

# HOW TO MAKE A BUDGET AND STICK TO IT



A STEP-BY-STEP GUIDE TO  
CREATING YOUR FIRST BUDGET

EASY PEASY SHEETS



# WELCOME!

Hi, I'm Sara!

Welcome to *How to Make a Budget and Stick to It*.

My journey with money began when I was 18 and got my first summer job. In my early 20s, after seeing my partner doing so, I started diligently *tracking all my income and expenses*.

You might think this means I was also meticulous about my spending...  
well, not at all!

Even though I was aware of how much money was coming and going, I found myself *spending almost everything I earned for years*.

The truth is, I was never taught how to manage money, control expenses, or save.

While I was aware of my financial situation, I didn't have a budget to keep me on track and I was making so many *emotion-driven purchases*.

It wasn't until I reached my 30s that I started to understand the importance of having a *more structured financial plan*.

I began focusing on savings, controlling my overspending, and, most importantly, *shifting my money mindset*.

My goal with this toolkit is to guide you step by step through creating your first budget in a way that's clear, practical, and easy to follow.

Managing your money doesn't have to be complicated!

Let's get started!

# Five Steps to Creating a Budget

1

## Calculate your Net Income

Determine how much you truly have to work with

## Calculate your Expenses

Identify where your money is going

2

## Define your S.M.A.R.T. Goals

Set clear and achievable financial goals

3

## Choose Your Budgeting Strategy

Select a method that suits your needs and lifestyle

4

## Implement, Review and Adjust

Start tracking your income and expenses, and adjust your budget as needed

5

# 1

## Calculate your Net Income

To determine how much money you have available to spend and save, you first need to know your total **net income**.

This is the total amount of money you take home **after all deductions**, including taxes, pension contributions, etc.

Accurately calculating your net income ensures that you are **budgeting based on what you can actually spend**. Overestimating your income can lead to overspending, while underestimating it can restrict your budget unnecessarily.

Use the *Make Your First Budget* template provided in this toolkit (**STEP 1 tab**) and start filling it out by following these steps:

- **Write down all your monthly income sources:** List all the ways you earn money. Include your primary job, secondary jobs, freelance work, rental income, etc.
- **Include irregular income:** If your income fluctuates, such as from self-employment or freelance work, start by reviewing your earnings from the last 6 to 12 months and calculate a **baseline budget amount**. If the fluctuations are minor and relatively stable (most months are consistent with slight variations), it's safe to base your budget on either the **average income** or the **lowest month**. However, if your income varies significantly (with some months being much higher while others much lower), it's best to calculate the average of the 3 to 6 lowest months from that period (see more tips on page 24).
- **For bi-weekly and weekly income:** If you're paid weekly or bi-weekly, use the "Weekly" and "Biweekly" tables to calculate the **monthly average**.
- **Subtract deductions:** If you only have gross income figures, use the deductions tables to list all taxes, retirement contributions, insurance, etc. If you are **self-employed** and you pay your income taxes annually, I suggest you enter these in the "Annual Fixed Expenses" table. This will ensure your taxes are included in the periodic expenses that contribute to your monthly **"buffer"**.

# 2

## Calculate your Expenses

Your monthly expenses can be categorized into **Fixed and Variable Expenses**.

Fixed Expenses are often referred to as **bills** and include recurring costs that do not change much month after month. These expenses form the **non-negotiable part of your budget** and are often essential for daily living. Some Fixed Expenses may be paid annually or semi-annually, so it's important to calculate these and include them in your budget by breaking them down into **monthly amounts**.

Some common Fixed Expenses are:

- **Rent or mortgage.**
- **Utilities:** electricity, water, gas, and trash removal (these may slightly fluctuate but generally stay within a consistent range).
- **Insurance premiums:** health, car, home, and life insurance premiums.
- **Loan payments:** minimum payments for student loans, car loans, personal loans, etc.
- **Subscriptions and memberships:** streaming services, gym memberships, and other regular subscriptions.
- **Childcare and education:** daycare, school tuition, etc.

Variable Expenses are costs that fluctuate from month to month.

Go through your bank statements from the past **1 to 3 months** and take a **monthly average** of what you've spent in categories like food, entertainment, shopping, and transportation.

Use the tables provided in the **STEP 0 tab** to assist with these calculations. You can add a **small buffer** to each category to ensure you're not underestimating your spending and to **accommodate any unexpected expenses**.

Some common Variable Expenses are:

- **Groceries.**
- **Dining out:** restaurants, coffee shops, and takeout.
- **Entertainment:** movies, concerts, hobbies, and leisure activities.
- **Transportation:** fuel, public transport, and parking.
- **Shopping:** apparel, accessories, etc.
- **Personal care:** hygiene and beauty products, haircuts, etc.
- **Miscellaneous:** gifts, donations, and other discretionary spending.

Common annual expenses are:

- **Income taxes:** if you're self-employed, for example.
- **Property taxes.**
- **Car insurance premiums.**
- **Home insurance premiums.**
- **Vehicle registration.**
- **Fees for professional licenses and certifications.**
- **Pet care:** annual vet visits and vaccinations.
- **Membership fees:** some professional associations or organizations may require annual fees.
- **Subscriptions:** some services offer a discounted annual subscription (Amazon Prime, software licenses).
- **Tax preparation fees.**
- **School tuition and fees:** annual tuition payments for private schools or universities.
- **Holiday costs:** if you usually plan a big vacation once a year, you can count it as an annual expense.

Common semi-annual expenses are:

- **Home insurance premiums:** some may pay their insurance premiums every six months.
- **Car insurance premiums:** semi-annual payment options are common for car insurance.
- **Health insurance premiums:** if not paid monthly, health insurance can sometimes be billed semi-annually.
- **Membership fees:** some memberships or service fees are billed every six months.
- **Subscription services:** some magazines or other services may offer a semi-annual billing cycle.
- **Tax preparation fees:** if you use a professional service for tax preparation, you might pay this fee semi-annually.

Your regular monthly expenses are calculated separately from your periodic expenses.

This way, **you won't mistakenly count funds meant for semi-annual or annual costs as part of your available monthly budget.**

Often, people **overlook these less frequent expenses when creating a budget**, which can lead to unexpected financial stress later on.

When these costs come up, you might end up using credit cards or dipping into your savings to cover them.

To keep your budget accurate and realistic, make sure to **factor in these periodic expenses in your planning.**

It's crucial to **set aside this monthly average amount each month.**

You can either transfer it into a **dedicated savings account** specifically for these periodic expenses or **leave some breathing room in your general budget.**

Maintaining a **buffer** will ensure that you always have a reserved amount available to cover these less frequent costs when they arise.

If you are **self-employed** and your income taxes vary, take an average of the last 3 to 5 years and include it in the "Annual Fixed Expenses" table.

Alternatively, review your past taxes and **determine the percentage of your income that typically goes to taxes.** You can do this by dividing the taxes paid in a given year by your total income for that year, then multiplying by 100.

Let's say in 2024, you earned £50,000 and paid £10,000 in taxes.

- $£10,000 \div £50,000 = 0.20$

Multiply by 100 to get the percentage:

- $0.20 \times 100 = 20\%$

So, in 2024, you paid 20% of your income in taxes.

If you find that you usually pay around 20% in taxes, **apply this percentage to your yearly income** (you'll find this in the top right corner of the STEP 1 tab) and add the resulting figure to the "Annual Fixed Expenses" table.

This ensures that money for taxes is included in your budget buffer.



## Define your S.M.A.R.T. Goals

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Setting goals is a crucial part of budgeting because it provides direction and motivation for your financial decisions. Goals help you prioritize your spending, track your progress, and stay committed to your financial plan. Without clear goals, it can be challenging to maintain focus on what you want to achieve.

To make your goals actionable and achievable, use the **SMART criteria**.

1. **Make them Specific:** your goal should be **precise**. For example, instead of saying "I want to save more money", specify "I want to save £500 each month for a down payment on a house".

2. **Make them Measurable:** set criteria that allow you to **track your progress**. For instance, if your goal is to reduce debt, specify "I want to pay off £3,000 in credit card debt within six months".

3. **Make them Achievable:** make sure your goal is **realistic and attainable** given your current situation and resources. For example, setting a goal to save £10,000 in three months might be unrealistic if your income is limited. Instead, aim for "I want to save an additional £200 per month by reducing discretionary spending".

4. **Make them Relevant:** your goal should be **meaningful to you** and align with your values. If your long-term goal is to travel more, a relevant goal might be to "save £100 per month in a dedicated travel fund to afford a holiday next year".

5. **Make them Time-bound:** when you set a **clear deadline** for achieving your goal it creates a sense of urgency and helps you stay focused. For example, instead of a general goal like "I want to start investing", a time-bound goal would be "I want to open an investment account and make my first deposit of £2,000 within 3 months".

Goals can vary widely depending on your financial situation and aspirations. If you feel overwhelmed by where to start, here are some examples to consider:

- **Saving a certain percentage of your net income each month:** aim to save a specific percentage of your net income, for example, **20%**, which is ideal. However, you can start with a smaller percentage, like 10%, and gradually increase it as you become more comfortable with your budget.
- **Building an emergency fund:** if you don't already have one, work towards creating an emergency fund that covers **three to six months of living expenses**.
- **Saving a specific amount by a set date:** set a goal to save a particular amount by a certain date for a specific purpose, such as a holiday or a major purchase.
- **Paying off your debt by a certain deadline:** for example, you might set a goal to reduce your credit card debt by £2,000 within six months.

Use the template provided in this toolkit to **put your goals in writing**. This makes them more tangible and easier to commit to.

You don't need to start with multiple goals - **focusing on just one goal is perfectly fine**.

Begin with a single, well-defined goal. You can add new ones as you make progress.



# Choose Your Budgeting Strategy

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Now that you have defined one or more financial goals, it's time to choose a **budgeting strategy** that aligns with your savings or debt pay-off plans.

Depending on how precise and detailed you want to be with your budgeting, there are various strategies you can choose from.

Each one offers a different level of control and flexibility, catering to different financial situations and personality types.

Some people prefer a **highly detailed** approach that tracks every penny, while others might opt for a **more relaxed** method that focuses on broader categories. The choice can significantly impact your ability to save, manage expenses, and ultimately achieve your goals.

In this section, I will cover **7 budgeting strategies**, outlining their **pros** and **cons** to help you find the one that best suits your needs.

Remember, no strategy is set in stone – these are simply **guidelines** that can help you by giving you structure. **They're not meant to be restrictive or add pressure or stress to your life.**

If you try one and, after a month, you feel like it isn't working for you, don't hesitate to adjust the percentages or try a different approach.

These are the 7 Budgeting Strategies:

1. The **80/20 Budget**.
2. The **50/30/20 Budget**.
3. The **70/20/10 Budget**.
4. The **75/15/10 Budget**.
5. The **Goal-based Budget**.
6. The **No-budget Budget**.
7. The **Zero-based Budget**.

# 1 The 80/20 Budget

The **80/20 rule** is a simple budgeting strategy that focuses on **two main categories**:

1. **80% for Expenses**: this includes both necessary and discretionary spending (fixed expenses, including minimum payments for loans and credit cards, and variable expenses).
2. **20% for Savings**: this includes anything dedicated to building financial security (savings, emergency funds, debt repayments beyond minimum payments, and investments).

The goal is to **consistently save and invest this 20% portion** to ensure financial stability and growth over time. You can split up that 20% into different accounts. For example, 10% can go into a retirement savings account, 5% can be directed to an emergency fund, and the remaining 5% can be allocated to a brokerage account for investments.

If you find overspending in certain areas, re-evaluate and adjust your spending habits accordingly, reallocating funds within the 80% category to better align with your actual needs.

## Pros

- **Straightforward** and **easy** to implement. Ideal for those who find detailed budgeting overwhelming.
- Allows **flexibility** within the 80% spending category.
- By focusing on savings, it encourages **disciplined saving habits**.

## Cons

- You need to make sure to **cover all your essentials** before spending on discretionary items or activities to avoid exceeding the 80% portion.
- While this strategy can include debt repayment within the 20%, those with **significant debt** might need a more aggressive repayment plan.
- If your **income increases**, you may be tempted to keep the saving percentage as is and upgrade your lifestyle instead of being disciplined and saving more money (this applies to all percentage-based strategies).

## 2 The 50/30/20 Budget

The **50/30/20 budget rule** is another popular and straightforward method that divides your after-tax income into **three primary categories**:

1. **50% for Needs**: this covers essential living expenses that are necessary for survival and basic functioning (housing, utilities, groceries, healthcare, minimum payments on any debts such as student loans or credit cards).
2. **30% for Wants**: this includes discretionary spending on non-essential items and activities (dining out, shopping, entertainment, holidays, subscriptions, memberships).
3. **20% for Savings and Debt**: this portion is dedicated to improving your financial health and securing your future (savings, investments, debt repayments beyond minimum payments).

### Pros

- Provides a **balanced** way to manage necessities, enjoy life, and save for your future.
- Helps **reduce splurging** on unnecessary items by setting clear spending limits on your Wants.
- Emphasizes **building financial security** and **reducing debt**.

### Cons

- In **high-cost living areas**, it might be challenging to keep needs within 50% of income.
- Those with **high debt levels** might need to use the entire 20% or more for debt repayment, which would reduce the amount saved.
- If you have an **irregular income** you may need to adjust the percentages and reduce the amount allocated to wants or savings.
- It can be **difficult to categorize** some expenses as needs or wants. For example, items like gym memberships or premium grocery choices might be essential for some but considered discretionary for others. To handle these grey areas, consider evaluating the purpose and frequency of the expense. If the item or service significantly contributes to your well-being or daily living, categorize it as a "Need". For anything less essential, label it as a "Want".

## 3 The 70/20/10 Budget

The **70/20/10 budget rule** divides your after-tax income into **three primary categories**:

1. **70% for Expenses**: this covers all your living expenses, both necessary and discretionary, fixed and variable.
2. **20% for Savings and Investments**: this portion is allocated for building financial security (emergency funds, short-term and long-term savings, and investments, such as retirement accounts, mutual funds, etc).
3. **10% for Debt Repayment or Donations**: depending on your financial situation and values this portion can be used to pay down high-interest debt more aggressively or donate to charitable organizations.

If you have **high debt levels**, you can switch the Savings and Debt percentages:

1. **70% for Expenses.**
2. **20% for Debt Repayment.**
3. **10% for Savings.**

### Pros

- Provides a **balanced** way to manage necessities, save money, and pay off debt.
- Emphasizes the importance of **reducing debt alongside saving**.

### Cons

- It **doesn't separate** between necessary and discretionary spending. This means that, like the 80/20 strategy, you need to make sure you cover all your living costs before spending on discretionary items or activities to avoid exceeding the 70% portion.
- If you have an **irregular income**, sticking to these percentages might be difficult.
- Those with **high debt levels** might need to allocate more than 10% or 20% to debt repayment, which could require reducing the amount allocated to savings and investments.

## 4 The 75/15/10 Budget

The **75/15/10 budget rule** divides your after-tax income into three primary categories:

1. **75% for Expenses**: this covers all your living expenses, both necessary and discretionary, fixed and variable.
2. **15% for Investments**: these can be retirement accounts, bonds, ETFs, mutual funds, or other investment vehicles that are not just savings, they **grow your wealth over time**.
3. **10% for Savings**: this is directed towards building an emergency fund, a financial cushion for unexpected expenses (ideally 3-6 months worth of living expenses). Once you have built your emergency fund you can use part of these savings for your short-term goals (holidays, larger purchases, etc).

### Pros

- It allows for a relatively **high percentage to be allocated to expenses**, which can be helpful for those with higher living costs.
- By dedicating 15% of your income to investments, this rule emphasizes the importance of **growing your wealth** and taking advantage of **compound interest and market growth**. Regular investments can secure a more comfortable retirement, potentially allowing for earlier retirement or higher retirement income.

### Cons

- For those unfamiliar with investments, it will require **additional learning** or **professional advice**.
- Those with **high debt levels** might need to allocate all or more of the investments and/or savings percentages towards debt repayments first.
- With savings focused mainly on emergency funds, you may find it **difficult to save for short-term goals** like holidays, home renovations, or large purchases. This can delay or prevent you from achieving personal aspirations that are important to you.

## 5 The Goal-based Budget

The **Goal-based Budget** is a strategy that prioritizes **saving for specific goals** before any other expenses.

You basically set aside a certain amount of your income **before you spend on anything else**.

After prioritizing your savings (or debt), the remaining amount is used to cover essential living expenses (housing, utilities, groceries, transportation, healthcare, and debt payments).

Any funds left after covering essential expenses can be used for discretionary spending (dining out, entertainment, shopping, holidays, subscriptions, memberships).

The key to this strategy is **flexibility**: instead of adhering to a percentage, you focus on the goals you want to achieve, whether that means saving 10% or 40% of your income.

### Pros

- Allows you to **adjust savings amounts** based on changing goals or financial circumstances, rather than adhering to a fixed percentage.
- Encourages **discipline** and ensures that saving is consistently prioritized.
- It's **adaptable** to different income levels and financial goals.
- Clear goals can increase **motivation** to save and **stick** to the budget.

### Cons

- If you have an **irregular income** you may need to adjust the savings amount each month to maintain a balance.
- You need to make sure that your **essential living expenses** are covered after prioritizing savings.
- Setting ambitious goals can create **pressure** and **stress**, especially if financial situations change or unexpected expenses occur.

## 6 The No-budget Budget

The **No-Budget Budget** is a strategy where you don't track your spending in specific categories or set strict spending limits. Instead, you focus on a **few key financial practices**:

- **Paying your bills**: you ensure that all your bills and financial obligations are met on time.
- **Saving regularly**: you commit to saving a predetermined amount or percentage of your income.
- **Spending freely**: after covering bills and savings, you are free to spend the remaining funds on whatever you choose without the constraints of a detailed budget.

This approach relies on having **good financial habits and discipline** without the detailed oversight of traditional budgeting methods.

### Pros

- It's **simple** and it eliminates the need for detailed categorizing of expenses.
- It gives you the **freedom to spend as you wish** without feeling restricted by predefined budget categories.
- It **removes the pressure and stress** associated with sticking to a detailed budget, allowing for a more relaxed approach to money management.
- It focuses on the **big picture** without getting bogged down in the details.

### Cons

- May result in **less awareness** of where your money is going, making it harder to identify areas for improvement.
- The **lack of detailed planning** can lead to inconsistent savings, especially if spending habits are not disciplined.
- Without specific targets and tracking, it can be **harder to achieve** long-term financial **goals**.
- It requires **strong discipline**, which may not be suitable for everyone.

## 7 The Zero-based Budget

The **Zero-based budget** is the best choice for those seeking **precise control** over their finances.

This budgeting method requires you to allocate every dollar of your monthly income to a specific purpose, ensuring that the total amount of income and expenses **balances to zero**.

This doesn't mean you spend everything! Rather, it involves carefully planning and assigning funds to every spending category, including savings, debt, and investments.

If you underspend in one category, you can reallocate the remaining funds to another category or carry them over to the next month.

By prioritizing your living expenses and savings, the Zero-based budget can help you save more by encouraging you to reflect on your discretionary spending and prioritize what truly matters.

This process makes you **more intentional** about where your money goes and **prevents impulsive spending**.

### Pros

- Provides a **detailed and precise** understanding of where your money goes.
- Encourages planned spending, **reducing impulsive purchases**.

### Cons

- Requires **regular monitoring and adjustments**, which can be time-consuming.
- Demands a **high level of discipline** to track and stick to each budget.
- If you have an **irregular income**, may need frequent adjustments making it more challenging to predict and allocate funds.

# How to Choose the Right Budget Strategy for You

## 80/20 Budget

Good for you if:

- You want to **prioritize savings** while maintaining a **flexible spending approach**.
- You have a **stable income** with **manageable expenses**.
- You prefer a **simple budgeting method** without extensive tracking.
- Your **debt is under control** and you have a moderate level of savings.
- You know **how to prioritize your needs** over your wants.

## 50/30/20 Budget

Good for you if:

- You seek a balanced approach with a **clear separation** of needs, wants, and savings.
- You have a **stable and relatively high income** (or low expenses), and you can comfortably categorize your spending.
- You may have **some debt** but are able to allocate a portion of your needs to debt repayment.
- You may struggle with **overspending on non-essential items** and need structure to manage it.

## 70/20/10 Budget

Good for you if:

- You want to **prioritize savings and debt** repayments.
- Your income allows you to cover your living expenses with **room to save and pay down debt**.
- You have **some debt** but are looking to save while managing repayments.
- You have **moderate debt** and want to allocate 20% or 30% towards debt reduction before focusing on savings.

## 75/15/10 Budget

Good for you if:

- You have a **stable income** with **manageable expenses**.
- You want to focus on **building wealth over time**, leveraging the power of compound interest.
- You **don't want or need to save aggressively** for short-term goals.
- You have **low debt levels**.

## Goal-based Budget

Good for you if:

- You have **specific financial goals**, such as saving for a home or a major purchase.
- Your **income varies**, requiring a flexible budgeting approach.
- You have **moderate to high debt** and are focused on paying it off before saving.
- You need a budgeting plan that **adapts to your financial targets**.

## No-budget Budget

Good for you if:

- You **dislike traditional budgeting** but still want to keep track of your spending.
- Your **income varies**, requiring a flexible budgeting approach.
- You have **low debt** and prefer a more relaxed approach to financial management.
- You want to maintain **flexibility without strict budgeting rules**.

## Zero-based Budget

Good for you if:

- You want to ensure **every dollar** of your income is accounted for and purposefully **allocated**.
- You have a detailed view of your income and expenses, and can handle a **meticulous budgeting** approach.
- You may have **significant debt** and need a **disciplined strategy** to manage it before or while saving.
- You are committed to tracking and adjusting your budget on a **monthly basis**.

# 5

## Implement, Review, and Adjust

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Now you can start creating your actual budget (**STEP 5 tab**).

Begin by **comparing** your expense categories and the amounts calculated in Step 1 to the guidelines of the budgeting strategy you've chosen.

Assess how your current spending aligns with the strategy.

Are your amounts close to the recommended limits, or are they significantly off? Once you've identified the differences, you can **begin making adjustments**.

If you're following a percentage-based strategy, evaluate how you can reduce spending in each category so that it doesn't exceed the recommended percentages.

However, try not to reduce category budgets too drastically. Start with small adjustments, like **cutting by 10%**, and see how that works for you.

If you find it easier to reduce spending in one category, such as eating out, but more challenging in another, like shopping, adjust each category accordingly. You can **prioritize larger cuts where it's easier and more sustainable** for you.

If the strategy you've chosen feels too far from your current spending habits, consider starting with a less restrictive approach and gradually working your way toward more significant changes over time.

This will allow you to make **gradual adjustments** and ease into changing your spending habits over time, rather than making drastic changes all at once that would make it difficult to stick to the budget and potentially throw it off entirely.

# Good Budgeting Practices

No matter which budgeting strategy you end up choosing, some practices are beneficial for all of them.

## Step 1. Set up your Savings and Investment Accounts.

To make saving and investing easier, set up the necessary accounts. These could be:

- A **high-yield savings account** for your emergency fund if you don't have one already.
- A **retirement savings account**.
- A **separate account** for short-term saving goals (holidays, house downpayment).
- A **brokerage account** for your long-term investments.

## Step 2. Automate Your Savings and Debt Repayments.

To ensure consistency, set up automatic transfers to your savings and investment accounts (or for debt repayment).

**Schedule** these transfers to occur **as soon as you receive your income**.

## Step 3. Track Your Spending.

To stay on track, use the budgeting templates provided in this toolkit to **monitor your expenses**.

Record all your spending and **compare it against your budgeted amounts** regularly.

If you find that you are overspending in certain areas, re-evaluate your spending habits and make the necessary adjustments.

This might mean cutting back on discretionary spending, finding ways to reduce fixed expenses or increase your income.

## Step 4. Always keep a buffer for your periodic expenses (annual and semi-annual).

When creating and assigning budgets to each category **always remember to account for your buffer amount**. Alternatively, **transfer it into a separate account** to avoid spending it accidentally.

## Detailed vs Broad Budgeting Approach

When implementing any budget, it's **crucial to track your spending** to ensure you stay within your allocated limits, whether you use a percentage-based budgeting strategy or a more flexible approach.

Tracking can be done in varying levels of detail depending on your preferences and the complexity of your budget.

You can either **monitor each expense category individually** or **focus on the broader budget categories**.

The detailed approach involves setting budgets for specific categories ("groceries", "shopping", "utilities", etc), while the broad approach looks at your overall spending within major budget categories ("expenses", "savings", "debt").

For example, if you adopt the 80/20 method, you can either **create specific budgets for each spending category** (e.g., £200 for groceries, £50 for transportation, £100 for shopping) or simply **monitor your total spending to ensure it stays within the 80% threshold** of your income.

Although more restrictive, if you don't set budget limits for specific expense categories – particularly the discretionary ones – it's **easier to overspend**. This could lead to exceeding the 80% budget allocation, erode your savings, or accumulate more credit card debt.

## How to Adjust Your Budget

When creating your spending plan, start by looking at your spending and identifying where and how you can **cut costs in the highest spending categories**.

For example, if you spend a lot on groceries and tend to buy expensive brands, consider reviewing your grocery shopping habits and start shopping at discount stores or choosing supermarket brands.

If you have a £500 car payment, consider opting for a cheaper alternative.

Generally, focus on **cutting big expenses before addressing smaller expenses** like daily coffee.

Cutting larger expenses first will have a more significant impact on your budget.

It's important to understand that **budgeting doesn't mean living a life of constant sacrifice**.

While it's crucial to make adjustments and prioritize essential spending, it's also important to treat yourself.

Understanding your **values** can guide how you allocate your money.

For instance, do you need to buy a £20 shampoo, or could a £5 alternative work just as well, allowing you to save up for something you're truly passionate about? The same goes for other luxury items like high-end makeup or expensive skincare.

If you have a passion for a hobby but don't care about fashion, you might choose to cut back on clothing expenses and redirect that money toward your hobby.

**Prioritize spending on products that make a significant difference to you and save on those that don't.**

I believe it's crucial to **learn to live under your means in less important areas of your life while fully enjoying what matters most to you.**

## Tips for Irregular Income

If you have an irregular income, it's important to establish a **baseline budget** on which you can structure your budgeting strategy. You can calculate this baseline budget in several ways:

- **Use the average for mild fluctuations:** If your income doesn't fluctuate dramatically and the **variations are manageable** (most months are consistent with slight variations), calculate the **average** of your last 6 to 12 months of earnings. Use the "Irregular Income" table in the **STEP 1** tab of the "Make Your First Budget" template to assist with this calculation.

For example, let's say your last 6 months of income look like this:

- Month 1: £3,000
- Month 2: £3,500
- Month 3: £2,800
- Month 4: £3,600
- Month 5: £3,100
- Month 6: £3,200

The total income over 6 months is £19,200. Dividing that by 6 gives an average monthly income of £3,200. In this case, budgeting based on an average of £3,200 would be reasonable since the income fluctuations aren't extreme.

- **Use the lowest month:** If you want to be more conservative, you can choose to budget based on your **lowest month**. In the above example, that would mean using £2,800 for your budget, particularly for essential expenses such as rent, bills, and groceries. This ensures you have enough to cover your necessary costs, even in slower months.
- **Remove peak income months:** if your income has **occasional spikes** (one or two months of unusually high earnings) it may be wise to remove those peak months when calculating your average.

For example, if your last 6 months of income look like this:

- Month 1: £2,400
- Month 2: £6,500 (peak)
- Month 3: £2,300
- Month 4: £2,800
- Month 5: £7,000 (peak)
- Month 6: £2,500

By removing the peaks (£6,500 and £7,000), the average becomes:  
 $(£2,400 + £2,300 + £2,800 + £2,500) \div 4 = £2,500$

- **Average the lowest months:** If your income **varies significantly** from month to month, with some months being much higher and others much lower, it's best to budget based on the **average of your lowest months** rather than using the overall average, which could lead to an overestimation, or the absolute lowest month, which could be unnecessarily restrictive. This approach is especially useful for essential expenses like rent, utilities, and food, as it provides a **conservative baseline without being as limiting** as relying solely on the lowest month.

For example, let's say your last 6 months of income look like this:

- Month 1: £1,800
- Month 2: £6,000
- Month 3: £2,900
- Month 4: £5,500
- Month 5: £2,200
- Month 6: £4,000

Given the significant variation in your income, using the lowest month of £1,800 could be a bit too restrictive.

Instead, consider averaging your 3 (or 6) lowest months:

$$(\pounds1,800 + \pounds2,900 + \pounds2,200) \div 3 = \pounds2,300$$

Budgeting your expenses based on this average of £2,300 provides a safer baseline. This way, you can be confident that you can cover your necessary costs, regardless of how unpredictable your income may be.

While the examples use 6 months of income, it's usually better to look at 12 months for a more accurate assessment.

- **Use your baseline budget to structure your overall budgeting plan:** once you have determined your baseline budget amount, you can allocate funds for essential expenses, savings, and discretionary spending accordingly, using any of the budgeting strategies presented in the guide.
- **Allocate extra income strategically:** when your income exceeds your baseline, it can be tempting to splurge on discretionary items. Instead, aim to allocate that extra cash strategically. For example, you might decide to allocate 50% of the extra amount to your savings/investments, 30% for investing in your personal growth, tools, training, or services that can help grow your business, and 20% for discretionary spending.

## Tips to Stick to Your Budget

Here are some additional tips that can help you stick to your budget:

- Set a **daily or weekly reminder to log your expenses**.
- **Use cash for discretionary spending**: withdraw a set amount of cash for non-essential spending each week. This is the amount you'll have to spend, and once it's gone, you can't exceed it.
- **Cut unnecessary subscriptions**: review all your subscriptions and cancel those you don't use regularly.
- **Shop smart**: always compare prices, use coupons, and buy in bulk when it makes sense.
- **Shop secondhand**: always check for secondhand alternatives. Explore secondhand stores, apps, online marketplaces, or local thrift shops for clothing, furniture, and household items.
- **Surround yourself with support**: share your budgeting goals with a trusted friend or partner for support. This creates accountability, helps you stay motivated, and provides encouragement.
- **Avoid using credit cards for unplanned purchases**: if you tend to make impulse purchases, use credit cards sparingly. Reserve them only for planned expenses. Remember that debt isn't always bad when used strategically. Planned debt, such as taking out a loan for higher education or financing a business, can be beneficial if it contributes to your long-term financial growth.
- **Recognize emotional spending triggers**: identify situations or emotions that lead to impulse buying and find healthier coping mechanisms.
- **Invest in yourself**: consider prioritizing investing in education or skills that can increase your earning potential over time.
- **Plan for big expenses**: save in advance for large purchases like a new car or vacation to avoid unnecessary debt.
- **Use windfalls wisely**: put bonuses, tax refunds, or other unexpected income toward your financial goals rather than splurging.
- **Expect setbacks (and don't panic!)**: life happens, and sometimes unexpected expenses throw off your budget. That's normal! Instead of feeling discouraged, plan ahead by building an emergency fund, for example. A setback doesn't mean failure – it just means it's time to adjust and move forward. The key is to be flexible and keep going.

- **Work on your money mindset:** Your mindset around money plays a huge role in your budgeting journey. If you've ever caught yourself thinking "I'll never be good with money" or "I'll never get out of debt," it's time to challenge those beliefs. Take the time to understand where these beliefs come from, when you first adopted them, and how they may be limiting your life. Most importantly, ask yourself how these beliefs are actually serving you—what are they protecting you from? Shifting to a mindset of abundance and possibility can change the way you approach your finances. Remember, **changing your mindset is just as important as managing the numbers!**
- **Take ownership of your finances:** budgeting is about taking responsibility and facing your financial reality head-on, even if it feels uncomfortable at first. It's okay if things aren't perfect right now – what matters is that you're taking control and making intentional choices about your money. Don't be afraid to look at the numbers: **awareness is the first step toward change.** It's also perfectly normal for progress to take time. Building a solid financial foundation and the right money mindset is a process, and each step forward, no matter how small, is a step in the right direction. Stick with it – you're reclaiming your financial power!

✨ If you want to continue your journey toward **mindful money habits**, here are a few tools to deepen your relationship with money and spend more intentionally:

- [Mindset Budget Planners](#)
- [Conscious Consumer Checklist](#)
- [Mindful Wish Lists](#)
- [Savings Trackers](#)
- or save with our [Bundles](#)