

Budgeting

What is Budgeting? What is a Budget?

Budgeting is simply balancing your outgoings with your income. If they don't balance and you spend more than you are earning, you will have a problem.

When you create a spending plan, this is your budget. By creating a budget, it will allow you to see in one place all your income and outgoings, and allow you to determine in advance, if you have enough money to do all the things you would like to do.

Why is Budgeting so Important?

Budgeting is important, because it ensures that you will always have enough money for the things that you need and things that are important to you.

Following a budget will also help you keep out of debt or help work your way out of debt.

What can I afford to spend?

Once you know where you're spending, you can start to alter and prioritize what you do with your money to enable you to stick within your means. Creating a budget is the easy part, sticking to it is the real difficulty.

In order to create your budget, you must take certain things into consideration. This includes:

- **Are you part of a couple/family?**

This is the first important thing to consider. Often finances can't be separated, so you sit as a family or couple and work through the budget together.

- **Not sure of the exact figures?**

It's all too tempting to guess at what you might be spending in certain areas and this can really affect the budget. Before starting you should try to keep a spending diary or all your receipts for the month, including the sneaky coffee from Starbucks on your morning commute. If you really aren't sure of your spending in certain areas, it's always better to overestimate so that you have money left over and are not caught short.

Some spending may overlap into different groups. You need to be careful that this does not get counted twice. For example if you have counted your car insurance in the motoring section, don't include it again under insurance.

- **Use a credit card?**

The credit card section is designed for you to enter the cost of repaying your existing credit card debts. Don't confuse this with spending where you simply use your credit card and pay it off IN FULL.

The best way to explain this is with an example. Say you spend £500 each month on food shopping that you pay for on your credit card but then pay off in full. This spending belongs in the food shopping column and not in the credit card column as, otherwise, you'll be counting it twice.

- **Do you have a company pension?**

If you pay for your pension via bank transfer/DD/Cheque, this should come under the expenditure section. If you pay via salary sacrifice, this does not need to be calculated and you can just use the Net figure on your pay slip, as this will already have been deducted.

- **How do you budget for holidays?**

While you are on holiday, you will still have expenditure while you are away however you don't spend on the things you normally would.

An example of this is if you normally spend £100 per week on groceries and £30 on car fuel yet you have gone abroad for the week, you won't be spending this but it will still be added to your budget.

Therefore if the holiday costs £700 and you intend to take £300 spending money, you may be tempted to put £1,000 in - but actually you're saving £130 of normal expenditure so it should only be £870.

Steps to create your budget

Creating your budget should take you a couple of hours to complete it accurately. Don't let that put you off though, it's the perfect chance for you to fully see where all your pennies seem to run off to.

Before you start, gather all of your bank statements and credit card statements, preferably from the last three months. This should give you an accurate look at exactly what standing orders or direct debits you have coming in and out. Also any receipts that you have saved for the task, this will help you to work out, on average, what your total grocery spend is.

If you can, also gather together your pay slips to establish exactly what you earn plus any bills or other documents if possible (though your statements should also detail this info).