



CANADA MORTGAGE AND HOUSING CORPORATION

ABOUT YOUR FINANCES

Budgeting Basics

Budgeting is the setting of financial performance targets based on the goals and objectives of an organization for a set period. Because organizations have limited resources, they must continually choose the best way to use those resources at any given time. Budgets set out what needs to be done and how it can be achieved within the financial capabilities of the sponsor group over the desired time frame.

Sound budgets are based on accurate forecasting, realistic performance goals and careful planning. To develop a sound budget, follow these six basic steps.

Step 1: Develop overall financial performance objectives

It is advisable for organizations to develop financial performance objectives that will reflect and support the vision, mission and goals of the organization. A budget will show how these financial objectives can be achieved over the coming months.

For instance, the goal of community housing organizations is to provide safe, suitable and affordable housing to their residents. A financial objective could be to pay the mortgage every month or to perform regular maintenance. Some more specialized organizations might also offer additional services, such as client counselling and health-related services in addition to housing, so their financial objectives would reflect those extra needs.

Typically, a housing budget will seek to balance revenues, such as housing charges, with expenses, such as mortgage payments, property taxes and maintenance costs.

Step 2: Establish specific performance objectives for a specified budget period

Once long-term goals have been identified, organizations need to set budgets for shorter periods (such as one year) that will show exactly what can be achieved within that time frame. Short-term performance objectives, such as reducing arrears and bad debts by a certain percentage, should also include measuring progress on a regular basis and record keeping.

Step 3: Identify the resources required to meet performance objectives

Professional, skilled and unskilled workers are needed to implement the programs, projects and activities of the housing organization. Supplies will need to be purchased. Organizations need to identify what resources are required to achieve their goals before they can budget for them.



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Step 4: Identify the available resources within and outside the community

When developing a budget, housing sponsors need to take into account all possible sources of revenue and how to maximize those resources. For instance, educating tenants or members on the importance of paying their rent on time will ensure a better cash flow and result in additional funds being available for expenses and deferred maintenance. Considering regular increases in rents and fees for parking or for the use of laundry facilities would also offset increases in expenses.



Step 5: Calculate the projected costs of resources required to undertake specific activities

Once all necessary resources and personnel have been identified, the organization must estimate the costs of obtaining these resources and personnel. Organizations will, generally, attempt to purchase goods and services at the lowest, most reasonable cost. Preparing a budget is an opportunity to determine whether available resources will be sufficient to meet expenditures when they occur.

A key component of planning is the development of a maintenance plan. This will help an organization prioritize which repairs must be completed and to reallocate resources more effectively if or when the need for unforeseen repairs arises. Furthermore, in order to maximize its resources, the organization should consider implementing a tendering practice for the completion of repairs.

Step 6: Examine ways to reduce operating costs without losing efficiency or service

Organizations can increase their resources by minimizing costs through efficient and effective use of what's available. For instance, persuading tenants to pay their rent on time is an efficient way of increasing revenue. Preparing budgets is an opportunity to review ways to reduce costs while maintaining satisfactory levels of services and goods.

For more information, consult CMHC's *Guide to Co-operative Housing* or *Your Guide to Renting a Home – for Landlords* at www.cmhc.ca