

# 1 - Making money go further

While other leaflets in this series deal with the process for getting debt advice, this leaflet is about ways to help you reduce your debts by making your money go further.

## Main messages

You may have a limited amount of spare money because:

- your income is mainly benefits;
- your circumstances have changed; or
- you have a lot of things to pay for with your income.

Whatever the reason, we hope the suggestions below will help.

- ✓ Budgeting (financial planning)
- ✓ Borrowing (advice about credit)
- ✓ Saving (paying less)
- ✓ Benefits (getting help from benefits)



## Budgeting (financial planning)

### Small and regular payments

The best advice is to try and pay in small regular amounts because it will be easier to plan for these payments. For example, if your gas or electricity bill is a lot more in winter than in summer, your supplier may allow you to pay a fixed amount each month instead.

Many organisations that allow you to pay bills of large and different amounts will also allow you to pay small and regular bills of the same amount.

For example, you can find out more about the options for paying your TV licence from the TV licensing pages at [www.tvlicensing.co.uk/waystopay/index.jsp](http://www.tvlicensing.co.uk/waystopay/index.jsp).

By law, you have a right to pay your council tax in this way, and utility companies (such as gas and electricity companies) also offer this option.

### How to budget

- 1 Collect all your bills for the last year together.
- 2 Write down, in date order, the amount you paid and what the bill was for.
- 3 Add estimated amounts for bills you've no longer got.
- 4 Add amounts for occasional expenses, such as holidays, birthdays and school uniforms.
- 5 Once you've got a list of yearly outgoings, divide the amount by 12 to give you a monthly cost.
- 6 Compare this figure with your monthly income to produce an overall balance.
- 7 If your income covers your outgoings, check you haven't missed any bills. If not, you probably need to look for ways to even out your spending over the year – for example, paying regular utility bills by direct debit each month, rather than paying every three months. You could also think of putting aside some money each month towards holidays, birthdays and so on.
- 8 If your outgoings are more than your income, you should look at whether you can reduce certain bills. You can do this by shopping around for cheaper deals on gas and electricity, or by paying by direct debit rather than cash. You could also check whether your income is correct, especially if you should be receiving benefits.
- 9 Once you have worked your budget for the whole year, it will be much easier to do it as you go along. Try setting aside an hour each week to write down all your income and bills.
- 10 Remember, it is normal for your outgoings to be more than your income for odd weeks. After all, unexpected things happen which have to be paid for (for example, the washing machine breaking down). In these cases, try to shop around for the best deal – the internet is generally cheaper for goods such as washing machines and fridges). If you need to borrow money to pay for these expenses, shop around (see the section on borrowing) and add the loan repayments to your outgoings on your budget.
- 11 It may be that, even after working out your budget, you cannot see how you can cover your outgoings. In this case, you should get independent debt advice (see leaflets 2 and 3).

## Banking services

Originally, the main purpose of having a bank account was to keep your money safe. Over the years, banks have increased their services but they are still one of the best places to leave money. If you have savings with a bank or building society, you will not lose a penny if they close or are robbed (unless you have more than £32,000 in savings in which case the Government guarantees only 90 per cent of your savings).

Having a bank account also means you can pay for goods and services by direct debit. When you pay by direct debit, you agree to pay a regular amount every month, direct from your bank account, until you have paid for the goods in full. Although you don't see the money going out of your account, paying by direct debit helps break down one-off bills. Also, many companies offer discounts for people you pay by direct debit. However, you should always check whether they charge interest on direct-debit repayments.

When you agree to making repayments by direct debit, you sign a contract and have certain rights and responsibilities. The company you are paying will take the agreed amount from your account every month, so you must keep enough money in the account to cover these repayments. If you do not, your bank and the company supplying the goods or services will charge you extra fees. The supplier also agrees that they will not take more from your account than you have agreed.

If you are worried that a direct debit gives someone else too much control over your money, you can sometimes pay by standing order. A standing order is similar to a direct debit but you set it up with your bank. You also have full control over how you make the repayments and you can stop the standing order at any time without having to pay extra costs.

Another advantage with a bank account is that you will be given a debit card. This looks like a credit card but all bills are paid direct from your bank account. A debit card is useful when you don't want to carry cash. Also, it will only let you spend what you have in your account.

Once you have a bank account, you may be offered a range of services. This may include insurance, savings products, bank loans and credit cards.

Many people find it hard to manage a bank account because they cannot see how much money they have really got. One option is to use cash cards to get regular statements from cash machines. Or, you could ask for a basic bank account which will not let you go over your overdraft limit.

Basic bank accounts are designed so that almost anyone should be able to open a bank account. They are a special type of account offered by a number of banks.

Generally, you can use a basic bank account to pay in and withdraw money – including from cash machines – and to set up direct debits and standing orders. However, these accounts do not let you go over your overdraft limit.

The Post Office has its own card account that you can use at post offices but not at most cash machines. You can also use a number of other basic bank accounts at post offices.

Payplan has more information about basic and other bank accounts, including a list of basic bank account providers that you can use to compare their services. You can see this list at [www.payplan.com/debt-library/miscellaneous-basic-bank-accounts.php](http://www.payplan.com/debt-library/miscellaneous-basic-bank-accounts.php).

There is more information about Payplan in leaflet '5 – Understanding the debt advice process'.

## Borrowing (advice about credit)

### Saving or borrowing?

The interest rates charged to people who borrow are higher than those paid to people who save money. If you have money saved, it makes financial sense to use your savings rather than to keep your savings and borrow money to pay for the goods or services you want to buy. So, if you can delay buying something while setting money aside, this will be cheaper than borrowing money.

### High or low interest?

Some forms of borrowing have much higher interest rates than others. To make proper comparisons, lenders must publish their APR (annual percentage rate), and provide details of any fees they charge to people who borrow money. Always check the APR carefully. Many doorstep lenders (people who come to your home to offer you a cash loan) have interest rates of over 100%, with some charging more than 1000%. In contrast, the Bank of England base rate from January 2007 was 5.25%.

Sometimes a loan seems like a good deal because the regular repayments are low. But what the repayments add up to matters as well! The table below shows how the costs of borrowing money can add up.

### £400 loan from a doorstep lender

Average interest rate of 176% APR.

Cost is £10 a week over 79 weeks and a final payment of about £5.91.

Total cost is £795.91.

### £400 loan from a credit union charging 26.8% APR

Cost is £10 a week over 44 weeks and a final payment of £2.81.

Total cost is £442.81.

So, although the payments for the doorstep lender and the credit union may be the same each week, you have to keep paying the doorstep lender for another 35 weeks.

### Penalty charges?

Beware of the hidden costs of borrowing! It is becoming more well known that even high-street lenders with low interest rates make a large amount of profit from fees they charge you when you break the terms of your agreement with them.

These 'penalty charges' are currently being challenged in the courts. If you feel your bank charges are too high, please get independent financial advice.

### Credit unions

Credit unions are a regulated form of borrowing. You can only borrow money from a credit union if you are a member but there will be rules on who can join, based on where you live or who you work for.

You can find out which credit unions cover your area and whether you are eligible to join by going to [www.abcul.org/page/members.cfm](http://www.abcul.org/page/members.cfm).

Most credit unions charge 12.7% APR for borrowing money, but are allowed to charge up to 26.8% APR. To check how much you would have to pay back, go to [www.abcul.coop/page/calculate.cfm](http://www.abcul.coop/page/calculate.cfm).

There are no hidden charges and no penalty charges for repaying the loan early. You will also be offered life insurance for which you do not have to pay extra.

You can find out more about credit unions from the Association of British Credit Unions at [www.abcul.org/page/about/intro.cfm](http://www.abcul.org/page/about/intro.cfm).

## Community development finances institutions (CDFIs)

CDFIs are loan companies that offer services to individuals and businesses. They do not make a profit out of lending money, which means they can keep interest rates below those that doorstep lenders charge. You do not need to be a member to use a CDFI, but they do not offer savings products and are usually more expensive than credit unions.

You can find out more about CDFIs from the Community Development Finance Association at [www.cdfa.org.uk](http://www.cdfa.org.uk).

## Saving (paying less)

Borrowing nearly always costs you money. For these reasons, saving money is a better long-term option.

There are two ways to save – saving a regular amount every week or every month, or putting aside the amount left after all your outgoings. Most of us will use the second option at some stage, but regular savings are better for long-term planning.

One approach is to set aside a fixed amount each week but treat this as an outgoing. That way, you won't spend it and you will be able to live within your budget and save without noticing it. It's probably best to put any savings in a separate savings account, and banks and building societies offer a range of products for doing this. The main features of these accounts are as follows.

- 1 The annual earned rate (AER) – the higher the better (how much interest will be added to your account each year).
- 2 The minimum investment level (you often get the best rates if you save large amounts).
- 3 Tax charges – some accounts, such as individual savings accounts (ISAs), are excluded from tax at the AER rate. So, although the rate you are offered may be lower than an account which charges tax, you will be better off after paying tax.

Small regular savings soon add up and can be used to pay for birthdays, holidays and so on. Once you've got used to saving, you can also set aside money for longer-term income, such as a pension.

Another way to save is through reducing your bills. Here are some suggestions for paying less for your utilities (gas, electricity and so on) and services.

- Uswitch allows you to check out which utility supplier offers you the best deal. Their phone number is **0845 601 2856** and their website is [www.uswitch.com](http://www.uswitch.com). Which? magazine offers a similar service at [www.switchwithwhich.co.uk/home.php?m=home&](http://www.switchwithwhich.co.uk/home.php?m=home&). Their phone number is **0800 533 031**.
- Equigas and Equipower are fair-trade utility tariffs offered through a not-for-profit company which offers the same rate to all customers, whether they pay by direct debit, meter, or any other way.

## Benefits (getting help with benefits)

### Claiming benefits when your circumstances change

One of the common reasons for getting into debt is a change in your circumstances. Certain events in your life that cause your income to fall also mean you may become entitled to benefits. These events include:

- losing your job;
- having children;
- someone close to you dying;
- getting divorced;
- suffering from an illness or a disability;
- having responsibilities to care for someone else;
- retiring from work; or
- moving house.

But, if you are affected by one of these events, you may not be familiar with the benefits system.

The Department for Work and Pensions (DWP) has a series of leaflets setting out the benefits that you should consider claiming as a result of events that affect your income. You can read these leaflets online at [www.dwp.gov.uk/resourcecentre/leaflets\\_guides.asp](http://www.dwp.gov.uk/resourcecentre/leaflets_guides.asp).

### Benefits to pay bills

There are a number of benefits specifically designed to help you to pay for particular costs. These benefits are generally means-tested – in other words, the amount you receive depends on your income and outgoings. However, you do **not** generally have to be unemployed or living on basic benefits like Income Support or Jobseeker's Allowance.

Because of this, you should look into claiming the following benefits if your income has dropped.

- Housing Benefit (help to pay rent)
- Council Tax Benefit (help to pay council tax)
- Help with health costs like prescriptions
- Legal aid (help with legal costs, which can include the costs of getting debt advice – see leaflet '3 – How do I get independent debt advice?')
- Housing grants (costs of making adaptations to your property)
- Funeral grants
- Maternity grants

We hope you've found the information in this leaflet useful. If you are still not sure or are still struggling to make ends meet, please get independent financial advice. For more information, see leaflets 2 and 3.

#### This leaflet is part of a series of eight leaflets.

- 1 – Making money go further
- 2 – Why do I need independent debt advice?
- 3 – How do I get independent debt advice?
- 4 – Preparing for your appointment to get debt advice
- 5 – Understanding the process for getting debt advice
- 6 – After debt advice – dealing with creditors on your own
- 7 – After debt advice – do you need more help?
- 8 – Debt advice – other sources of information

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