



Budgeting – a necessary evil!

I know the thought of preparing a budget may be as appealing as going on a detox diet but it's very important.

The aim of a budget is to keep tabs on how much money is coming in and how much is going out. If there is more money going out than coming in then you're probably increasing debt and that means you're not saving for your future. Over time this can become a major problem.

The aim is to SPEND LESS THAN YOU EARN. Then use whatever is left over to pay down debt and invest to grow your longer term wealth. Aim to save at least 10% of your income. And set goals for the future.

You don't need help from a professional to devise a budget. You just need to find the time. And you might not like what you discover but it will be worth it.

OK here we go...

- Start by writing down your gross income (salary and fees) and any income from other sources (dividends from shares, pensions, rent from an investment property, government benefits). Don't add in potential windfalls like bonuses. Keep it conservative. If you choose to use net income then don't double up by adding tax into your expenses.
- Then estimate your expenses (spending) by month. If you do this for the last 12 months then it will give you an idea which months are more costly than others and this can be helpful in planning. If you have a partner and combine your money, then work it out together. This will take time to compile. You may need to check over credit card statements and bank accounts to list your outgoings so don't expect to get it all done in a night.
- Its best that you input the data into a spread sheet so that you can manipulate the data when required or you could use the Government's Money Smart Budget Planner <https://www.moneysmart.gov.au>. Another option is to invest in a personal-finance program that have budget-making tools but this isn't essential and it costs money.
- Group your expenses into categories. For example, living expenses (which would include groceries, mortgage/rent, phone and utilities etc), car/transport, insurance and superannuation, leisure/entertainment, taxes, fees and charges. Or again refer to the Money Smart website.
- You may find a large amount of your spending is on small, discretionary (non-essential) items. This is common. These are the expenses that stack up very quickly if you don't watch them. For example, lunch out, movies, takeaway food, clothes and shoes, birthday presents and the list goes on. So break these down as much as possible.
- If you are using a spread sheet, once you've added up all the figures for each month and for the year, add a 5% margin for error to the final amount. It's inevitable that not all expenses have been captured.
- You will have a net amount for the year which is your income less your expenses. If it's positive then you have money left over. If it's negative then you are spending more than you earn.

So what does it tell you?

Look over the figures carefully.

- Do the figures feel right? If not, go back and check. Sometimes the results can be shocking. But this is the point of the exercise. It's better to know than to "bury your head in the sand".
- Do you have a champagne lifestyle on a beer budget? If you are spending more than you earn, then you have to earn more and/or cut back on your spending.
- If you have an amount leftover, don't think you're work is done. There will be areas where you can make changes and save even more money.

The Next Step

Look at the big ticket items in your budget. How could you save money in these areas? For example:

- The grocery bill is often a big ticket item. Do you take a list when you go shopping for food, do you shop once a week or end up doing lots of expensive little shops throughout the week? How much food do you throw out? Look at the cost of takeaway and dinners out – could you cook at home more often? Allocate a budget to food and try and stick with it each week.
- Can you get a better deal on your insurance? What about your phone? Put a day aside and call around and check to see if you can get a better deal. It could save you hundreds of dollars a year.
- What about your mortgage? Do you have an offset account in place to minimise interest paid? When was the last time you compared rates across the banks to make sure you are getting the best deal?
- Every now and then I carry a notepad and list what I spend on groceries and other items when I'm out shopping over the week. It can be quite eye opening when you realize an afternoon wander around the shops for nothing in particular has cost \$100! Try it sometime.
- Take a hard look at what you might consider to be essentials – are they really or have you just convinced yourself that they are?
- Track your spending by updating your budget every month. Keep receipts, make sure you add in any new items and update your bill amounts.

Budgeting isn't something you do once. It's dynamic and so you need to make it a habit.

Once you get on top of your spending and have money leftover you can start setting financial goals and planning for the future.

Cheers,

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