



Module 2

Session 3



Budgeting

Lesson summary

Adult life brings many opportunities but keeping track of your finances can be a challenge. This lesson helps to build an understanding of budgeting and building up an emergency fund.



Learning Objectives

To be able to talk about the different forms of budgeting.

To be able to identify the financial information needed for a budget.

To be able to use a budget to navigate financial scenarios.

Lesson preparation

1. HSBC UK PowerPoint slides to facilitate lesson: Module 2 Session 3 Budgeting
2. HSBC UK Worksheet used to complete activity (M2W3)
3. HSBC UK Stretch Challenge (M2SC3) to further embed learning as homework or a class project
4. Prepare examples to share when you have successfully budgeted or wish you had budgeted for use during the session. Real life examples work best but can be fictional

Slide 2: What is budgeting? – 2 mins



Ask the group: What is budgeting?

Budgeting is simply the process of creating a plan to help you with managing your money.



Group work: In groups / pairs for two minutes, discuss why it is important to budget.

Ask the group to share their thoughts before clicking to reveal the answers:

- Separating need and wants
- Tracking spending
 - Setting spending limits
 - Easy to overspend and waste money
 - Keep a track of increasing bills
- Take steps earlier to avoid getting into debt
- Plan and save for future milestones

There is a big difference between needs and wants and it's important to differentiate between them. Prioritizing what is an absolute need will help keep on track of spending and avoid getting into difficulty. Once we know how much we have to spend on our needs – our essential spending – this will then help us to see how much we have left for the items we want (streaming services, latest mobile phone model, day out with friends etc).

People who don't track their spend can easily waste money on items they don't really need. If we set limits through careful budgeting, we know we have money for bills, shopping and a set amount for those fun wants.

It's also important to check your budget regularly so that you can make sure that you are on track with your bills and spending. This will help you keep on top of your finances and avoid debts. Having a budget means that you know what is coming in and out of your account so that you can take steps early if you need to cut back.

As you get older, and your circumstances change so will your budget. E.g. Going to university, getting married, having a family, buying a car, moving house, moving jobs. Your budget should be used to help you plan and save for whatever you have planned for your future.

Slide 3: How does budgeting affect society? – 2 mins

Current research shows that:

- Less than 3/10 young people plan their purchases
- 1% of adults receive unexpected bills every year
- 49% of adults struggling with bills reported higher levels of anxiety



Ask the group: What is the long-term impact if we don't budget?

After some discussion move onto next slide to confirm answers.

Slide 4: Long term impact of not budgeting – 3 mins

Talk through main points on the slide referring to discussion on previous slide.

Economic Strain

- Too much debt in society can harm society (impact on mental health services, spending etc)
- One company going bankrupt can lead to job losses
- Domino effect of business failure, job loss and reduced spending can lead to recession

Public Services

- More reliance on government support
- Increased burden on taxpayer to provide support
- Less money for other areas such as schools needing investment

Higher Interest Rates

- Increased interest rates for everyone
- Expensive to borrow money – cars, mortgages etc

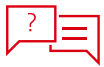
Lesson commentary

- Cost of living increases
- Increase in repossessions as people can't afford to pay their bills

Income Inequality

- Those with financial skills and know how are more likely to accumulate more wealth through making good decisions
 - Those with low financial capability might not know how to manage financial challenges that they face and so end up getting into even more difficulty
 - As a result the gap between wealthy and the poorest gets wider
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Slide 5: When can we budget? – 3 mins



Ask the group: Can you think of any examples of when we might to budget in either the short, medium, or long-term?

Click to prompt for examples

Click through to reveal answers for the different budgets:

Short Term

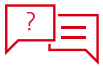
- Day out
- Weekly shop
- Week's holiday spending

Medium Term

- Monthly household budget
- Project to install a new IT system
- Project to decorate the house

Long Term

- Schools annual budget
- Large construction project
- Financial planning



Ask the group: What is the benefit of using different types of budgets?

Click to prompt for benefits

Click through to reveal answers for the different benefits of each type of budget:

Short Term: What is the benefit?

- It helps us to plan and research costs
- We can then seek out best value for money
- Helps us to understand if what we buying is a need or a want?

Medium Term: What is the benefit?

- We can track our choices to avoid overspending/debts
- All the information is available to make difficult decisions
- If we can make a small saving over time it will add up

Long Term: What is the benefit?

- Plan for future spends and expenses
- Bulk buy to save money
- Can we prove a return on the money we have invested?

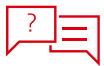


Ask the group: What about something as large as a business? Could you run a school or a business only using a daily budget?

- Miss out on the big picture
 - Difficult to plan ahead
 - Lots of repetition doing a daily budget.
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Slide 6: How to budget – 5 mins

There is no one right way to budget. Each of us will have our own preference for how we like to view our financial information. This may evolve over time as we take on more financial responsibility.



Ask the group: Does anyone here budget? Or do you know how your parents/guardians budget?

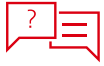
(You may want to share a personal budgeting experience to ease conversation if learners not able to share)

There are plenty of systems you can use to budget:

1. Pen and paper to set out your different spending limits and then check back at the end of each month. People say it often feels more real if they write it down.
2. Spreadsheets to make it easier to automate the calculations and add new information. There are lots of templates online to try.
3. Apps from your own bank or a third party. In most cases you can give the app permission to connect to your bank account and track your spending habits. Always check the reviews and how they will use your information before signing up.

There is no right or wrong to which method you choose, it just needs to work for you so that you feel comfortable checking it regularly and keeping it up to date.

Slide 7: Building a budget – 3 mins



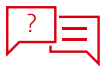
Ask the group: What information do we need to build a budget?

Income, bank statements, bills, outgoings, savings goals

Income

This is the money that you have coming in on a regular basis. If we know what is coming into our account, we can plan how to spend it within our budget.

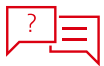
Examples of income could be: Salary, wages, benefits, student finance, income from investments, pocket money/allowance or money you have earned from setting up your own business. You could also include any bonuses if your job pays these out for meeting targets etc.



Ask the group: What do you think is the difference between essential and non-essential outgoings?

Your essential outgoings or needs are things that we need to live, work and be healthy. We will all have very similar essentials as we need these to survive. Examples include rent, food, heating, travel (to get to work/school), insurance.

Your non-essential outgoings are things that you want to spend your money on. This may be on hobbies or interests we have outside of work and school, for example eating out or streaming services. Everyone will have different priorities for this part of their budget.



Ask the group: Share your favourite want that you spend money on then ask the group what their favourite wants are to spend money on. Could they live without these?

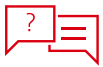
Our Budgeting Top Tips

1. Set realistic goals for your different spending categories. This should include things that are essential and non-essentials. Ideally plan some money for everyday impulsive purchases to help stay in budget.
2. Automate your finances. Pay bills by direct debit and set up savings to be taken by standing order as close to pay day as possible. This means you will have a better idea of what is left for the rest of the month.
3. Set up alerts. Some apps will allow you to set a limit for your spending in different areas and then send you a notification if you're approaching or have gone over your limit.

Slide 8: Building a budget – 3 mins

Here is an example of a budget that you could set up. This budget is for a student studying at university so let's have a closer look at how they are managing to balance their finances.

Income



Ask the group: How much income does this student have?

This student receives their Student Finance termly and have decided to divide it by 3 to treat it more like a monthly salary.

They are also fortunate to receive an allowance from parents/guardians and have a part time job. The total of this income is then what is available to spend within their budget.

Essentials

In short our essentials are all the bills we need to survive, be healthy and get to work and school etc.

Ideally 50% of income should be spent on our needs but this can vary according to your situation

This may also be more difficult depending on your location as costs can vary across the UK.

Non-essentials

This is money for you to spend on the things that make life worth living and to help you relax after a busy week at work or school. To celebrate with family and friends or just to treat yourself.

Ideally this section should be around 30% of your income. However, it may not always be possible to have these, particularly when the cost of living is high, and there may be some difficult decisions needed on where to cut back.

Savings

You may need to build up to this over time, but if you can build the savings habit early, it could help you with future milestones. When it comes to saving something is better than nothing. For example saving now could help you create an emergency fund to fall back onto if you go to university or move out to live on your own.

A good target to aim for is around 20% of your income. Initially build up a savings fund, aiming for 3-6 months of everyday bills. Then savings on top of this can be used to invest or for fixed savings accounts where the interest may be higher.

Debt

Any debts that need to be paid off should be listed needs as you must pay these back otherwise there are consequences including increased interest or late payment fees.

However, it can be useful to keep these in their own category so you can understand if your debt is growing or falling over time.

Slide 9: Building a budget – 15 mins



Group work: Time to plan your own budget. We have provided you with your essentials based on national averages in the budget shown. Your challenge is to work out how much is left from your income is left after paying those bills and then plan that how to split your remaining money between your savings and your non-essentials.

Budget Sheet and Steps can be found in Worksheet M2W3.

1. What is the total income we have available to spend? £2,056.67
2. What is the total spent on our essentials? £1,682.75
3. Subtract your essentials from your income, what do you have left to spend on non-essentials and savings? £373.92
4. Identify 6 non-essential spends for your own budget and savings. Remember you don't have to spend it all.
5. What is your new total for outgoings?
6. How much is your budget surplus? (If any)

Slide 10: Using your budget surplus – 4 mins

Our budget is in surplus if we have money left over each month that we haven't spent. It is important to give this money a job so that it is contributing to your long-term financial health.

Emergency Fund

According to the Money Advice Service, a staggering 40% of working-age people have no emergency fund, with less than £100 in savings available to them at any time.

It's recommended you have around 6 months' worth of living expenses in an emergency fund. So, if your outgoings – including rent or mortgage and all other essential and non-essential expenses – are £2,000 per month, you should aim to have at least £12,000 set aside.

It may take you a while to save up, but even a small emergency fund is better than nothing, so don't be discouraged.

Having money put aside can really help put your mind at rest – and ultimately it can make you financially resilient to those unexpected things. This could be losing your job, or just a large, unexpected expense such as your boiler or car breaking down.

Overpaying Debts

If you have them, you may also decide to try and pay off your debts quicker to reduce the amount of interest owed on these in the long term. To prioritise this you might consider:

1. Paying off debts with higher APR

A cost-effective option is to repay the debt with the highest interest rate first as it's charging you the most to borrow the money.

List out your debts in order of interest rate, going from highest to lowest. Prioritise paying the debt at the top, working your way down the list over time.

But remember, you'll still have to meet the minimum repayments on all.

2. Paying off debts with a small balance

While it may not be the most cost-effective method, pay off smallest debts first to reduce the number of debts you must think about.

You can then achieve some quick psychological wins in getting those small debts paid down fast. Again, you'll still need to meet the minimum repayments on all outstanding debts.

Once the debts are paid down, the money you used to spend on debt each month can be used for savings or working towards other financial milestones. Talk to your bank or a debt support charity if you need any further guidance with managing debts.

Savings

Using any surplus income to save for future financial goals is also important. It's worth checking if your budget helps to meet those goals or if changes are needed? How long will it take to achieve this saving goal? Am I using the right savings accounts to help me meet those goals faster?

Slide 11: Financial difficulty – 4 mins

What about when our budget isn't looking as healthy? When the cost of living is challenging, lots of people have to make difficult decisions when it comes to their monthly budgets.



Ask the group: What everyday items have you seen or heard about getting more expensive over recent times?

Discuss answers and add some of your own. Examples might include

- Utilities
- Food
- Fuel / petrol
- Travel – bus / plane / train



Ask the group: How do you think people can use a budget to review their finances when times are tough?

After discussion click to reveal answers.

Review bills:

- Try to use less heating/electricity
- Use more supermarket branded groceries
- Change supermarkets / shopping habits
- Consider your mode of transport for work/school – is there a cheaper solution?

Cut back wants:

- Cut back on luxuries
- What can we do for free instead
- Cancel unused subscriptions or reduce to a cheaper package

Increase income:

- Work overtime
- Sell unwanted belongings
- Second job / side hustle
- Change job

Financial guidance:

- You may need guidance from a debt advisor
- They are non-judgmental, can support you dealing with people you owe money
- Offer a different perspective on your spending
- They may be able to challenge you on some of your budgeting barriers

The important thing is for us to not bury our heads in the sand if we are getting into financial difficulty and address the situation as early as possible so that it does not get worse.

Slide 12-14: Using your budget – 10 mins



Group work: Return to the budget worksheet M2W3 they have completed (including the new non-essential costs) to navigate some real-life situations.

How would they handle the budget when their finances aren't as healthy. There are no right or wrong answers here. Ask young people to share their choices after each question.

1. Your camera has broken and you are unable to earn income from your photography. This means your budget is now £150 short. What non-essentials would you cut to rebalance your finances?
2. Our budget is now stable again; however, we want to continue our photography work so we will need to buy a new camera. It costs £1,200. How will you approach this situation? These are the loan options available:
 - £200 a month for 6 months on 0% Finance
 - £100 a month for 12 months on 10% Finance
 - £50 a month for 24 months on 20% Finance

What further cutbacks on non-essentials will you need to make to afford this?

3. It is now 3 months later, and your hard work has paid off and you are now making £250 in your freelance photography. How would you take advantage of this new budget surplus and why?
 - Pay off camera finance quicker
 - Start saving towards emergency fund
 - Restore earlier cuts to non-essentials

Discuss answers – paying off the camera quickly could avoid paying unnecessary interest but saving for an emergency fund could avoid more difficult financial situations. Is there a balance between the two to be had?

Slide 15: Stretch Challenge

This can be used as you see fit for a homework, group project or additional lesson during school hours. Stretch Challenge worksheet M2SC3 provided to record answers.

Part 1 - Budgeting

For the next week, keep a record of every payment or transaction that you or a Parent/Guardian make. This can be done digitally or physically.

Looking back on one week of spending, separate your purchases into which items did you "Need" to buy and which items did you "Want" to buy using the table below.

Part 2 – Keeping track


Take your weekly costs and multiply them by 4 to create a rough monthly estimation to use.

- What do you spend the most money on?
- What was the most surprising cost in your budget?
- What could you change in the future to better manage your finances?


Part 3 – Unforeseen costs

Explore the 'What if' scenarios – what choices would you need to make if an emergency arises?

Worksheet M2W3





Module 2
Session 3 M2W3



Building a budget

1. What is the total income available to spend?
2. What is the total spent on essentials so far?
3. Subtract the essentials from your income, what do you have left to spend on non-essentials and savings?
4. Identify 6 other non-essential spends for your own budget and savings. Remember you don't have to spend it all
5. What is your new total spent?
6. How much is your budget surplus? (if any)

Name: _____

Income	Date paid	£ Monthly
Salary	03/month	£1,906.67
Freelance photography work	Average	£150
		£

Essentials	£ Monthly
Rent	£973
Council Tax	£154
TV Licence	£13.25
Gas	£80
Electricity	£80
Water	£37
Clothes	£76
Food	£269.50
	£

Savings	Date paid	£ Monthly
Savings	03/month	£

Non-Essentials	£ Monthly
	£
	£
	£
	£
	£
	£
	£
	£

Essentials	£	Income	£
Non-Essentials	£	-	
Savings	£	Total Outgoings	£
Total Outgoings =	£	Surplus =	£


Worksheet M2W3

Print the required amount of worksheet. Young people to use the Module 2 Session 1 worksheet to complete their budget as per the step-by-step guide.


Once completed, please keep the worksheet as this will be used during slide 12 to test the budget through different scenarios.

Stretch Challenge M2SC3

This can be used as you see fit for a homework, group project or additional lesson during school hours to embed and practise the income tax calculations.



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Stretch Challenge: Budgeting

For the next week, keep a record of every payment or transaction that you or a Parent/Guardian make. This can be done digitally or physically.

Looking back on one week of spending, separate your purchases into which items did you "Need" to buy and which items did you "Want" to buy using the table below.

Needs	Wants

Name: _____

Keeping Track of Monthly Costs

To find a rough monthly cost of the outgoings that you have recorded, multiply your weekly costs by four.

Now reflect on the following questions:

- What do you spend the most money on?

- What was the most surprising cost in your budget?

- What was the most surprising cost in your budget?

Stretch Challenge M2SC3

Unforeseen Costs

As well as helping us to keep track of spending, budgeting can also help us to manage any unexpected events.

How would you adapt your budget in these scenarios:

- Your gas and electricity bill of £250 per month has increased by 15% but your pay has only increased by 5%

What is the new cost of your gas and electricity bill?

What action would you take to manage the increase?

- Your rent or mortgage bill of £1,200 per month has increased by 5% but your pay has only increased by 2%


What is the new cost of your rent/mortgage?

What action would you take to manage the increase?

Stretch Challenge M2SC3

Unforeseen Costs

- You have had a surprise pay rise of £150 extra per month. How would you best use this extra money in your budget?



Stretch Challenge M2SC3