

RANDS & SENSE

The big benefits of a budget

Creating, and sticking to, a monthly budget is one of the hardest things for most people to do – but it's also the easiest way to get yourself out of the debt cycle and start saving for a rainy day. Here's an easy way to do it ...

One of the most frequent questions asked by people who are trying to improve their personal money management skills is 'How do I stick to my planned expenditure each month?'

Many people spend ages preparing their budget and it looks wonderful on paper, but as soon as the fourth week of the month approaches (or sometimes earlier), it becomes obvious that actual expenses are going to be more than planned expenses! The budget is not met and the cycle begins again the following month.

It is most demotivating not to achieve your monthly budget goals and eventually you will stop preparing the budget with the excuse that 'My budget isn't helping at all – I can never stick to it' or 'I just don't earn enough to meet my living expenses, let alone save'.

The most common reason for people not being able to contain their expenses is that they don't have an accurate record of what they spend their money on. Without this record of actual expenses, you can't prepare a realistic budget. Many people just keep their heads buried in the sand, rather than face the reality that they are living a lifestyle beyond their means and using credit to fund their living expenses.

If you find yourself relying on credit to fund your monthly living expenses, it's not just a warning sign, it is an emergency alarm. This is not a sustainable way to finance your life!

How to split expenses

The first step in achieving your realistic budget is to accept that you *must* live within your means. Your 'means' is your household income after tax. Using this income, your budget will be split 35%, 25%, 35% as follows:

- 35% for living expenses, such as groceries, school fees, entertainment, transport, car running expenses, electricity, communication, etc.
- 25% for financial expenses, such as retirement fund, medical aid, short-term insurance, life assurance etc.
- 35% on rent, bond and other debt repayments, such as car loans, personal loans, store cards, credit cards and any other debt obligations

The remaining 5% is for unexpected expenses or saving. If there are no unexpected expenses, then this money is used for debt reduction (high-interest credit) or savings.

It is absolutely OK to exceed the norm in one of the categories above as long as it corresponds with a reduction in one of the other categories!

It is vital that you (honestly and accurately) document your actual spending. Discuss your budget with your partner – it is always better to have agreement and joint commitment. Once you know where all the money is going, allocate your spending into the above categories so that you have a starting point for your budget.

If you are using credit to fund your living expenses, then your monthly expense is the full price of the item bought on credit, and not the minimum monthly instalment due on the credit card! For example, buying groceries on your credit card for R600 does not mean your monthly expense is the 5% minimum monthly instalment of R30. Your expense must be recorded as R600. Don't fool yourself!

Once you have a realistic summary of where you are spending the money, you can now compare it to the 35%, 25%, 35% guideline. Most people who are struggling to balance their budget will find that their rent and debt portion is over 40% of their income. As a more detailed guide:

- Your rent/bond expenses should not be more than 25%–30% of your after tax income.
- Any other debt (car, personal loans, hire purchase, store and credit cards) should not be more than 10–15% of your after tax income.
- Both the above added together (rent/bond plus any other debt) should not be more than 35% of your income.

How to reduce expenses

It is not unusual for people to be spending up to 60% of their after-tax income on rent/bond



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and other debt! If you are spending more than 40% of your income on rent and debt, you must put a plan in place to reduce your debt and/or move to cheaper accommodation to reduce the rental expense.

If you need to reduce your debt expense, then you should:

1. stop using credit immediately,
2. only spend money on absolute necessities until your debt is under control,
3. document ALL your debt,
4. deal with any accounts in arrears before legal action is taken against you,
5. use surplus income to pay more than minimum instalments on highest-interest debt,
6. contact your creditors and request debt rescheduling to reduce monthly instalments to affordable amounts,
7. examine the option of debt consolidation but seek professional advice before rushing into debt consolidation, and
8. contact a debt counsellor to assist you if creditors are not willing to negotiate (www.ncr.org.za).

If you find that your debt/rent is under control (less than 35% of your income after tax), but your living expenses are more than 35% of your income after tax, then you are living beyond your means and you should face the reality that you cannot afford the lifestyle you are currently enjoying. You will never balance

your budget and save money if you don't control or reduce your living expenses. You are most likely spending money on wants before you meet your needs. Alternatively you are wasting money on needs by not shopping around, negotiating and spending wisely.

Easy ways to control spending

Expenses that could be controlled without too much effort include:

- bank charges (see www.thinkmoney.co.za for comparative charges across banks);
- clothing (buy home brands);
- entertainment and take-away foods, and
- groceries (plan shopping and stick to the list).

Finally, it is important to budget for an own reward. You must celebrate when you keep within your budget!

Stick to your budget and before you know it, you'll be preparing and keeping to a budget every month AND putting money away for a rainy day!

• Written by Paul Barnard CA (SA) of North Star Solutions, which runs informative and entertaining workshops in personal money management and also provides a referral service for debt counselling.
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Employee Sport and Recreation Association registration

All employees actively involved in sport who wish to enjoy the benefits of the City's Competitive Sport Policy, namely time off for tournaments, must register with the Employee Sport and Recreation Association (ESRA). From 1 April, only registered members will be considered for the benefits in the policy. To book, contact Herman van der Watt on 021 400 2630 or atherman.vanderwatt@capetown.gov.za.

Wellness courses available for staff

Employee Wellness is offering the following courses for City employees:

Wellness management

A two-day wellness management training course is available at no cost to all first-line managers working for the City.

If you are struggling with individual or team management issues, then this course is for you.

Contact Elsa van Schalkwyk on 021 400 2530 or elsa.vanschalkwyk@capetown.gov.za to book your place.

Stress management

Stress is well known today as the silent killer, being responsible for death, illness, lost productivity and conflict within the work and home environment. Book your seat to attend a free one-day stress management workshop that will provide you with practical tools to manage this modern day affliction more effectively. Contact Veronica Tregurtha at 021 794 5064 or veronica.tregurtha@capetown.gov.za, or Judith Mackenzie on 021 918 7416 or judith.mackenzie@capetown.gov.za for more information.

HIV peer educator

The HIV peer educator course, a five-day (non-consecutive) in-house programme that is available to all staff who would like to actively participate in peer education initiatives, has been aligned with the National Qualifications Framework, and is now rated as a NQF level-four course. The training is free of charge, and the only cost is that of the assessment, which needs to be borne by your unit's cost centre. For more information, contact Paul Sheldon on 021 918 7418 or paul.sheldon@capetown.gov.za.