

# Budgeting, Saving, and Debt

Handling money well and planning our finances are two of the most important skills we need in life.

When thinking about money issues, one of the first things to tackle is our attitude to spending. Buying something we want can give us a short-term buzz, but it can also bring long-term worry. So it is essential that we identify the difference between our 'wants' and our 'needs'.

Once we recognise that every spending decision affects another spending decision it all becomes much easier. For example, spending £s on a 'want' may mean living in the cold and dark for a week or going hungry for a week, because there's no other money left for the 'need' i.e. the heating or the groceries.

## A Budget

A budget may sound boring but it is a vital first step towards being in control of your finances. It is a plan that helps you to identify regular income, expenses and savings. A budget will help you to identify the level and importance of your expenses and exactly where your money goes.

### **Budgeting Lets You:**

Keep a check on your income and outgoings, and be in control of what you spend

Get rid of stress by planning and monitoring your spending habits, and cut back on over-spending

Know that you're handling your money wisely, and help differentiate between essentials and extras

Pay off existing debt / Save some pennies each month / Plan for your future

### **Living on a Budget**

Make a list of the things that you like and enjoy; a budget allows you to achieve those things.

Budgeting is simply making sure you're spending less than you're bringing in. Many people think of 'budgeting' as depriving themselves, but it isn't at all. A budget allows you to know how much money you have coming in each week/fortnight/month, how much you need for the essentials (rent, groceries, bills, existing debts), and how much you have left for the things you'd like.

Sticking to a budget will give you the peace of mind of knowing you have the basics covered, whilst allowing you to buy some non-essentials and treats, and put aside savings for the future.

## Some Helpful Tips to Remember...

- (1) **Be honest:** Don't try to skip essential items or underestimate your spending.
- (2) **Be consistent:** Keep track of your daily spending. The little things you buy can soon add up.
- (3) **Keep motivated:** Regularly remind yourself of the things the budget enables you to do.
- (4) **Plan for occasional expenses:** Eg, replacing household items, or holiday, car, presents, etc.
- (5) **Plan for both fixed and variable expenses:** Fixed = rent, etc. Variable = groceries, clothes, etc.
- (6) **Asses the 'extra' spending in your budget:** If the budget doesn't balance, trim some non-basics.
- (7) **Don't beat yourself up:** Everyone goes off their budget occasionally. Revise it and see where the extra money spent can be recouped.
- (8) **Don't try to deprive yourself too much:** It will be harder to stick with it. Include a treat sometimes.
- (9) **Review your budget every month or two:** This will help you keep on track.

If despite all this, you're still struggling to balance your budget after cutting back on spending and are concerned about any money you may owe, it's important to seek help as soon as possible. Spending more than you earn isn't sustainable in the long-term, and will push you into serious debt.

## Saving

Savings give you real peace of mind so that when the unexpected happens a drama doesn't become a crisis. Putting a little amount away regularly is a good pattern to get into, even for very small amounts.

## Financial Priorities

Never prioritise saving over meeting the minimum payments on your rent, groceries, utilities bills, debts, or other essentials.

Once you have budgeted for the essentials, then it is wise and very satisfying to save a little regularly.

## Here are some things to consider:

- (1) Do you have a specific savings goal in mind? And how important is it to you?
- (2) Do you simply want to make sure you have some money set aside – for a holiday, for large household or electrical items, a car, non-specific special items, or a 'safety cushion' for the future?
- (3) What would you do if you had an emergency? Do you have the funds set aside?

# **Debts**

Often debt is caused by things happening to us over which we have little or no control. Or, it may be that no matter how often we say we won't, we always seem to live beyond our means.

There is nothing wrong in buying something simply because we'd like it, but it's necessary to make sure we can afford it, and that buying it isn't at the expense of the basics and essential things.

Strictly speaking, debt is something (usually money) that has to be repaid to the person / organisation that loaned it in the first place, normally with some additional cost for the privilege.

By this definition anyone who uses an overdraft on their bank account, has a mortgage, or who owes a friend £20, has debt.

## **What Debts Should I Pay Off First?**

It is important to know exactly what type of debt or debts you have (priority and non-priority), in order to know which you should be tackling first.

Knowing which debts should take priority and understanding what happens if you don't pay, should help keep the roof over your head and you and your family safe.

### **Priority Debts**

This refers to arrears where the consequences of not paying them can be incredibly serious, and so need to be dealt with before any other debt. They include:

(1) Rent, (2) Fuel debts, (3) Certain payment orders by the courts.

### **Non-Priority Debts**

The outcome of failing to resolve 'non-priority' debts is often less serious; for example, you can't be imprisoned for non-payment, and you are unlikely to lose your home or goods. However, creditors can take you to court and sue you for any money that you owe.

## **Take Control of Debt**

Feeling as though the amount you owe is out of control can be a frightening and often isolating experience. But ignoring the situation will only make matters worse.

With some good advice you can get back in the driver's seat, create a budget, and start tackling your debt with confidence.

Hopefully, it should simply be a matter of taking control of your spending by doing a realistic budget, making a commitment to only spend what you have, and forming a plan to pay off your debts.

## Some Helpful Points:

### **Acknowledge how the debt happened, and that repaying it may be a problem:**

This can help you turn things around. The debt may have occurred because life took an unexpected downturn and the debt was a result of that, or it may be the result of over-estimating the amount of money you had available to spend on non-essentials, leaving insufficient for the essentials.

### **Start a budget and defeat the debt:**

Don't get downhearted if you don't get everything right straightaway – we all make mistakes. Just stick with it and you'll soon notice a big difference. It's an old expression but "look after the pennies and the pounds will look after themselves" is true.

### **Reward yourself:**

It's important to celebrate a little each time you reach a milestone – for example, in your budget you can break down your debt into 'amounts', and each time you pay off that 'amount' reward yourself with a small treat of some kind.

It can be amazingly satisfying to gain control of your finances!

### **Quoted and paraphrased from the following sources:**

<http://themoneycharity.org.uk/advice-information>

Credit Action, *Moneymanual: Thinking About Money*

Credit Action, *Better Money Management*

Elizabeth McDonald  
12 January 2015

bayith.org