

A man with short dark hair and a beard, wearing a blue denim jacket over a white t-shirt, is looking down at a tablet computer he is holding with both hands. He is standing in a modern, bright office or home workspace. To his left, there is a wooden shelf with several potted plants, including a snake plant and a succulent. In the background, there are more plants, a desk lamp, and a white desk. The overall atmosphere is clean, organized, and professional.

Guide to Personal Budgeting



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Do you want to feel more in control of your spending and saving habits? Do you want your hard work to result in a growing bank balance and investment portfolio?

Each year do you resolve to take control and more responsibility of your finances?

We've all done it. In January, you are excited about the year ahead and vow to start saving for that dream holiday or longed for home. You might buy a book on personal finance management to get up to speed but only make it past the introduction. Let's face it, reading about finances is not everyone's cup of tea. February comes and procrastination sets in.

In March, work gets busy. Suddenly it's November and Christmas is just around the corner – you can't cut back on spending now. And the cycle continues.

If this sounds familiar, **let's break the cycle now.** Improving your finances doesn't have to be a New Year's resolution.

It's critical for organisations to have effective budgets in place to make sure the business stays on course. Yet when it comes to our own personal finances, few of us have budgets. Let's change that right now.

What is a budget?

A budget is just a fancy word for a plan involving money. It's a plan for how you're going to spend your hard-earned income. Initially, you might want to know where you're currently spending and where you should be spending in the future. In an ideal world, you spend less than you earn, leaving a surplus or saving before more income comes in.

Common reasons so few of us have budgets include:

1. "It's boring and tedious".
2. "Too hard to wrap my head around".
3. "Nothing kills a good time like a spreadsheet".



Most businesses can afford to hire trained accountants (a different breed of people who enjoy number crunching) but you may not have this breed to work on your personal finances (unless you're related to one or happen to be one).

Effective budgeting isn't just about number crunching. In fact, focusing too much on the number crunching makes budgeting seem harder than it is, making it easy to slip into the "too hard" basket.

Budgeting is about setting up **your life priorities**. Understanding what's important to you, allows you to allocate more of your income in that direction - away from less important things. Taking control of your finances starts with tackling impulse and 'zombie' spending habits. Having a budget helps you keep spending in check, giving you guard rails to question your purchases.

Budgeting doesn't have to be hard or all about numbers. A simple mindset shift can help you get started. Many people overdo it at first and burn out – so treat it like a new habit or workout and keep it easy to begin with.





The 5 Rs of effective budgeting

What's an easy way to develop an effective budget, that won't have you making any more New Year's resolutions about finance?

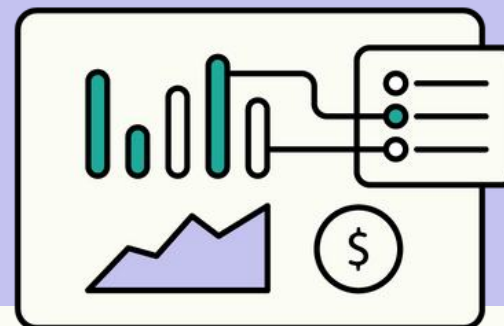
Simply follow the 5 Rs:

- Record
- Reallocate
- Reinvest
- Review
- Reward

Let's step through them. —————>

Record

First, understand your current cashflow by recording your income and expenses. But wait! Before you jump straight into your budget, there are a couple of things to think about.



Expense categories

To change your financial situation, understand how much you're spending on certain types of expenses. This means you need to categorise your expenses. Here are some common categories:

Fixed vs variable expenses

Fixed expenses are when you know the bill amount in advance, like mortgage repayments, rent and monthly subscriptions. Variable expenses aren't known until you receive your bill. Things like petrol, water and electricity.

Discretionary vs non-discretionary

Discretionary expenses are expenses you can do without but make life more enjoyable. Things you spend money on "at your discretion" like eating out, designer clothing or entertainment. Non-discretionary expenses are necessary. Think loan repayments, groceries and utilities. It's the discretionary expenses that get cut when times get tough.

Commonly used categories

While you can create your own categories, many budgeting applications and tools come with predefined categories, making it easy to use their system of categorisation.

Using these common labels can help you see how you stack up against other people when it comes to spending on certain categories and get some tips from them if you are spending more.

Number of categories

Creating multiple categories allows you to break down your expenses more precisely - it also means more work for you. A budget with 20 expense categories is harder to manage than one with 8.

Data input and ongoing recording

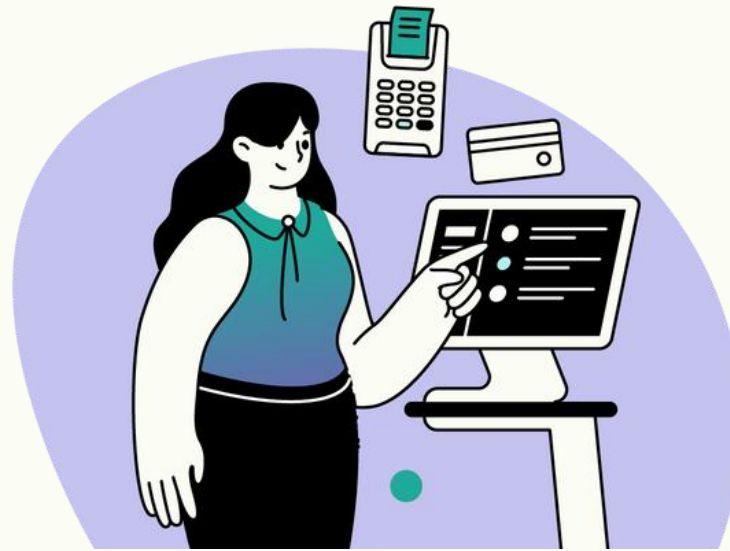
After expense categories are sorted, the next step is to add your financial info into your budgeting tool. There are two parts to this process:

1. The initial data input; and
2. The ongoing recording of expenses.

Data input

This process can be time-consuming if you don't have sufficient records. Here are a few tips to make it as easy as possible:

- Start with fixed expenses, such as mortgage repayments, as they're the easiest to remember and you should already know the amount.
- Next, add your non-discretionary variable expenses. These are bills you must pay each period, but the amount changes every time. Look at past bills to get an average for each expense.
- Finally, put in your discretionary variable expenses. Consider whether you want to keep spending that same amount in the future.



Use receipts, payment notices, credit card statements and bank statements to get this data. If you don't have any of these, just use your best guess. Remember, as you track your expenses, you can always adjust these numbers to be more accurate.

Once the data is in calculate the savings you've been able to achieve. As a sanity check, compare your calculated figure with your current bank account balance. You may have overlooked some expenses, so the calculated savings may be higher than the amount in your bank account. To keep your numbers accurate, enter the difference to an "unaccounted expense" category.

Now that all the results are in, how does it look? Are you surprised to see how much you spent on certain items? Are you happy with how much you saved? Thinking about these things can motivate you to make changes.

Ongoing recording

Now that you've pinned down your expenses, you'll probably understand why you might want a better tracking system from now on. Relying on memory or bits of paper is not ideal long term.

Here are a few simple rules for consistent ongoing recording:

- Keep a trail of records in a safe place that's easy to access.
- The fewer places you must go to retrieve records, the better.
- Make sure the record has all the info required to put into your budgeting tool.



The approach you choose may depend on your personal preferences for privacy and security. Do you exercise good discipline with credit cards, paying off your balance at the end of each month, avoiding interest and late fees? Credit card statements are an easy way to record your expenses.

Don't have or want a credit card? You could use your bank card to pay electronically for each purchase, which will provide you records in your online bank account and statements.

Prefer to pay cash? No problem, this is the method that people used before electronic payments took the world by storm.

Let us introduce you to the **"Shoebox method"**. Each time you spend money on something, keep the receipt somewhere safe (traditionally a shoebox, hence the name). When it's time to update your budget, simply pull out each receipt and enter the details into your budget tool. None of these methods are better than the others. It's what works for you that counts.

Reallocate

Hang in there, now we are getting to the good stuff! Once you're comfortable with the recording process and accuracy of your budget you can make changes to finally improve your finances.

Budgeting is often thought of as cutting back or reducing expenses. While many people use their budget for this, looking at it like this isn't the best way to motivate yourself. Try to think of it as reallocating your money towards things that are **important to you**. If an expense is crucial to your happiness and emotional well-being, then don't cut it. This is called a non-discretionary or non-negotiable expense.

Reviewing your expenses helps you see where you're spending money on things that don't bring you much joy or happiness. These are the prime candidates for reallocation.

Work out which expenses you want to reduce, by how much and by when. Imagine reallocating the savings from these to other expenses that mean more to you. Set a goal for yourself. Ease in, then challenge yourself more over time as you gain confidence.



Example of reallocating funds like a legend

1

After recording your expenses, it's evident you're spending an average of \$200 per week on takeaway (about \$50, 4 times a week). Sounds delicious!

2

This is just "zombie spending" that you do spontaneously, but you'd like to change this habit. You set a goal to reduce this amount to \$100 per week, only ordering your plates of deliciousness twice a week. That leaves you an extra \$100 a week to allocate to something more important to you.

4

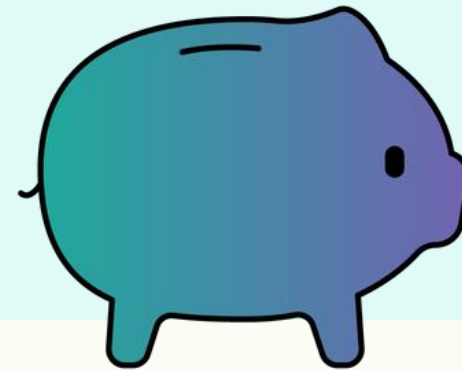
Keep doing this for expenses you want to target, and you'll soon have money in your pool to be reallocated.

3

You decide to make an effort to cook more so you won't order takeaway as often. You'll need to allocate more money to your "grocery" category, but since cooking at home is cheaper than buying takeaway, you'll only need \$40 a week, not \$100. You just saved \$60 a week!

Reinvest

This may come as a surprise, but budgeting is about more than just reducing your expenses and saving money. It's about investing in your future to build wealth and create a "rainy day" fund.



Investments

Are you using some of your money for savings and investments?

By making smart moves to grow your money, your future-self will thank you. You'll have options down the track such as enjoying a better lifestyle or supporting loved ones and causes you believe in. Within your budget, money can go towards:

- **A regular investment plan:** Invest your savings rather than leaving them in your bank account, and watch the funds grow. This can be highly motivating, not just because you're growing wealthier but you're also building your investment knowledge - a very valuable life skill!
- **Superannuation:** Super is a more tax-effective way to save for retirement. Contributions from your employer may not be enough to enjoy a comfortable retirement, so you may want to add to your superannuation yourself.

Career

Are you using any of your money to improve your career prospects?

Advancing your career can boost both personal and professional satisfaction – and increase your earning potential. Within your budget, money can be allocated to:

- Training and education to improve your skills and knowledge.
- Coaching and mentoring from an experienced expert or professional to help you navigate the rough and tumble of organisational politics and the important career decisions.

Debt reduction

Are you using some of your money to reduce your debts? Debt eats into your future income, so paying it off is a great way to build real wealth. Upping your repayments means less interest and fewer money worries down the track.

Financial protection

Have you set money aside for “just in case” scenarios like an emergency or unexpected event? You may think you don’t need to but remember they’re called “unexpected” for a reason.

Examples of when to expect the unexpected:

Your car breaks down and you take it to a mechanic, who tells you that repairs will cost \$5,000.

Maybe you see moisture coming out of your bathroom wall and call a plumber – that’ll be \$10,000 to fix your leaking pipe thanks!

Emergencies can also be medical. Perhaps you have an accident and won’t be able to work for at least 12 months. Or you need treatment, but it’s not covered by Medicare or your private health insurance and the gap is \$30,000.

Can your finances cope? If you’ve planned ahead, the answer is probably yes. If not, you may be adding financial stress to an already stressful time.

There are things you can set money aside for to cover unexpected events:

- A **cash reserve** you can draw from for unexpected expenses like repairs. This money sits in a high-interest bank account that’s readily accessible. The rule of thumb is to have 6 months’ worth of living expenses in your emergency fund.

Personal insurance, which is payable depending on the event:

- **Life insurance** pays your beneficiaries a lump sum if you pass away. This is especially helpful for your loved ones if you have a mortgage and/or financial dependants.
- **Income protection insurance** pays you an income stream if you become disabled and can’t work. This comes in handy if your disability lasts longer than what your sick leave and cash reserve can support.
- **Critical illness or trauma insurance** pays you a lump sum if you’re diagnosed with an illness or medical condition. You can use this money to pay for medical treatment and take time off work to recover.

Professional advisers

Are you spending money on professional tax and investment advice?

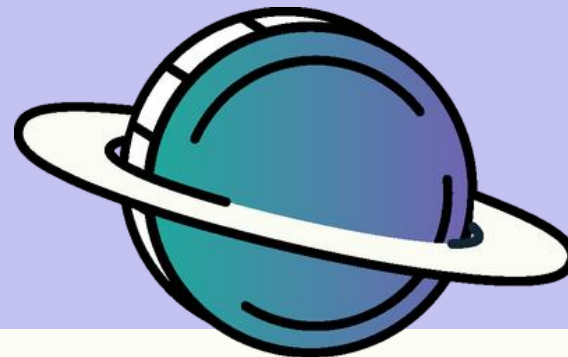
Unless you work in these professions or know people who do, chances are you're missing out on a lot of useful strategies to improve your financial position. Within your budget, this money can be spent on things like:

- Subscriptions to newsletters, technical guides, tools and resources.
- Books, eLearning, seminars and webinars from experts.
- Professional advice from an accountant, tax adviser or financial adviser.



Review

If you want to improve your finances, checking in on your goals regularly keeps you focused and in control.



Using a computerised system allows you to automate the reporting and tracking. If you go down the manual route, set aside some time to calculate and review your totals. How frequently you review your budget depends on the period you chose (weekly, monthly, etc.).

Here are some things to look for when reviewing your budget:

Expenses

- How do your actual expenses compare to your budgeted expenses?
- Is there a significant difference (or variance)? What's the reason for the difference?
- Do you need to adjust your plans for the remaining months of the year?

Investments

- What's the balance of your investments?
How much has that number changed by?
- Have your investments performed well?

Cash reserve

- What's your cash reserve balance? (the emergency/unexpected events pool)
- If you can no longer earn an income, how long will your savings last?

Debts

- How much has your loan balance decreased by?

Reward

Now you've set up a budget and regularly tracking your progress, it's time to reap the rewards!

Go you - you're finally achieving your resolutions! That's something to celebrate. Not only does celebrating your wins and rewarding yourself help you feel good – it builds your confidence and motivates you to set more, larger goals in the future.

When you succeed, take time to reflect and reinforce your direction. Celebrating helps achieve this. When you achieve a goal, celebrate and reward yourself. Even better, get someone else to reward you! Share your goals and celebrate with friends and family once you've hit those milestones.

Budgets rule!

The cornerstone of a healthy financial life is a good budget. Now that you understand the 5 Rs, you're ready to set up a solid budgeting system, improve your financial health and achieve your priorities.

It's time to get started. Let the next round of New Year's resolutions be totally finance-free, because you already have that sorted.





**Let's break the cycle now.
Improving your finances
doesn't have to be a
New Year's resolution.**



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