Topic 6

Develop and use a personal budget

Learner Guide

Contents

FNSFLT201 Develop and use a personal budget

Unit of Competency

Application

This unit describes the skills and knowledge required to develop, implement and monitor a personal savings budget. It has wide application and may be used in workplaces, schools, adult and community learning organisations or registered training organisations to build the financial literacy of learners. The unit may also be used as part of pre-vocational or new apprenticeship programs, or as part of services provided by counselling or advisory organisations.

Performance Criteria

Element	**Performance Criteria**
Elements describe the essential outcomes.	*Performance criteria describe the performance needed to demonstrate achievement of the element.*
1. Identify and discuss budgeting as a financial tool	**1.1** Identify and consider role of budgeting in lives of different groups and importance of budgeting appropriately to meet expenses at different stages of life **1.2** Discuss importance of setting financial goals **1.3** Identify and discuss obstacles that might prevent financial goals being achieved, and types of behaviours and skills required for successful budgeting
2. Prepare to develop a personal budget	**2.1** Record all income and expenses for a six month period to assist in estimating expenditure requirements **2.2** Obtain or develop budget spreadsheet to record income and expenditure for relevant period of time **2.3** Identify and list all sources of income, regular fixed expenses and variable expenses for specified in personal budget using budget spreadsheet
3. Develop a personal budget	**3.1** Subtract total expenses recorded from total income to determine surplus or deficit budget for specified period **3.2** Explore reasons for deficit budget if relevant and investigate ways to reduce expenses or increase income **3.3** Explore allocation of surplus funds towards saving and meeting identified financial goals
4. Implement and monitor the personal budget	**4.1** Follow budget according to plan for a period of time **4.2** Record actual expenses and income for period during which budget is implemented **4.3** Compare budgeted expenses and income with actual amounts and modify budget where necessary **4.4** Discuss handy hints for managing personal budget **4.5** Conduct ongoing review of budget to ensure it remains relevant and to ensure updates are incorporated if necessary

Assessment Requirements

Performance Evidence

Evidence of the ability to:

- Prepare a budget spreadsheet
- Calculate interest and loan repayments, and surplus or deficit funds
- Prepare, implement and monitor a personal budget

Note: If a specific volume or frequency is not stated, then evidence must be provided at least once.

Knowledge Evidence

To complete the unit requirements safely and effectively, the individual must:

- Explain the purpose, key principles and benefits of budgeting
- Explain the importance of setting financial goals
- List obstacles to achieving financial goals
- Describe different stages in life and how financial goals may change
- Describe the behaviours and skills needed to adhere to a budget
- Explain the difference between fixed and variable expenses
- Describe the role of credit and savings in managing a budget and establishing personal wealth
- Describe the role of financial institutions and their savings products to assist with managing a budget

Chapter 1: Identify and discuss budgeting as a financial tool

Identify and consider role of budgeting in lives of different groups and importance of budgeting appropriately to meet expenses at different stages of life

Budgeting

Managing personal finance can be challenging for many people. For one thing, it involves using numbers which many people find difficult. However, there are some basic guidelines that can be used to make the process easier and less frightening.

A budget is simply an overview of how much money is coming in compared with what's going out on essentials (such as rent, food and fuel) so that you can see how much is left over for spending on other, non-essential things. It need not be complicated and this guide will give you some tools and tips to help you set up and manage a personal budget.

It is very easy to slip into debt. This occurs if more money is being spent than is being earned. This cannot be maintained over a long period of time without falling into serious financial difficulties. Once in debt, the only way to get out of it is to carefully manage all income so that the essentials can be covered whilst paying off the debt a little at a time. This means that spending on any non-essential items such as clothes, holidays and entertainment needs to be limited while the debt is being repaid.

Different groups of people

Different groups of people have different spending priorities and requirements at different stages of their lives.

Let's take a look at the following groups of people:

- Families
- Governments
- Individuals
- Elderly
- Married or unmarried
- Students.

Families

Families come in all shapes and sizes and will include one or more adults and one or more children. Their spending priorities are typically focused on providing a safe and warm home, food and clothing for the children (who grow very quickly). Children are delightful, but they are expensive too! However, there are some tax 'breaks' available for families. It is important for a family to have a budget so that they can manage their spending in line with what they are earning. If they spend more money than they are earning, they will very quickly find themselves in debt. Managing within the budget is what we call 'living within our means' or, in other words; living a lifestyle that we can afford. Many families can get into financial difficulty because they could not resist the latest TV, mobile phone, expensive car or holiday without really being able to afford it. This often leads to debt which can be expensive to repay. A budget helps the family to understand what it can and cannot afford and helps to avoid falling into debt.

Governments

Governments have an income that comes primarily from taxes and there needs to be a budget which sets out how the government money is spent across a wide range of public services such as education, health, housing, transport and defence. At government level, the role of the budget is to set out how much money is coming in from taxes along with other sources and how much they can afford to spend on the public services. Where there is a drop in income from taxes (e.g. in periods of high unemployment), then there is less money available for public services meaning budgets are cut and spending is reduced on some areas. This is why we sometimes see 'spending cuts' in areas such as education or defence. If there was no budgeting in place, there is a risk that spending could become out of control where money is being allocated to public services which the nation simply cannot afford.

Individuals

Individuals have the same types of outgoings as families on things like rent, food and fuel. However, they may not have others who are financially dependent upon them and so this may make their personal finances slightly simpler in that they do not have to account for the costs of replacing outgrown clothes and shoes, entertainment and treats. Otherwise, the same principles apply as for families in terms of the importance of using a budget to manage their personal finances.

Elderly

The elderly may have different circumstances from families and individuals in that their income may be from a pension, a retirement plan or from investments made earlier in their lives. They may also still be working and have an income from that. Depending on their circumstances, they may spend a lot of time at home and this may impact on their energy use and so they might have higher fuel bills. Of course, everyone's circumstances are different and some elderly people may enjoy a very active retirement, taking many holidays and enjoying expensive hobbies! The role of budgeting for the elderly is the same as for all the other different groups: knowing how much money is left over after paying for their essentials so that they know how much they have available to spend on other things like presents, trips to visit family and taking holidays.

Married or unmarried

Married or unmarried people will benefit from budgeting in the same way as the other groups of people discussed here. There may be some tax advantages of being married but taxation limits and rules are often subject to change so it is worth checking the rules if you are considering a change in marital status.

Students

Students are in an unusual situation in that their income is typically very low (or even zero) and yet their outgoings on university tuition fees and living expenses can be high. Over the period of their study, students can incur high levels of debt but the Higher Education Loan Programme exists to enable students to pay for their studies and cost of living expenses and then repay this loan over an extended period of time when they are later in employment. Budgeting is a useful tool for students as, again, they can use this to calculate how much money they have left over each week, month or term so that they know how much they can spend on things like nights out, entertainment, takeaway food and clothes.

Different life stages

Budgeting can take on more or less significance depending on the different life stage being experienced at the time. Someone approaching retirement will have very different priorities from someone who is just starting a family, for example. Budgeting helps to plan for and manage the financial aspect of different life stages so that it is clear how the income is allocated and what is left over that can be spent or saved. An elderly person in retirement may have no saving plans for the future whereas a young couple just starting a new home together may have very clear savings goals to enable them to furnish the house.

The different life stages that we may experience include:

- Approaching and during retirement
- Buying your first home
- Moving out of home
- Starting a family
- Studying.

All of the above life stages have their own unique spending priorities and it is important to identify what these are for you and to include this in your budget plans.

Discuss importance of setting financial goals

Importance of goals

Goals are important in any aspect of life, whether they are related to your:

- Education
- Career
- Finances
- Personal fitness
- Lifestyle.

A goal gives a target to aim for. Research has shown that people are more likely to achieve their dream job if they set a clear goal at the beginning of their career, for example. A goal focuses the mind and directs our attention towards achieving it.

Example

A man who wants to be able to run 10km in under an hour has set himself a clear target. Each time he runs 10km, he can measure how close he is to achieving the goal. Let's imagine that this man is slightly overweight and unfit so he has to start gradually, building up the distance and his stamina as each week progresses. In week one, he was maybe barely able to run 1km but with focus, regular exercise and a good diet, he may find at the end of week 12 that he can comfortably run 4km without tiring. The more he practises, the fitter and faster he becomes and the better he feels. Over time, the goal feels more and more achievable. Having that goal focuses his mind on what behaviour he needs to adopt. When he feels like stretching out on the sofa in front of the TV with a lager, having the 10km goal is a way of motivating him to avoid that unhelpful behaviour and focus on behaviours that will help him achieve his goal.

Financial goals

The same principle applies to having financial goals. A financial goal enables us to focus on what behaviour and habits we need to adopt in order to achieve it. For example, if the goal is to save up for the deposit on a first home, a person may decide that they are going to cut out all unnecessary spending. They may decide to cut out the takeaway coffee that they usually have on their journey to work. Let's say the takeaway coffee costs $4 each day, that's $20 per week, or $80 per month. Over the course of 3 months, that's a saving of $240 that could be put towards the larger goal of saving for a deposit.

By having a financial goal in place, it enables you to identify what you are aiming for so that you can work out what changes you need to make to your current financial habits in order to achieve them.

The types of financial goals that people may have include:

- Accumulating a set amount of money by a specified date in the future for the purpose of:
    - purchasing assets
    - financing holidays, educational expenses, home renovations and other known future expenses
    - establishing a deposit for an investment, such as a home or investment property
- Aiming to repay existing debts and be debt free
- Establishing a regular savings plan
- Handling income and expenditure responsibly and avoiding financial difficulties.

Identify and discuss obstacles that might prevent financial goals being achieved, and types of behaviours and skills required for successful budgeting

Obstacles

Having a clear financial goal is an essential step, but just having the goal in place does not mean that it will be easily achieved. Realistically, obstacles may get in the way, as might our own habits and behaviour. For example, if someone sets themselves a financial goal to save $2500 over the next 12 months in order to pay for renovations to their home, this will be at risk if the person loses their job. That is quite an obvious obstacle. A less obvious obstacle is the person's own habits and behaviour. If they set themselves this goal and then do absolutely nothing to save a small amount of money each month then there is a very low chance of them saving the $2500 that they require.

Obstacles which can get in the way of achieving financial goals may include:

- Being unemployed, particularly long-term unemployed
- Insufficient income to afford items that are beyond the individual's means
- Unexpected circumstances, such as:
  - losing a job
  - falling ill
  - not being able to work.

Unemployment

This is a very challenging obstacle which can prevent the achievement of financial goals. Income during unemployment is very limited and expenditure can be high due to the cost of transport to and from interviews**,** the costs associated with looking for work and the regular day-to-day living expenses. Financial goals during unemployment need to be realistic. It would be unrealistic and potentially very demotivating for an individual to start saving for a holiday when they have credit card debts, for example.

Overcoming this obstacle might include some or all of the following:

- Intensive job search activity
- Training or retraining
- Seeking work experience opportunities (paid or unpaid)
- Voluntary work to gain experience and maintain self esteem
- Careers guidance
- Further education.

In addition to the above steps, it would be wise for an individual in this situation to take stock of their financial affairs and to prepare and work to a personal budget. This would ensure that they could take control of their finances and make the best use of the limited funds available. Then, when work does become available, they will be in a much better financial position than if they had allowed debts to build.

Insufficient income

Everyone could claim that they don't have enough income! An old fashioned phrase is 'live within your means'. In other words, if you can't afford it, don't have it. We are constantly bombarded by advertising tempting us to buy. Shop windows, press and on-line adverts, newspaper and magazine articles are all used to encourage us to spend and we can become trapped in an 'I want it now' frame of mind. Unfortunately, if we can't afford it, we shouldn't have it, or we should save up for it. There have been many stories over the years of people who have found themselves in serious debt to the tune of tens of thousands of dollars. The root cause of this is spending beyond their means; spending more money than they earn. This might give people a buzz at the time of the spending, but it cannot be sustained over a long period of time and can lead to long term financial difficulty.

A helpful mindset is to recognise one's spending limits and to live within your means. We can all dream of owning a fabulous brand new sports car, for example. However, if it would realistically take 20 years to save up for such a car, then maybe the best option is to revise the financial goals to something that is more achievable. So instead of the top-of-the-range sports car, the goal might be about saving enough to buy a mid-range one instead.

Unexpected circumstances

Even with the best-laid plans, things can always happen in life to upset the balance. Losing a job, falling ill and not being able to work are examples of the sorts of things that can happen which would get in the way of achieving one's financial goals. Imagine someone was saving money so that they could retire to a small house by the sea but then they find that they are going to be made redundant; this would seriously impact on their ability to continue saving as before. Similarly, if someone was to become ill for a period of time, or became unable to work for a variety of reasons, this would impact on their income and therefore their ability to achieve their goals.

When the unexpected happens, it is very important not to panic. Developing a personal budget is a very effective way of regaining control in a situation where it feels that all control has been lost and this can enable the person to get back on their feet and either revise their original financial goals or find ways of still achieving them despite their change in circumstances.

Behaviours and skills

Some core behaviours and skills are essential for successful budgeting and financial management. Someone who is undisciplined and has no idea what they spend their money on is unlikely to be successful at managing their personal finances. Likewise, someone who never reads their bank or credit card statements is not keeping themselves up to date with their current finances and they will struggle to achieve their financial goals.

The behaviours which help with successful budgeting include:

- Controlled spending
- Disciplined approach to money
- Organisational skills
- Record-keeping skills.

Controlled spending
A simple example of controlled spending might be:

"When I go to the supermarket today, I'll spend no more than $50."

This focuses the mind and prevents the person from picking up impulse purchases which may not cost much individually, but it is easy to add $20 of goods in your shopping trolley that you don't really need. A strict spending limit makes you focus on what you really need.

Another example might be leaving the credit card at home so that easy, impulse purchases can't be made on the way to and from work.

Disciplined approach to money

We say that money does not grow on trees and that it can slip through our fingers like water. Some disciplines and rules are necessary to prevent us from letting it slip through our fingers. Having a rule that if you see something you want to buy, you make yourself wait 24 hours before doing so is one way to have a disciplined approach. It gives you some thinking time to work out if you really do need and can afford the item. In many cases, you'll forget about the item.

Organisational and record-keeping skills

It's very difficult to get on top of your finances if some of your bank statements have fallen down the back of the TV, some are still unopened in the kitchen drawer and some are lying around on top of a shelf. It's important to have a place for keeping all your financial paperwork.

This paperwork might include:

- Bank and credit card statements
- Utility bills
- Loan agreements
- Receipts
- Savings account paperwork
- Pensions paperwork.

By keeping this paperwork filed neatly in an appropriate place, it is easier for you to update it when new statements and bills arrive and to find information when you need it. It is also a good idea to file the paperwork according to its category, so all your credit card statements are all together, as are the bank statements. When you need to produce financial paperwork when taking out a mortgage or other loan for example, you will be able to do this much more easily than if your paperwork has been thrown out, mislaid or eaten by the dog!

Another useful organisational skill is making a note of when key expenses are due to occur. If you are expecting a bill every January for servicing on your car, for example, it's a good idea to have a reminder of this in a filing system somewhere (in a diary, on your phone or computer, perhaps). This then reminds you when the payment is due so that it isn't a surprise when it comes. This is less of an issue with regular monthly payments, but for annual or other one-off payments, it is easy to forget when they fall due and they can catch you by surprise if you have forgotten about them. Getting a little more organised helps you to remember and avoid being caught out by these unwelcome surprises.

Chapter 2: Prepare to develop a personal budget

Record all income and expenses for a six month period to assist in estimating expenditure requirements

Preparing a budget

The basic information needed when preparing a personal budget is:

- What money you have coming in – your income
- What money you have going out – your expenses.

When preparing a budget, six months' information is usually enough although you could review a whole year to ensure you don't miss any one-off, annual expenditure such as subscriptions and other annual bills.

Calculating your income

You may have income from a number of different sources:

- Paid employment
- Social security benefits
- Interest on savings and investments.

Paid employment

You can work out your income from paid employment over a six-month period by collecting your pay slips and filing these in order. If you are paid in cash, keep a record of how much you are paid each week or month. This is especially important if the hours you work vary from week to week, or if part of your income comes from bonuses or tips.

Social security benefits

Any income you receive from benefits will be recorded in writing when the relevant organisations write to you confirming your entitlement. Keep a note of these amounts and when they are paid.

Interest on savings and investments

You may receive an annual statement telling you how much you have received and when. You should add this to your calculations.

Calculating your expenses

This is potentially more tricky than calculating your income as this usually involves many more transactions or exchanges. Expenses will be examined in more detail in Chapter 2.3. It will be useful for you to record what you spend your income on to help with preparing your budget.

You can do this using the following information:

- Bank and credit card statements
- Receipts for purchases
- Rent book/mortgage paperwork
- Utility bills.

Some small purchases can go unnoticed if they are paid for in cash. It is very easy for $20 to disappear as if by magic and you are left wondering what you spent it on! A useful tip is to keep a small notepad or use a notebook feature on your mobile phone to make a note of every single purchase you make, no matter how small. This may sound like a lot of unnecessary work and effort, but if you don't know where your money is going, how can you take control of it? Your bank statement may show that you have withdrawn $500 in cash every month, but if you have no idea what you have actually spent that on, it will be very difficult for you to assess where your money is going, and more importantly, take control of it.

With six months' information about your expenses, you are then in a good position to develop your personal budget.

One of the benefits of a personal budget is that it enables you to predict expenses that are coming up in the future. Some things that we pay for once a year can catch us out if we haven't planned for them. So if the car insurance, three important family birthdays, an annual subscription and a holiday all fall in one month and we haven't planned for the additional expenditure in that month, it can leave us at risk of falling into debt. Other routine expenses will occur every month; we will have to pay for transport, fuel, food and rent every month. By having a close watch on those items, we can reasonably predict what those things are likely to cost in the next six to twelve months so that we can budget accordingly.

Obtain or develop budget spreadsheet to record income and expenditure for relevant period of time

Spreadsheets

A spreadsheet is a computerised document which lists all of your income and expenditure for a period of time. It is a very useful tool for recording budget information. After the initial effort required to set it up, it is very quick and easy to update and to analyse the information.

You may need to develop a spreadsheet of your own, or you may be able to work with a template provided elsewhere. There are many examples of personal finance spreadsheets freely available online or you may ask someone you know for a copy of the template which they use. You will need access to a computer and to a spreadsheet program. You may need to be shown how to set up and work with the spreadsheet.

Your spreadsheet may:

- Be simple or complex, depending on your financial arrangements
- Have one section for recording all money received as income and another section for variable and fixed expenses
- Have a section to record the difference between income and expenses for the period, this being the surplus or deficit financial situation for the period.

The benefit of having a spreadsheet is that you can calculate a budget for each month which takes into account how much you are earning and how much you spend. Without having to do the arithmetic yourself, it will calculate how much money is left over each month (i.e. the 'surplus') or how much debt you might have (i.e. the 'deficit').

Once the spreadsheet is set up, it takes minutes to update it with your actual figures for a particular month, as long as you have those details to hand. You can also add new categories as they arise. If you decide to adopt a stray kitten for example, you might add a category to the spreadsheet to cover items such as cat food, vet bills and insurance.

Each month, you should update the information on the spreadsheet so that you build a comprehensive picture of your finances over a period of time. This way, you can see a historical picture of your income and expenditure. Although your income may stay the same each month, it is likely that your expenditure will vary; some months you may pay for a holiday or have work done on the house or car. The historical picture will help you to predict what you are likely to spend in the future. For example, if a holiday cost $1200 in April, it's possible that you would spend a similar amount around the same time of year next year. If you know that's coming up in the future, you can plan how to have the money available to pay for it. This is what budgeting is all about; enabling you to plan for the future to make sure that you have enough money to pay for the things that you need and want.

Identify and list all sources of income, regular fixed expenses and variable expenses for specified in personal budget using budget spreadsheet

Income and expenses

The spreadsheet needs to be filled in with a range of different items as follows:

- Income
- Fixed expenses
- Variable expenses.

Income

Your sources of income may be very straightforward or they may be quite complex. For most people, income consists only of the wage earned from employment, or it may be in the form of regular social security benefits.

However, you may find that you have a combination of some or all of the following sources of income:

- Wages, commission, bonuses and tips
- Interest on investments and dividends
- Proceeds from sale of assets
- Social security benefits, pensions, allowances and child assistance.

It is important to consider all your sources of income. If the figures are incorrect, it will affect the budget calculations and you may think in error that you have either more or less money than you think.

Fixed expenses

Some expenses are fixed; they are the same every month. These may vary from one year to another, but they will generally remain constant. These are easy to predict for the future because they stay pretty much the same each month.

Examples of fixed expenses include:

- Fees, such as:
    - bank fees
    - school and university fees
- Insurance
- Loan repayments if loan is based on fixed interest rates, such as:
    - car loans
    - credit card debts
    - Higher Education Contribution Scheme (HECS)
    - personal loans
- Public transport
- Rates
- Rent
- Subscriptions to:
    - magazines and newspapers
    - clubs

- travel, including public transport and petrol.

Variable expenses

Variable expenses are different from fixed expenses in that they vary from month to month. You may find that the amount you have to spend on car maintenance in one month is zero, but in another month you find you have to spend $500 to pay for some repairs to your car. These are harder to predict but it is important to include these in your budget calculations. One of the benefits of keeping a spreadsheet up to date is that you can look back in your records to see what an item cost last time and use this to forecast or predict, as accurately as you can, how much it may cost you in the future.

Examples of variable expenses include:

- Car maintenance
- Living expenses, such as:
    - food
    - clothing
    - medical
- Loan repayments, if loan is based on variable interest rates
- Miscellaneous expenses, such as:
    - gifts
    - recreation
    - entertainment
    - fines
- Mortgage repayments
- Utilities, such as:
    - water
    - gas
    - electricity
    - telephone.

You can control the variable expenses in a way that you can't with the fixed expenses. If your rent costs $1350 per month for example, you can't really do anything to alter that, except for moving to a new home. However, you can take steps to vary how much you spend on electricity, entertainment and gifts. It is in the variable expenses that you can make savings and adjustments depending on what you can afford. If your budget is showing that you are likely to fall into debt in three months' time if you spend $200 per month on recreational activities, you are able to take steps to either reduce the spending in other areas or cut back on the recreation to avoid a deficit budget situation.

Chapter 3: Develop a personal budget

Subtract total expenses recorded from total income to determine surplus or deficit budget for specified period

The budget spreadsheet quite simply compares how much money is coming in with how much money is going out, giving a balance for each month. The balance tells you the difference between the two figures. Ideally, you are looking for a balance of more than $0 to avoid debt.

Take a look at the following examples.

Example 1

Total Income	$3000
Total Expenses	$2750
Balance	$250

Example 2

Total Income	$3000
Total Expenses	$3125
Balance	- $125

In both examples, the balance has been calculated by subtracting the total expenses from the total income giving either a positive or negative number.

In Example 1, the balance is a **surplus** balance of $250. This means that $250 is left over each month after all the fixed and variable expenses have been paid. This money can be spent, saved or allocated to a new variable expense such as clothing, furniture or a holiday.

In Example 2, the balance is a **deficit** balance of $125. This means that the person has spent $125 more than they have coming in, putting them into debt. If this continues over a period of a few months, the debt will grow. In 3 months, it would be $375; in six months it would grow to $750.

A deficit is manageable for a short period of time. If you predict a deficit in March due to paying for a holiday, for example, this is acceptable if you know that you will have a surplus in the following months to cover that deficit.

One of the great benefits of creating a personal budget is that you can predict where the difficult months will be and take steps to manage your money well. If you know that March is going to be a tough month, for example, then you can take steps in the months leading up to and beyond March to ensure that you have enough money for the things that you need.

When the balance for each month has been calculated, it is then possible to work out how the money left over (or in debt) will carry forward to the next month, so it is necessary to calculate the 'cumulative balance'. In other words, you can see how the monthly balances will behave over time by adding each month's balance to the previous month's.

Take a look at the following example:

Month	1	2	3	4
Income	$2973	$2973	$2973	$2973
Expenses	$2611	$2801	$3479	$2750
Balance for Month	$362	$172	- $506	$223
Budget	$362	$534	$28	$251

Here we can see that the balance for Month 2 was added to the surplus budget from Month 1, giving an available budget of $534 at the end of Month 2. This reduces to $28 at the end of Month 3 as the expenses were higher than the income. It then increases to $251 in Month 4 when the expenses are reduced.

This type of information shows when there is an imbalance between spending and earnings and it highlights those months when efforts may need to be made to reduce expenses or increase income. It also shows the months where there is a surplus so that money can then be put aside for saving.

Explore reasons for deficit budget if relevant and investigate ways to reduce expenses or increase income

Deficit budget

Where a deficit budget exists (or can be predicted), steps can be taken to investigate the reasons for this and then spending can be reduced where necessary.

There are many reasons why a deficit budget may arise, including:

- 'Expensive' months when several large bills have to be paid
- Unrestricted/undisciplined spending
- Spending more than can be afforded
- Unexpected expenditure (repairs and replacements)
- Unexpected drop in income.

Some of these reasons you can do nothing about. There is little you can do about large bills which fall due for payment in the same month (except for plan for them!). However, if the deficit is due to undisciplined spending or poor spending habits, then it is possible to take action to rectify this. Similarly, if you are unfortunate enough to experience an unexpected reduction in your income, then you know that this will affect your budget and you can take control of the situation and take steps to reduce your spending where you can.

Ways to reduce expenses include:

- Comparing prices for essential items
    - this can be very easy to do online and just by paying attention to the prices of the same/similar items from different outlets
- Monitoring use of utilities
    - keep a check on the consumption of gas and electricity for example, and take steps to reduce your bills by lowering the temperature in the home and switching off appliances when not in use
- Moving back home
    - this will reduce your expenditure on utilities

- Reducing expenditure on discretionary items, such as expensive clothing, magazines and eating out
    - this is one of the simplest ways to reduces expenses and requires the sacrificing of non-essential luxuries
- Sharing accommodation
    - this will also reduce your personal spending on utilities as the bills can be shared
- Using cheaper modes of transport
    - cycle to work instead of taking the car, walk instead of taking a bus or make use of season passes for public transport.

Expenses can only be reduced to a certain level. You still have to eat and you still have to have energy in your home. Whilst it is possible to reduce these as far as you can, you may still find you are in deficit in which case you need to find ways to increase your income.

Ways of increasing income include:

- Combining part-time work with studying
- Investigating eligibility for student allowances or other relevant government benefits
- Taking on a part-time job or holiday work.

When you can predict a deficit budget in your personal finances, it is important to take action to deal with it. It will not go away if it is ignored. In fact, if it is ignored, the problem will only get bigger, taking you further and further into debt. A deficit budget is not a disastrous situation if it is approached calmly and with a clear head. By having good information about your income and expenditure, you are able to objectively analyse your finances and make good quality decisions about savings that you can make when you need to. It's all about taking control!

Explore allocation of surplus funds towards saving and meeting identified financial goals

Reviewing allocation of surplus funds

When your budget shows a surplus it is a good idea to move that money to a savings account. If it remains in your general bank account, there is a danger that it will be slowly eroded. It is tempting to have a mindset that 'I can afford this as I have money left over this month'. However, if you are saving to meet a larger financial goal such as saving for a deposit on a house, car or holiday, then putting aside a small amount every month is one of the most effective ways of achieving your larger goals.

Developing a good 'savings habit' is important for financial security.

Savings have a number of benefits, including:

- They help you to achieve your larger, longer-term financial goals
- They give you a financial 'cushion' if unexpected expenses occur
- It's motivating to see your money grow
- It helps you to feel in control of your finances.

Your 'leftover' money at the end of each month may be allocated to several different places, including:

- A general savings account
- A savings account which is for a specific purpose
- Paying off debts.

As part of your budget planning, it is useful to work out how much surplus you have in each month and to decide where it is going to go.

You may ask yourself some of the following questions:

- Do I have any debts to pay off? If so, paying these off should be a higher priority than saving as it costs more in interest to have the debt than you would earn on interest on a savings account.
- Do I have a big enough 'emergency fund' to cover unexpected expenses? If not, it is a good idea to put some money aside to cover for these eventualities.
- Am I saving for something specific? If so, it's very motivating to have a clear financial goal and to see your progress towards that goal each month.
- Am I saving in general just to prevent any surplus from being wasted? It's a good idea to take your surplus and put it somewhere that you can still access, but it's not so easy to get to that it can be spent on unnecessary items.

When reviewing your budget, it is useful to check what you are doing with any surplus funds and to make sure that you are making the best use of these. In one month, you may find that you have a higher surplus than expected so you may decide to put more into a savings account that month which will enable you to achieve your financial goals more quickly. On the other hand, you may find that the surplus is lower than you expected and so you would adjust your savings to take account of that. By reviewing how you allocate your surplus funds, you can be flexible in your savings or debt repayments so that you increase or decrease the amounts depending on what you can afford.

Finally, it is worth repeating that paying off any debts should be a higher priority than putting surplus funds into a savings account. Debts typically cost more in interest than your money would make in a savings account and so it is wise if any surplus money is used to pay off debts on credit cards and bank loans.

Financial institutions such as banks, credit unions, and other financial service providers offer a range of savings products that can help individuals manage their personal budgets. Here are some of the ways that savings products can assist with personal budgeting:

Savings accounts: Many banks and credit unions in Australia offer savings accounts, which allow individuals to deposit money and earn interest on their savings. These accounts may have different interest rates, fees, and features, so it's important to compare options and choose an account that suits your needs.

Term deposits: Term deposits are a type of savings product that allows individuals to deposit a lump sum of money for a fixed term, usually ranging from a few months to a few years. In return, the individual earns a fixed rate of interest for the term of the deposit. This can be a good option for people who want a guaranteed return on their savings and don't need immediate access to their funds.

High-interest savings accounts: Some banks and financial institutions offer high-interest savings accounts, which typically offer a higher interest rate than standard savings accounts. These accounts may have higher minimum balance requirements but can be a good option for people who want to earn a higher rate of interest on their savings.

Overall, financial institutions offer a range of savings products that can help individuals manage their personal budgets. By choosing the right savings products, individuals can earn interest on their savings, build an emergency fund, save for specific financial goals, and achieve greater financial stability.

Chapter 4: Implement and monitor the personal budget

Follow budget according to plan for a period of time

Following a budget

Once the budget has been prepared and put in place, it's important to follow it! The numbers on the page may look great, but unless you actually stick to the limits that you have decided, you'll find that the surplus or deficit each month is different from what you predicted. Needless to say, this will make it very difficult to achieve your longer term financial goals.

Let's imagine that, having prepared your budget, you have decided that you are going to limit spending on treats and luxuries to $25 per week or $100 per month. If you spend $75 on a new outfit in the first week of the month, then you either have to survive the next three weeks with only $25, or you will find that you have overspent on this category in your budget.

If you set clear spending rules, it will help you to make good financial decisions on a day-to-day basis.

Imagine a family has the following monthly budget:

Food:	$400
Car:	$175
Clothes:	$100
Entertainment:	$100
Savings:	$100

These spending limits are a good guideline when deciding what to spend on a day-to-day basis. If the person who does the food shopping for the family knows that they have $400 for the month, they can break that down to $100 per week, approximately. When they go shopping for food, they can keep the $100 limit in mind and mentally count up how much is being spent as they put each item in the basket. In some supermarkets, there are electronic scanning devices which will do this for you automatically.

The benefit of doing this is to avoid overspending. It enables the shopper to identify when the limit is being approached and they can make some choices about removing some items from the basket, or replacing them with cheaper alternatives. Having a firm spending limit in place will help you to avoid impulse purchases. It lets you know what you can realistically afford.

If you find that you have overspent one week, then you are in a good position to review the spending limits for the following week. So, if you have spent $130 on food in one week, you should reduce the limits for the rest of the month to avoid overspending on that category.

A clear understanding of how much you can afford to spend on different items is a cornerstone of good financial management. If you find that you have been overspending on food, for example, you can make some well-informed decisions about where you can reduce spending to avoid exceeding your budget. This is what good financial management is all about: knowing your limits and sticking to them.

Record actual expenses and income for period during which budget is implemented & Compare budgeted expenses and income with actual amounts and modify budget where necessary

You need to be able to assess whether or not your budget is working. To do this, you gather together the same information that you used when preparing your budget. That is, information about your income and expenses, recorded on a spreadsheet. One good financial management habit is updating the spreadsheet each month with the current information.

This enables you to compare planned versus actual spending and it highlights:

- Areas where you are spending too much
- Areas where you are spending less than expected
- Differences between planned and actual surplus funds or deficit.

If you know that you are spending more than planned on a particular category, you can take steps to rectify the situation by either increasing the budget in that area (and reducing it elsewhere), or by reducing the spending in future.

Take a look at the following extract from a personal budget below (note that this contains only a few categories of expenditure for illustration only).

Month	1 Budget	1 Actual	2 Budget	3 Budget	4 Budget
Income	$2973	$2973	$2973	$2973	$2973
Food	$400	$435	$400	$400	$400
Car	$175	$190	$300	$175	$175
Entertainment	$100	$70	$100	$100	$100
Savings	$100	$100	$100	$100	$100

In the shaded column, the actual income and expenditure are recorded and it is possible to compare that with the budget for the month. We can see from this example that spending on food and the car was higher than planned, less was spent on entertainment than was budgeted for and the amount put into savings was exactly as planned.

There are a few implications of this:

- If overspending on food and the car continues, the budget will eventually fall into deficit
- Underspends can fill some of the gaps caused by overspending, but this may not always be the case
- Overspending in Month 1 compromises the spending in future months. Notice that the car budget for Month 2 is higher than other months, possibly due to some planned repairs or taxes
- By comparing the figures for each month, it is possible to adjust the budget where necessary to take account of this (e.g. reducing spending on entertainment or savings to make up for overspends on food and the car)
- A comparison of the figures also alerts the person to areas where they need to reduce spending; if they know that they are overspending at the supermarket, they can take practical steps to reduce their food bills.

Make it a habit, once a month, to update your budget spreadsheet which will tell you how well you are managing your finances. It will highlight the areas where you are managing your money well, and areas where you need to take action in order to live within your limits whilst still achieving your longer term financial goals.

Discuss handy hints for managing personal budget

Managing the personal budget

Learning to take control of your finances tends to be something that we learn by trial and error. Many people receive no tuition in managing personal finances either at school or at home and they have to rely on their own common sense, information they pick up from others and by learning from their own mistakes. There is a great deal of information and guidance freely available on the subject of managing a personal budget.

It can cover the following important areas, including:

- How to avoid getting into financial difficulties
- How to minimise fees and charges imposed by financial institutions
- How to use credit card debt effectively
- The problems of impulsive buying, particularly when under peer pressure
- Ways to cut back on spending or change negative spending habits.

This type of information can be obtained from a variety of sources, including:

- Banks and other financial institutions
- Australian Government: http://www.australia.gov.au/topics/economy-money-and-tax/personal-finance
- Australian Securities and Investments Commission: https://www.moneysmart.gov.au/
- General internet searches for the topics you are interested in.

All of these sources will provide useful hints and tips for better personal finance management. The tips are based on good financial management practice and what has worked for others in the past. Some of the hints seem a little strange, but bear in mind that they may just make a difference to you too. If you can't possibly imagine giving up your regular coffee on your way to work each morning for example, just calculate how much you could save if you took your own coffee with you from home in an insulated mug.

Like all handy hints and tips, they are only effective if they are put into practice over a period of time. Skipping your frothy coffee on your way to work now and again isn't going to make much of an impact on your expenses. However, if you apply that tip every day, week in, week out for months, you will see a sustained reduction in spending on what used to be a daily treat. Habits aren't formed instantly; it takes conscious effort over a period of time to change unhelpful habits into helpful ones.

So, the message here is: check out the hints and tips that are widely available, and start to apply the ones that look like they will work for you. But don't give up; maintain your efforts and you will eventually be rewarded in having more control over your own personal finances.

Conduct ongoing review of budget to ensure it remains relevant and to ensure updates are incorporated if necessary

Reviewing the budget

Personal finances are very dynamic. That is to say that they are constantly changing; what's in the bank account one day is not necessarily what will be in it the following day as transactions are processed, in and out of your account.

A regular review of the budget is necessary to ensure that it remains current and fit-for-purpose. When starting to use a budget for the first time, you may find that a monthly review is useful to keep track of how well the budget is working for you. As you become accustomed to the routines and habits associated with managing a budget, you may find that a quarterly, bi-annual or annual review is enough for you to keep on track. However, our lives are also dynamic; our circumstances in one year may not be the same the following year.

Examples of the types of things that can affect our personal finances during our lifetime include:

- Getting married or divorced
- Co-habiting
- Living alone
- Starting a family

- Children leaving home
- Death of a partner
- New job
- Increased/reduced working hours
- Redundancy
- Dismissal from work
- Illness or disability affecting work
- Moving house
- Retirement
- Inheritance.

Any one of the above life events will have an impact on our personal finances, either positively or negatively. It is good practice to review a personal budget regularly, at least once per year. But if a major life event occurs, that should also prompt a budget review.

In this review, you can ask yourself:

- How does this life event affect my income?
- How does it affect my expenses?
- How does it affect my financial goals?
- Are the effects long-term or short-term?
- What action do I need to take as a result of this life event?

References

These suggested references are for further reading and do not necessarily represent the contents of this Learner Guide.

Australian Government: Business (australia.gov.au)

Australian Securities and Investments Commission: https://www.moneysmart.gov.au/

All references accessed on and correct, as of 27/04/22.