

Household budgeting

Planning carefully is the best way of ensuring you keep control of your incomings and outgoings.

Setting yourself a clear personal budget will help you understand your finances better, plan for the future and make your money work for you.

A household budget will help you to answer two fundamental questions:

What can I afford to spend?

When you know what you are spending you can prioritise and change what you do with your income in order to stay within your means.

Do I spend more than I earn?

If you are regularly dipping into savings or running up debts the answer is 'yes'. Before you try to resolve this problem you need to first of all find out the size and extent of the overspend. Major overspending can lead to debt spiral and severe problems if not addressed.

Contrary to what you may believe, budgeting isn't all about restricting what you spend money on and cutting out all the fun in your life. Budgeting is about understanding how much money you have, where it goes, and then planning how to best allocate those funds so that you can avoid problems in the future.

Budget basics

On the surface it seems like creating a budget can be a tedious financial exercise, especially if you feel your finances are already in good order. You may be surprised at just how valuable a budget can be. A good budget can help keep your spending on track and sometimes even uncover some hidden cash flow problems that might free up even more money to put toward your other financial goals.

Creating a budget

A budget may be prepared simply using paper and pencil, or on computer using a spreadsheet program like Excel, or with a financial application found on the internet.

The process for preparing a weekly or monthly budget includes:

- Listing of all sources of weekly or monthly income.
- Listing of all regular and essential, fixed expenses, like rent/mortgage, utilities, phone.
- Listing of other possible and variable expenses like household food bills.

Determining your income

The first thing you need to do to work out your budget is list all the income for your household. Make sure that the amounts are realistic.

The list of your income should include:

- Wages or salaries for your partner and yourself. Put in your net earnings, that is, after deductions. This should be the amount you regularly receive. If the amounts are different each month, average them over three or six months.
- Any benefits you are paid, including child benefit and tax credits.
- Maintenance from an ex-partner for you or your children. Include any child support from the Child Support Agency.
- Contributions from other members of your family and any lodgers.

Assessing your outgoings

You will need to include both regular outgoings such as mortgage payments, rent, council tax etc and occasional expenses such as car tax, holidays, insurance etc. Gather together recent bills, bank statements, credit card statements etc to get a clear picture of your outgoings. It is always better to overestimate than underestimate expenditure.

Under outgoings, you should include:

- Housekeeping. Include realistic amounts for what you spend on food, toiletries, school dinners and meals at work, cleaning materials, cigarettes, sweets, children's pocket money and pet food.
- Housing costs. This should include mortgage or rent, a second mortgage or secured loan, buildings and contents insurance, service charges and life or endowment insurance cover attached to your mortgage.

- Council tax.
- Gas, electricity and water charges.
- Telephone charges. Travel expenses. Include both public transport and the cost of running a car such as road tax, insurance, and maintenance.
- Insurance that is not part of your housing costs (see above).
- Childcare costs.
- TV license and any TV rental costs.
- Clothing costs.
- Any other essential expenses, such as medical and dental expenses or support for an elderly relative.
- Money you should set aside for unexpected events and contingencies. This includes saving for things like the replacement of essential household goods when they break down.

Adjust your outgoings if necessary

Total your income and expenses – hopefully, you'll find that your income is higher. If so, you can decide what to do with your extra income, whether it's putting more money into savings or paying off a credit card.

If your expenditure exceeds your income, you are now in a position to see whether there are savings you can make. For example:

- Make a shopping list for household essentials and stick to it.
- Shop around to find the best prices for items you need.
- Packed lunches for yourself and family can save a considerable sum over a week.
- Review bill payment and see whether you can use direct debit to make savings and even cut out irregular payments that can be difficult to budget for.

- Review any existing credit arrangements to make sure you are not paying excessive interest rates for store or credit cards.
- Review your mortgage arrangements to see whether any savings can be made.
- Consider cancelling some magazine subscriptions.
- Limit the number of times you go out for social and recreational activities.

If your budget reveals that you are spending significantly more than your income you may need to consider seeking professional advice.

Review your budget each month

Revisit your budget each month to see if you've stayed on track or if you need to make further adjustments. If your financial picture changes significantly – for example, you get a pay increase or you are made redundant – you'll need to update your budget to reflect your new circumstances.

You may also find the following websites useful:

www.payplan.com

www.nationaldebtline.co.uk