



Unit 31: Effective Management of Personal Debt

Delivery guidance

In the UK, the use of debt financing has been commonplace for the purchase of goods ranging from houses to clothes. If managed properly, debt finance does not pose a problem to the individual. However, if the debt becomes unmanageable it can have far reaching repercussions for the borrower.

Learners will gain knowledge of how borrowing and debt can be managed properly and the benefits that it can bring borrowers. Learners will also gain insight into the processes available for resolving situations where debt has become unmanageable.

Utilise access to organisations that provide both lending opportunities and also debt resolution advice. This could take the form of visits from industry professionals.

Approaching the unit

Learners will need to understand the impact that personal debt has on an individual and society as a whole. Learners will need to understand the reasons that drive personal debt. In doing so, they must know about the impact of consumerism and modern technology in promoting the use of debt financing.

Learning aim A is primarily concerned with the use of personal debt and its impact on the individual and society, in particular how current levels of debt compare historically with those of the past. This learning aim will also investigate the economic effects of consumerism, looking at both the advantages and disadvantages and increasing levels of sustainable debt. A key concept for learners to understand is that accumulated personal debt affects society as a whole. For example, investigating the 2007 financial crash and the impact that it has had on major financial institutions (such as the Lehman Brothers) both in the UK and worldwide. This will illustrate how the cycle of debt affects the financial and personal lives of everyday consumers. Additionally, learners will understand the impact that the use of methods such as cashless payments and 'easy' finance has had on the level of debt.

Learning aim B explores the sources of debt advice and management strategies that are available to consumers, including the consequences of having to adopt debt-management strategies. In particular, learners will need to know the difference between strategies, including formal and non-formal methods, and what this means in terms of potential consequences for the consumer.

A critical concept for learners to grasp is that debt can be very easy to get into, and have far reaching consequences if not managed properly. Case studies will inform learners about the different instances where debt has had serious consequences for consumers. Ideally, learners should be exposed to industry professionals who can give them real-life examples of available debt management strategies and the impact that indebtedness has on individuals and families.

Learning aim C is primarily aimed at learning about financial planning and how to produce a personal budget plan to service and manage debt. Learners will create



a personal budget plan for an individual, which includes details of expenditure financed through debt and a personal cash flow forecast.

Delivery of the content should focus on learners considering budget planning as both a long-term and short-term activity. In the short-term, learners should consider and budget for how they would meet unexpected expenses. In the long-term, they may consider issues such as how they would budget for when they receive regular payment for employment or if they received some form of inheritance. The content coverage for this learning aim should be wide in scope to make sure that learners understand all of the potential sources of income and debt. This learning aim could be delivered in a very practical manner, initially based on the learner's circumstances, making use of widely available online planning tools.



Assessment model (internally assessed unit)

Learning aim	Key content areas	Recommended assessment approach
A Understand the use of personal debt and its impact on the individual and society	A1 Debt and the individual A2 Impact of personal debt on an individual A3 Personal debt and society A4 Personal indebtedness	An article relating to: <ul style="list-style-type: none"> • use of debt to finance lifestyle and societal, and wider environmental factors that have influenced the use of consumer debt • ways that debt might impact on an individual throughout their financial lifecycle.
B Explore sources of debt advice and management strategies available for individuals	B1 Debt advice sources B2 Debt management strategies and credit solutions B3 Consequences of debt management strategies	A report, guide or case study that details: <ul style="list-style-type: none"> • organisations that provide debt advice or counselling • the main types of formal and informal debt-management strategies available to the individual and the potential consequences for the individual.
C Develop a budget plan to service and manage debt for an individual	C1 Purpose of effective financial planning C2 Planning and producing a personal budget plan C3 Monitor, review and revise a personal budget plan	A personal budget plan for an individual, including: <ul style="list-style-type: none"> • the benefits of having a plan • a personal budget showing expenditure financed through debt • a cash-flow forecast • monitor and review plans as circumstances change.



Assessment guidance

This unit is internally assessed via a number of independent tasks. Learners must produce individual evidence that is both original and can be authenticated. The main sources of support for this unit are likely to include:

- online research
- organised visits to finance providers or debt management companies
- watching the news
- listening to financial segments on radio programmes.

BTEC assessors could assist learners with completing their assessment by providing business contacts that learners can get in touch with in order to support their research.

Other relevant sources of research may include copies of government statistics, access to regulations surrounding formal debt management strategies (e.g. bankruptcy) and access to online financial planning tools.

For Learning aim A, the assessment criteria requires learners to produce an article relating to the lifestyle and societal impacts of debt finance and the wider influences that have encouraged its use. This should prove a very interesting avenue of exploration for learners, researching the sociology of consumerism, and should give an excellent basis for their work. Learners should then consider the ways that debt might impact on a person throughout their financial lifecycle. An interesting avenue for exploration here is to look at the long-term restrictions that poor financial management incur on a consumer. For example, the additional costs or inclusions that a mortgage company may place on an indebted applicant. This research may give real-life insight into the importance of debt management for learners when they are creating their article evidence.

For Learning aim B, the assessment is based on a report, guide or case study which is designed to investigate sources of debt advice and debt management strategies for individuals. The content of the report is to be based on:

- researching organisations that provide debt advice or counselling
- the main types of formal and non-formal debt management strategies available to the individual and the potential long-term consequences that using these strategies may have on them.

The learning point is that debt can have a lingering effect on consumers. However, early intervention, through the use of debt management strategies, can ameliorate the impact of bad debt. To fully understand this, it could be beneficial for learners to explore the various debt consolidation methods that are available and then consolidate this learning through visits to or from industry professionals. The second bullet point of LAB3 gives an opportunity for learners to explore the personal effects of debt and debt management. Learners may wish to share their own experiences for discussion.

For Learning aim C, learners need to understand the concept of personal choice and what is important to them. A good way to explore this topic is to ask learners what is important to them now and what is likely to be important to them in the future. This will highlight the fact that financial planning may enable learners to achieve their long-term goals in the future. A suggested method of delivering this content may be to get learners to brainstorm all of their incomings and outgoings at the moment and then do the same exercise for what their finances might look like in ten years' time. For the second forecast, ask



learners how they might consider financing some of their bigger purchases, such as a house or a car.

Tutors should demonstrate to learners the importance of cash flow forecasting (this may have been covered earlier in *Unit 3: Personal and Business Finance*). Learners should be made aware that the personal budget and cash flow forecast should consider unexpected costs and that finance is set aside and budgeted for these occurrences.



Getting started

This provides you with a starting place for one way of delivering the unit, based around the recommended assessment approach in the specification.

Unit 31: Effective Management of Personal Debt

Introduction

This unit gives learners the opportunity of exploring the positive and negative aspects of debt and the ways in which to effectively manage personal debt. The unit will investigate the practical implications of getting into debt and the ways of managing it, alongside the personal and long-term effects that indebtedness may have on a consumer. Finally, the unit will investigate ways in which to plan for avoiding getting into debt.

Learning aim A - Understand the use of personal debt and its impact on the individual and society

- For Learning aim A, the teaching focuses on four main areas: debt and the individual, impact of personal debt on the individual and society, personal debt and society and personal indebtedness. For each learning aim, the tutor should prepare a quiz to assess understanding. Examples could include a questions and answer quiz for Learning aim A, an online quiz, e.g. Kahoot, to test both Learning aims A and B. For Learning aim C, a quiz could be written that covers each of the three learning aims.
- For Learning aim A1, teaching should focus on historic personal debt levels and how these compare to the current borrowing patterns. Learners need to know what constitutes 'debt' and the difference between secured and unsecured debt. It would be useful for learners to have access to either government records or documents published by financial institutions to show a trendline of historic levels of debt over recent decades.
- It is important that learners understand that consumers are protected by law and this is enforced by agencies such as the Financial Conduct Authority. For example, consumers are protected in a variety of ways, including being allowed 'cooling off periods' and set deadlines to receive refunds. Tutors could deliver this content by asking learners to create a table comparing secured and unsecured debt types, along with why consumers may have to make a choice between one or the other.
- Facilitate a discussion on technological changes, for example cashless transactions, app-based payment schemes and instant decision credit on purchases and 'buy now pay later' options. Ask learners to research and discuss various examples of when these options might be used in different real-life contexts.
- For Learning aim A2, learners must understand that personal finance and debt must be considered in the terms of a financial lifecycle, in so far as, different financial wants and needs will be apparent at various stages in a person's lifetime. A suggested way of teaching this content is to create a lifecycle chart (age versus financial demands) and plot the different financial requirements of consumers at different stages of their lives.
- Learners must know what the drivers are behind the increased use of debt finance. Carrying out research into the sociology of consumerism will give learners high-level, in-depth understanding of the reason why people have seemingly increased their use of debt to finance their lifestyles. Alongside this, learners must be aware that consumer protection exists to try and protect buyers from getting into debt



(e.g., Loan to Value calculation when buying a house) and learners should refer to this in the evidence they create.

- Learners should also understand that debt, if used appropriately, can be advantageous in terms of making purchases that will appreciate in value or are otherwise unaffordable. A suggested method of teaching this would be to get learners to research items that appreciate in value against the cost of debt that would be required to fund their purchase. As an extension task, the appreciated value could be compared to the bank savings rates.
- Learners need to understand that spiralling debt can have a major impact on the physical and mental health of the consumer. It would be useful to arrange a visit from a debt counsellor to give context for this and discuss issues such as stress, depression and impact of debt on relationships.
- You will also need to focus on access to credit and limiting factors, as well as the long-term effects of indebtedness. This will include factors such as age, income, county court judgements (CCJs), credit history and number of credit accounts, and the way in which unmanaged debt impacts on the willingness of financial institutions to provide financial products. This should be taught alongside the physical and mental health effects.
- The criteria for lifestyle choices gives the opportunity for a tutor-led discussion regarding the cultural and religious acceptance (or otherwise) of debt, including employment patterns and regularity of credit usage. If debt is a culturally sensitive issue, then how do such cultures fund significant purchases?
- For Learning aim A3, facilitate a class discussion on the changing attitudes to debt in society caused by changes in technology. Delivery should focus on how changing attitudes to the use of technology have increased levels of debt. Ask learners to make a list of all of the purchases that they have made over the last month. Then, ask learners if they would have made the same purchases if they had to visit a bank to draw the money out and physically pay it themselves.
- For the normalisation of borrowing, you could focus on the expansion of short-term finance providers. A suggested way of teaching this would be to get learners to research the lending landscape 20 years ago compared to today and record the findings for their evidence. It is also worthwhile to ask learners to work out the repayment amounts for borrowing from short-term financiers compared to the more traditional lending sources.
- Learning should focus on researching the different spending and borrowing patterns of different demographics, such as age, culture and social status. This could then lead into a discussion about the impact that debt has on consumers of different ages and means.
- For wider external factors, learning should primarily be about the impact of external factors, such as the economic decisions made by the Bank of England and the forecasts made by the Office for Budget Responsibility (OBR). For example, learners could research the impact that historic low interest rates have had on debt financing.
- It is important for learners to understand how lifestyle changes can limit or promote debt. Learners could be issued with a range of scenarios (such as getting married) which they must then be asked to make decisions on (with justification) regarding whether or not debt finance should be used.
- On the consequences of debt, delivery should focus on the human cost of debt spiralling out of control. Learners need to understand that consumers can suffer all manner of consequences, including family breakdown to social exclusion. This could be delivered through a sensitively designed class discussion.



- For Learning aim A4, teaching should concentrate on differentiating between secured and unsecured loans and the benefits and drawbacks of each. Learners could be given a range of scenarios where they have to decide which type of borrowing is most effective for the situation.
- Learners will need to understand the differences between secured and unsecured debt and the implications for both. Examples of secured debt include mortgage, hire purchase and home owner loans.
- Emphasise the fact that secured debts have the benefits of longer repayment periods and lower interest rates. Unsecured loans will include personal loans, credit cards, overdrafts and 'pay day' loans.
- Tutors should teach learners about the pros and cons of unsecured loans, including the ability to easily access working capital and the increased cost of borrowing compared to secured loans. Tutors could approach this by presenting learners with a range of scenarios and asking them to discuss and choose the most appropriate financing method.
- As a suggested method of formative assessment, you could devise a knowledge quiz after each learning aim using an online tool such as Kahoot! to test learners' knowledge.
- Allocate time for learners to complete their summative assessment activity for Learning aim A. This is an article relating to the use of debt to finance lifestyle and societal, and wider environmental factors that have influenced the use of consumer debt and the ways that debt might impact on an individual throughout their financial lifecycle.

Learning aim B - Explore sources of debt advice and management strategies available for individuals

This learning aim is designed to ensure that learners know how to seek debt advice. Learners will also learn about the different types of advice that is available from different sources.

- For Learning aim B1, teaching should focus on learners developing a fully-rounded knowledge of where and whom can provide debt resolution advice. This could be delivered by asking learners to carry out independent online research to find out who may be able to provide debt advice, such as central government (e.g. Money Advice Service), local government, debt-counselling charities, commercial providers and specialist debt-management services.
- You could also arrange a visit by a guest speaker from one of the debt advice organisations (see unit specification) to come into the Centre to discuss their role and how their agency helps to provide debt advice and management strategies. Learners could also organise work placements with these agencies.
- For Learning aim B2, discuss the consequences of debt management strategies. This learning could be covered when delivering the 'physical and mental effects' of debt in Learning aim A, discussing the financial, personal and family consequences of debt management strategies.
- As a suggested method of formative assessment, you could devise a knowledge quiz after each learning aim using an online tool such as Kahoot! to test learners' knowledge for both Learning aims A and B.
- Allocate time for learners to complete their summative assessment activity for Learning aim B. This is a report, guide or case study that details organisations that provide debt advice or counselling, and the main types of formal and informal debt-management strategies available to the individual and the potential consequences for the individual.



Learning aim C - Develop a budget plan to service and manage debt for an individual

This learning aim is designed to make learners aware of what is affordable to consumers based on managing debt through budgeting.

- For Learning aim C1, teaching should focus on the benefits of effective financial planning. A suggested method of delivering this would be to give learners a list of household expenditures along with a tight budget. Ask them to rank them in order of their spending priorities. An approach that would work here may involve providing learners with a partially completed cash flow forecast into which they have to accurately insert figures and carry out the calculations. This could be completed on spreadsheet software and would give learners the opportunity to create formulae to correctly calculate the cash flow forecast.
- Facilitate a tutor-led discussion on their responses, asking learners why they have ranked the items in the way that they have. Discuss the importance of being able to meet unexpected expenses and to save for the future, as well as meeting financial obligations and agreements.
- For Learning aim C2, teaching should focus on designing a budget based on typical income sources, expenditure items, timings, payments in advance/arrears, regular and irregular payments and different methods of budgeting (see unit specification).
- Learners should be given a full range of inflows and outflows and be asked to create a personal budget based on these. A suggested way of delivering this content would be through the use of an online budgeting tool, such as the 'Money Advice Service' budget planner (see Resources). This learning lends itself to cross-curricular learning. Therefore, learners may be encouraged to use a spreadsheet and its modelling tools for this task.
- For Learning aim C3, learners need to know how to monitor, review and revise a personal budget plan. They should be made aware that budgets are not static documents and that a person's financial situation may change, therefore, budgets must change as well to reflect this. These changes would reflect a person's financial situation due to events such as retirement, having children, upsizing, downsizing and caring responsibilities. Learners need to be aware that budgets have limitations and even the best plans are affected by certain factors. You should ask learners to debate what these factors could be.
- Based on the previous budgeting task, learners should be asked to make changes to their budgets based on changes to the economic environment. These changes can be supplied by you. Examples may include family changes, retirement, upsizing/downsizing or caring responsibilities. Learners are then to reflect on how these changes would impact on a consumer's financial choices.
- As a suggested method of formative assessment, you could devise a knowledge quiz after each learning aim using an online tool such as Kahoot! to test learners' knowledge for Learning aims A–C.
- Allocate time for learners to complete their summative assessment activity for Learning aim C. This is a personal budget plan for an individual, including:
 - the benefits of having a plan
 - a personal budget showing expenditure financed through debt
 - a cash flow forecast
 - monitoring and reviewing plans as circumstances change.



Details of links to other BTEC units and qualifications, and to other relevant units/qualifications

- Unit 1: Exploring Business
- Unit 3: Personal and Business Finance
- Unit 7: Business Decision Making
- Unit 14: Investigating Customer Service
- Unit 23: The English Legal System
- Unit 26: Aspects of Criminal Law Impacting on Business and Individuals
- Unit 27: Work Experience in Business
- Unit 30: Legal Principles and Professional Ethics in Financial Services

Resources

In addition to the resources listed below, publishers are likely to produce Pearson-endorsed textbooks that support this unit of the BTEC Nationals in Business. Check the Pearson website (<http://qualifications.pearson.com/endorsed-resources>) for more information as titles achieve endorsement.

Textbooks

Coupland-Smith H, Phillips J, Richards C, Smith J and Summerscales A, *BTEC National Business Student Book 1*, Pearson, 2016 ISBN: 9781292126241 – Textbook designed for supporting the delivery of the BTEC course.

Callaghan G, Fribbance I and Higginson M, *Personal Finance*, Palgrave, 2012 ISBN: 9780230348110 – Provides a detailed but easily accessible route into understanding the topics covered in this unit.

Videos

TED Talk by Elizabeth White on the impact of the financial crisis on personal finance

https://www.ted.com/talks/elizabeth_white_an_honest_look_at_the_personal_finance_crisis

An insight into the mindset of one of the world's top investors, Warren Buffett

https://www.youtube.com/watch?v=OMown2cpa_E

Websites

<https://moneyweek.com/> – Go to the 'Personal finance' section, which provides up-to-date insights and research into the latest developments in the world of finance.

<https://time.com> – Search for the 'Money' section and the article *50 Personal Finance Habits Everyone Should Follow* for a range of strategies that can be used to manage money better.

<https://www.moneyadviceservice.org.uk/en> – Provides a range of ideas for managing personal finance.



<https://www.moneydashboard.com/> – Visit the website to download the free app which enables users to manage their money.

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