

# GETTING A GRIP

Your Guide to Managing  
Your Budget



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# Introduction

With interest rates and cost of living going through the roof most people are feeling the pinch as they tighten up their purse strings. The current state of the economy is causing a difficult time for many.

Mortgage repayments and rents are skyrocketing and every day expenses like fuel, groceries and electricity seem to be continually increasing. While the Reserve Bank are working to curve inflation, many are struggling to make ends meet.

Here at Solace Wealth Management we have been working with our clients to bring their budget back into control. Based on demand we have designed this guide with the goal of helping as many people as possible with the critical problem of managing their weekly budget.

However this is only a small part of the bigger picture, so if you are at a stage where you are ready to do more holistic planning, reach out so we help put a comprehensive plan in place.

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# Putting Your Budget Together

Taking the initial step of putting all of your expenses onto paper can seem daunting. This step is an important one to spend time on as we often don't realise how far our spending has spiralled out of control until we add up exactly how much is being spent in different areas.

The biggest mistake we see is under estimating how much we are spending in each area. We can't stress this enough – **DON'T GUESS FIGURES!** Go through your bank statement over a three to four month period and add it up. Make sure you're sitting down when you add up the result as it might be a shock. Just be mindful of any less frequent expenditure that may not show over a three to four month period – things like car registration and rates that may fall outside of the period you are analysing.

Each of the line items on your bank statement are going to need to be categorised to a type of expense. Be consistent with how you place items in categories and note the frequency of the amount. Expenses which vary or are more adhoc might be easier to add up as a total for the month (eg. groceries). Expenses which are more predictable (eg. rent) can be categorised and totalled according to the period they are due. You can then add another column to create annualised figures.

How you categorise each your expenses may depend on your individual circumstances, but it could look something like this:

	Amount	Frequency	Annualised
<b>Income</b>			
Salary (after tax)	\$1,500	Weekly	\$78,000
<b>Total Income</b>			<b>\$78,000</b>
<b>Expenses</b>			
Rent	\$500	Weekly	\$26,000
Groceries	\$750	Monthly	\$9,000
Eating Out	\$200	Monthly	\$2,400
Car Registration	\$760	Annually	\$760
Alcohol	\$100	Monthly	\$1,200
Phone & Internet	\$140	Monthly	\$1,680
Medical Expenses	\$30	Monthly	\$360
Car Insurance	\$90	Monthly	\$1,080
Car Maintenance	\$1,000	Annually	\$1,000
Fuel	\$100	Weekly	\$5,200
Electricity & Water	\$800	Quarterly	\$3,200
Health Insurance	\$100	Fortnightly	\$2,600
Clothes & Shoes	\$400	Monthly	\$4,800
<b>Total Expenses</b>			<b>\$59,280</b>

If you would like a template to help get your budget started, feel free to email us - [admin@solacewealth.com.au](mailto:admin@solacewealth.com.au).

# Needs Versus Wants

Now the initial shock from putting your budget together has worn off, we need to decide how to categorise spending between essential spending and discretionary spending.

**Essential spending** is the necessities for survival. For example - rent/mortgage repayment, groceries, electricity and fuel.

**Discretionary spending** is the spending just because we want something but we don't necessarily need it. For example - eating out and entertainment.

Making this decision is a personal one, though it is important to be honest with yourself. You may have felt that buying lunch or a coffee was necessary for your survival in the moment, however you probably could have made lunch at home. We need to have a warm jacket for winter, but we probably didn't need to buy the \$200 designer jacket.

Don't worry, some discretionary spending is still necessary. However these categories are going to be our focus for limiting our spending.



If we use the example budget provided on page 5, the categories could be re-arranged as follows:

	Amount	Frequency	Annualised
<b>Income</b>			
Salary (after tax)	\$1,500	Weekly	\$78,000
<b>Total Income</b>			<b>\$78,000</b>
<b>Essential Expenses</b>			
Rent	\$500	Weekly	\$26,000
Groceries	\$750	Monthly	\$9,000
Car Registration	\$760	Annually	\$760
Phone & Internet	\$140	Monthly	\$1,680
Medical Expenses	\$30	Monthly	\$360
Car Insurance	\$90	Monthly	\$1,080
Car Maintenance	\$1,000	Annually	\$1,000
Fuel	\$100	Weekly	\$5,200
Electricity & Water	\$800	Quarterly	\$3,200
Health Insurance	\$100	Fortnightly	\$2,600
<b>Discretionary Expenses</b>			
Eating Out	\$200	Monthly	\$2,400
Alcohol	\$100	Monthly	\$1,200
Clothes & Shoes	\$400	Monthly	\$4,800
<b>Total Expenses</b>			<b>\$59,280</b>

# Getting Real

Now it is time to go through each category and have a think about if any of these can be cut back on. Go through the list of essentials and have a think about:

- Have had your home loan interest rate reviewed recently?
- Are you getting the best deal on your car insurance?
- Is there a more cost effective way to do your grocery shopping?

Going through the essentials is a worth while exercise, however It is likely that the biggest savings are going to be had under the discretionary spending category. This exercise is about being aware of your discretionary spending and proritising needs and wants. In order to do this, have a think about which habits can be changed to reduce your discretionary spending. Some examples might be:

- Limiting eating lunch out to one day per week
- Reducing alcohol expenditure
- Setting a clothes/shopping budget
- Setting an entertainment budget

It's all well and good putting your new hypothetical lifestyle on paper but it's not going to be very useful until you can actually put it into practice and manage things moving forward. A big part of this is moving from subconscious to conscious spending. This mindset shift is going to take practice but there are things that we can do to make life easier.



# Putting it into Action

The next step is to break your budget down from annualised figures to weekly or fortnightly (keeping in line with your pay cycle). You will then be able to calculate how much money should be saved from each pay cycle to go towards each expense.

	Amount	Frequency	Annualised	Weekly
<b>Income</b>				
Salary (after tax)	\$1,500	Weekly	\$78,000	\$1,500
<b>Total Income</b>			<b>\$78,000</b>	<b>\$1,500</b>
<b>Essential Expenses</b>				
Rent	\$500	Weekly	\$26,000	\$500
Groceries	\$750	Monthly	\$9,000	\$173
Car Registration	\$760	Annually	\$760	\$15
Phone & Internet	\$140	Monthly	\$1,680	\$32
Medical Expenses	\$30	Monthly	\$360	\$7
Car Insurance	\$90	Monthly	\$1,080	\$21
Car Maintenance	\$1,000	Annually	\$1,000	\$19
Fuel	\$100	Weekly	\$5,200	\$100
Electricity & Water	\$800	Quarterly	\$3,200	\$62
Health Insurance	\$100	Fortnightly	\$2,600	\$50
<b>Discretionary Expenses</b>				
Eating Out	\$200	Monthly	\$2,400	\$46
Alcohol	\$100	Monthly	\$1,200	\$23
Clothes & Shoes	\$400	Monthly	\$4,800	\$92
<b>Total Expenses</b>			<b>\$59,280</b>	<b>\$1,140</b>

# Transaction Accounts

One of the trickiest things to manage in budgeting is the expenses that need to be paid in person with a bank card. There will be both discretionary spending and essential spending that will need to occur. In order to manage this, consider having two transaction accounts. One can be used for essentials – like groceries and fuel, the other can be used for discretionary – like buying lunch and personal spending. It might be helpful to mark each bank card so it is easy to remember which is which.

Using the budget example it could look like this:

	Amount	Frequency	Annualised	Weekly
<b>Essential Transaction Account</b>				
Groceries	\$750	Monthly	\$9,000	\$173
Medical Expenses	\$30	Monthly	\$360	\$7
Fuel	\$100	Weekly	\$5,200	\$100
<b>Total</b>				<b>\$280</b>
<b>Discretionary Transaction Account</b>				
Eating Out	\$200	Monthly	\$2,400	\$46
Alcohol	\$100	Monthly	\$1,200	\$23
Clothes & Shoes	\$400	Monthly	\$4,800	\$92
<b>Total</b>				<b>\$161</b>

## Saving for Expenses

We suggest using a separate bank account to save into to make it easier to keep track and avoid the temptation of spending from it. This account can also be used for direct debits to come from which will ensure there is always money put aside and ready so you will no longer need to keep track of direct debit dates.

	Amount	Frequency	Annualised	Weekly
<b>Expenses Savings</b>				
Rent	\$500	Weekly	\$26,000	\$500
Car Registration	\$760	Annually	\$760	\$15
Phone & Internet	\$140	Monthly	\$1,680	\$32
Car Insurance	\$90	Monthly	\$1,080	\$21
Car Maintenance	\$1,000	Annually	\$1,000	\$19
Electricity & Water	\$800	Quarterly	\$3,200	\$62
Health Insurance	\$100	Fortnightly	\$2,600	\$50
<b>Total</b>				<b>\$699</b>

## Saving for Long Term Goals

Once the essential expenses are put aside for, discretionary and essential transaction accounts are covered, the leftover surplus can be saved. This money may have a purpose – like saving for a new car or a house deposit, or it may just be saving to have a cash buffer to provide greater financial security.

	Annualised	Weekly
<b>Total Income</b>	<b>\$78,000</b>	<b>\$1,500</b>
<b>Total Expenses</b>	<b>\$59,280</b>	<b>\$1,140</b>
<b>Surplus Cash</b>	<b>\$18,720</b>	<b>\$360</b>

# What Else Do I Need To Know?

When putting your budgeting strategy in place be mindful of any fees and charges that may apply. Banks may charge account fees or transaction fees so it is important to be mindful of this when deciding on what bank and what accounts to use.

Consider paying bills by weekly or fortnightly regular BPay payments to smooth out your weekly expenses. You may need to check with the provider to see if this is possible (not all BPay Billers allow this). If this budgeting strategy is being implemented mid-way through a billing cycle, you may find you do not have sufficient funds saved when the bill falls due. Consider starting your bills account with a small cash buffer to reduce timing risk. There will be an adjustment period while you get your budget running smoothly.

When a budget is first implemented it will be important to review it weekly to start with to ensure it is working for you and the transfers are set up correctly. As you become more confident that it is running smoothly you could move to reviewing it monthly.

While getting the personal budget in order is a great first step, there are numerous facets of personal finances which are closely linked together. We also advise our clients in areas such as:

- Managing debt and how to structure debt
- Superannuation and Account Based Pensions
- Planning for retirement
- Centrelink
- First time investors through to established investment portfolios
- Personal Insurances like Life Insurance and Income Protection

If you have any questions regarding the contents of this budgeting guide, or you are ready for more comprehensive planning, reach out at [admin@solacewealth.com.au](mailto:admin@solacewealth.com.au) or 0423 313 486.

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