PART 2 – WEAVING THE PIECES

Sample Budget and Resources to Support Cash Flow Forecasting

Budget

Community budgets are financial plans approved by Chief and Council that authorize staff to collect revenues and expend funds for delivering local public services. A budget is a mandatory, short-term document that provides authorization typically for one year. It also typically provides a forecast for a five-year period that enables staff and Council to foresee upcoming changes in revenues and expenses but does not constitute Council approval to collect or spend money after the first (budget) year. Each year a new budget is typically reviewed and approved by Chief and Council.

The budget consists of two main components: The operating budget and capital budget.

The operating budget is the plan for the day-to-day operations at the community including salaries, materials, and supplies. Budgeting for operations is relatively simple because costs usually do not change much from year to year, and operating expenditures typically yield benefits within the same year. For example, purchasing fuel for a truck allows the truck to be operated throughout the year, and the full cost of the fuel needed in a year must be budgeted every year.

The capital budget is the annual plan for the purchase and financing of the community's capital assets. Capital assets include infrastructure, lands, buildings, machinery and equipment. Capital budgets are fundamentally different from operating budgets, because capital expenditures in a single year yield benefit over several years. For this reason, communities need to plan ahead for capital expenditures, either accumulating revenues in reserve funds over several years in advance, applying for external funding for eligible projects, or borrowing money and budgeting to cover the annual costs of repaying the debt. For example, the expenditure to purchase a truck today allows the truck to be operated for a period of several years. The full capital cost of the truck does not need to be budgeted every year.

Asset Management Plan

An asset management plan (AMP) is the co-ordinated activity of a community to put a value on its assets. It is the balancing of costs, opportunities and risks against the how the assets should last and perform over their life cycle, to achieve the community's organizational objectives. As this document looks at the entire lifecycle of the assets, it is a long-term document that is being continuously updated to reflect the current state of assets in the community.

The asset management plan will include the asset inventory and condition assessments, the expected level of service, the risk tolerance, and the plan for asset renewal. A primary function of an asset management plan is to forecast and plan for capital expenditures needed to sustain community services over the medium to long term.

The AMP Informs the Budget

The AMP is used for making decisions on both the capital and operating budget for a community. The AMP includes details on the condition of assets and what their replacement schedule is. The reinvestment rate (details found in the supplementary materials), is an important output of the AMP that informs the average annual revenue needed to cover capital costs.

For operating budgets, the AMP is an important tool in informing maintenance costs. Understanding the condition of the assets, the operations team will be better informed on the maintenance requirements for facilities and equipment. This will result in a more accurate budget, which can result in proactive maintenance, rather than reactive repairs. Maintenance strategies and practices impact both the expected service lives of assets, and the levels of service that they provide. An AMP can include scenarios and strategies to effectively balance maintenance costs against renewal costs, service levels and failure related risks over the lifecycles of assets.

The Budget Informs the AMP

The budget provides some important information about how the community is managing its assets. The AMP process establishes what assets are needed to deliver the levels of service needed by the community, and the full lifecycle costs of owning and utilizing the assets in delivering the services. The community's annual budget funds the capital, operating, maintenance and administrative costs of delivering the services and sustaining the required infrastructure. Current and recent historical budgets, actual costs, and short-term financial forecasts are used in developing the AMP to determine whether the funding levels for infrastructure are sufficient in the short- and long-term, or the magnitude of the shortfall if they are insufficient.

Summary

The budget and asset management plan are related, and the AMP helps Chief and Council to make informed decisions that meet the needs of the present generation and future generations.

	Budget		Asset Management Plan
Revenue	Own source revenue	←	AMP identifies revenue needs for infrastructure
	Service/ User rates	←	AMP can identify opportunities to adjust rates to reflect true costs of service.
	Transfers from external agencies	←	AMP identifies priorities and supporting rationale for infrastructure grants or transfers, and full life cycle costs of new assets acquired with external capital funding.
	Transfers from reserve funds	←	AMP determines the needs for accumulating and using reserve funds for renewal projects.
Expenses	Administration	←	AMP identifies assets that include overhead expenses.
	Operations and maintenance	→	Changes in O&M expenses indicate a change in level of service or condition of the asset. Historical budgets provide insight into the O&M costs of current assets.
		←	Addition or subtraction of assets in the AMP will have an associated change in O&M expenses.
	Capital projects	←	Development of capital assets in the AMP will be funded through Capital Projects budget. Capital projects have benefits and expenses that last over many years. The capital budget plans for these projects in advance through forecasting based on the AMP.
	Debt servicing costs	←	Planning for capital projects and understanding the lifecycle costs of assets builds the business case to justify debt servicing costs.
	Contribution to reserve funds	→	Capital projects that will require reserve funds in the short term should ensure that the reserve fund contribution is sufficient to meet the funding requirements.
		←	Based on the reinvestment rate and capital projects outlined in the AMP, a sustainable contribution to reserve funds should be set.
Net Income/ L	Revenue- Expenses	→	The Community's financial position contributes to its risk tolerance and levels of service outlined in the AMP.