

Finance facts: Budgeting

What is a budget?

A budget is a financial plan that outlines your expected income and expenses over a specific period, typically monthly. It serves as a roadmap for managing your money, allocating funds to various categories such as housing, transportation, groceries, savings and entertainment.

Budgets can be created for individuals, households, businesses and governments. The best budgets are living documents that can be changed and adjusted.

Why is budgeting important?

Budgeting is essential for many reasons:

- **Financial awareness:** Budgeting helps you clearly understand where your money is going, allowing you to identify areas where you can cut back or reallocate funds
- **Goal setting:** A budget enables you to set and prioritise financial goals, whether saving for a home, paying off debt, or building an emergency fund
- **Debt management:** A budget allows you to proactively address debt by allocating funds for repayment and avoiding unnecessary borrowing
- **Emergency preparedness:** Budgeting ensures you have funds for unexpected expenses or emergencies, providing financial security and peace of mind
- **Long-term financial stability:** By practising responsible budgeting habits, you lay the foundation for long-term financial stability and success, allowing you to build wealth and achieve financial independence.

How do I create a budget?

Follow these steps to set up your budget:

1. **Select a tool to help you compose your budget:**
Remember that you will need to update your budget regularly, so an editable tool is ideal. Tools include spreadsheets (Microsoft Excel, Google Sheets), Apps (search your App Store), online banking tools (see if your bank has online budgeting features), the envelope system (see how here), and pen and paper.
2. **Organise your records safe and keep them safe:**
It is important to be able to enter all the income and expense data, so you must create a filing system on your computer and in your home. A shoebox often does the trick for loose paper receipts at home. On your computer, set up appropriately labelled email and document

folders. If you are using a budgeting feature on your online banking, it may automatically pull in your income and spending data. Sometimes, online budgeting tools need your help to put spending from your debit or credit card into categories like 'food' or 'entertainment'.

3. **Calculate your income:** Determine your total monthly income from your payslip and other sources.
4. **List your expenses:** Some common expense categories include housing (rent or mortgage payments), utilities (electricity, gas, water, internet, mobile phone), transportation (bus, train, car repayments, car parking fees), food (groceries, dining, takeaway), insurance (car, medical, home and contents), healthcare (doctor, pharmacy), other loan repayments, entertainment (streaming services, holidays, movies), and savings plans.

Recognising expenses that are 'fixed' and 'variable' is helpful. A fixed cost remains constant, whereas a variable expense fluctuates based on usage. For example, the amount of rent you pay doesn't change each month, so it is fixed. But the amount you spend on groceries, entertainment and travel will change week to week, so they are variable.

5. **Set financial goals by prioritising saving (and spending less):** The primary purpose of budgeting is to ensure that you spend less than you earn. If you spend too much, listing your expenses and seeing patterns over time can help you adjust your spending behaviour and spend less. You can also seek better deals on your bills by switching service providers. Budgeting will also help you reach your savings goals by identifying and prioritising money you can allocate to saving.
6. **Monitor and adjust:** Review your budget regularly, track your spending, and adjust as needed to stay on track and achieve your financial objectives.



Did you know?

The concept of budgeting can be traced back to the Babylonians and Egyptians, who employed elaborate control systems over grain supplies and money. The Romans relied on estimates of their subject's income and expenses to assess their ability to pay taxes. However, budgeting as we know it today was first recognised in the reign of King Henry I in England from 1100 to 1135.

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When might you need a budget?

You will develop good budgeting skills as you practice, so now is an excellent time to start a budget. A budget is essential when facing big financial decisions, like moving out of home, making joint decisions about money in a relationship, wanting to borrow money from the bank for a car or a house, starting a new job, or starting a new business.

Budgeting tips

Start small: If you're new to budgeting, start with simple steps and gradually build your budgeting skills over time.

Be realistic: Set realistic goals and expectations based on your income, expenses and financial situation.

Celebrate progress: Celebrate small victories and milestones along your budgeting journey to stay motivated and committed to your financial goals.



Did you know?

Sometimes, you can avoid the shock of a hefty bill if the service provider offers 'bill smoothing'. For example, you could pay \$125 monthly for your electricity bill instead of an annual payment of \$1500 or a quarterly payment of \$375.

Glossary

Bill smoothing	spreads annual service costs into equal, predictable payments throughout the year.
Budgeting	is the process that leads to a budget.
Debt	is a sum of money borrowed to buy goods and services with the agreement to repay the amount borrowed with interest and within a specified period.
Expenses	are the costs incurred by individuals, businesses, or governments to generate revenue or achieve their objectives. They represent the outflow of money.
Income	is the money or earnings individuals, businesses, or governments receive in exchange for goods, services, or investments. Income represents the inflow of money.
Payslip	is the document issued by an employer to the employee detailing the employee's earnings and deductions for a specific pay period. It records the employee's gross pay, net pay, and any deductions or withholdings taken from their wages.

Related Talk Money fact sheets

- Starting a job
- Saving
- BNPL

Links

[Moneysmart's Budget Planner](#)

[Australian Financial Security Authority—I can't pay my debts—Budgeting](#)

About Talk Money with Ecstra Foundation:

Talk Money with Ecstra Foundation is designed to help Australian students learn money lessons for life, to be confident talking about money and to make informed financial decisions. We offer facilitator led workshops for Years 5–10 students and additional resources to reinforce learnings. The program is provided at no cost to schools, enabling more students across Australia to access financial education at key life stages.

About Ecstra: Ecstra Foundation is an independent charitable foundation committed to building the financial wellbeing of Australians within a fair financial system. Ecstra launched Talk Money in February 2022.



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