



## USEFUL TIPS ON HOUSEHOLD BUDGETING

Budgeting is a skill that not everybody learns from a young age although it is a very important life skill that parents can teach their children at home. In this edition of Money Matters we want to share with you the importance of household budgeting and provide some hints and tips in this regard.

Budgeting by definition is only a plan expressed in financial terms. The purpose of the budget is to formalize the financial management of the family unit and will cause the members of your family to think about their income and expenses. It is important when drawing up a household budget that you are familiar with the behaviors of your household members and their preferences and habits.



**Diederik Kruger**  
Chief Dealer, Treasury

A budget is mostly for a fixed period, for example 12 months. Some households are in the habit of spending money as it comes in, leaving nothing for the future or unexpected expenses, while others plan ahead and make provision for future months and ad hoc expenses, such as when the family goes on holiday, annual school fees or when it will be necessary for the family car to be serviced again. The specific lifestyle of the family will determine the features of the budget and it will differ from family to family.

Let us begin with the budget process. Firstly, you must get the input from your whole family. It is customary for people not to include their children in this process, but by involving them from the beginning, they will not only learn how it is done, but they will also be more sensitive to the overall finances of the household before demanding things that were perhaps brought about by peer pressure. How do you create a household budget? It is simple really, take all the known income of the household over a period of 12 months, deduct all the known expenses, deduct some other larger items, such as the holiday that you want to have, your children's annual school fees and the car that needs to be serviced and you have a basic budget.

While this is only an estimation of the income and expenditure for the household, the members must try and use realistic figures for determining their income. Salaried employees will know what their net income is, while people working on a commission basis should be conservative and use the average income over the previous 6 months. This will allow for some fluctuations and will determine the minimum expected income of the household.

Expenses can be determined by taking the average of the previous six months and using it as the basis for your calculation. Always measure your budget against good common sense and internal and external factors that may influence the expenses side of the budget. In uncertain times, we unfortunately have to plan ahead for possible interest rate increases that can influence your bond or vehicle repayments, an increase in food prices, as well as an increase in fuel beyond the normal, will definitely be factors influencing your budget. By keeping all these factors in mind, you will be able to weather most storms or at best, be able to see earlier that things are going wrong and change your spending habits to help avoid the pitfalls.

The last, and certainly the most important, step in the budgeting process is to make someone in the household responsible for recording income and expenses and keeping the budget updated monthly. In most households the mother plays the role of the 'Minister of Finance', but it can be anyone of the family members. The responsible person should be tasked to record the expenses and income items as they occur but also to show the rest of the family on a regular interval what is happening and point out any discrepancies and deviations and how you can fix it.

The benefit of a budget is in the comparison between the actual and the budgeted figures to identify discrepancies and to determine regularly what the reason for the excess was and plan to make up this extra money spent on an unforeseeable expense. It is also wise to try and achieve expenses over an income ratio of 90%, because this allows room for saving and building a nest egg along the way. This extra cash can then be spent at the end of the period on something that the whole family enjoys and serves as a reward to the family unit for keeping in line with the budget. A budget that is realistic and stringently followed will empower the whole family and help you achieve your goals thereby creating financial independence.

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