

Sink or swim?

Breaking free of the spending spiral

For many **in my primers**, finding ways of creating more money isn't simply a nice idea, it's a necessity. The rising cost of living, static pay rises, unforeseen unemployment, relationship breakdown, poor or non-existent pension provision may just be some of the factors contributing to the need to make your money go further whilst, ideally, you explore ways of generating more of it.

However, having more money is equally as much about *spending less as making more*. In fact, creating wealth by spending less can be easier because it's already something which is under your control and which you can embark upon immediately. Earning more money on the other hand, may take time and be dependent upon the decisions of others, hard work, and even sheer luck.

Remember that, in Mr Micawber's famous lines, the income stayed steady at twenty pounds. It was the expenditure that needed tweaking. The trouble is it's difficult to change what we're familiar with, so undoubtedly you've already looked at your spending and concluded that it's difficult to see where you could spend less.

Almost certainly this isn't true – unless you're already living life at a monastic level, there are bound to be ways in which you can make further savings and this primer is intended to introduce you to – or remind you of – just a few of them.

How to go about it

First, take a long hard look at what you're spending, where. The best way to do this is to write down everything you spend, every day, for at least a month, analysed into categories which make sense to you, for example housekeeping, petrol, 'pocket money' entertaining, and so on. Add to this your monthly 'standard' expenditure – direct debits, bills etc – and any annual charges (divide by 12 for a monthly allocation). This would include such items as council tax, house insurance, gas, electricity, water, telephone, car tax, insurance, servicing etc. Then add them all up in their appropriate categories.

Surprised? Most people are usually astonished by this exercise – not by their major expenditure (we're usually all pretty good at estimating what this is, we can see it coming) but by the non-essentials, the small amounts we waste on nothing and the percentage of our total expenditure this represents.

Having done this, we now have the basis of an immediate cost-cutting exercise and then, for the future, a budgeting mechanism which will allow us to plan our financial needs.

Knowing where your money is going doesn't mean you're a 'sad case' living life in a financial straitjacket, quite the reverse in fact. It is those people complaining of always being 'skint' and not knowing where the money has gone who are always under stress. Those who know they can afford to spend their money on certain items get greater pleasure in doing so because they have no associated feelings of uncertainty or guilt.

So, now you've seen how much you're spending. As, in itself, that isn't really going to make you change things, what next?

'Have to' or 'Want to'

Now you have to analyse this same expenditure into two columns – **Have to** and **Want to**. Obviously 'have to' spend items will be things like household utility bills, council tax, mortgage, food, clothing, transport. Be very rigorous in your classifications for herein lies the crux of the exercise. There are relatively few absolute 'have to' items. Food is a necessity but restaurants, expensive ready meals and takeaways, are not. Clothing is a must but keeping up with the latest in designer labels is not.

As far as 'have to' is concerned the long term goal will be to ensure that you're getting the best value for money, concentrating on getting cheaper deals and paring down your consumption where you can.

One important item is the interest that you're probably paying on your various loans. This could be mortgage interest, overdraft interest or interest

on your credit card balances. For the moment we'll put them in the 'have to' compartment as you certainly have a legal obligation to pay. However, we'll come back to this later.

'Want to' items will be things like eating out, alcohol and cigarettes, holidays, sport, health and beauty expenditure, entertainment (films, concerts, books, magazines, DVDs CDs, etc). The list is infinite depending on your lifestyle and interests but the point is that you **don't have to** spend this money if you don't want to. They really are discretionary. This column is the one where eventually you will have to decide what you can bear to live without if you want to get your finances straight.

Honing your 'have to' list

The basic message is to shop around. The 'going rates' for 'fixed' costs such as mortgage payments, utility bills, insurance payments, etc. are, in fact, changing all the time out there in the market place. So for the best deal you need to be vigilant and shop around for the best offers.

Websites such as Martin's money tips (www.moneysavingexpert.com) and uswitch (www.uswitch.com) do your homework for you and you can review your position against their recommendations. We're not saying that you should become obsessed with this but a periodic review need not take too long, say once every three months. Flashing around from one provider's latest offer to another's really will cause you stress and as the recent problems with 'free' Broadband offerings show, it's often worth waiting for the dust to settle on 'too good to be true' offers as that's often exactly what they are.

When buying goods or services, pay as much – but not more – than you need. Buying the cheapest e.g. in appliances can be a false economy if the item doesn't last as long as a more expensive equivalent, doesn't do the job properly or is prone to breaking down. Which magazine (www.which.co.uk) and the Good Housekeeping Institute (www.goodhousekeeping.co.uk) are a great source of advice.

Absolute essentials

Food:

When food shopping, write a shopping list and stick to it – don't impulse buy (and don't shop when you're hungry, you'll always buy too much!). The only exception to this is if you come across 'special' offers of non-perishable products you normally buy where it makes financial sense to stock up.

Look for coupons and offers – but only use them against purchases you would normally make. Don't buy more unless you are sure you will use it.

If necessary, ask neighbours, friends or colleagues to share – and split the benefit.

How often you should go food shopping is a difficult one. A major shop at a supermarket once or twice a week makes perfect sense but only if you don't raid the cupboards and polish off things meant for later ('Fridge pickers beware...'). Daily shopping avoids this and can help ensure freshness but may be too time-consuming for many.

The worst scenario from an economising point of view is to have to buy in a rush or on impulse – maybe late at night from a garage – because you have forgotten something. And, if you must have treats, buying them in multipacks from a supermarket will always be cheaper than picking them off the shelf while you're waiting to pay for your petrol.

Transport:

As petrol becomes increasingly expensive, look at car sharing, and walking more. And if you're old enough to qualify for transport concessions, don't be too proud to apply for them.

Heating:

Turn the thermostat down a little, reduce the amount of time you have the heating on, and put on extra layers of clothes. Turn off the radiators in rooms you're not using. Make sure your insulation is up to scratch. And don't overlook how regular exercise – even just a couple of trips up and down the stairs – can keep you warm; particularly relevant if you work from home and sit for long hours at a desk.

Water:

It almost always makes financial sense to install a water meter – so investigate the cost and potential savings. This particularly applies as your family moves out and there are fewer of you in a decent sized property.

Weeding out your 'want tos'

An absolute rule for saving money is *don't go to the shops unless you have to* – 'retail therapy' won't solve a problem but just mask it or postpone it. If you're confident that you are a disciplined person then credit cards have many advantages. However, if you think you'll be tempted to spend money you don't really have then leave your credit card at home. Pay cash in these circumstances – it makes the whole transaction of parting with money that much more real and immediate.

Window shopping and browsing lead to impulse buying (for almost everybody) – that 'must have' item that you didn't need until you saw it and decided you had to have it. Obviously, if you're looking for something specific and you find it, go ahead. If not, leave it in the window, and when you're back at home think how much you really

want it. If you're prepared to go back and get it some other time then fine. If not, then you probably didn't really want it after all. Even if it is what you want, you now have the luxury of surfing the net to see if it is the best buy and whether you can get it cheaper online.

Be realistic – giving up absolutely everything which is pleasurable is probably going to make your life miserable in the long term. So decide on one type of luxury that you are going to allow yourself e.g. an expensive haircut, a concert trip, meal out, etc. Perhaps you may need to consider indulging less than in the past, but the point is not to deprive yourself of every treat – we all need something to look forward to.

A virtue out of a necessity

Every cloud has a silver lining so let's look at what that might be. Merely depriving yourself of life's pleasures simply because you're not really able to afford them may not seem reward enough. So give yourself some higher ideals. You might decide to save for a big dream trip or project or even better, tie your new-found parsimony to improving your health and well-being.

Look at saving as a lifestyle changing exercise and money will automatically be saved, not by sacrifice but because it's good for you. Just look at a few of the ways you can make this happen:

An absolute is to cut down (out) the smoking. Next, reduce your consumption of alcohol. Eat fewer sweets, cakes and biscuits. Walk sometimes instead of jumping into your car. Cancel your expensive gym membership and take up jogging, walking or a sport. Eat fewer pre-prepared meals and buy more fresh fruit and vegetables. They really are cheaper! The better you feel about yourself the less you'll need to indulge in 'comfort' spending. And don't use that old chestnut 'lack of time' as an excuse!

And when you come to the end of the month and you look at how fit you are, physically and financially, well then that is the time to give yourself a little reward. Trade one 'luxury' item for another. For example, if you decide to give up or cut back on your alcohol consumption, use some of the amount saved to pay for your designated luxury (e.g. CDs, books, item of clothing, manicure, etc).

In the sophisticated world of finance it's not really efficient to keep your money in a biscuit tin. However, sometimes it can be good to see the money actually accumulating. So physically put the amount you are saving every day (or week) into a tin or jar and watch it grow. Then either reward yourself from it when you have enough, or put it in the bank. Satisfying, or what?

The bane of interest and loan payments

When it comes to making larger savings we need to do something different.

It's pretty certain that if you have a property then you probably have a mortgage. As you know, this is a long term loan, with reasonable interest and repayment requirements, which have been negotiated on the basis of your income expectations and which is secured on your property. It is planned for and everyone knows where they are.

Overdrafts and credit provided through credit cards are monumentally different. Interest rates vary from high to astronomical and no real account has been taken of your ability to service (pay interest and make repayments) these debts. They can become a millstone around your neck and if you cannot make the necessary payments the obligations will snowball.

You may have developed these liabilities for any number of reasons, some pure indulgence. So in future, this is where the real benefits of economising come in.

If you can cut back and make savings then you won't be increasing your debts and the money you have been saving will pay your interest, or even better repay amounts owed so reducing your future interest payments. In time you will be unshackled from these burdens and in good financial shape.

Now, isn't that worth doing something about?

Financial Planning and Tracking

Finally, if you're not already conversant with spreadsheets (Excel etc.) now is the time to become so. If you keep your accounts on a spreadsheet you can see exactly where you are financially at any point in time. You'll then be in a good position to consider other aspects of keeping your finances under control, for example:

- Getting online access to bank and savings accounts, bills, etc.
- Paying bills by direct debit
- Budgeting and saving for annual bills to avoid the additional charges for monthly or credit card payments.
- Planning your holidays and travel so that you can book at the time when the offers are best.

Once you're in control of your finances you'll start to have great financial flexibility. Best of all you'll start to feel you're ahead of the game – you'll be surprised how much this increases your confidence and reduces your worry, anxiety and stress. How much is that worth to you?