Financial Foundations: Budgeting

A personal budget can be an empowering financial tool. By taking the time to work out your financial position, you are gaining the knowledge you need to take control of your money and work towards the financial future you deserve.

Our budget basics webinar looks at the three core elements of successful budgeting:

Planning – Spending – Saving

Planning

Simply put, a budget shows you what cash is available to you, the amount you spend and what’s left over. However, it’s what you use the budget for that really counts. Firstly you need to define your personal and lifestyle goals – and then use the budget to help you achieve them.

Once you have your plan – and know exactly what you want – you will need to work out how much money you have available using the concept of “cash flow”.

Spending

Spending never stops. One look at an average household makes it clear that there’s always a need to spend, even if it’s just to pay for everyday needs such as electricity, water, food, clothes, transport and more. Add to that, big ticket items which we desire such as a nice car, jewellery, vacation and more and you have an even higher level of spending.

There are a number of techniques that you can use to manage your spending and help you stick to your budget. One that gets overlooked though is to “plug the money leaks”. Rather than the big ticket items, the reality is that buying a sandwich for lunch every day of the week could actually be the thing that is causing you cash flow issues. And that’s why reducing ‘money leaks’ is an effective budgeting exercise.

For example, a new PC tablet could cost you hundreds of dollars. You may have either saved for it or bought it on the spur of the moment. Whichever way you did it, it’s only made a temporary dent in your budget. However, let’s look at buying takeaway lunch. Let’s say this costs an average of $15 per day. That’s $75 per week and $3,750 per year! This can add up to a substantial amount and the more of these ‘leaks’ you have, the less money you have to spend on your goals.
Referring back to the “cash flow” concept on the previous page, the first “cash out” that you should plan for in your budget is Saving.

When it comes to savings, there are three levels – or tiers – that you should consider:

- **Tier 1: Short-term savings**
  These are easily accessible and are used for things such as medical expenses or car repairs.

- **Tier 2: Medium-term savings**
  These can be locked away for longer periods of time and accumulated over time; and are used for things such as a house deposit, or overseas holiday.

- **Tier 3: Long-term savings**
  These are generally investments such as superannuation, shares and property.

**Tips for Good Saving Habits**

- **When allocating your pay, pay yourself before spending any money.** This ensures that you save some money before it potentially all gets spent.

- **Save an average of 10% of your income.** This is a good starting point for a savings plan, however if you can’t manage 10% start with something smaller but have a plan for when you will be able to start adding more. Your goals at a particular point in time will determine whether this is allocated to short, medium, or long term savings.

- **Your savings is not your spending money.** It’s important to view your savings differently – these are funds for your future dreams, not for your spending now.

Any information provided is of a general nature. Before making any decisions please ensure you seek appropriate professional advice to ensure it is appropriate to you.