Year 7 | How to take care of my money FAQs

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What is a budget?
A budget is a way of planning finances, taking into account income and expenses.

Why do people budget?
Budgeting can help a person feel more in control over their money, understanding spending better and where to cut back if needed. Budgeting allows us to save for the future which provides financial security and safety. This can increase confidence and improve wellbeing.

I've never run out of money, why do I need to budget?
A budget helps create financial stability and reduce stress. Your budget creates a plan for your income and spending and allows you to track it so that you can reach your financial goals- which can be anything you want. It ensures you have enough money for your needs and wants and don't overspend, which may lead into getting into debt.

What should you do if you don't stick to your budget?
If you don't stick to your budget for one month, it's best not to ignore the problem: it's better to reflect on what and why you've been spending. Ask yourself: "Is there anything I can cut back on for the next month? Have I changed my expenditures or have prices gone up?" This should reduce the feeling of panic and help you reset for the following month. That may mean cutting down on some expenditures or finding ways of increasing income, like working extra shifts. If concerned, you can also seek guidance. There are recommended organisations to speak to below.

Which traditional budgeting methods exist?
The envelope budgeting method involves allocating a set amount of cash to each budget category for the month. And once the cash is gone – it's gone. We suggest digital and automated methods that are built around your individual income work best. The trick with budgeting is to check in every day on your spending. There is also the 50/30/20 method. 50/30/20 means that 50% is for needs, 30% is for wants, and 20% for saving.

In a cost of living crisis, how useful are these methods and proportions?
The 50/30/20 method is a guideline, not a rule. However, in a cost of living crisis, this guideline may need tweaking.

It's hard to save when your incomings don't cover your outgoings so the method isn't useful if you can't afford to save. Instead, this method can be adapted to work towards a future you.

For example, 20% of savings could instead go towards needs or pay off debts. Another issue that comes up with the 50/20/30 budget is that some people can be tempted to consider "wants" as "needs". As with all budgets, this means that it requires some tweaking to your own situation and regularly checking in with the categories.

How can automation help me budget?

When you automate your finances through things like standing orders or direct debits you are setting up your bill payments and savings accounts to be paid automatically from your main bank account (can be done online or through your banking app) - most commonly monthly. You're putting your money on autopilot. By automating your finances, you're making sure you pay your bills on time and avoid costly late payment fees.

What are digital budgeting tools? How can they be used?

Keeping track of how we spend and what we spend used to mean keeping track of receipts or making excel spreadsheets - but not anymore. There are a number of free or low-cost apps that you can use to help you get a picture of how you're spending your money.
Some apps can better prepare you for the rainy days by helping you save as well. If you feel confident, creating your own Excel / Google Sheets budget can be helpful as you'll be able to better personalise it and make it work for your own needs.
Banks currently offer apps that can help you track expenses as well as put money aside in 'spaces' or 'wallets' for the different needs / wants and savings.
Other apps will consolidate your different accounts under one product - these include Emma, Yolt and Snoop - Helps you bring all your accounts into one place. Here you can see how much money you have to spend alongside any debt, savings, investments. Plum - As well as giving you an overall picture of your finances, Plum proactively helps you save and even invest small amounts automatically

What is the Bank of England (BoE) and what is its role in inflation?

The Bank of England is the central bank of the UK and is independent of the government. It has national responsibilities such as issuing currency and setting interest rates (known as monetary policy). It also regulates banks and insurance companies and is the government's bank and the lender of last resort. The BoE holds gold and currency reserves. The BoE has the job of keeping inflation low and stable. The main way it does this is through changing interest rates. The BoE's "base rate" of interest is what your bank uses for setting the interest rate you earn on savings or on you pay for a loan or mortgage. The BoE will increase or decrease interest rates to try and keep prices at a target rate of 2%.

What does an interest rate mean for me?

Interest rates tell you how high the cost of borrowing is, or how high the rewards are for saving. As a borrower, the interest rate is the amount you are charged for borrowing money, shown as a percentage of the total amount of the loan. The higher the percentage, the more you have to pay back on top of your original loan amount. If you're a saver, the interest rate tells you how much money will be paid into your account as a percentage of your savings. The higher the interest rate, the more will be paid into your account for a given amount. Generally, when interest rates are low, more people are willing to borrow money to make bigger purchases on items such as a house or car, and it is cheaper for businesses to expand. Even small changes in interest rates can have a big impact. So it's worth staying tuned in to see whether they rise, fall or stay the same.

Why can't the Bank of England fix the inflation problem?
The cause of inflation is important. Prices rise when there isn't enough of the things people want. In economics jargon, this is when demand (for goods or services) is high and supply is low. High inflation rates in the UK towards the end of 2021 and into 2022 have been mainly caused by global price increases in oil, gas and food, which have been in short supply. Consumer spending can be encouraged or discouraged by changing interest rates, which is the main tool available to the BoE. But this does not change the global factors so the BoE can't simply "fix" the problem. Also, higher interest rates may lead to consumers spending less, as mortgage and borrowing costs increase, leading to slower economic growth. By making people buy less, this could reduce inflation. But when the economy is already weak, the BoE will be careful not to make decisions that could slow the economy too much.

Can anyone control inflation?
On an individual level, there is not much we can do to control inflation when it gets very high. Collectively, inflation is affected by how businesses price their goods and services or how much they agree to pay their workers. The Bank of England is the main organisation whose role it is to control inflation through interest rate increases. The government can also increase spending and reduce taxes - known as fiscal policy - to support consumers- or do the opposite to reduce spending in the economy. All of these decisions have to be made carefully and are aimed at maintaining slow and steady economic growth, keeping business confidence strong and without shocks which may send the economy into a slowdown or even recession (when the economy shrinks for six months in a row).

When does inflation become a problem?
Inflation isn't always bad news. A little bit, around 2%, is actually quite healthy for an economy. There is no exact cut-off for when inflation becomes a problem but it can become a worry when it significantly rises or falls below the 2% mark. If it's much higher than 2%, the cost of living increases faster and wages don't keep up. For example, with inflation reaching 9% in June 2022 in the UK, people experienced higher costs of things like food, energy and heating, eating into their budget. High inflation can also be bad for savers, investors and lenders, because when they get their saved money back, it will buy them less than they thought. If prices fall, known as deflation, the worry is that the public will spend less. This is because deflation makes it harder to pay off debt (money is now worth less so the loan or mortgage a person has to pay back is relatively more expensive). Businesses may also sack employees when this happens.

What is the point of saving money when inflation eats into my savings?
It is important to keep some savings for what's known as a rainy day (or emergency) fund. If prices go up or your job disappears, it may be that your budget gets squeezed and you need to access some of these savings.