

BUDGETING

What is a budget?

A spending plan is called a **budget**.

Creating your spending plan **allows you to decide**, in advance, whether you will have **enough money** to do the things you need to do or would like to do.

Budgeting is the **process** of creating a **spending plan** (your budget) to spend your money.

Preparing a budget can be daunting and keeping to it even harder. However, your answer cannot be I will live day by day and it will be fine, **those who fail to plan, fail**.

The Process

Step 1: Collecting Information

The first step is to find out all that you can.

Income

Income is **money received**, especially on a **regular** basis, this could include:

- Wages, from your employer.
- Benefits, from the Government.
- Pensions, from a pension provider or the Government.
- Other income could include that from savings.

When collecting this income make sure you have include **when it is paid** and **how certain** that the payment will be made. If you are unsure, then don't include it in your budget.

Expenditure

Expenditure is the money that you pay to **cover your commitments, plans and wishes**. As for your income, make a list of your **commitments and record the date** when the payment has to be made. Expenditure includes (but is not limited to):

- Rent or mortgage.
- Utilities.
- Insurances.

- Loans.
- Credit Cards.
- Car and car running costs.
- Phones.
- Food.
- Entertainment.
- Clothing.
- Pets.

Step 2: Review of the Expenditure

Once you have your list of expenditure, you should decide which are essential and which are discretionary, where:

- **Essential Expenditure** are commitments that you must make and are for fixed amount on a specified date.
- **Discretionary Expenditures** are commitments that you have control over in terms of both the amount and need; you should be able to live without meeting this optional commitment.

Step 3: The Budget Plan

You are now ready to complete your budget plan, this is done by completing the form, and example is as shown:

Personal Budget						
Summary						
<u>TOTAL MONTHLY INCOME</u>	Monthly Income			Monthly Expenses		
	ITEM	DUE DATE	AMOUNT	ITEM	DUE DATE	AMOUNT
£1,850	Wages	1st	£1,850.00	Essential Expenditure		
	Benefits	N/A	£0.00	Rent/mortgage	1st	£600.00
<u>TOTAL MONTHLY EXPENSES</u>	Other	N/A	£0.00	Electric	1st	£80.00
£1,733				Gas	1st	£40.00
				Council Tax	28th	£110.00
<u>TOTAL MONTHLY SAVINGS</u>				Water Rates	1st	£30.00

£0	Car loan	12th	£100.00
	Personal loans	18th	£75.00
CASH BALANCE	Credit cards	7th	£75.00
	House insurance	14th	£45.00
£117	Car Insurance	4th	£30.00
	Car Tax	14th	£40.00
	Mobile Phone	16th	£45.00
	Tv Licence	15th	£13.00
	Food	Monthly	£200.00
	Discretionary Expenditure		
	Car running costs	Monthly	£100.00
	Personal costs	Monthly	£50.00
	Entertainment	Monthly	£50.00
	Miscellaneous	Monthly	£50.00

Step 4: Cash Flow

This plan does not include planned savings, while there is a Cash Balance, we need to look at the Cash Flow before we can decide if savings is possible. **Cash Flow is the timing of the movement of money** in and out of your account. The above plan shows that there is enough cash coming in, but we need to check if it arrives at the right time.

		Day	1	2 - 7	8 -14	15 -21	22 -31
Wages	1st	£1,850.00	£1,850.00				
Essential Expenditure							
Rent/mortgage	1st	£600.00	£600.00				
Electric	1st	£80.00	£80.00				
Gas	1st	£40.00	£40.00				
Council Tax	28th	£110.00					£110.00
Water Rates	1st	£30.00	£30.00				
Car loan	12th	£100.00			£100.00		
Personal loans	18th	£75.00				£75.00	
Credit cards	7th	£75.00		£75.00			
House insurance	14th	£45.00			£45.00		
Car Insurance	4th	£30.00		£30.00			
Car Tax	14th	£40.00			£40.00		
Mobile Phone	16th	£45.00				£45.00	
Tv Licence	15th	£13.00				£13.00	
Food	Monthly	£200.00		£50.00	£50.00	£50.00	£50.00
Discretionary Expenditure							
Car running costs	Monthly	£100.00		£25.00	£25.00	£25.00	£25.00
Personal costs	Monthly	£50.00			£25.00		£25.00
Entertainment	Monthly	£50.00			£25.00		£25.00
Miscellaneous	Monthly	£50.00		£12.50	£12.50	£12.50	£12.50
		Cash Balance	£1,100.00	£907.50	£585.00	£364.50	£117.00

The cash flow shows how much money you need in your account to keep to your plan. For example, on the 7th of the month you require £907.50 to ensure you can meet your commitments for the rest of the month. If you don't then you **should reduce the amount** of your **discretionary expenditure** in the budget for the rest of the month.

With an end of month cash balance of only £117, **which is less than 10%** of your income, there is **not enough resilience in your budget** plan to make planned savings. That said, if there is £117 left in your account at the end of the month, the recommendation would be to put this into a savings account. Over 12 months (provided you stick to the budget and don't spend the saving) this would be just over £1400, which could be used to fund Xmas or a Holiday, rather than putting such things on a credit card. It could be used to **reduce your debt** and as a result **reduce monthly payments** on loans and credit cards.

Looking at this budget plan, with only £117 left at the end of the month then taking on any further borrowing would be **very** risky. Further borrowing should only be considered when you have a **cash balance around 30%**, which in this case would be around £500, and even then the monthly commitment from any borrowing should not leave you with a cash balance of less than 20% of your total income.