Mental Health & Money Advice

Budgeting

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Jargon Buster

Asset

This could be your everyday current account where your wages go in and your bills come out. You could also have savings accounts, jam jar accounts or cash accounts to name just a few.

ATM

Also known as an Automated Teller Machine, or Hole in the Wall, or the cash point. It's the place to go to get cash out of your account.

APR & Representative APR

APR means Annual Percentage Rate and it tells you how much interest you will pay when you borrow money. To get the best deal, you want the rate to be as low as possible.

Arrears

This is the term used for money that you owe that should have been paid earlier. You may come across it if you owe council tax or rent.

Balance Transfer

Balance transfers are often used to control spiralling credit card debt by 'moving', or transferring the balance from your existing credit card to one that offers 0% interest for a period of time. However, there is eligibility criteria for balance transfers and the same rules apply i.e you must pay at least the minimum monthly repayments.

Cash Advances

This is the amount of money you can borrow from your credit card against your credit limit. It is like withdrawing money from the ATM with your debt card, except the cash comes from your limit. This means you have to pay it back with interest.

Continuous Payment Authority (CPA)

A CPA is similar to Direct Debit, except the company you are paying is able to take payments when they like and change the payment amount without asking permission. CPA's are favoured by many businesses, including gyms, internet service providers and payday loan providers. CPA's can be cancelled by either telling the company, or by telling your bank.

Credit Limit

One of the most important things to know about your credit card is your credit limit. This is the maximum outstanding balance you can have on your credit card at a given point in time without receiving a penalty. Managing your credit limit is important both for staying out of debt and building a good credit score.

Credit Rating (or Scoring)

This determines your ability to get credit and is based upon previous financial dealings. This is an important tool for borrowers to gain access to loans and credit cards. Good credit ratings allow people to easily borrow from financial institutions. Conversely, a poor credit score may prohibit or limit borrowing.

Default

A default is registered on your credit score when you fail to repay a debt which includes interest as well as the principal amount on a loan or security. Defaults occur when you are unable to make timely payments, miss a payment or stop making payments.

Essential Bills

Your essential bills are those outgoings that, if they were to fall into arrears, may become Priority Debts. Essential bills are the ones you should endeavour to pay first as laid out in our Priorities section.

Gross & Net Pay

Gross pay is the amount of earnings before any taxes and deductions are taken out. After these deductions, the amount you have left is your net pay, also known as your 'take home' pay.

Guarantor

A guarantor is a person who guarantees to pay a borrower's debt in the event the borrower defaults on a loan obligation. The guarantor acts a co-signer as they are pledging their own income, assets or services if the original borrower cannot pay the debt.

Interest Rates

An interest rate is how much interest is paid by borrowers for the money that they borrow. It is usually a percentage of the sum borrowed. Interest rates in a country are usually guided by a base rate set by its central bank. The following are definitions of types of interest rates:

- **Fixed –** This is where the interest rate doesn't fluctuate during the fixed rate period of the loan. This allows the borrower to accurately predict their future payments which, in turn, helps with budgeting. Fixed Rate deals are normally more expensive but give the borrower 'peace of mind' that their monthly expenditure will not change.
- **Variable -** By contrast, these rates can change over the repayment period of the loan and will

usually go up and down. The major cause of this is a change to the UK economy. Variable Rate deals fall into 3 categories: trackers, standard variable rates and discounts.

- **Trackers** - The interest rate tracks a fixed economic indicator (usually the base rate which is the Bank of England's official borrowing rate). Repayments for tracker loans will also go down, and up!
- **Standard Variable Rate** – This is a variable rate that you'll usually be moved on to once your existing fixed rate, tracker, or discount rate ends (unless you choose to switch to a new deal). Again, as with all variable rates, repayments can go up and down.
- **Discount Rate** – This interest rate is set by a central bank on loans which its member banks will offer. A change in this rate is usually followed by similar changes in the interest rate charged by banks. These rates are used in determining the present value of a future payment or series of payments.

Minimum Payments

This is the lowest amount you can pay on your debts such as credit or store cards to avoid any penalties or charges. Minimum payments are typically calculated as a percentage of your outstanding balance plus any fees which have been added. This means the higher your debt balance, the higher your minimum payment will be.

Outgoings

Your household outgoings (or expenditure) is money that you will spend in a given time period on essential, and non-essential items. You should list your income & outgoings using **Example 1** within our booklet as accurately as possible when completing a budgeting exercise as this is a very useful tool in money management.

Payment Methods

Below is a list of different options to make payments towards your outgoings. For example, both Direct Debit and Standing Order are great for regular, fixed payments like rent or council tax with more flexibility afforded by the Direct Debit method of payments.

- **Standing Order (S/O)** – This is an automated method of making payments, where you can instruct your bank to pay another person or business, a fixed amount of money at regular (fixed) intervals. You control the standing order, set it up yourself, and choose the amount and frequency.
- **Direct Debit (D/D)** – This is an instruction from you to your bank authorising an organisation to collect payments from your account as long as you are given advance notice of the payment amounts and dates. This is the safest way of making payments in the UK as the Direct Debit Guarantee means that you are protected from fraudulent payments.
- **BACS** - This is an electronic system used to make payments directly from one bank account directly to another. Many employers will use this method to pay their employees.
- **Bankers Draft** – This is also known as a banker's cheque, is like asking a bank to write a cheque for you. You give them your money and they give you a cheque for that amount to

give to the person you're paying. For this reason, they do not bounce because of lack of funds.

- **Debit Card** - When paying by this method, the money comes directly out of your bank account. It's the same as withdrawing cash and handing it over, but safer as there is a bit of fraud protection and the card can be cancelled by you if stolen.

Secured & Unsecured Debts

When a debt is secured, something of value (such as a house or car) acts as collateral. The lender is almost guaranteed to be repaid because if you don't keep up repayments, the lender could take the collateral and re-sell it to recoup the money they loaned you. In order for the lender to re-coup their collateral, they must follow strict legal proceedings.

If a debt is unsecured, there is no collateral and if you default, the lender cannot automatically take your property. The lender may have to go to court to recover their funds. Unsecured loans are usually supported by your creditworthiness. Therefore, you may need a high credit score to be approved for certain unsecured loans. The most common types of unsecured loans are credit cards, store cards and personal loans.

Bank Accounts

Basic Bank Accounts

It is recommended that we all have a basic bank account that offers free financial services, such as

- Pay bills using Direct Debits, bank transfers and Standing Orders.
- Make online and card payments.
- Take money out at cash machines.
- Ask for cashback at retail outlets, like shops and garages.

You won't be able to get an arranged overdraft but your bank or building society may offer a 'buffer'. This is a small amount of credit so you can get money from a cash machine, even if you do not have enough money in your account. This is typically £10. You will not be charged for this buffer-zone limit but you must pay money into your account as soon as possible to clear the balance.

If you haven't had a bank account before and don't have a credit record or a poor credit history, a basic bank account can help you manage your money and build up to a full-service bank account.

You won't have to pay any charges or fees unless you use your account aboard, buy things in foreign currency or take out money from a fee-charging cash machine.

The information you need to open an account can vary, however you will need to prove your identity and address i.e. a passport or driving license. Different banking providers ask for different information so check with the bank what proof you will need to show them when you open your account.

If you don't have the documents, ask what they will accept instead. This could include an original letter from the DWP, HMRC, Jobcentre+ or local council confirming your benefits entitlement.

If your application is turned down, don't be afraid to ask why – the bank should be happy to give you a reason for a rejected application.

Here is a list of basic bank account providers available.

BARCLAYS

HSBC

Santander

TSB

Nationwide

HBOS plc

LLOYDS BANK

Royal Bank of Scotland

Clydesdale Bank

The co-operative bank

Other Accounts

Jam Jar Accounts

Jam-jar accounts are specially designed to let you divide your money into different 'jars' within a single account. When money comes into your account, an agreed amount is set aside for essential bills. These bills are then paid via Direct Debit or Standing Order. The money left over is available for you to use, either on a pre-paid card or you can withdraw it from a cashpoint machine

Advantages of Jam Jar Accounts

- You only have to manage one bank account.
- The account provider usually manages all your Direct Debits and standing orders for you.
- These accounts sometimes come with budgeting advice.

Disadvantages of Jam Jar Accounts

You are charged an administration fee of between £5 and £15 a month. However, some social housing landlords and councils have been working with credit unions to offer tenants current accounts with lower fees. If your landlord is one of them, they might pay the administration fee for you.

Opening a Jam Jar Account

Jam-jar accounts aren't widely available, a simple search online will identify organisations who offer Jam-jar accounts. Additionally, some credit unions offer them. To find your local credit union, see "Joining a Credit Union" below.

Credit Union Current Accounts

If you've had difficulty opening an account with a bank or building society, a credit union current account could be a good option for you. Credit unions are also popular with people who prefer to manage their money through a not-for-profit organisation.

What are Credit Unions?

Credit unions are co-operatives that are set up by and for members to benefit their community. They mainly offer savings accounts and loans to their members, but some now offer current accounts too.

Options with Credit Union Current Accounts

What a credit union current account offers you will depend on which credit union you use.
Here's what you can do with most credit unions' current accounts:

- Get budgeting advice and support.
- Pay money in over the counter at the credit union.
- Pay cheques in for free, as long as the amount is in British pounds sterling.
- Have wages, salary, benefits, pensions and tax credits paid straight into your account.

- Get money out over the counter or from some cashpoint machines, including LINK.
- Check your account balance over the counter or from some cashpoint machines, including LINK.

And with some credit union current accounts, you can also:

- Pay your bills by Direct Debit or standing order.
- Pay for things using a pre-paid card or a debit card.
- Have separate 'jars' in your account to help you budget for rent, different types of household bills and other spending.

Whichever credit union you use, there's no minimum monthly amount that you have to pay into your current account. You won't need to pass a credit check to get an account because credit unions don't usually provide overdrafts. If you need to borrow money, you can apply to the credit union for a loan. It would look at your income, savings and past history before making a decision. (See 'Other Credit Union Services' below).

Joining a Credit Union

To become a member of a credit union, you need to have a common bond with the other members. For example, living in the same area, working for the same employer, or belonging to the same church or trade union.

Credit unions sometimes charge an administration fee of £5-£10 a month on current accounts, especially if they offer help with budgeting. However, some social housing landlords and councils have been working with credit unions to offer tenants current accounts with lower fees.

If your landlord is one of them, you might find that it will pay the administration fee for you. To find your nearest Credit Union:

- In England, Wales or Scotland - the Association of British Credit Unions website: https://www.abcul.coop/home
- In Northern Ireland - Irish Federation of Credit Unions: https://www.creditunion.ie/ or Ulster Federation of Credit Union: http://www.ufcu.co.uk/

However, if the account allows you to set up Direct Debits and standing orders to pay bills, you need to check whether you'll be charged for refused Direct Debits.

All credit unions will ask for proof of your identity and address before you can open an account. If you don't have the documents they need, ask them what alternatives they will accept.

Other Credit Union Services

Savings accounts

It's worth checking the savings rates offered by your local credit union - you might find that they beat those offered by high street banks and building societies. Once you're a member and have been saving with the credit union for a certain period of time, you can apply for a loan.

Loans

Credit unions try to ensure they only let their members take out loans that they are able to pay back. They do this by assessing your income and looking at how much you've been able to save. There's a cap on the amount of interest they can charge on their loans of 3% a month in Great Britain (from April 2014) and 1% a month in Northern Ireland (which might go up).

What to do if things go wrong with your Credit Union?

Credit unions are regulated by the Financial Conduct Authority, so have to meet certain standards. If you're unhappy with the service you've received from a credit union, you should raise the issue with them first.

If the credit union doesn't resolve your complaint, you can then take it to the Financial Ombudsman Service.

Priorities

What are Priority Debts or Bills?

Some debts or bills are priority as there could be serious consequences if you don't pay them. A priority debt or bill could mean you would lose something if you don't pay it and due to this it is more important than other debts and expenditure. Priority debts should be dealt with before your non-priority debts.

Priority bills or debts could include:

- Mortgage repayments and loans secured on your home.
- Rent.
- Gas and electricity debts.
- Council tax.
- Certain payments ordered by the courts

Child support and maintenance payments are also considered a priority, as are payments for your TV licence.

Make sure you get help with debts before they build up. There are consequences if you don't pay a priority debt. For example, you could:

- Lose your home through mortgage or rent arrears.
- Have your gas or electricity supply cut off, or have to accept an prepayment meter instead which can be more expensive.
- Lose belongings on hire purchase such as a car, furniture or other goods.

What are Non-Priority Debts?

Failing to pay non-priority debts is usually less serious than not paying a priority debt. However, your creditors (the people that you owe money to) may sue you for any money that you owe them. This could result in a decree against you.

Non-priority debts include:

- Credit card debts.
- Store cards and catalogues.
- Unsecured bank and payday loans (loans that are not secured against your property).
- Loans from friends and family.

If you don’t pay these debts, your creditors can take you to court to get a court order to recover the money owed.

When a creditor obtains decree against you, you must keep to its terms. If you don’t, for example you fail to pay a certain amount each month, your creditor can go back to court and apply to enforce the debt.

Deciding between Priority and Non-Priority debts or Bills

As stated above a priority debt or bill is one where the creditor’s ultimate sanction may result in you:

- Being disconnected from supply (e.g. gas or electricity).
- Losing your home.
- Losing essential goods or services.
- Being imprisoned.

However, everyone’s circumstances are different and will have different priorities according to your own needs. Using the table list your bills and select those which are your priority.

Please tick the bills that you think are a priority	✓

Why Budget?

Budgeting allows you to create a spending plan for your money and people budget for many different reasons including:

- Planning their day to day expenditure.
- Planning for future events.
- To understand their money better and stay in control.
- To keep motivated by setting.

By creating a spending plan can help you determine if you will have enough money for your needs. It is important to live within your means and not overspend but this can be easier said than done as many people have more going out than they have coming in. However, a budget can highlight areas where you may be overspending so that you can reduce expenditure where possible.

Budgets can help you avoid debt or work out an affordable repayment plan if you are currently in debt. Budgets can help you save money by working out a reasonable amount you can put aside every month. Budgets help you understand your spending habits and allow you to prioritise your money by focussing on the most important items.

You can work out your income and outgoings by using the income and expenditure form in **Example 1**. This will allow to start creating your own personal budget and keep your finances on track.

The first step is to check your income which may include any wages, benefits, child maintenance payments or a range of other sources. If you are unsure about exact amounts, check your bank statements, payslips or benefit award letters.

It is important that if you receive various incomes with different time-scales, you need to sort them all into one frequency such as weekly, fortnightly or monthly. If it is a regular amount, this should be simple to convert but irregular sums may need to calculated over a longer period of time such as 6 to 12 months and allocated an amount per week or month instead.

If you are unsure, you can put an estimate guess as the idea is to get a balanced view of your income.

Generally, it is good practice to convert to a monthly calculation and if you need any support, please talk to your adviser

Use the following formulae to help you with conversions:

- **To convert weekly to monthly payments:** Weekly sum x 52 weeks / 12 months
- **To convert monthly to weekly payments:** Monthly sum x 12 months / 52 weeks
- **To convert 4 weekly to monthly payments:** 4 weekly sum x 13 periods / 12 months
- **To convert quarterly to monthly payments:** Quarterly sum x 4 quarters / 12 months

The next steps on your personal budget sheet is to add in your expenditure which covers a range of possible outgoings including housing costs, food and hobbies such as gym membership.

As shown in our priorities section, some expenditure is considered essential and should be prioritised when working out what should be paid first. After paying all this out, whatever is left over is your disposable income which you can put towards savings or treats.

Once you have used **Example 1** to calculate your income and expenditure, use the box below to work out how much you have left over:

Total income (£)	
Total expenditure (£)	
Surplus income (£)	

Don't forget to add Christmas and birthdays into your expenditure which you can spread over the cost of the year. A budget can help forecast your year ahead. **Example 2** is an annual planner which can help forecast your year and see which months may be tight for money. By plotting annual events such as Christmas, birthdays, holidays can help plan your spending and save for these upcoming expenditures.

Example 1: Budget Sheet

Income Item	Amount (£)
Wages	
Partner’s wages	
Benefits	
Other	
Total	

Expenditure Item	Amount (£)
Rent/Mortgage	
Home Insurance	
Life Insurance	
Council Tax	
Gas	
Electricty	
Other Utilities (Coal/Oil/Calor Gas)	
TV License	
Childcare/Child Maintenance	
Car Payments	
Road Tax	
Fuel	
Other Travel Costs (Public/Taxi)	
Food	
Clothing	
Telephone (Home/Mobile/Other)	
Cable/Satellite & Internet	
Pets (Food/Vet/Insurance)	
Leisure/Hobbies	
Gifts (Christmas & Birthdays)	
Other	
Other	
Total	

Example 2: Annual Planner

January	Cost (£)	July	Cost (£)
February		August	
March		September	
April		October	
May		November	
June		December	
		Total (£)	

Budgeting Tools

The Money and Pensions Service, alongside the Money Advice Trust have developed online tools which can help you with your budget. These are accessible on our Mental Health and Money Advice websites:
https://www.mentalhealthandmoneyadvice.org/en/tools/budget-planner/

The link above will take you to a free online Budget Planner which analyses your results and puts you in control of your household spending.

The link below takes to a useful tool which helps you understand how long it will take to save for a specific amount or help you work out how much you need to save to have enough by a date:
https://www.mentalhealthandmoneyadvice.org/en/tools/savings-calculator/

For continuous breakdown of your spending we recommend that you use budget tracker by downloading one of the many available via your smart phone store. Simply go to your App store if you have an iPhone or Google Play Store if you have an Android and search for "Budget Tracker". Remember to read any available reviews and check for hidden costs as there are plenty which are free to use.

Maximizing Income Tips

- Are you entitled to any benefits? You can ask your adviser to complete a benefit check.
- Complete an income and expenditure on a regular basis using the tools included in this booklet.
- Check your bank account regularly and sign up for internet banking.
- Complete a regular spending diary to see where your money is being spent. Use a budget tracker to keep track of your cash.
- Check your tax code! An incorrect tax code can result in you paying too much or not enough tax.
- Can non-dependents pay more? A non-dependent is any adult who lives with you but is not dependent on you, unlike a partner or children.
- Set up Direct Debits and Standing Orders to come out at the same time each month. For example, if you get paid or receive benefits at the end of every month, set up D/D & S/O

around the 5th of the month. This will give you enough time in case there is a delay. You will need to cancel these payments 3 days before they are due to leave your account to avoid bank charges.

- Could you take in a lodger through "rent a room" scheme? You can rent out space in your home and the first £7500 (£625 per month) of any income received from this is usually exempt from income tax. However, this may impact on any benefits you receive. You should always seek advice before taking any action.
- Apply for home efficiency or home improvement grants. This could reduce your expenditure and free up income on fuel costs.
- Shop around for home groceries and make a list before you shop. Plan errands so that you don't make multiple trips.
- Use switching websites for cheaper energy tariffs for example; Uswitch, Money Supermarket or Simply Switch. Use comparison websites to save money on home & car insurance, mobile phones and banking products.
- Check the Money Saving Expert website for deals, special coupons and voucher codes.

Dealing with Debts

If you know you can't manage your repayments or afford to pay your priority bills, it is important not to panic. Don't ignore the issue as it won't go away. There are several steps you can do:

- Complete an income & expenditure budget in **Example 1** to sort out how much money you can realistically afford to repay.
- Make a list of all the people and companies you owe money to.
- Work out which are the most urgent debts or priority bills you have to pay first. If you have received court papers or letters that seem urgent, you may need to act quickly.
- Speak to the company or provider you own money to. The sooner you make contact the sooner they can help. You can save money as charges and interest may be reduced.
- If you are unsure what to do next or you don't have any money left to make repayments, get advice straight away from Mental Health Money Advice (see 'Where to go for Help' section).
- Use the Mental Health and Money Advice website for hints, tips and sample letters including our Debt Health Checker: https://www.mentalhealthandmoneyadvice.org/en/tools/debt-health-check/
- There are sample letters and further advice on dealing with creditors on Citizens Advice's Advice guide - https://www.citizensadvice.org.uk/england/debt-and-money/

Where to go for Help?

Our specialist telephone advice line can:

- Talk you through benefit form applications.
- Join a call with the DWP or a creditor.
- Find out which benefits you are entitled to.
- Help find ways to reduce your expenditure including energy bills.
- Support carers' benefit applications.

Contact Rethink's National Information Service on 0300 5000 927 to book an appointment today or visit our website mhma.org.uk for further support.

Notes

Notes

Mental Health & Money Advice

For more information visit mhma.org.uk

Mental Health UK

Rethink Mental Illness.

support in mind scotland

hafal

Mind Wise