viewed as essential (for example utilities, rent, child maintenance) and where the consequences of non-payment could mean losing your home or imprisonment.
- Non-priority debts are things that are seen as less essential (like some of the wants in your budget) usually with less serious consequences, although you could sometimes be taken to court.

Money can be taken from wages or benefits to cover priority debts or your client could be taken to court. This could lead to a bailiff taking belongings (see information panel). Creditors can reclaim their money by taking you to court or handing the debt to a debt collection agency. Debt collectors are not bailiffs and cannot enter a property and take goods.

Did you know?

In 2008/09 Citizens Advice Bureaux dealt with 1.93 million debt problems
The table below gives examples of bills people receive, identifies them as priority and non-priority and says what can happen if you fail to pay. Go through the table with your client.

<table>
<thead>
<tr>
<th>Priority bills and debts</th>
<th>If you don’t pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity, gas, water and telephone</td>
<td>You could be cut off</td>
</tr>
<tr>
<td></td>
<td>Your water supply cannot be cut off</td>
</tr>
<tr>
<td>Rent or mortgage</td>
<td>You could lose your home</td>
</tr>
<tr>
<td>TV licence</td>
<td>You could have money taken from your benefits or wages</td>
</tr>
<tr>
<td></td>
<td>A bailiff could take your belongings</td>
</tr>
<tr>
<td></td>
<td>You could get a very big fine</td>
</tr>
<tr>
<td></td>
<td>You could go to prison</td>
</tr>
<tr>
<td>Council tax</td>
<td>A bailiff could take your belongings</td>
</tr>
<tr>
<td></td>
<td>You could have money taken from your benefits or wages</td>
</tr>
<tr>
<td></td>
<td>You could go to prison</td>
</tr>
<tr>
<td>Maintenance for others, including support for children</td>
<td>A bailiff could take your belongings</td>
</tr>
<tr>
<td></td>
<td>You could have money taken from your benefits, wages or bank account</td>
</tr>
<tr>
<td></td>
<td>You could go to prison</td>
</tr>
<tr>
<td>“Secured” loan</td>
<td>You could lose your home</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Not priority debts</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Catalogue</td>
<td>These are often called ‘credit debts’</td>
</tr>
<tr>
<td>Credit card</td>
<td>You cannot be imprisoned</td>
</tr>
<tr>
<td>Store Card</td>
<td>You can be taken to a county court</td>
</tr>
<tr>
<td>Personal loan</td>
<td>If you have a county court judgement against you then you may be refused credit in the future.</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td></td>
</tr>
</tbody>
</table>

Steps to deal with debt

Go through the following steps with your client.

**Step 1 – List the details of your client’s debts** (this may have to be a rough figure if your client does not have all the facts in your session. Encourage them to be open and honest.)

- Check the names and addresses of all the people who are owed money (creditors).
- Check how much each creditor is owed.
- Note what action has been taken so far.
- Check who owes the money (some debts could be joint liability, or an ex-partner’s responsibility).
- Decide whether the debts are priority or non-priority.
- Check whether your client can claim on any payment protection insurance.
Step 2 – List your client’s income

- Refer to the income and expenditure in your budget – see section 3.
- Refer to ways of increasing income in section 3.

Step 3 – decide how to deal with the creditors

- Decide which debts are priorities/emergencies and make plans to deal with them. These debts must be paid first.
- Calculate pro-rata payments on other debts and make payments if possible. (See ‘how to calculate pro-rate payments’ section below. Pro-rate means that the creditor who is owed the most gets the largest amount and the one who is owed the smallest gets the least.)
- If your client has no spare income available they may have to offer a nominal sum of £1 per month until their situation improves.
- If making payments is impossible other options include bankruptcy or Individual Voluntary Arrangements. Go through these options with your client.

Step 4 – negotiate with creditors

- Draw up a financial statement using the budget sheet – showing what your client has available to pay.
- Contact creditors and/or courts. If possible, do this in writing and keep records of any phone calls.
- Try to get creditors to agree to stop charging interest on a debt.

Step 5 – monitor progress

After the negotiations your client will need to keep an eye on their financial progress.

How to calculate pro-rata payments

- Add up the amounts owed to give the total for all non-priority debts.
- Divide the amount of each individual debt by the total amount owed and multiply this by the disposable income figure. The resulting sum is the amount your client will offer their creditor.

Example:

Non priority debts are:
- Personal loan £1,835
- Credit card £450
- Catalogue £3,175

Total £5,460

Let’s assume your spare income is £7.34 a week.

To calculate the pro-rata payment on the personal loan:

- Divide the amount owed on the loan (1835) by the total owed on all your non priority debts (5460) = 0.3360
- Multiple this amount by the amount of spare income you have each week (7.34) = 2.46624
The pro rata payment for the personal loan will be £2.47

The pro-rata payment for the credit card will be \((450 \div 5460 \times 7.34) = £0.60\)
The pro-rata payment for the catalogue will be \((3175 \div 5460 \times 7.34) = £4.27\)

**Total payments are: £2.47 + £0.60 + £4.27 = £7.34**

Once you have worked out how much your client can offer creditors each week, they should write to them, explaining their situation and enclosing the budget statement. It is also worth asking creditors to stop additional interest and late payment charges to stop the debt from increasing. Remind your client to keep a copy of all letters and a note of the names of anyone they talk to.

Sample letters to send to creditors can be found on the National Debtline website, www.nationaldebtline.co.uk.

Point out that whilst many creditors will accept your client’s offers, they are not obliged to do so. If creditors won’t accept offers they will need further advice.

**What are bailiffs?**

Bailiffs are officials who can come round to your house acting for a creditor or court and take possessions to sell to raise money to settle unpaid debts.

After taking as much as they think will repay the debt plus their charges and waiting five days, they sell the goods at public auction. Sometimes they make a list of which items they want but leave them behind to give you time to pay.

Bailiffs can only take goods that belong to the debtor, but not the tools of a person’s trade, their clothing, bedding or basic household equipment, fixtures or fittings.

Your creditor – the person you owe money to - needs a court order to send in the bailiffs. They cannot force their way into your house, but they know you are unlikely to invite them in so may try to barge in or climb through an open window. However, once bailiffs have gained entry they can return, breaking-in if necessary. They can take your car if it is parked in the road.

Debt collectors are not bailiffs and have no right to enter property and take goods.

The following sections can be copied and given to your client to take away and use after your session has finished. It includes a planning section so your client can set a goal to give them a reason to remain in credit and keep an eye on progress. You may wish to go through the section with them initially to discuss any barriers or positives to the goal.
Section 6
Planning for the future

“I’m not very good with money, but one thing I do is regularly review my financial situation.”

Navdip Dhariwal, journalist
Planning for the future

Use this section to encourage your client to put their knowledge of money matters to good use. Photocopy the planning for the future section.

**Step 1**
Ask your client to think of a money related goal that they would like to aim for and when they would like to achieve it. This will give them a reason to be in credit. Your client’s personal goal can be anything from increasing their income by a certain amount to reducing a particular debt or saving for something special.

The date for reaching the goal should be realistic – some things will take longer.

**Step 2**
Ask them to think of the things that will help them reach that goal and things that might get in their way and to write these down.

Barriers are things that they need to overcome, develop or experience in order to achieve the goals. They might also be things outside your client’s control that will need to be ‘worked around’ in order to achieve the goal. They could include personal history, family circumstances, lack of information or confidence.

Positives are things that could help your client achieve their goals. They can include personal experience, training, education, attitudes, habits, support or connections including personal contacts.

**Keeping the momentum going**

It may take your client a while to put some of the ideas in this workbook into practice but hopefully by this point they have some ideas of how to take their financial situation forward.

Ask them to make an ‘action’ list of all the ideas they want to do and keep a note of any progress. For example, if they have started saving to make a note of the savings each week or month and work out how much that will be over a year.

Remind your client that the occasional low cost treat, perhaps a CD or meal out, is a nice reward for sticking at it. However, it should be linked to achieving a stated financial goal, not just an impulse buy.

If your client needs further information or advice, refer to the contacts list in Section 7.

**Did you know?**

In 2008, UK debt rose by £1million every five minutes.
Understanding your money  

Section 6: Planning for the future
Section 7
Want to know more?

“How to double your money: fold it over once and put it back in your pocket.”

Jim Dodds
Want to know more?

The organisations and programmes listed below can help you with aspects of financial matters including grants, debt or benefits.

- **Child Maintenance Options** – Information about child maintenance and advice on the best option for your circumstances. [www.cmaoptions.org](http://www.cmaoptions.org), 0800 988 0988

- **Citizens Advice** – Free, impartial and independent advice on legal, financial and other matters. Find your local bureau or search online advice at [www.adviceguide.org.uk](http://www.adviceguide.org.uk)

- **Credit Action** – Help on controlling spending and dealing with credit and for Moneybasics Spendometer, [www.creditaction.org.uk](http://www.creditaction.org.uk)

- **Family Action** – Support for families to find solutions to everyday problems. [www.family-action.org.uk](http://www.family-action.org.uk)

- **Financial Services Authority** – for information on financial capability and consumer information: [www.moneymadeclear.org.uk](http://www.moneymadeclear.org.uk)

- **Gingerbread** – Information, advice and campaigning organisation for single parents: 0800 018 5026, [www.gingerbread.org.uk](http://www.gingerbread.org.uk)

- **Homestart** – Support for parents and families: 0800 068 63 68, [www.home-start.org.uk](http://www.home-start.org.uk)

- **Horizons** – Information and support for lone parents. [www.yourhorizons.com](http://www.yourhorizons.com)

- **National Debt Line** – free, confidential and independent advice on debt: 0808 808 4000, [www.nationaldebtline.co.uk](http://www.nationaldebtline.co.uk)

- **National Institute of Adult Continuing Education (NIACE)** – Help for anyone wanting to return to education and learning: 0116 204 4200/4201, [www.niage.org.uk](http://www.niage.org.uk)

- **New Deal for Lone parents** – Information on the Government’s strategy to help parents get back to work: 0800 868 868, [www.dcsf.gov.uk](http://www.dcsf.gov.uk)

- **Parentline Plus** – Support services for parents: 0808 800 2222, textphone 0800 783 6783, [www.parentlineplus.org.uk](http://www.parentlineplus.org.uk)

- **Tax Credits Helpline** - Information about tax credits, including working tax credit and child tax credit: 0845 300 3946, textphone 0845 300 3909, [www.hmrc.gov.uk >tax credits](http://www.hmrc.gov.uk/taxcredits)

- **Working Families** – information for working parents and their employers to find a better balance between responsibilities at home and work: 0800 013 0313, [www.working.families.org.uk](http://www.working.families.org.uk)
Also …

- Brief tips and hints on budgeting - www.thatmoneybook.co.uk
- An interactive budgeter and loan calculator - www.moneymatterstome.co.uk
- Money Saving Expert – www.moneysavingexpert.com
- Official Government website with information on benefits, employment, education and health - www.direct.gov.uk

Useful websites:
- www.gocompare.com
- www.choosingandusing.com
- www.cccs.co.uk
- www.fool.co.uk
- www.uswitch.com
- www.needtoknowaboutbanking.com
- www.moneysupermarket.com
"If I had her money, I'd be richer than she is."

Audrey Hepburn, Breakfast at Tiffany's
This section explains some of the financial terms that you might come across when you are dealing with financial matters.

The information is taken from a fact sheet written by Citizens Advice. You may find the other fact sheets on consumer affairs and debt on the Citizens Advice website useful. Visit www.adviceguide.org.uk.

**Account**
This is provided by a bank or building society which holds money for you. A current account is an everyday account for money to be paid in or taken out. It helps you budget and manage your money. A deposit account is for savings.

**AER**
Stands for ‘annual equivalent rate’. This shows what the interest rate would be if the interest on savings were paid and added to savings at the end of each year. Actually, interest is frequently paid more often. The AER is worked out in a standard way so you can compare interest rates directly with each other. The higher the AER the better the return is on your savings.

**APR**
Stands for Annual Percentage Rate. This tells you the cost of a loan, taking into account the interest you pay, any other charges, and when the payments fall due. The cost is standardised as an annual percentage rate so you can easily compare the cost of one loan with another, for example, a loan with an APR of 15% is more expensive that one with an APR of 11%.

**Arrears**
Money owed that is not paid by the date it is due.

**ATM**
Stands for Automated Teller Machine. This is a machine that pays out cash. To use an ATM you need a cash card and a personal identification number, which is called a PIN number.

**Balance**
The amount of money you have in your account at any particular time or which you owe on your credit or store card. It will be shown on your statement.

**Bankruptcy**
Bankruptcy is a court order that you can apply for if you are in debt. Once you have been made bankrupt, an official called an 'official receiver' takes control of your money, property, and deals with your creditors.

**Basic bank account**
A type of bank or building society account for people who may have difficulty in opening a standard current account, or who have a current account which is overdrawn. You can have money paid into it, take out cash and have your bills paid from it. It doesn’t let you spend more than you have in the account so there is no risk of going overdrawn and running up overdraft charges.
County Court Judgment (CCJ)
An order made by a judge to settle a claim brought in the county court.

Compound interest
This is the type of interest usually paid on a savings account. It is calculated by adding together the amount you have paid into your account (the capital) with the interest paid on it. This is also the type of interest you pay on money you borrow – so the amount you owe can increase quite a lot over quite a short period of time.

Consolidation loan
A loan which combines (consolidates) all your outstanding credit cards, housing arrears, loan repayments and household bills into one monthly payment.

Credit
If your account is in credit it means that you have money available to spend. If you obtain goods or services 'on credit' it means that someone, for example, a bank or credit institution, has given you the money to make a purchase. The money has been credited to you on a temporary basis, and you must pay it back.

Credit card
A plastic card issued by a bank or building society which allows you to make purchases now and pay for them later. Credit will be made available to you to buy goods. Every month the bank or building society will send you a statement of your account. You must pay back at least a minimum amount each month and interest will be charged if you do not pay off the full amount borrowed.

Credit report
The information stored about you with a credit reference agency. It will include electoral roll information for your address, how you have handled credit in the last six years and a record of credit checks made about you with that agency.

Credit repair companies
Companies offering, for a charge, to advise on how to erase bad credit from your credit record, remove court judgments, clear bad debts, arrange loans and how to make successful applications for credit.

Credit Reference Agency (CRA)
Allows creditors to share credit-related information to help them lend responsibly. This includes public records (eg, electoral roll entries), credit account information (eg repayment records for loans, credit agreements, mortgages, or hire purchase) and records of recent credit checks that have previously been requested. CRAs make it possible for lenders to make accurate lending decisions and help guard against fraud.

Credit Reference Agencies:
• do not make lending decisions, the lenders make these
• do not know which applications are successful or refused so cannot tell why a consumer has been refused credit
• do not hold a blacklist of people or properties
• do not rate consumers. Applications for credit are scored by the lenders and different lenders use different scoring methods.
Debit
Money which is taken out of an account is 'debited from' that account.

Debit card
A plastic card that can be used instead of cash when making a purchase. The amount spent is taken, or 'debited', automatically by computer from your account.

Debt management plan (DMP)
A way of deciding how to repay all your non-priority creditors after giving consideration to your priority payments such as mortgage/rent, council tax, bills and other essential expenditure.

Debt relief order
A order you can apply for if you can’t afford to pay off your debts. To qualify you must not have assets of more than £300, own a vehicle worth more than £1,000 and be on a low income. A debt relief order usually lasts for a year and during that time, none of the people you owe money to will be able to take action against you to get their money back.

Direct debit
An instruction to your bank to release money automatically from your bank account to pay a regular bill. This is useful for frequent bills which are for different amounts each time, for example telephone bills. You are told in advance, in writing, by the billing company how much will be taken and the date it will be taken out of your account.

Financial adviser
An individual or firm that can assess your financial needs, recommend suitable products, and arrange for you to buy or invest in these products. Some advisers can also manage investments for you. An adviser must normally be either:
• tied to a single product provider, or
• independent and able to recommend any product on the market.

An adviser must be authorised by the Financial Services Authority (FSA).

Hire purchase agreement
A form of credit agreement which allows you to pay for goods in instalments. You will not own the goods until all the instalments have been paid. If payments are not made the goods might be repossessed and sold. You would not be able to sell the goods without the permission of the lender until you had paid for it.

Interest
The reward you get for keeping your money in, for example, a bank or building society. Also the cost you pay when you borrow money through a loan or credit agreement.

Interest rate
The percentage that is paid on savings or loans. A savings account that was offering 8% would give you a better return than one which was offering 5%. Similarly borrowing money at 22.5% is going to cost more than borrowing at 18% over the same repayment period.
Investment
Financial products which typically involve some risk of losing your original money but give you the opportunity of better returns than you can get from savings. Rather than putting your money into a deposit account and getting the interest, you buy stock market-based investments, such as bonds, shares or trusts. A lot of people have shares because many financial products, such as endowment mortgages and pensions, are based on investments. The value of your investment will change over time as the stock market prices go up and down.

ISA
Stands for Individual Savings Account. An ISA account allows you to save up to a certain amount each year tax free. There are two types of ISA – maxi and mini. You can choose to put your money in up to three mini-ISAs or into one maxi-ISA each year.

Non-priority debts
Non-priority debts are those where non-payment will not result in the loss of the debtor’s home, liberty, essential goods or services. The people you owe the money to can take you to court to recover the debts but you cannot be imprisoned for non-payment.

Occupational pension
A pension from a scheme set up by an employer, for example, a local council pension or a teacher’s pension. Employees have to join the scheme to be eligible and may have to make contributions towards the pension.

Overdraft
If more money is withdrawn from your current account than you have put in, you will go overdrawn. You pay an agreed rate of interest on the overdraft. If you go overdrawn without asking the bank in advance, they might refuse to pay your cheques and charge you a high interest rate and a penalty fee on the money that you owe them.

Pension
An income paid out after you retire from work. A pension is a form of savings because you cannot spend any money in the fund until you have reached the minimum age (often 50). You can often take part of the proceeds as a cash lump sum but the rest must be taken as income. There are different types of pension schemes: occupational, stakeholder, state and personal.

Personal pension
A pension plan, not tied to a particular place of employment, that you could keep going even if you change your job. You can set up the plan yourself with a pension provider, or it could have been arranged through your workplace.

PIN
Personal Identification Number – a secret number, which you use with a cash machine card. You type it in and the ATM checks that the card number and PIN are the same.

Priority debts
Debts which carry the strongest penalties if payment is not made, for example, eviction from your home, disconnection of gas or electricity, or imprisonment for non-payment of court fines or council tax. Priority debts should be paid off before non-priority debt.
**Re-financing**
Negotiating a new loan to pay off an existing loan or loans.

**Risk**
Refers to the risk of losing money through savings or investments. Generally, the higher the potential rate of return on your investment or savings the greater the risk. Shares and share-based investments, such as unit trusts, are considered higher risk because the value of your investment can fall. However, growth of these investments tends to outstrip inflation and, over the medium-to long-term, is usually better than the return from a savings account.

**Savings**
Any money you put aside for future use.

**Savings accounts**
Savings are often kept in bank, building society or national savings accounts. The amount you put in does not fall in value but will grow as interest is added.

**Secured loan**
Money borrowed from a lender, using your property as an extra guarantee of repayment. If the amount is not paid in full, the lender may repossess and sell the property.

**Short term**
Usually a period of time no longer than five years – and often a lot shorter.

**Stakeholder**
A type of pension scheme designed to be good value for money by having low charges and flexible payments. Usually it means a personal pension that meets these conditions, but some types of occupational scheme can also be stakeholder schemes.

**Standing order**
A method of paying regular amounts from your bank account automatically. You instruct your bank to pay the money for you to a particular person or company. It is your responsibility to change the payment if it needs to be altered.

**State pension**
A pension paid to you by the State when you retire. The amount you get will depend on your national insurance record (or on that of your marriage partner).

**Statement**
A document from the bank or building society, which shows all your recent payments into, and withdrawals from your account. You should check it against your own records.

**Store card**
A plastic card issued by a shop that lets you buy goods at that store or others in the same chain on credit. You must either pay the full amount, or something back each month.

**Sub-prime lending (non-status or impaired credit lending)**
Lenders willing to make loans to people who are unable to obtain credit from mainstream lenders, such as high street banks or building societies, because of a poor credit record.
**Tax code**
This code tells your employer how much tax-free pay to give you during each pay period. Your tax code is worked out from your tax allowances and other tax adjustments.

**Tax credits**
Means-tested allowances administered by the HMRC. Working Tax Credit is available to single people or couples who work sufficient hours. It includes help with the cost of disability and childcare. Child tax credit is available to single people or couples with children whether or not they are employed. Additional amounts may be included for disabled children. Entitlement to both tax credits is calculated using annual income figures.

**Unsecured loan**
Money borrowed which is not secured against your home. The lender can only sue for payment if you default on the loan.

**Voluntary excess**
Most insurance policies include an 'excess', which is the first amount of any insurance claim that you pay, and your insurer pays the rest. A voluntary excess is a higher amount that you can choose to pay, in return for a cheaper premium.

**Withdraw/withdrawal**
Taking money out of your account.

**NB** The information in this section is intended to provide general information only and should not be taken as a full statement of the law. Please also note that some of the information only applies to England and Wales.

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**Did you know?**
If you borrowed £1,000 from a bank and paid it back over one year, you would pay approx £1,100 in total. If you did the same with a doorstep lender you would probably have to pay back between £1,700 and £2,500.
For further information contact:

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