

## Budget strategy and cashflow

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Establishing and sticking to a budget can be extremely difficult given the convenience of modern electronic payment methods and readily available credit.

Advertising encourages us to buy now and pay later and it can often be difficult to determine if you can afford to make a given purchase when factoring in interest free terms, or even variable income from pay to pay.

The most important step in clarifying your cashflow position is the preparation of a detailed budget which accurately identifies what you are spending compared to what you are earning.

### Structuring your budget

Your budget will have a portion of 'fixed' expenses. These are committed expenses such as loan repayments or council rates.

A portion of your budget will be 'variable' in nature. Review these variable expenses as this is an area where you may be able to make some savings.

The key to establishing a structured budget is to relate your total annual expenditure to a pay period and immediately set aside a portion of each pay for the purpose of paying bills and meeting your debt repayment and savings goals. For example, if your total annual bills amount to \$12,000 and you are paid monthly, you could set aside \$1,000 per pay for the sole purpose of paying these bills and you would always have sufficient funds available to pay bills as they arise.

The remaining portion of each pay, after allowing for an amount for bills, debt repayment and personal savings, may be directed into your working account for discretionary spending purposes. This concept is demonstrated in the following diagram:



It is important to review your budget regularly for the following:

- Your net income (your after-tax income from all sources).
- Your commitments/bills (ongoing expenses such as phone bills, rates, registration, loan payments, groceries and all other expenses identified in your budget).
- Your regular savings (funds which must be set aside on a regular basis to meet goals such as holidays, additional loan repayments or saving a portion of your income).

As your income and expenses change, regularly review your budget to ensure that you are effectively using your income and reducing expenses where possible.

## Bank account restructure

Even with the best of intentions, it can often be difficult to stick to a budget.

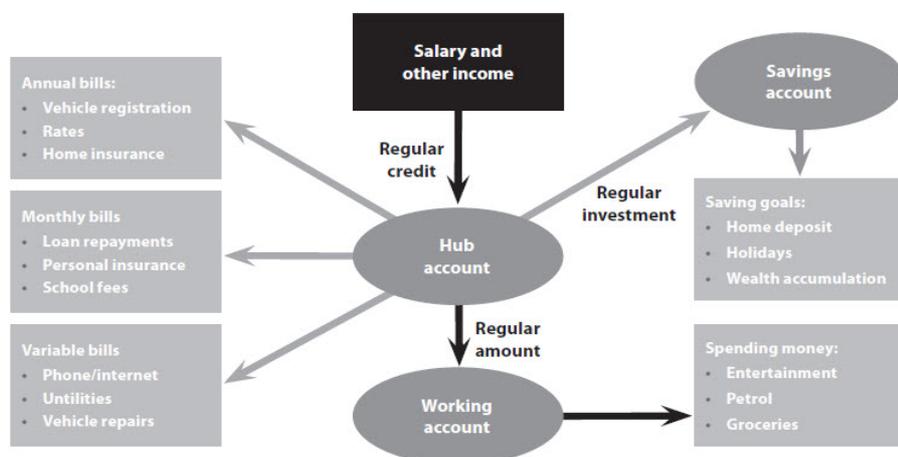
Many people have several accounts at banks and credit unions but find it difficult to use these accounts effectively. Most end up using the account that their pay goes into for everything, paying bills, drawing living expenses and meeting fixed commitments. This makes it very difficult to stick to a budget as you can't really track what has been spent and if in fact you are overspending in some areas.

While the concept of diverting your salary into various accounts and vehicles sounds relatively simple, most people find that unless the correct structure has been initially established, there can be some confusion as to what monies are to be used to meet living expenses, as opposed to those funds set aside for savings and wealth creation.

Give consideration to restructuring your existing accounts to include (at least) the following three types of bank account:

- A 'Hub' account (to use as the core of your budgeting strategy and to receive all income).
- A 'Working' account (an easily accessible account used for discretionary spending).
- A 'Savings' account (to receive regular savings and paying a suitable rate of return).

The following diagram outlines this general approach:



The type of account suitable to serve as a 'Hub', will provide an acceptable rate of return on funds retained within and provide a flexible, cost effective means of transferring funds using internet banking.

An account suited to function as your 'Working' account should offer flexible and immediate access to your funds whilst a higher rate of return will be of importance for a 'Savings' account.

When restructuring your accounts, give consideration to:

- always having sufficient funds set aside for expenses, bills and discretionary spending.
- ensuring that funds retained in a 'Hub' account for bills earn a high rate of interest.
- implementing a cashflow strategy which clearly defines which income can be used for which purpose, therefore enabling you to live within your means.

Most importantly of all, you will be rewarded for introducing a disciplined budget by eventually achieving your savings goals, reducing stress relating to bill payment and gain peace of mind in the knowledge that you are using your income as effectively as possible.

Call us on 0398240001 for more information.

**Email:** admin@pmdadvice.com.au

**Tel:** 0398240001

**Fax number:** 03 9824 1110

**Address:** Level 6 136 Exhibition St Melbourne Vic 3000

**Website:** www.pmdadvice.com.au

  
**Consultum**  
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