

# **BUDGETING ASSISTANCE AND LOW INCOME FAMILIES: CHANGES IN INCOME AND EXPENDITURE<sup>1</sup>**

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## **INTRODUCTION**

The New Zealand Federation of Family Budgeting Services Incorporated (NZFFBS) and its 153 affiliates are important providers of social services in New Zealand. Their work assists a large number of clients, most of whom rely on Department of Social Welfare benefits of one form or another as their main source of income. In the year to June 1994 the NZFFBS provided budgeting advice to around 25,000 clients – 14,000 of whom received ongoing assistance and 11,000 of whom received "one-off" assistance.

This paper examines the impact of budgeting advice on low-income families' patterns of income, expenditure and indebtedness and the extent to which budget advice has assisted clients to live within a balanced budget. It is based on a study of 358 clients of the NZFFBS which was undertaken in 1994, the results of which are presented in more detail in a separate project report.<sup>2</sup>

## **DATA COLLECTION**

The survey population consisted of those clients who would require ongoing budget advice for more than one month.

Data was collected by budget advisors in 31 participating services which were spread throughout New Zealand from Northland to South Otago. Key information was gathered on the standard budget worksheets (which record household income and expenditure on a weekly basis) and debt schedules which are used in the budget advice process. For each client who agreed to participate in the study, a budget worksheet and debt schedule was prepared at the outset of budget advice – these described the financial situation of the client before receiving budget advice. Following budget advice, a second worksheet and debt schedule was prepared – these described the client's financial situation after budget advice. If, after three months, the

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<sup>2</sup> Anthony G. Wilson, Ruth M. Houghton and Rachel K. Pipe (1995) *Budgeting Assistance to Low-Income Families: A Survey of Patterns of Income and Expenditure of New Zealand Federation of Family Budgeting Service Clients*, Social Policy Agency, Department of Social Welfare, Wellington.

client was still receiving budget advice, their most recent (interim) worksheet and debt schedule were used to describe their situation after receiving advice.

## CLIENT CHARACTERISTICS

Almost three-quarters of clients in the survey (74%) were beneficiaries and one-quarter (25%) wage or salary earners. These proportions match those of NZFFBS clients as a whole. About half the beneficiary clients were receiving the Domestic Purposes Benefit with a further 26% receiving the Unemployment Benefit. The remainder were receiving a variety of other benefits.

For both beneficiary and wage-earning clients the main reasons for seeking budget advice were high levels of debt (53% of beneficiaries and 58% of wage earners), or general budgeting problems. Unexpected events, involving either loss of income or increased expenses were regarded as relatively uncommon reasons for clients seeking budget advice. This would suggest that clients' financial difficulties generally arise from gradual accumulation of debt rather than sudden unfavourable events. While budget advisors report that one-off events (such as the final demand on an electricity account) are often the immediate cause of clients seeking budget advice, it is usually a lengthy accumulation of debt and worsening financial situation which turns such events into crises which necessitate budget advice.

## COMPLETION OF BUDGET ADVICE

Approximately two-thirds of clients (64%) who completed an initial budget worksheet went on to develop a workable budget within the three-month study time frame. Another 14% of clients had developed interim budgets at the end of three months. These two groups of clients form the basis for the analysis in the following sections.

Approximately one-fifth of the clients (23% of beneficiaries and 18% of wage earners) did not complete a second budget worksheet.

Among those clients who did not complete a second budget worksheet, the main reasons given by budget advisers were lack of client commitment (35% of beneficiaries and 40% of wage earners) and "other" factors specific to the individual clients involved (38% of beneficiaries and 53% of wage earners). The financial situations of one quarter of beneficiaries and 7% of wage earners were judged to be beyond the capacity of the service to assist. Very few clients (2% of beneficiaries and no wage earners) were referred to other agencies for budget advice or assistance.

## PATTERNS OF INCOME, EXPENDITURE AND INDEBTEDNESS

### Sources of Income and Expenditure

The average levels of income and expenditure of clients who were beneficiaries and wage earners at the outset of the budget advice process are shown in Table 1. The

mean average weekly income of beneficiaries was \$267 (after tax), substantially lower than that of wage earners (at \$447 per week after tax). Beneficiary clients relied almost entirely on benefits for their income and wage earner clients relied almost entirely on salary/wages for their income.

Before budget advice, both groups of clients were, on average, spending about \$20 more each week than they received in income. Total levels of expenditure tended to mirror total levels of income, except that expenditure was slightly higher. Reflecting their relative levels of income, beneficiary clients spent substantially less than did wage earners – beneficiaries' expenditure averaged \$289 per week and wage earners \$461 per week. On average, beneficiary clients spent \$22 more per week than they received in income and wage earner clients spent \$14 more per week than they received.

Table 1 also shows the clients' different areas of spending. Beneficiary clients spent a higher proportion of their income on accommodation and household operation and less on transport and personal items. A significant proportion of beneficiaries' and wage earners' expenditure was on debt repayment (15% and 18% of total expenditure respectively).

**Table 1 Average Weekly Income and Expenditure: before Budgeting Process**

(mean \$/week)	All clients (n=290)		Beneficiaries (n=212)		Wage Earners (n=75)	
<b>Income</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Salary/Wages	112.55	35.9	5.10	1.9	418.58	93.7
Benefit	177.28	56.5	241.95	90.8	1.63	0.4
Other	23.88	7.6	19.55	7.3	26.30	5.9
Total Income	313.71	100.0	266.60	100.0	446.51	100.0
<b>Expenditure</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Accommodation	107.10	32.1	98.65	34.2	129.65	28.1
Household	107.17	32.1	99.33	34.4	127.44	27.7
Transport	19.46	5.8	14.38	5.0	33.67	7.3
Personal	17.36	5.2	11.37	3.9	34.79	7.6
Health	4.67	1.4	4.08	1.4	6.20	1.3
Legal and Insurance	8.34	2.5	4.52	1.6	18.89	4.1
Debt Repayment	53.99	16.2	44.01	15.2	83.17	18.1
Savings	3.06	0.9	1.24	0.4	8.35	1.8
Other	13.03	3.9	11.15	3.9	18.43	4.0
Total Expenditure	334.08	100.0	288.63	100.0	460.59	100.0
<b>Surplus (deficit)</b>	<b>(20.37)</b>		<b>(22.03)</b>		<b>(14.08)</b>	

Note: Expenditure categories are composed as follows: Accommodation: includes rent, board, mortgage, rates and house maintenance  
Household: includes food/groceries, TV rental, electricity, telephone, gas, TV licence fee, pet costs and clothing  
Transport: includes petrol, fares, Warrant of Fitness, vehicle registration, vehicle maintenance.  
Personal: includes personal cash, pocket money, donations, recreation and presents.  
Health: health costs.  
Legal and Insurance: legal costs, court payments, insurance costs.  
Debt Repayment: includes hire purchase, credit and store cards and other loan repayments.  
Savings: savings scheme contributions.  
Other: includes children's education, school fees and other unspecified expenditure.

### Changes After Budget Advice

After three months of budget advice the average weekly income of clients in both beneficiary and wage-earner groups had risen. In the case of beneficiary clients, the rise was statistically highly significant. These changes in clients' income and expenditure are shown in Table 2.

Within both groups, the proportion of income obtained from any particular source (i.e., benefits or wages) remained similar after budget advice to what it was before. Among wage earners there were small increases in weekly income from wages, benefits and other sources. The cumulative effect was an increase in average weekly

income of \$20 per week. Among beneficiary clients just over half the average increase in income came from increased wages/salaries. This was partially due to a small number of beneficiary clients finding full-time or part-time employment during the budget advice process. The extent to which budget advice contributed to clients finding employment is not known. The balance of the increase was due to increased income from benefits and from other sources (e.g., boarders).

After budget advice the average weekly expenditure dropped significantly for both beneficiary and wage-earning clients, indicating that the budget advice process provided clients with strategies for reducing expenditure.

The relative levels of expenditure in different categories remained about the same after budget advice as before. Table 2 shows that rather than reducing total expenditure by cutting back on a few selected items, total expenditure tended to be reduced by cutting back on small amounts across the board. The exception to this is expenditure on debt repayments which fell more than expenditure on any other category for both types of clients and accounted for 50% of the overall average reduction in expenditure.

**Table 2 Changes in Average Weekly Income and Expenditure**

(? mean \$/week)	All clients (n=290)		Beneficiaries (n=212)		Wage earners (n=75)	
	\$	%	\$	%	\$	%
<b>Income</b>						
? Salary/Wages	11.86	50.9	13.12	55.9	4.85	24.0
? Benefit	5.49	23.6	4.82	20.5	7.62	37.7
? Other	5.93	25.4	5.55	23.6	7.75	38.3
? Total Income	23.28	100.0	23.49	100.0	20.22	100.0
p value	0.0001		0.0001		0.09	
<b>Expenditure</b>						
? Accommodation	(1.00)	5.5	0.90	(5.8)	(6.73)	24.7
? Household	(0.84)	4.6	(0.96)	6.1	(0.89)	3.3
? Transport	(2.24)	12.3	(2.33)	14.9	(2.16)	7.9
? Personal	(3.45)	18.9	(2.21)	14.1	7.07)	26.0
? Health	0.20	(1.1)	0.20	(1.3)	0.16	(0.6)
? Legal and Insurance	(0.24)	1.3	0.09	(0.6)	(0.37)	1.4
? Debt Repayment	(9.43)	51.6	(9.41)	60.2	(10.08)	37.1
? Savings	1.04	(5.7)	0.56	(3.6)	2.43	(8.9)
? Other	(2.42)	13.2	(2.48)	15.9	(2.49)	9.2
? Total Expenditure	(18.28)	100.0	(15.64)	100.0	(27.20)	100.0
P value	0.0007		0.0001		0.0002	
<b>? Surplus (deficit)</b>	<b>(41.56)</b>		<b>(39.13)</b>		<b>(47.42)</b>	
<b>p value</b>	<b>0.0001</b>		<b>0.0001</b>		<b>0.0001</b>	

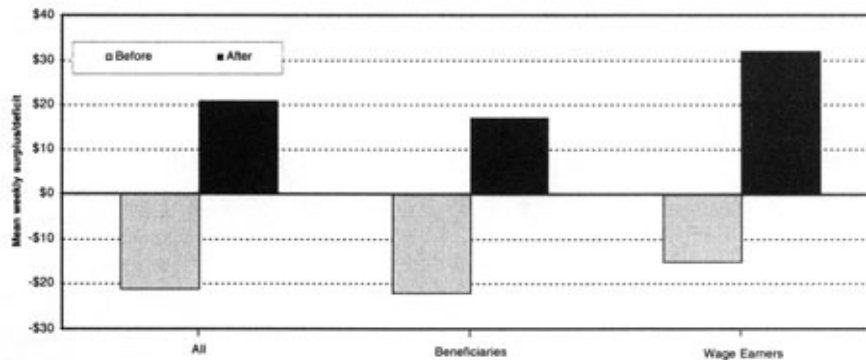
significance test: paired t-test

## Weekly Surpluses/Deficits Before and After Budgeting Advice

As shown in Table 1, before budget advice clients in both groups were in a situation where, on average, they spent more each week than they received in income. After budget advice their income exceeded expenditure.

Before budget advice, clients had average weekly deficits of \$14 for wage earners and \$22 for beneficiary clients. After budget advice clients' average weekly surpluses were \$17 for beneficiaries and \$33 for wage earner clients. These changes are illustrated in Figure 1. The change in weekly surpluses/deficits was statistically highly significant for both groups of clients.

**Figure 1. Changes in Weekly Surplus/Deficit**



## Indebtedness Before and After Budget Advice

In addition to information about clients' income and expenditure, data was collected about the level of their indebtedness before and after budget advice and the extent to which their debts were in arrears or were current. Current debt is debt owed in the current month plus any debts which will fall due in future months. Total debt is current debt plus debt in arrears.

Indebtedness by both groups of clients followed a similar pattern to their income and expenditure. That is, beneficiary clients had lower average total debts than wage earners. There is a significant positive correlation between income and total debt for beneficiaries ( $r=0.26$ ,  $p=0.002$ ) and wage earners ( $r=0.27$ ,  $p=0.02$ ).

In both groups, a high proportion of their debt was in arrears. Before budget advice, approximately half beneficiaries' total debt (49%) was in arrears along with 37% of wage earners' debt. After budget advice, the level of indebtedness of clients in both groups fell. Average indebtedness of wage earners, who had higher levels of indebtedness to begin with, fell more than that of beneficiaries (\$1,919 compared with \$1,106).

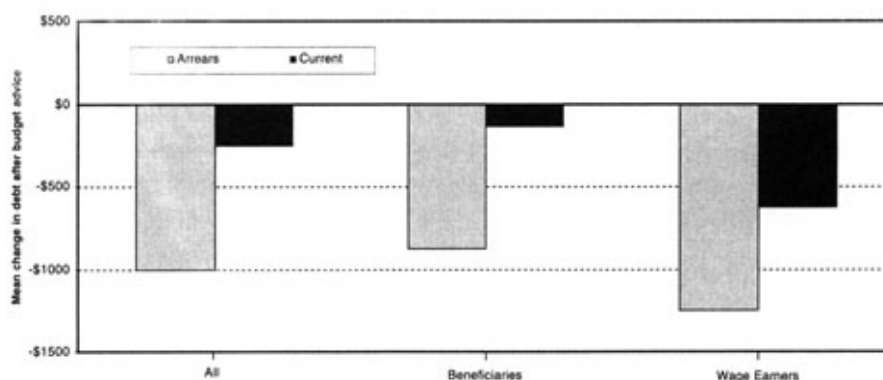
**Table 3. Average Indebtedness by Household Type**

Mean debt (\$)	All clients (n=290)	Beneficiaries (n=212)	Wage Earners (n=75)			
	\$	\$	\$			
<b>Before Budget Advice</b>						
Arrears	2351	2436	3030			
Current	2870	2532	5227			
Total	5221	4968	8257			
<b>After Budget Advice</b>						
Arrears	1345	1509	1767			
Current	2556	2353	4574			
Total	3901	3862	6341			
Change in Debt		p value	p value	p value		
? Arrears	(1006)	0.0001	(927)	0.0001	(1263)	0.0001
? Current	(314)	0.04	(179)	0.19	(653)	0.08
? Total	(1320)	0.0001	(1106)	0.0001	(1916)	0.0001

significance test: paired t test

As shown in Figure 2, arrears fell significantly for both client groups after budget advice, whereas there was no statistically significant fall in average levels of current debt. This is especially the case for beneficiary clients. The outcome of budget advice, as it relates to debt reduction, seems to be reduced arrears rather than reduced current debts.

**Figure 2. Changes to Arrears and Current Debt**



### STRATEGIES ADOPTED BY CLIENTS

A substantial proportion of the change in clients' weekly surpluses/deficits can be attributed to increased income rather than decreased expenditure. Table 4 shows that overall, about half the change in weekly surpluses was due to increased income and half to reduced expenditure. For beneficiary clients 60% of the change can be

attributed to increased income and only 40% to decreased expenditure. For wage earner clients the reverse is the case – 40% is due to increased income and 60% due to decreased expenditure.

**Table 4 Relative Contribution of Changes in Income and Expenditure to Clients' Weekly Surpluses/Deficits**

	All Clients (n=290) \$	Beneficiaries (n=212) \$	Wage Earners (n=75) \$
Surplus/deficit before budget advice	(20.37)	(22.03)	(14.17)
Surplus/deficit after budget advice	21.23	17.44	33.09
Change in surplus/deficit	+41.60	+38.97	+46.42
	%	%	%
% attributable to increased income	49.0	59.9	41.4
% attributable to decreased expenses	51.0	40.1	58.6
Total	100.0	100.0	100.0

### Strategies for Increasing Income

Table 2 shows that, taken as a group, 56% of the increase in beneficiaries' income and 25% of the increase in wage earners' income was due to increased wages. Most of the movement in beneficiaries' income was due to clients moving off benefits into paid employment or supplementing their benefit income with part-time work.

### Strategies for Reducing Expenditure

For most client groups, expenditure was reduced across a wide range of areas. The greatest reduction in expenditure for all groups was in debt repayment. This accounted for 60% of the reduction in total expenditure by beneficiary clients and 37% of the total reduction in expenditure by wage earner clients (see Table 2). Among wage earners, significant reductions were also made in expenditure on accommodation (25% of total reductions) and on personal items (26% of reductions).

## DEVELOPING BALANCED BUDGETS

For the great majority of clients, budget advice improved their financial situations either by:

- moving them from a situation where they were in weekly deficit to a situation of break even or better; or
- enabling clients to gain a clearer picture of their weekly income and expenses and to devote a larger proportion of their weekly income to retiring debt, while at the same time maintaining a weekly surplus or break-even situation.

Figures 3 and 4 illustrate the extent to which the financial situation of beneficiary and wage earner clients changed after receiving budget advice. Each cross represents a

client. The diagonal line in each figure represents the "break even line". Clients on or above this line had budgets which broke even or were in surplus after budget advice.

The majority of clients (particularly beneficiaries) lie in the upper left hand quadrant of the figures. Clients in this quadrant had a weekly deficit before budget advice and this deficit was reduced (for those clients below the break even line) or turned into a surplus (those clients above the break even line) after budget advice.

A small proportion of clients are found in the upper right hand quadrant of the figures. These clients were in surplus before budget advice and their surpluses increased after budget advice.

Clients in the lower right hand quadrant of each figure had a weekly surplus before budget advice and this surplus decreased after budget advice. However, as the figures show, most of these clients' budgets remained in surplus or broke even after budget advice. This generally indicates that budget advice enabled these clients to gain a clearer picture of their weekly income and expenses and to devote a larger proportion of their weekly income to retiring debt, while at the same time maintaining a weekly surplus or break even situation.

There are a few clients in the lower right quadrant (below the break-even line) who were in surplus before budget advice but in deficit after budget advice. There are also a handful of (mostly beneficiary) clients in the lower left hand quadrant indicating that they were in deficit before budget advice and their deficit increased after budget advice. These two groups represent clients whose financial situation "worsened" during the budget advice process. This does not necessarily represent a failure of the advice process, but more likely illustrates the fact that the receipt of budget advice is only one element of the lives of clients. Other events occur in the lives of clients which are outside the control of the budget advisor but which can nevertheless negatively affect clients' financial situations.

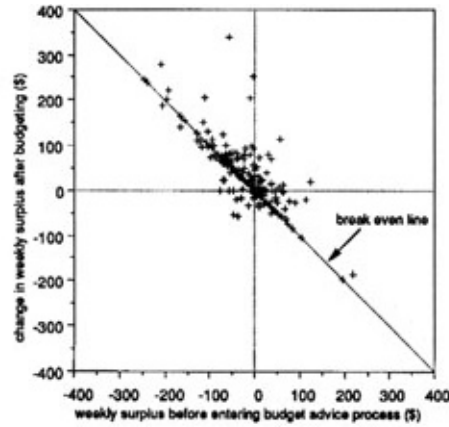
The figures also show a small number of outliers – clients with atypical patterns of income or expenditure. In particular, there are a small number of beneficiary and wage earner clients who show very high increases in weekly surpluses after budgeting advice. Examination of individual cases shows that there are two main reasons for this:

1. clients (or their partners) increase their income through finding employment or, less commonly, accessing New Zealand Income Support Service benefits to which they are entitled.
2. clients reduce their expenditure, most commonly through reducing accommodation and household costs through going to live with relatives, or through reducing debt repayments by selling cars on which they have large hire purchase commitments.

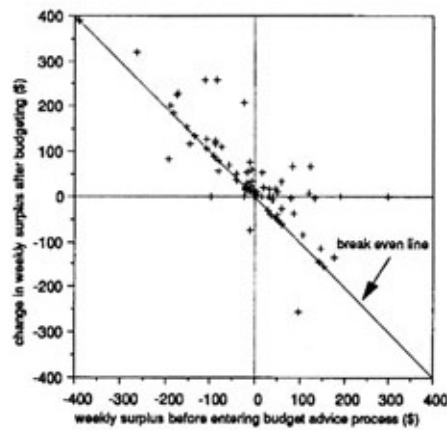
Figure 3 also shows two beneficiary clients with apparently high levels of weekly surplus before budget advice. In both cases the initial budget worksheet prepared did not fully capture the extent of the clients' financial commitments. The budget process

was, however, able to clarify the clients' financial situations and budget sheets were prepared which showed them in a break even situation.

**Figure 3. Scattergram of Change in Weekly Surplus: Beneficiaries**



**Figure 4. Scattergram of Change in Weekly Surplus: Wage Earners**



**Figure 5. Income and Expenditure Before and After Budgeting: Beneficiaries**

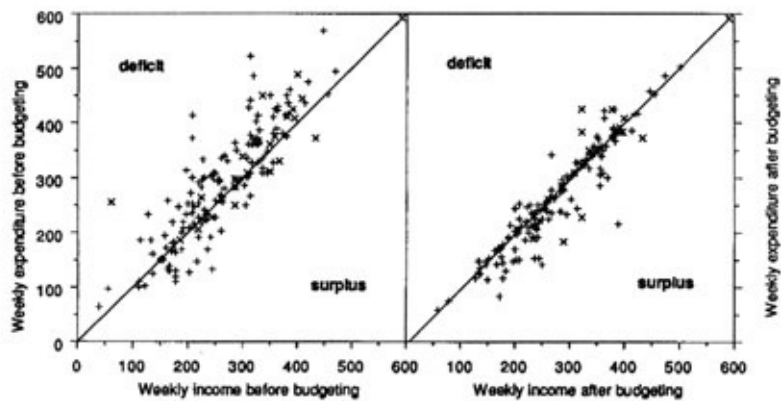
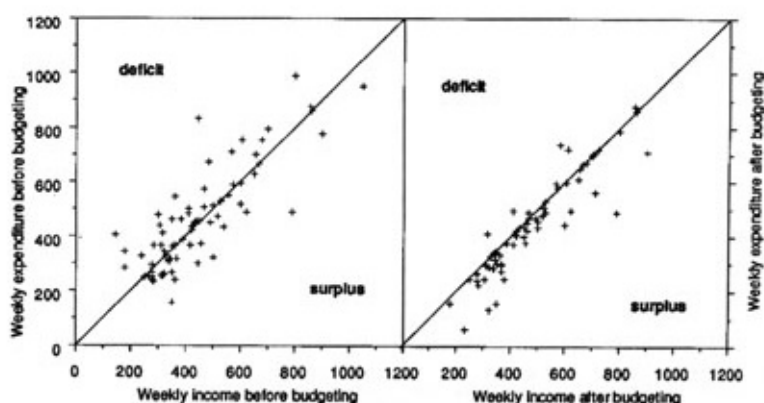


Figure 6. Income and Expenditure Before and After Budgeting: Wage Earners



### Movements in Income and Expenditure

Figures 5 and 6 further illustrate the effect of the budget advice process on clients' patterns of income and expenditure. The horizontal axes in the figures measure clients' weekly income and the vertical axes measure their weekly expenditure. Those clients (each is represented by a cross) that lie above the horizontal break even line are in deficit and those below the line are in surplus. The figures illustrate two important outcomes of the budget advice process.

- 1 After budget advice the number of wage earner and beneficiary clients in deficit has been reduced. That is, the number of clients above the diagonal line is reduced.
- 2 After budget advice there is a tendency for wage earner and beneficiary clients to have moved closer to the break-even line, regardless of whether they were in surplus or deficit at the outset of the budget process. This suggests that the budgeting process has allowed the clients to gain an enhanced understanding of their financial situation, therefore enabling them to balance income and expenditure better.

### SUMMARY

The NZFFBS provides budgeting advice and assistance to individual clients which enables clients to structure their income and expenditure so that they can live within a balanced budget. The results of this study of patterns of clients' income, expenditure and indebtedness before and after receiving budget advice have shown that:

- After receiving budget advice the average weekly income of both beneficiary and wage earner clients in the study had risen. Within each group the proportion of income obtained from any particular source remained similar after budget advice to what it was before.

- Expenditure changes after budget advice showed a decrease for both client groups indicating that the budget advice process provided clients with strategies for reducing expenditure. Average expenditure in all categories had fallen indicating that rather than reducing total expenditure on a few items, expenditure was reduced by cutting back on small amounts across the board. Expenditure on debt repayments fell more than expenditure on any other category for all types of clients.
- Before budget advice, clients were, on average, in deficit each week; after budget advice clients had come to the point where, on average, their weekly income exceeded their weekly expenditure and they were in surplus. Patterns of debt show that beneficiary clients had lower average total debts than wage earners. After budget advice, the level of indebtedness of clients fell, particularly debt which was in arrears.
- A substantial proportion of the change in clients' weekly surpluses/deficits can be attributed to increased income rather than decreased expenditure. For beneficiary clients, 60% of the change is due to increased income. For wage earners, 60% of the change is due to decreased expenditure.
- For the majority of clients budget advice has improved their financial situations by moving them from a situation where they were in weekly deficit to a situation of break even or surplus. By giving clients an increased understanding of their weekly income and expenditure the budgeting process has enabled clients to more effectively balance this income and expenditure while still maintaining a weekly surplus or break even situation.

