

## CHAPTER 3:

### BUDGETS

So now that you have a better idea of the condition your finances are in, it's time to look at getting yourself **FINANCIALLY ORGANISED**. You must tell your money where to go rather than wondering where it went, and to do that, you need to set a **BUDGET**. A lot of us are not transparent with ourselves about our money so it is mindboggling to understand the possibilities that seeing your finances laid out in front of you can bring you.

#### The importance of budgeting

A budget, like money itself, is simply a tool. It is a map and a guide for your money that will aid you as you unlearn behaviours obtained during early environmental development (we don't just rectify bad money habits overnight; we are in the business of constantly unlearning and creating better behaviours around money). But more than that, having a budget will reduce your stresses around finance.

The best way to understand the importance of budgeting

is to think of your household as a business. Every business starts with a dream. A person will have an idea, then generate a business plan to see what is viable and what is not. Bigger companies will come with a finance department, but even small companies, sole traders and freelancers must be mindful of their budget – they need to have a plan that helps create focus and keep the business in line with its financial targets.

We need to apply this thinking to our household budget. Instead of a business plan, we should prepare our personal financial plan, filled with the most daring dreams for our life. Many people don't. Instead, as I mentioned before, they firefight. They are not proactive with their finances, and instead just deal with things when the time comes. But this is not enough! We need to know what is going on within our homes and lives, and a budget is a simple tool that will give you that level of awareness.

Done well, a budget will:

- empower you and help you reclaim control of your finances;
- offer the clarity you need to know where your finances are at any given time;
- change your outlook towards money;
- align your spending and saving habits to help you reach your financial goal. It takes the figures out of your head and makes what was a dream an achievable reality;

Before prioritising	
Outgoing	Cost
Rent	€450
Socialising	€300
Food	€200
Utilities	€150
Takeaway lunches	€100
Beauty and fashion	€100
Bus fare	€80
Health insurance	€80
Work Christmas fund	€80
Credit card minimum repayment	€40
Credit Union	€40
Gym membership	€40
Total	€ 1,660

After prioritising	
Outgoing	Cost
Rent	€450
Food (including homemade lunches)	€100
Utilities	€250
Health insurance	€80
Bus fare	€40
Credit card minimum repayment	€40
Socialising (reduced)	€100
Beauty and Fashion	€100
Work Christmas fund	€80
Takeaway lunches	€0
Credit Union	€0
Gym membership	€0
	€1,240

When Ciara reordered her outgoings in order of priority, it became apparent where the cuts had to be made. She realised she was spending nearly the same amount of money socialising as she was on her dwelling. She also decided to cancel her gym membership in favour of walking to work two or three times per week, thus also saving on bus fare.

By prioritising her outgoings, she now has €370 left every month, which she puts towards her emergency fund and debt repayment.

#### Pros

It takes the worrying out of budgeting.

It helps to align your values with your money.

It removes stress around money.

It keeps you organised and planning ahead.

#### Cons

It can be overwhelming to start.

It's time-consuming in the beginning.

It can be hard to give up certain things.

It can make you reluctant to spend on your wants at all.

### The Cash-Envelope System

When we budget using digital methods, it can sometimes be hard to stay the course as the money we *do* spend might not feel like money – it can be hard to follow through. You might have set aside €400 in your bank account for Christmas, but one day something catches your eye, and suddenly the Christmas money has been spent on a new set of curtains.

The Cash-Envelope System makes you accountable. With

this method, if say you are saving €400 for Christmas, you withdraw €400 from the bank and put it in a 'Christmas' Cash Envelope; then anything you purchase using cash from that envelope can only be Christmas-related. *It encourages you to stay loyal to your budget because you cannot spend what you do not have.*

People tend to complicate the Cash-Envelope System method, but as much as it limits your impulse-buying and changes your mindset around money, it is not complex. It is an effective, practical and fun (if a little old-fashioned) way of beginning your budgeting journey, and it involves taking your budget back to basics. It puts manners on your money.

For the cash envelope system:

- You will need a sheet of paper/notebook, a pen and some envelopes. Your sheet is where you track your expenses when using your cash envelope.
- Write out the following headings on your page:  
*Date | Description | Amount | +/- Balance*
- Each envelope will represent a certain category of spending (e.g. food, birthday gifts, socialising, etc.), and into each envelope you should place, in cash, the amount of money you can allocate to that category. You can either write the relevant spending category on each envelope, or on a separate sheet of paper for continuity. I prefer the latter as it is nice to have an ongoing record in which you can reflect on your growth. It also saves on wasting envelopes.

- As you add to your cash envelope or take money out, you should, on your tracker sheet, make note of the date, the transaction, whether you're adding or subtracting (use + or – beside the transaction amount) and the balance. This should always match what cash you currently have in the envelope.

So, if your weekly food budget is €60 then, when you get paid, you withdraw €60 in cash and place it in an envelope. That is the money you have to spend on food until the next day you budget.

Date	Description	Amount +/-	Balance
26 June	Weekly shop	–€45.00	€15
30 June	Top-up shop	–€10.00	€5

The monthly tracker is also ideal if you are trying to save within a limited time or have a significant expense. For this, you can apply the **SPLIT METHOD**. Say you want to save for a holiday, for example, a girls' trip that will cost €1,000, but you only have five months to save. You'll know straight away that you'll need to put €200 per month in your envelope to get there.

## Cash-Envelope Tracker

Another way of tracking your cash envelope is to:

- Create an cash envelope for each category.
- List out the twelve months horizontally on the envelope;
- Write under each month and create two boxes;
- One box is for the projected amount you would like to save towards the category;
- The second box is what you saved in the envelope each month.

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
BUDGET												
ACTUAL												

The Cash Envelope System does not need to be complicated: you just use envelopes as a more hands-on way to portion out your money, so it can work in tandem with other budgeting methods (it works perfectly alongside a zero-based budget).

It can even be fun! There is a whole online movement dedicated to this method and, while you can use plain old envelopes you have lying around the house as you get accustomed to using them, there are plenty of pretty envelope designs and free templates out there (including on my

website). There is also an undeniable sense of achievement in watching that cash pile up!

## Case Study

David works in a stressful job. He has recently had a breakdown in his marriage and now finds himself anxious all the time. His only outlet has been spending money. As he scrolled through social media, he would see his peers with their new gadgets, cars and perfect families. Without thinking, he would add some of the same products he'd seen his friends with to his trolley and before he could blink, he'd be at the checkout.

When David started his budgeting process, he noticed that these impulse/emotional spending habits were causing significant strain on his bank account. He was advised to transfer a few expenses he would subconsciously spend on his card. David decided to pay most of his expenses in the form of cash. Some things like his electricity were unavoidable and he didn't want to miss his direct-debit discount. By paying with cash, he became aware of his spending habits as he could physically see the money he was spending, instead of reaching for his card at different moments to impulsively buy things. But because he had unlinked his bank from all his shopping accounts and he did a zero-based budget it was impossible to keep up his impulse-spending habit. There was no money lying around his account that wasn't accounted for in his budgeting. In the supermarkets he was more cautious with his money as he knew that what was in his envelope was all he had.

After doing this for one pay cycle, he noticed a decrease

## Method 1:

Example

**"Four Families" Pay Day Budget**

Date: 1/2/2021

Income	Projected	Actual
Main	400.00	
Side hustle	100.00	
Other	50.00	
Total	550.00	

Starting income: 550.00160.00

The Walls	Projected	Actual
Mortgage/rent	250.00	
Transport	30.00	
Utilities	20.00	
Food	50.00	
Total	350.00	

Starting income: 200.00130.00

The Longs	Projected	Actual
Credit card	20.00	
New phone	20.00	
Total	40.00	

The Fundays	Projected	Actual
Cable	10.00	
Netflix	5.00	
Self-care fund	15.00	
Total	30.00	

The Jones	Projected	Actual
Savings	30.00	
Investing	50.00	
Emergency Fund	15.00	
Total	30.00	

Your final total should equal the starting total for that section, so that all your money is accounted for.

## Method 2:

**"Four Families" Pay Day Budget**

Date: 9/9/22.

Income	Projected	Actual
Main		
Side hustle		
Other		
Total		

Starting income: 500 4806090 5590

The Walls	Projected	Actual
mortgage	175	175.00
Food	40	40.00
Electricity	25.00	25.00
Childcare	50.00	50.00
Insurance	9.10	9.10
Petrol	25.00	20.00
Property m.	15.00	15.90
Total	339.10	334.10

Starting income: 200.00 14590590 90

The Longs	Projected	Actual
Childrens c	10.00	10.00
Life insurance	7.00	7.00
Gifts	20.00	20.00
Christmas	20.00	20.00
Phone	5.00	5.00
Broadband	8.00	8.00
Back 2 school	10.00	10.00
Car main	10.00	10.00
Total	100.00	90

Bills 110 cash 185.00 SF 10.00

The Fundays	Projected	Actual
Childrens Fun	10.00	10.00
Sewimming	10.00	10.00
Self Care	20.00	20.00
Karate	10.00	10.00
Netflix	-	-
Amazon	-	-
Dancing	5.00	5.00
Total	55.00	55.00

The Jones	Projected	Actual
montserrat	590	90
Total	590	90

So, pick a day and go through your kitchen, making a note of what is already there. You can write this down on a sheet of paper or use a spreadsheet.

Grains/ pasta, etc.	Cans/ jars: fruit & veg	Cans/ jars: general	Sauces	Baking items	Beans/ pulses	Other
½ bag rice	3 x sliced apples	1 x chicken soup	4 x chopped tomatoes	½ bag self-raising flour	4 x chickpeas	2 x noodles
1 pack dried pasta	2 x peas	3 x spaghetti	2 x passata	2 x bars cooking chocolate	1 x baked beans	1 x vinegar
½ pack dried lentils	4 x sweetcorn	1 x corned beef	1 x mild curry	1 x baking powder	2 x kidney beans	1 x sea salt

This is also an excellent opportunity to look at how you're storing everything. Yes, I mean, those half bags of flour, the open packets of spices. Now is the time for you to make sure that they're correctly stored so you can get the most out of items. The longer your food lasts, the longer you have to be able to use it, meaning that you are less likely to waste it. And most importantly, this would save money.

*There is an evident link between saving money and being sustainable.*

## At the supermarket

How often have you stepped into a supermarket to buy only one thing and left €50 poorer, carrying two bags of shopping? I can guarantee that on those occasions, you had no meal plan, did not check what did you already had at home, and did not bring a list to the supermarket with you. Or, if you did, you did not stick to it. Perhaps you were hungry.

Well, don't be too hard on yourself. It is easy to get caught up in a supermarket's relaxed atmosphere – and yes, I say relaxed. Once again, it all comes down to psychology. A supermarket's purpose is to sell, pure and simple. When you come in, they want you to part with your money. They are not afraid to use every tactic at their disposal, just like any other business.

Here are some of the most popular methods used to make you spend money and also some ways that you can fight back and be accountable for your spending habits:

**The trick(s):** Everyday necessities like milk and bread are scattered to the far corners of the shop. To get to them you have to pass the middle aisle, where the real temptations are lurking – the clothes section; the home-ware department; the seasonal aisle. You have to walk past so many things to get to the fruit, then you have to walk to the end of the shop to reach the bread section. And then you have to walk back to get to the milk. Why? The supermarket would like to keep you in the middle, where you pick up all those tempting

it is essential that you understand it – I have heard so many stories of people that say they have missed direct debits because they have read their bills wrong.

Many components make up what may be seen as a simple electricity bill, so let's take a look at them.

<b>Your account number</b>	<b>950968000</b>
<b>To ask about this bill</b>	call 1800 372 372 <small>Open Mon–Sat, 8am – 8pm</small>
<b>For emergencies or electricity interruptions</b>	ESB Networks call 1800 372 999 <small>Open 24 hours, 7 days a week Please have this MPRN number ready</small>
<b>Billing period</b>	<b>MPRN 10 015 759 098</b>
5 Aug 22 to 27 Sep 22	DG DG1 MC MCC02 Profile 2
54 days	Date of Issue 28 Sep 22 Invoice number 609736674
<b>Reading type</b>	
You meter was read	
<b>Bill Summary</b>	
Your last bill	€238.25
Payments/Transactions	€238.25 cr
Balance brought forward	€0.00
Charges for this period	€11.265
Your Savings	€5.74 cr
VAT	€9.62
<b>Total due</b>	<b>€116.53</b>
<b>Pay by</b>	<b>Direct Debit</b>

< Your direct debit is due for collection on 12/10/22. Thank You.

Term	Meaning	Explanation
Emergency Number	The number you will need to call if something goes wrong . . .	. . . for instance, if your electricity supply is interrupted.
Account Number	Your personal identification number.	You will need to give this number when contacting your supplier.
Address	The address the bill has been sent to.	It might not be the same address that the electricity is charged to – it could be a second or rented property.
MPRN (Meter Point Reference Number)	This is your specific code – it identifies your connection to the network and is unique to your home.	If you ever have a query with your supplier, or want to switch providers, this is the number you will need.
MC	Meter Configuration	Indicates what kind of meter you have.
DG	Distribution Group	Indicates what type of customer you are (e.g. urban, rural, business.)
Meter number	An identifying number allocated to each meter.	If your meter becomes damaged, this number will then be replaced.
Meter reading	This will show you what your meter is at now and what it was at your previous reading.	Different readings are used, and you have probably been asked for these: A- Actual reading E- Estimated reading C- Customer reading
Reading Type	This will indicate how your meter was read: 1. The supplier read your meter 2. They estimated your usage 3. You read your meter.	1. A technician read your meter. 2. The supplier made an estimated reading based on previous readings. 3. You gave the supplier your meter reading.