

Budgeting

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What is a budget?

Simply, a budget is a way of seeing if you are spending more than you are earning.

When most people think of a budget, they see something resembling the Government's annual budget, which is like a plan on how the Government is going to spend their money this year. Rather than asking you to work out how you should be sharing out your income across your expenses, your individual budget looks at how much you already spend on a weekly or monthly basis and compares this to how much you are earning. By doing this, you can see if you are spending more than you can afford, or set out saving goals if you have money left over at the end of the month.

Why should I work out a budget?

A budget is a useful tool to help you manage your money regardless of your financial situation. Working out your budget allows you to see how much money you are earning as well as how much you are spending, and where you are spending it. If you are struggling with money or are currently in debt, it will help you get on top of your finances and identify spending you could cut back on in order to start tackling these issues. On the other hand, if you are trying to save your money, a budget can help you work out how much you are saving each month, and could help you adjust your spending so you can reach these goals sooner.

Before you start

To work out your budget, you need to know exactly what you are earning and spending. First, you should decide whether you are going to work out your budget based on weekly or monthly figures. Next, you should get yourself organised. Make sure you keep your receipts and bank statements to work out your spending as well as payslips and P60s to keep track of your income. The Money Advice Bureau recommends keeping a spending diary, in which you keep track of everything you spend in a week,

including spending for special occasions such as birthdays and annual payments such as insurance.

Working out your budget

Your budget is worked out in three sections – your income, your expenses, and your balance, or the money you have left at the end of the month.

Income

Your income is any money you receive. In this section you want to include:

- Any money you are paid from a job – make sure you use the "net income" figure, which is the amount of money you earn after tax and national insurance has been taken.
- Money you get from benefits
- Anything you receive from your pension, if you have one
- Any other income, such as rent from non-dependents, child maintenance payments, any savings or investment repayments and gifts you receive

Do not forget to adjust these figures to you the time frame you are using to work out your budget – for example, if you are using monthly figures to work out your budget, make sure you use how much your job pays you per month rather than per week or year.

Expenses

In this section, you list everything you spend your money on. This is including any annual payments, such as insurance, necessities such as food and bills, and also luxuries, such as holidays or days out. The only thing you do not include in your expenses section at the moment is any debts you may have – if you do have debts, the purpose of your budget is to work out how much you have left at the end of the month to pay these off. Again, adjust your figures to fit the time frame you are using – if you are using monthly figures for your budget, make sure you divide your annual expenses by 12 to work out how much you'd pay into them each month.



Your expenses may include:

- Rent or mortgage, household maintenance, bills and food
- Insurances and pension contributions
- Child care
- Travel (for example, to and from work)
- Leisure (for example, holidays, days out, eating at restaurants or takeaways)

Your balance

First, work out your total income and total expenses from the individual amounts you have written down. Then, subtract your expenses from your income.

- Balance = Income – Expenses

If your balance is positive

You are earning enough to cover your spending, and after paying all your expenses you have money left over! If you have no debts to pay off, you can use your figure to work out financial goals for yourself, such as saving up for a car or a house, getting to a position to be able to start and support a family, or simply to increase your savings. It is always important to save some money, as you may find yourself relying on it in an emergency.

If you have debts to pay, you can use this figure to work out how much you can afford to pay back to your creditors (those you owe money to) each month. We will cover how to start tackling your debts in other articles about priority and credit debts.

If your balance is negative

You are not earning enough to cover your expenses. You can use your budget to see where you may be spending too much and where you could afford to cut back – for example, while you cannot stop paying your bills, you may be able to save money by cooking your own meals more or cutting back on leisure expenses. The Money Advice Service offers a Cut-Back Calculator to help you work out how much you could save by adjusting your spending.

Cutting back is not your only option – You could also look into your bills and providers to see if you can get a better offer with another company, avoid late charges by setting up direct debit payments for regular payments (but make sure you will have enough in your account to be able to do this) and making sure you are not paying twice for insurances. Some bank accounts or employers offer life, travel or contents insurance, so you should check for these and see if their coverage meets your needs, which could cut down how much you spend on insurance.

Review your budget

Don't forget to review your budget regularly, especially after making changes to your spending, a change in circumstance such as a pay rise, or when considering or starting on a long-term change, such as starting a family.

For more help

There are a number of free services that have resources to help you manage your money and can offer you advice or help either in person or over the phone, such as:

- Money Advice Service
- Citizen's Advice Bureau
- National Debtline
- Pay Plan
- Consumer Credit Counselling Service