



THE BENEFITS OF HOUSEHOLD BUDGETING

There are many things that will influence our financial lives, but perhaps nothing influences our finances and financial future quite as much as a realistic and properly followed household budget. Many people have failed to learn how to budget properly and this failure to create a household budget can lead to many financial ills.

One of the main reasons so many people fail to create a budget is that they feel that creating a budget is overly complicated. In fact, creating a budget does not need to be difficult at all. It can be as simple as writing down each expense and keeping track of it for a month. In this edition of 'Let's Talk Money' we would like to talk about the importance of household budgeting.

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 to be familiar with the behaviors, preferences and habits of the members of your household. A budget is mostly for a fixed period like 12 months. Some households are in the habit of spending money as it comes in, leaving nothing for future or unexpected expenses. Other households however plan ahead and make provision for future months and ad hoc expenses such as when the family goes on holiday, annual school fees and servicing the family car. The specific lifestyle of the family will determine the features of the budget and it will differ from family to family.

Firstly you must get input from your whole family. Parents usually don't involve their children in the budgeting process, but involving them will not only teach them a valuable skill but make them less likely to ask for new and expensive things due to peer pressure.

Secondly, take all the foreseeable income of the household over a period of 12 months, and deduct all the known expenses as well as ad hoc expenses such as a holiday that you want to take, your children's annual school fees and servicing the car and you have a basic budget. Making provision for an emergency fund may come in very handy someday.

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 know what their net income is, while people working on a commission basis should be conservative and use the average of the previous 6 months. This will allow for some seasonal fluctuations and will determine the minimum expected income of the household.

In determining the expenses the average for the previous six months can be used as a basis for calculation. Always measure your budget against good common sense and internal and external factors that may influence the expenses side of the budget. In these uncertain times, you unfortunately have to plan ahead for possible interest rate increases on your bond or vehicle and asset finance, an increase in food prices as well as an increase in fuel and diesel. By keeping all this in mind you will be able to weather most storms.

The last but certainly the most important step in the budgeting process is to make someone responsible for recording and keeping the budget. 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 with recording the expenses and income on the budget sheet and presenting it to the rest of the family on a regular basis. It is during these times that the family will discuss any discrepancies and deviations and plan how to make up for this extra money spent on an unforeseeable expense.

It is also advisable to try and achieve expenses over income ratio of 90%, because this leaves room for some eventualities that may occur along the way. This extra cash can then be spent at the end of the period on something that the whole family enjoys and will be the reward for keeping within the budget.

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