

Topic 9: Budgets and Forecasts

Learning outcomes:	Key terms:	
<ul style="list-style-type: none"> identify the key elements of a budget interpret a cash flow forecast for short-term financing describe some of the key components of the cost of living in Britain begin to evaluate lifelong financial planning, by understanding that the way people manage money changes as they move through the various life stages. 	<p>Aspirations ATM Balance Budget</p>	<p>Things or experiences that people would like to have in the future, for example owning a home instead of renting. Automated teller machine, also known as a cash machine. Income minus expenses. A plan of expected incomings and outgoings over a set time period such as a month. The Budget is also the term given to the government’s spending plan, which the Chancellor (see below) sets out in the House of Commons.</p>
<p>Types of unearned income:</p> <ul style="list-style-type: none"> benefits, which may be paid weekly, once every two weeks or monthly state and private pensions, which are usually paid monthly interest on savings, which may be paid monthly or, more usually, once a year returns on investments such as dividends, which are paid to shareholders once or twice a year if the company performs well allowances paid by family members, which may be paid weekly or monthly financial gifts that may be received on birthdays and at Christmas and other celebration days one-off payments (also known as windfalls), such as an inheritance or a win on the Premium Bonds loans, which are incomings that must be repaid with interest and charges. 	<p>Budget balance Budget deficit Budget surplus Cash flow forecast Chancellor of the Exchequer Consumer Prices Index (CPI) Credit history Current account Discretionary expenditure Dividend Duty Essential expenditure Income Income tax Inflation Insurance Investments</p>	<p>Total income minus total expenditure: a person’s net financial situation. A situation in which outgoings exceed income. A sum of money available once all the essential expenditure in a given period, eg a month, has been made. A plan of expected incomings and outgoings over several time periods, such as the next three months. The British Cabinet minister responsible for financial and economic matters and in charge of the Treasury. One of the means the government uses to measure inflation. It is calculated by checking the price of a representative sample of goods on a monthly basis – this enables statisticians to measure how much prices are rising or falling. See also Retail Prices Index (below). A record of money borrowed and repaid by an individual. These records are held by credit reference agencies and providers will check the individual’s credit history when a prospective customer applies for a borrowing product. Bank/building society accounts where people can store their money in the form of electronic balances & withdraw it to make payments. Voluntary spending on products and services that people want now, and savings towards items they aspire to buy in the future. A payment of profits from a company to its shareholders, often at twice-yearly intervals, either as cash or (depending on the plan) as further shares or reacquisition of shares. The tax paid on certain items, including fuel, cigarettes and alcohol. Spending on items required to live, eg rent or mortgage repayments, food and drink, water supplier, gas and electricity. Earnings, savings and interest payments received within a certain timeframe. Tax paid on earnings from employment, self-employment and interest on savings. A rise in prices, which means that the purchasing power of money falls. Products that give financial protection against certain events. For example, someone who has travel insurance might be able to claim back the cost of a holiday if they have to cancel through illness. Money paid into financial products; the aim is that the value of the product will grow over time and so the person will eventually receive back more money than they paid in. Investments are a way of saving over the medium or long term.</p>
<p>Mandatory Expenditure:</p> <ul style="list-style-type: none"> Income Tax and National Insurance Council Tax TV License Motor insurance, road tax and MOT 	<p>Mandatory expenditure Mortgage National Insurance contributions Needs Office for National Statistics</p>	<p>Compulsory outgoings; they do not necessarily apply to everyone but if they do apply, they must be paid. A loan taken out to pay for a property, usually over a long term such as 25 years. Money deducted from the pay of people who are employed/self-employed & used by the government to fund state pensions/benefits. Things that people need to survive, such as food, basic clothing and a place to live. The independent organisation that produces statistics on many aspects of life in the UK such as employment, health, how long people live for in different areas of the country, housing, etc.</p>
<p>Essential Expenditure:</p> <p>Essential expenditure is spending on items that people need to live and includes:</p> <ul style="list-style-type: none"> rent or mortgage repayments on a home food and drink water supplier gas and electricity suppliers basic clothing 	<p>Pension Premium Bond Real terms Retail Prices Index (RPI)</p>	<p>An income that people receive after retiring from work. In the UK people receive a pension from the state; some people also receive pension payments from schemes run by their former employers or arrangements that they have made for themselves. A lottery bond, issued by NS&I, entered into a monthly prize draw with tax-free prizes or ‘premiums’. Bonds must be held for a full calendar month after the month in which they were purchased, and retain an equal chance of winning until cashed in. A value adjusted to account for changes in prices. For example, although someone may receive a nominal pay increase of 5%, if inflation (ie rise in general prices) is 3% then in real terms the pay increase is approximately 5% – 3% = 2%. One of the ways the government measures inflation. It is calculated by checking the price of a representative sample of goods on a monthly basis but unlike CPI, it also takes into account mortgage interest payments and other costs associated with home ownership.</p>
<p>Cost of Living:</p> <p>The cost of living index in the UK was ranked the 23rd most expensive in the world in 2018 according to Numbeo, which collects data from authoritative sources around the world.</p>	<p>Self-employment Transaction Utility Wants</p>	<p>Earning an income by selling your goods or services directly to a consumer, rather than being employed by somebody else and being paid a wage or salary. Buying or selling something. An essential public service, such as electricity, gas, water and sewerage. Things that people would like to have but can survive without, such as entertainment, fashionable clothes, etc.</p>

