Financial Controls 3: Budgeting and forecasting

Planning is **future-oriented**.

Financial planning includes shorter-term and longer-term budgeting. It involves creating an annual **operating** budget and a budget for **capital** replacements. Ideally, these will align with a comprehensive asset management plan*.

Most budgets should reflect past experience and realistic assessments of the co-op's needs. Past experience is a good starting point for estimating costs and revenue for annual budgets, but it's insufficient. Things change – loans come up for renewal at new rates, insurance costs may spike – and budgets should reflect the best information available. Even so, things can change over the course of a year. Budgets can be tested against performance-to-date and the co-op can consider mid-year adjustments if necessary.

Operating budgets usually have a short time frame in mind — typically a single fiscal year — and focus on anticipated revenue and expenses. They include line items like housing charges and laundry (revenue), and legal fees, utility costs and maintenance expenses.

Capital budgets are concerned with money connected to the long-term care and replacement of assets. For housing co-ops, this would include replacement reserve contributions and major items like a new roof or window replacements — building components expected to last for many years.

Co-ops require information about the impacts of potential future events to properly budget *now*. Those impacts could include consequences of lease expiries, upcoming refinancing or major capital projects, the loss of rent supplement agreements or concerns of insurance cost increases. If information isn't at hand, obtaining that information should be a priority when considering the co-op's finances.

In general, co-op boards will initiate the annual budget conversation in consultation with external consultants (e.g. management companies or bookkeepers) and potentially with internal committees (to get cost estimates or recommendations).

Considerations and Recommendations

- Co-ops differ in how they adopt budgets. Are your processes working well for you? Do they comply with the *Cooperative Association Act* **and** your co-op's Rules?
- If there are discrepancies between the approved framework and how the co-op works, review and make appropriate adjustments.
- Prepare and review budgets in a timely manner. Meet any contractual obligations (this includes those from leases, operating agreements and mortgages).
- Even where boards have control, as they do in most cases outside the approval of housing charges, boards should be transparent in explaining the rationale for their decisions and recommendations.

- Regularly review when capital assets are nearing the end of their anticipated life and prepare for replacement: ensure you have a **current** asset management plan (AMP).
- Track capital expenditures connected to the AMP (and appropriately update the AMP based on work carried out).
- Ensure adequate insurance coverage for all building components and other needs (such as insurance against loss of rental income)

* An asset management plan (AMP) is not the same thing as a short-term capital budget. An AMP is usually prepared every four or five years and covers a 30-year timeframe. Shorter-term capital budgets should be guided by what the AMP says, but employ the best, most recent, information available.

Self-Test Checklist

Indicator	Yes / True	No / False	Don't know
The board sets a schedule to prepare the **operating budget** (and complete reporting to external agencies as required).			
Co-ops with contractual obligations to **submit budgets** should so on a timely basis.			
The co-op has a clear process internally so that members understand the co-op's **budget** before it is adopted.			
The co-op has information on the long-term needs of its buildings and other assets (through engineering reports and **asset management plans**).			
The co-op obtains a **building condition assessment** or update every five years or more regularly.			
The co-op uses that information to set appropriate **reserve fund contributions**.			
The co-op prepares or reviews its **capital budget** and its longer-term renewal or capital schedule each year.			

The co-op has and follows a documented **investment strategy**.			
The co-op's budget contains sufficient provisions for adequate **insurance** coverage.			
The co-op has policy concerning any **support for low-income households** that impacts co-op revenue or the setting of housing charges.			
Budget recommendations for **housing charges** are based on a thoughtful review of expenses (not the other way around).			
Over the life of the budget, the board periodically reviews how the projections are comparing to real performance.			
Where there are discrepancies between the budget and real performance, the co-op discusses whether there are needs for adjustments.			

Note: although it generally would fall outside the concept of financially controls, your co-op may benefit from considering a buffer to cover three months of operating expenses.

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