Avoiding debt

RESOURCES

- Calculators
- Basket of shopping items with prices
- Copies of Resources 1–4 and 6
- Selection of bills (personal details blanked out) and/or bills prepared from Resources 5A and 5B

RELATED TOPICS

Budgeting (Theme 1, Topic 5)

HEALTH SKILLS

Many people experience problems with debt. These problems are cited as a particular issue for many with mental health problems, who often make impulsive purchases in order to 'feel good'. The debt that builds up contributes to their anxiety and depression and so a vicious circle is created. In order to cope with these issues, it is essential that learners are encouraged to face up to the situation and to find ways to manage their debt through asking advice, identifying financial priorities and budgeting, rather than 'burying their heads in the sand' and hoping that the problem will go away.

Related health information

Citizens Advice Bureau
www.citizensadvice.org.uk
Financial Services Authority www.fsa.gov.uk

FUNCTIONAL SKILLS

The reasons why people accumulate debt cannot be tackled in a generic or simplistic way. Nevertheless, there are some positive skills and messages that can be used as a focus for this session.

In this topic, learners practise some essential numeracy skills that they will need in order to manage their own finances:

- round decimal numbers to whole numbers
- calculate with whole and decimal numbers
- discuss where to get help with debt management.

Functional Skills/Core Curriculum

Activities in this topic will contribute to learning in the following curriculum areas:
- add and subtract money **Maths** E3.10 (NMSS1/E3.1)
- round sums of money to the nearest £ and 50p **Maths** E3.10 (NMSS1/E3.2)
- divide sums of money **Maths** L1.11 (NMSS1/L1.1)
- use a calculator to calculate with money; use a calculator to check calculations **Maths** E3.10 (NN2/E3.4).

■ Describe a situation in which you are at the checkout of a local shop. You have some cash but you are not sure whether it will be enough to pay for everything that you want. How do you deal with this? Discuss whether this has ever happened to learners and how they deal with it. Ask: 'Do you know someone who this has happened to?', 'How did it affect them?', 'What did they do about it?' Ask about their strategies.

■ Lead the discussion on to describe a situation of spiralling into debt. Mention agencies and organisations that can help people in this situation (e.g. Citizens Advice Bureau, support worker, etc.).

How do you make sure that you don't buy more than you can afford?

What might happen to someone who relies on a credit card?

ACTIVITY 1
Practise rounding

■ Introduce the idea that most people have to keep their spending within a certain budget. Explain that budgeting involves balancing spending against income. Explain that you are going to look at some practical numeracy skills that will help with money management.

Do you count your money and shop within budget?

■ Return to the scenario described in the introduction, of a shopping basket full of items. If possible bring in a shopping basket of items with prices. Ask the group if they think that £20 will be enough to pay for the shopping.

■ Suggest that you could try to add up the cost of the items as you put them into your basket. Display a list of items and their prices on the board/flipchart and call out the price as you take each item out of the basket. (Select prices that are easily rounded up or down to the nearest pound or 50p.)

How do you work out if you have enough money?

■ Ask learners to see how quickly they can work out whether £20 will be enough to pay for all the items. Discuss the strategies that learners used: paper-and-pen methods, calculator, rounding and approximating, and so on.

■ Suggest to the group that when calculating in this situation it is useful to round prices up to the nearest whole pound or 50p. Demonstrate this using the list of items on the board and write down the estimated total. Point out that it is useful to write a shopping list and to make some rough calculations in advance.

■ Be prepared to spend time with learners giving plenty of practice at rounding and adding sums of money. Emphasise that generally rounding up will ensure that they have enough money.

■ Learners may have many different and effective ways of coping with this skill. There is no single correct method. Value and share the skills within the group.

Support

- The concept of rounding may prove difficult for some learners. Use real or play money to demonstrate the rounding process.
- Encourage learners to use calculation methods that suit them. Observe their methods if they are not effective. Ask the learner to talk through the process they are using, identifying and correcting any errors as they do so.
- Emphasise that using a calculator is not cheating. Ensure that learners enter numbers and read answers correctly.
- Give plenty of opportunities for practice before moving on to the next activity.

ESOL

- Review language for talking about prices. Display some prices and ask learners how they would say them (e.g. £4.85 = 'four pounds eighty-five').
- Then ask learners to round up to the nearest pound or 50p (e.g. 'That's about five pounds.').

ACTIVITY 2
Discuss ways of saving money

- Look at Resource 1 and discuss the implications of the three scenarios illustrated. Ask learners for suggestions to resolve the problems.
- Emphasise the main principles of budgeting: money going out must balance with money coming in.
- Ask learners if they have any tips on ways to reduce spending (e.g. only buying essentials, switching off lights to reduce electricity bills, cutting down on smoking, walking instead of taking the car/bus, leaving credit cards at home, etc.) Write their ideas on the board/flipchart. Encourage discussion around these suggestions. How practical are they? Can we be more specific?

> *What are the basic principles of budgeting and avoiding debt?*

> *How could you save money?*

Support

- Make sure learners understand the main principles of budgeting.
- Use real/play money and shopping scenarios to demonstrate this.
- Be aware that this subject may be sensitive for some learners.

ESOL

- Some expressions in the scenarios may be new to the learners (e.g. 'get into debt', 'be tricky', 'feel stressed'). Discuss their meanings, providing other examples to show how the expressions are used.
- Before learners discuss solutions for the problems, introduce some expressions for making suggestions (e.g. 'What about …?', 'You could …', etc.).

ACTIVITY 3
Work out income and expenditure

- Discuss Peter's details in the case study on Resource 2A. Ask learners how Peter can check if his spending is within budget. Ask them to work out his total income and outgoings (using calculators if they want to). Learners may use the template on Resource 4 to record the totals or they may prefer to use their own method.
- Repeat the exercise with Mary's case study on Resource 2B.

> *How can you check if spending is within a budget?*

■ Resource 3 provides additional information about Peter and Mary that more confident learners may wish to tackle once they have completed this first activity.

Support

■ Ask learners to highlight income and outgoings in different colours.

■ Some learners may not be familiar with using calculators or may not be sure of how to input money amounts. Provide support with each of the calculator operations as necessary.

■ Remind learners who are using paper methods to keep columns aligned.

■ Remind learners of the worked example on the board. 'What did we do in the shopping example?' 'We added up what we were spending, then we took that away from what we had to start with.'

ESOL

■ In order to work with the case studies, learners need some understanding of the UK benefit system. Discuss learners' experience of the kind of support available in their countries, and any experiences they have had in the UK.

■ Where internet access is available, using the gov.uk website, give simple explanations for the benefits quoted in Resource 2A and Resource 2B.

■ Identify and discuss the meaning of other unfamiliar words (e.g. 'outgoings', 'is entitled to', 'lone parent').

ACTIVITY 4
Convert annual, quarterly and monthly bills to weekly amounts

■ Find out what learners know about their own circumstances for paying bills.

■ Discuss the advantages of balancing a budget on a weekly basis. (It is easier to fine-tune spending.) Point out that this means converting monthly and annual outgoings into weekly estimates so that money can be put aside to pay bills at a later date.

■ Look at a range of bills together (make sure personal details are blanked out) or use those provided on Resources 5A and 5B. Help learners to identify what the bills are for and to identify the amounts to be paid and when (i.e. weekly, monthly, annually).

■ Look at Resource 6A. Discuss the method given to convert annual bills to weekly amounts. Do learners know any other methods? Use calculators to explore methods. Demonstrate how to round up amounts to the nearest pound or 50p for budgeting purposes.

■ Similarly, work through the methods on Resource 6B (converting quarterly bills to weekly amounts) and Resource 6C (converting monthly bills to weekly amounts). Learners may use their preferred methods for converting, provided they are accurate. Check learners understand the reasons for the two-step processes. If necessary, point out that monthly amounts cannot be converted to weekly amounts simply by dividing by 4 because most months are 4.5 weeks (except February), hence the two-step calculation given. Some learners may realise that a quarterly amount can be converted to a weekly amount by dividing by 13 (52 ÷ 4 = 13) but this is not intuitive.

■ Learners can work through the bills illustrated on Resources 6A–6C.

TIP

To multiply by 4 learners can double, then double again (e.g. double £95 is £190, double again is £380).

Support

- Look at the bills with learners, asking direct questions to help them identify the amount to be paid, and whether it is to be paid weekly, monthly or is an annual payment. Ensure learners understand these terms and that 'total premium' refers to the total annual bill to be paid.
- If learners had difficulty with the previous activities, then the calculation activities on Resources 6A–6C will probably prove too difficult. Spend time practising the skills of adding and subtracting money.
- Provide support with calculator operations as necessary. Check the correct keying in of decimal numbers.
- Provide support with rounding up to the nearest 50p or pound.
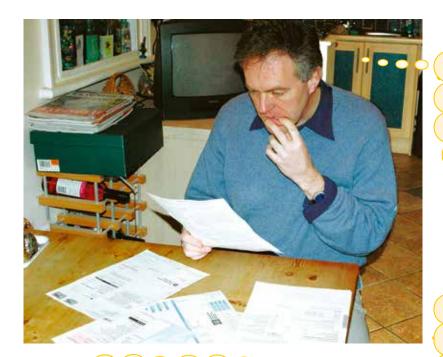
ESOL

- Look through the bills with learners, identifying and explaining any unfamiliar terms.
- Ensure learners understand terms such as 'annual', 'quarterly', 'monthly', 'weekly', 'premium' and 'per week/month/year'.
- Some learners will be competent in making calculations, but may lack the vocabulary to follow your explanations or talk through their own calculations. In that case, provide examples for practice (e.g. '312 ÷ 52 = 6', 'three hundred and twelve divided by fifty-two gives you/equals/is six).

Action

- Learners may practise their skills of balancing a budget by using the template on Resource 4 to record and calculate money they have coming in and going out. This will only be suitable for confident learners.
- Learners may use the opportunity to consider how they could reduce their spending on non-essential items in order to keep within their own budget.
- Note that learners may not wish to reveal personal details.
- Ensure learners know which agencies they can contact for help with financial concerns.

> *How can you keep within a budget?*

> *What support services are available to help you?*

Avoiding debt

> MONEY IN ⚖ MONEY OUT
>
> My bills add up to more than the amount of money coming in. I'm worried I'm getting into debt.

> MONEY IN ⚖ MONEY OUT
>
> I found some different ways to reduce the amount I spend. Now that there's more money coming in than going out, I feel much less stressed.

> MONEY IN ⚖ MONEY OUT
>
> I try to make sure I don't spend more than the amount of money I've got coming in. It can be tricky, but I'm in control.

Avoiding debt

Peter is 59 and lives on his own. Last year he suffered a heart attack. He receives Employment and Support Allowance (ESA) of **£73.10** a week and is now working two hours a day, five days a week as a premises officer in his local primary school. He earns **£89** a week. He has bought his council house and has no mortgage to pay.

These are Peter's weekly outgoings:

Food	£40
Council Tax	£16
Gas & Electric	£18
Water	£8
TV licence	£3
TV + Internet bundle	£22
Mobile phone	£7
Travel (bus)	£10
Cigarettes	£10
Other (clothing, haircuts, gifts)	£15

Avoiding debt

Mary is a lone parent. She has two children, aged 6 and 8. She earns **£128** each week, working 16 hours as a care assistant. In addition, she receives Working Tax Credits and Child Tax Credits of **£192** per week and Child Benefit of **£34.40** per week.

These are Mary's weekly outgoings.

Rent	£90
Food	£70
Council Tax	£16
Gas & Electric	£20
Water	£8
TV Licence	£3
TV + Internet bundle	£25
Mobile Phone	£40
Car Loan	£44
Car Tax & Insurance	£8
Fuel	£15
Other (clothing, haircuts, gifts)	£40

Avoiding debt

Peter owes **£120** in catalogue arrears and **£45** in gas arrears.

Mr P Bentley
12 Oak Road
Brassmere
BR1 1TE

3 Nov

Dear Sir,

I note that you are £120 in arrears with your water rates.

How much money does Peter have available each week for paying his debt?

£_____ per week

Write a plan for Peter to help him pay off his debts.

Water Rates

Pay £_____ extra per week.

The debt will be cleared in _____ weeks.

Mary has to reduce her weekly spending to balance her budget.

Write a plan to help Mary.

Spending must be cut by £_____ per week

Spend £_____ less per week on _____.

Spend £_____ less per week on _____.

Mary is thinking of getting rid of her car when she has paid off the car loan. Everything in her small town is within walking distance and she wants to get fitter and walk more with the children. How much better off financially will Mary be each week?

£_____ per week

Avoiding debt

Budgeting in three easy steps

Step 1
Write down **how much money comes in** each week or month.

Money coming in

Wages £ ⬜⬜⬜.⬜⬜

Benefits £ ⬜⬜⬜.⬜⬜

Other £ ⬜⬜⬜.⬜⬜

TOTAL MONEY
COMING IN £ ⬜⬜⬜.⬜⬜

Step 2
Write down **how much you spend (money going out)** each week or month.

Money going out

Mortgage/rent £ ⬜⬜⬜.⬜⬜

Food £ ⬜⬜⬜.⬜⬜

Gas and electricity £ ⬜⬜⬜.⬜⬜

Council tax £ ⬜⬜⬜.⬜⬜

Water £ ⬜⬜⬜.⬜⬜

Travel expenses £ ⬜⬜⬜.⬜⬜

TV licence £ ⬜⬜⬜.⬜⬜

Other £ ⬜⬜⬜.⬜⬜

TOTAL MONEY
GOING OUT £ ⬜⬜⬜.⬜⬜

Step 3
Compare the totals.
Is there more money coming in than money going out?

YES

NO

There is money left over. Work out how much.

Total money
coming in £ ⬜⬜⬜.⬜⬜

LESS Total money
going out £ ⬜⬜⬜.⬜⬜

MONEY LEFT OVER £ ⬜⬜⬜.⬜⬜

There is not enough money to pay for everything.

Work out the shortfall.

Total money
going out £ ⬜⬜⬜.⬜⬜

LESS Total money
coming in £ ⬜⬜⬜.⬜⬜

MONEY SHORTFALL £ ⬜⬜⬜.⬜⬜

Can you think of ways to reduce spending?

Avoiding debt

ella's direct

PO Box 9 Tershire TL23 9JP Tel: 0870 1523 4897

account statement

Mrs Nora Other
12 Oak Drive
Anytown
AT12 5LJ

Customer Number:	897 23412
Please quote in all correspondence	
Statement No:	23
Statement Date:	5th June 2018
Credit Limit:	£1000

DATE	CATALOGUE No	DESCRIPTION	BALANCE	
		Previous Balance	250.00	
01/03		Interest Charged	2.51	
03/03		Payment Received	11.00	CR
12/02	WH2314	Blue Coat – size 12	29.99	
12/02	LN4874	Black leather boots – size 5	39.99	
18/02	HH6849	White blouse – size 12	8.99	
18/02	JK3658	Pearl ear-rings	24.99	
		Present Balance	**345.47**	

Available to spend: £654.53

Minimum payment: £5.00 to reach us by 21st June 2018

Any transactions after 3rd March will appear on your next statement

The Electricity Company

Mr N Other
12 Oak Drive
Anytown
AT12 5LJ

Account Number: **6848745993147-158**
Date of issue: **15 July 2018**
Customer Service: 08002 698 4871
Mon–Fri 8am – 8pm, Sat 9am – 2pm

Electricity Statement
For the period 5 April 2018 to 5 July 2018

Tariff	Previous reading	Present reading	Units used	Price per unit	Amount	
Domestic	49283	52244	2961	4.34p	£128.51	
Daily service charge of 11.25p for 92 days					£10.35	
Monthly payment discount					£2.25	Cr
Total Charges excluding VAT					£136.61	
VAT @ 5%					£6.83	
Total charges including VAT					**£143.44**	

Avoiding debt

YELLOW CAR MOTOR INSURANCE

Customer hotline:
0645 123 456

Issued 21/05/06
This schedule forms part of the policy. Read it in conjunction with the Motor Certificate and Policy booklet. Keep it in a safe place.

Motor Insurance Schedule

POLICY NUMBER	**1234568/230863**	
POLICYHOLDER	Mr N Other 12 Oak Drive Anytown AT12 5LJ	Mr N Other is the legal owner and registered keeper of the car. DOB 23/08/63
POLICY DETAILS	Period of cover	22/05/18 (midday) to 22/05/19 (midday)
	Renewal date	22/05/19
	Your policy gives you	Comprehensive cover Sections A;B;C;D;E;F;G;H in your policy booklet apply
CAR DETAILS	Make and model of car	Ford Fiesta 1.25 LX 16V 3DR
	Registration mark and year	P124 SFH 1996
	Estimated value	(Market value)
	Modifications	None
	Postcode where vehicle kept	AT12 5LJ
PREMIUMS	Premium	£153.30
	Total to be paid (single payment)	£153.30

All premiums include Insurance Premium Tax where applicable

Your CREDIT CARD statement

ANYBANK plc

Customer Services 08701 584 13921

Mr N Other
12 Oak Drive
Anytown AT12 5LJ

Account information

Your current monthly rate of interest is: 18.5%

New transactions/charges

20 June 2018

New Balance	£349.94	Card Number	3504 2655 6915 3945
Minimum Payment Due	£8.50	Card Holder	Mr N Other
To reach your account by	17 July 2018	Your credit limit	£2000
		Available to spend	£1650

Date of transaction	Reference	Description	Amount £	
		Balance from previous statement	154.23	
28 January		**Payment received – thank you**	24.20	CR
07 February	941574822Q	Aqua Sports Centre	45.00	
10 February	584268468D	Helen's Floral Boutique	22.95	
16 February	784326846T	Morelli's Pasta Palace	33.25	
17 February	5894398427L	Ace Petrol Station	50.00	
17 February	736833845K	Beta Supermarket	67.47	
		Interest	1.24	
		NEW BALANCE	**£349.94**	

Avoiding debt

To convert an annual bill to a weekly amount
- annual amount ÷ 52 = weekly amount

For 12 months at duty of 170.00

Road tax = £_____ per week

Total premium now due

£225.00

Car insurance =

£_____ per week

Total premium now due £155.00

House insurance = £_____ per week

Avoiding debt

To convert a quarterly bill to a weekly amount
- quarterly amount × 4 = annual amount
- annual amount ÷ 52 = weekly amount

For the period 01/09/18–30/11/18 £95.00

Gas bill = £_____ per week
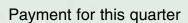
For the period 01/09/18–30/11/18 £83.50

Electricity bill = £_____ per week

Payment for this quarter

£69.50

Water rates = £_____ per week

Avoiding debt

To convert a monthly bill to a weekly amount
- monthly amount × 12 = annual amount
- annual amount ÷ 52 = weekly amount

Monthly payment plan

£36.00

Mobile phone = £_____ per week

Monthly instalment
June 2018

£25.00

Credit card = £_____ per week

RENT

Mrs A Gupta
117 The High Street
Anytown

Date	Amount Received	Signature
06/01/18	£140-	J Jones
5th Feb 18	£140	P Williams
06/03/18	£140-	J Jones
7th April 18	£140	P Williams

Rent = £_____ per week

Avoiding debt

There are no audio scripts for this topic.

ACTIVITY 3

Resource 2A – Peter

Weekly income

Employment & Support Allowance	=	£73.10
Wages	=	£89.00
Total	**=**	**£162.10**
Weekly outgoings	=	£149.00

Resource 2B – Mary

Weekly income

Working Tax Credits & Child Tax Credits	=	£192.00
Child Benefit	=	£34.40
Wages	=	£128.00
Total	**=**	**£354.40**
Weekly outgoings	=	£379.00

Resource 3

Peter has £13.10 for paying debts, subtracting outgoings of £149 from his income of £162.10.

He should pay some of his water rates arrears each week.

Mary must cut her spending by at least £24.60 per week as that is the amount her outgoings exceed her income.

Most of Mary's outgoings are fixed. She could save some money by changing her mobile phone contract when it is due for renewal (most are 2 year contracts). She could also consider getting rid of her car if amenities are within walking distance.

Avoiding debt

ACTIVITY 4 / Resources 6A–6C

Resource 6A

Road tax: £170 ÷ 52 = £3.27 per week (round to £3.50)
Car insurance: £225 ÷ 52 = £4.32 per week (round to £4.50)
House insurance: £155 ÷ 52 = £2.98 per week (round to £3)

Resource 6B

Gas: £95 × 4 = £380 per year; £380 ÷ 52 = £7.31 per week (round to £7.50)
Electricity: £83.50 × 4 = £334 per year; £334 ÷ 52 = £6.42 per week (round to £6.50)
Water: £69.50 × 4 = £278 per year; £278 ÷ 52 = = £5.34 per week (round to £5.50)

Resource 6C

Mobile phone bill: £36 × 12 = £432; £432 ÷ 52 = £8.31 per week (round to £8.50)
Credit card bill: £25 × 12 = £300; £300 ÷ 52 = £5.77 per week (round to £6)
Rent: £140 × 12 = £1680; £1680 ÷ 52 = £32.31 per week (round to £32)