



Bang on **BUDGET**

Emmet Pullan shows you how to create a monthly spending plan and actively deal with debt.

Creating a personal budget keeps your finances under control by tracking where your money is going. Whether you are living month-to-month or have plenty of surplus income, if you want to get a firm handle on your finances, proper budget planning is essential.

Most people who have found themselves overstretched by personal debt will not have planned their spending according to any realistic budget. Many feel that they can give a good guess on where their money is going and how much disposable income they have. This may have worked in the past when bonuses, commissions and refinancing options were plentiful. Overspending could be easily rectified with a one-off payment to credit cards from additional income sources or releasing equity from property. Now, unfortunately, everyone must strive to live within often significantly lowered means.

First things first

Before making any plan or starting any project, it is always a good idea to identify your goals.

Clearing your debt is such a goal, but proper budget planning can equally work for goals such as saving for children's education, that all-important wedding or even a family holiday. Even those who aren't in debt need a clear understanding of their finances.

Before sitting down to create your budget, you must gather as much information on income, bills, debts and other expenses as possible. Give yourself enough time to trawl through old statements and receipts properly and leave nothing out. Make sure your income figures are accurate and achievable. Remember to include any benefits or casual income that you are guaranteed to receive e.g. child benefit or room rental.

Money in, money out

When you have established your net monthly income, it is time to list out and account for all expenditure. You must include allowances for spending on absolutely everything, no matter how infrequent. Everything from daily lunch to annual club membership fees must be broken into a monthly figure and included

in your expenses. Remember to allow an emergency contingency for any rainy day or unexpected expenses. Overestimating or underestimating expenses can make your plan fail, so always account for everything as accurately as possible. Keep your short-term debt repayments until last to see exactly what you are working with.

Bring out the axe

When your income and expenditure is complete, you should review all expenses to see if realistic cutbacks can be made. Maybe the annual ski trip can be put on hold for a while, or more prudent grocery shopping could make a significant difference. Keep your plan reasonable. Cover all necessary expenses while, at the same time, remembering your goal to becoming debt-free. You may need to cut out non-essential spending until you have achieved success.

When you are happy with your figures, you will either have a surplus or deficit disposable income remaining. If the figure is a deficit, you basically do not have sufficient income to cover

Did you know?

In Ireland, anyone who has been declared legally bankrupt cannot be discharged until the bankruptcy has subsisted for 12 years. In the UK, this time period is 12 months. Thankfully, the Law Reform Commission is looking into our out-of-date insolvency legislation.

day-to-day and priority expenses. You may need help with resolving this issue through a financial advisor. Do not panic, however – even the most seemingly impossible situations can be dealt with. There may be benefit entitlements available and the possibility of repayment suspensions with some of your creditors can offer valuable breathing space. Don't ignore a situation like this. It will not go away.

Remember, debt collection agencies are professional organisations looking to recover an outstanding debt as quickly as possible. If you can clearly show that you have limited resources to do this, then they will factor this into any arrangement.

Defeating your debt

For those with surplus income available, it is now time to reconcile this against your debt repayments. If your surplus is covering the agreed monthly repayments, you are in good shape. You can now see a clear picture of where you spend your money and what is left at the end of the month. To clear debt as quickly as possible, any additional surplus can be used to make extra payments. Don't use the positive results to let your guard down. Remember, your priority is to clear your debt as efficiently as possible.

If the surplus income over expenditure is not sufficient to meet your contracted debt repayments, then further and very important steps are needed to rectify this. Maybe further belt-tightening and review of expenditure can

free up vital funds. If not, creditor negotiations are both necessary and inevitable. The repayment to the debt has to be restructured to match your affordability. Some debts may need to be prioritised, while others can be restructured over longer periods to reduce the outgoing. Where there are multiple debts with various institutions, a reduced repayment restructure can be difficult to deal with by yourself. If you have already faced (or are facing) the possibility of arrears, you need to seek assistance as soon as possible. The most successful debt management plans are those that are set up as early as possible. As time ticks on, your debt can increase with additional charges and penalty interest and your creditors can initiate a sometimes vigorous recovery process.

Why budget?

A monthly budget plan is a very important tool for every individual or household. It has to be strictly implemented to be successful. It also needs to be reviewed regularly and amended to account for any change in circumstances. A good practice is to operate a separate bank account for all regular expenses. What goes into this account is accounted for and so, cannot be touched. This will reduce the temptation to overspend as you will know exactly what your financial situation is each month. Keep an eye out for cost-saving deals on utilities and insurances.

Talk regularly with your partner and family about how the plan is going. Check if you are closer to achieving your goals. This can give a welcome boost. If you find that you are not keeping to your plan, don't be disheartened. You can start again and adjust your plan accordingly. Even if it takes several attempts to get it right, it will be worth it in the end.

Emmet Pullan is co-director of Debt Plan Ireland, www.debtplan.ie.

Ask the Expert

Q I am a sole trader in the motor repair trade and I have both personal and business debts. I have entered a debt repayment plan for my personal loans and credit cards, which is working well so far, but now I find that I have trade debts and suppliers knocking down my door as well. Should I treat them the same as the other debts and just pay what I can?

Frank, North Dublin.

A Frank, if you need these creditors to continue supply, then you must tread carefully. You should put together a plan to repay the outstanding debts with a mechanism to continue the relationship. For example, monthly reduction of the debt at an affordable rate with cash on delivery for future supply. You will need to get your cashflow figures spot on for this to work, but success is achievable. If it works, there is no reason why reduced credit facilities cannot be introduced by your suppliers in the future. In most cases, your suppliers will want to assist if they can see a reasonable resolution. If you come across one or more that will just not agree, then you may need to look for alternative source of materials. In these difficult times for small businesses, it is vital to keep your debts manageable to ensure survival.