Financial Forecasting: Budget Preparation & Cash Flow Forecasting

In 2013, the Financial Management Best Practice Committee (FMCBC) was reconvened to identify core financial best practices for municipalities in Nova Scotia. The committee suggested that the Financial Forecasting in the Budget Preparation Process and the Cash Flow Forecasting policy be combined under a new heading: Financial Forecasting. The attached policies both cover important aspects of financial forecasting for municipalities in Nova Scotia. The committee recognized that cash flow forecasting may be difficult in municipalities that have limited staff resources.

Financial Forecasting in the Budget Preparation Process

The original recommended practice was developed by the Government Finance Officers Association (GFOA). Some aspects of the practice have been revised by the Financial Management Capacity Building Committee (FMCBC) for use by Nova Scotia municipal governments. The original GFOA recommended practice is *Financial Forecasting in the Budget Preparation Process*, approved by the Committee on Canadian Issues in 2001.

Recommendation

The GFOA recommends that governments at all levels forecast major revenues and expenditures. Following the GFOA's recommendation, the FMCBC recommends that as part of the budget process local governments forecast all major revenue and expense items.

Purpose

Forecasting of major revenue and expense items allows municipalities to predict the impacts (both short and long term) of current and proposed policies. The ability to predict impacts allows a government to plan for those events.

The forecast, along with its underlying assumptions and methodology, should be clearly stated and made available to participants in the budget process and stated in the final budget document.

Background

Municipalities should have a financial planning process that assesses long-term financial implications of current and proposed policies, programs, and assumptions. Municipalities should develop appropriate strategies to achieve their goals. A key component in determining future options, potential problems, and opportunities is the forecast of revenues and expenditures. Revenue and expenditure forecasting can provide the following benefits:

- Provides an understanding of potential funding available;
- Evaluates financial risk;
- Assesses the likelihood that services can be sustained;
- Assesses the level at which capital investments can be made;
- Identifies future commitments and resource demands; and
- Identifies the key variables that cause change in the level of revenue.

Considerations in Policy Development

Forecasting is an estimate of future demands and needs of the municipality and the revenue required to meet those demands. If the demand for services is exceeding the expected revenue that will be collected, elected officials have the ability to either generate new revenue or rationalize services. For a more in-depth discussion of forecasting revenues and expenditures see *Appendix I.*

Forecasters should make assumptions about future events based on past experience, interpretation of citizen's demands, and the strategic plan of the municipality. It is highly recommended that a municipality have a strategic plan in place to assist with the forecasting process. A strategic plan outlines the future plans of council; the forecast should reflect those plans. Forecasting helps a council to focus on the financial issues that have an impact on what it wants to accomplish.

The forecast should extend at least three to five years beyond the budget period and should be regularly monitored and periodically updated. Forecasts are not static documents; in order to be effective the forecast must be monitored to allow for corrections to assumptions as they occur. To improve future forecasting, the variances between previous forecasts and actual amounts should be analysed. Variance analysis should identify the factors that influence revenue collections, expenditure levels, and forecast assumptions.

Appendices

Appendix I: Considerations in Policy Development

Appendix I: Considerations in Policy Development

1) Forecasting Revenues and Expenditures

When forecasting major revenues and expenditures it is recommended that the following categories be used:

Major Revenues	*Major Expenditures*
- Taxes - Grant in lieu of taxes - Services provided to other governments - Sales of services - Other revenue from own sources - Unconditional transfers from other governments - Conditional transfers from other governments - Other transfers, collections from other governments	- General government services - Protective services - Transportation services - Environmental health services - Public health and welfare services - Environmental development services - Recreation and cultural services - Fiscal services

Revenues and expenditures should be presented as gross figures. Gross figures show the total cost of providing the services. This is a practice that is recommended by the *Public Sector Accounting Board*. Net figures may also be presented, but the gross format is considered to be the minimum requirement.

2) Forecasting Non-Financial Items

Forecasting Expenditure Drivers
When forecasting, municipalities should identify the major cost drivers for each service or program delivered. These items should then be forecasted along with the financial items to create a more complete picture of the future.

Example:
A municipality has forecasted that in five years the cost of their tennis program is going to be $50,000. Currently the tennis program costs the municipality $40,000, and there are 300 people enrolled, each paying $100. The municipality feels that an increase of $10,000 in the cost of providing the service is reasonable. However, what about the number of people enrolled in the program? Unless the number of people enrolled in the program increases, along with the cost, the municipality is going to pay more for the tennis program.

Forecasting Service Levels
Another key non-financial item to forecast is service levels. When forecasting, the costs of new, improved, or changed services should be incorporated. Adding a new service is the most obvious example. The costs of the new service are included in the forecast. Sometimes though, a municipality may change the level of service being offered, and this changes the cost of that service.

Example
If the town office is planning on increasing the size of staff over the next three years, the additional costs should be included in the forecast. Likewise, if the water utility is going to start adding a new beneficial chemical into the water next year, then the additional costs of that chemical must be added to the forecast, as well as any user fee increases.

3) Forecast Assumptions

The assumptions of a forecast are those factors that must be taken into consideration before a forecast can be projected. You cannot produce an accurate dollar forecast of revenues and expenditures without accounting for inflation, and you cannot accurately predict what your taxation revenue is going to be without providing for growth in assessment values.

The following are some common assumptions used in forecasting:

- Consumer Price Index (CPI)/Inflation–(Nova Scotia, Annual Average, Jan.–Dec.)
- Uniform assessment
- Interest rates
- Assessment growth

Other assumptions that can be used including the following:

- Municipal property tax rate increases
- Residential and commercial expansion
- Fuel and oil prices
- General economic conditions

Another important assumption, which was discussed earlier, is service levels. A municipality needs to decide what levels of services are going to be provided before the forecast can be completed. This assumption can be as simple as assuming that service levels are going to remain unchanged, or it can become as complicated as detailing all anticipated changes in service levels, as provided by a strategic plan, and incorporating these changes into the forecast.

4) Municipal Indicators

Municipal Indicators are a set of financial, community, governance, and performance indicators to be used to understand the challenges facing municipalities in Nova Scotia. The entire list of indicators can be located on the Service Nova Scotia and Municipal Relations website (http://www.gov.ns.ca/snsmr/municipal/finance/indicators.asp).

The indicators can be used to augment the assumptions that were presented in the previous section of this document. Calculating these indicators can show municipalities where the danger areas are, and these issues can be worked into the forecast.

Example
A municipality calculates that their transfer from other governments' indicator is at 15%, when the average is 7%. This makes the municipality aware that they are too dependent on transfers and must diversify their revenues.

5) Monitoring the Forecast

The forecast should be monitored on a regular basis to ensure that deviations will be noticed early and corrections made. The current year's forecast should be monitored more closely than future years. Over time many of the assumptions will vary and so it would not be prudent to be monitoring five years into the future in as much detail as a one to two year forecast.

Monitoring consists of verifying the assumptions, comparing the forecasted amounts to the actual amounts as they occur, and identifying any external or internal events that could affect the results of the forecast.

One component of monitoring the forecast should be a variance analysis between the forecasted revenues, expenditures, and non-financial items and the actual results. A municipality should decide what constitutes a significant variance, or deviation from the forecast. A percentage or absolute dollar value should be set as the maximum variation allowed. Any variance greater than the maximum will be investigated and may lead to a change in future forecasts.

6) Communicating the Forecast

An important issue to consider after completing a multi-year forecast is how to disseminate the information to the end-users. The ultimate users of a forecast are generally municipal managers and the council, but they can also include engaged citizens. The forecast can be included in the budget as either a component of the document or as a reference. The forecast can also be posted on the website, separate from the budget, so that the public can access it at any time. Placing the forecast on the municipal website is also a way to gain public interest in the affairs of the municipality (see FMCBC's recommended practice *Using a Website to Disclose Financial Information*).

7) The Forecast Document

If a municipality is creating a formal forecast the following categories are suggested:

- Preamble
- Overview
- Identifying Key Issues
- Assumptions
- Forecast
- Analysis

References

Financial Management Capacity Building Committee. Using a Website to Disclose Financial Information, Approved August 2003. http://citeseerx.ist.psu.edu/viewdoc/download;jsessionid=4ABF092B8DBF3684EB9142B427494F4E?doi=10.1.1.113.8447&rep=rep1&type=pdf

Government Finance Officers Association. Financial Forecasting in the Budget Preparation Process, Approved 2001.
http://gfoa.org/downloads/GFOACCI_FinancialForecastingBudgetPreparationProcessBP.pdf

Public Sector Accounting Board, The Canadian Institute of Chartered Accountants. CICA Public Sector Accounting Handbook.

Service Nova Scotia and Municipal Relations. Municipal Indicators. http://www.gov.ns.ca/snsmr/municipal/finance/indicators.asp

Use of Cash Flow Forecasting in Operations

The original recommended practice was developed by the Government Finance Officers Association (GFOA). Some aspects of the practice have been revised by the Financial Management Capacity Building Committee (FMCBC) for use by Nova Scotia municipal governments. The original GFOA recommended practice is *Use of Cash Flow Forecasting in Treasury Operations*, approved by the GFOA Executive Board in 2012. Other sources used are footnoted in the text.

Recommendations

The GFOA recommends that cash flow forecasts in operations should be integrated into a municipal government's financial policies, and the GFOA advises that specific elements be incorporated in the development of cash flow forecasts in operations. The GFOA recommends that cash flow forecasting must be done at an organizational level, and all operating departments need to be involved in developing planned expenditures. The GFOA also recommends that expenditures should be prioritized as a function of the municipality's goals. Forecast time frames also need to be accurately reflected in the receipts of the municipality. Furthermore, historical data should be used to measure the nature of receipts and disbursements in the cash flow forecast. In addition, forecast receipts should include cash, maturities, and short-term investments, while forecast disbursements should recognize the organization's priorities. Cash forecasters should also recognize the items that influence a municipality's float, and develop strategies that favour the collection of receipts and delay disbursements. Forecasts should also include room for variances. Lastly, the GFOA recommends that forecasts should be updated on a regular basis. The frequency of updates depends on the volatility of revenues and expenditures.

Purpose

The purpose of a cash flow forecast is to show cash inflows and cash outflows during a certain time period (weekly or monthly). This ensures that the municipality has adequate cash on hand to address its needs and at the same time maximizing return on available cash. With a proper cash flow forecast, there are proper indicators where disbursements are exceeding projections or other targets are not being met.[1]

[1] "Implementation Guidelines for the Service Manager's Guide to Joint Local Transfer Planning." Guide to Risk Management for Projects in Difficulty. April 8, 2002.

Background

The objective of cash management is to maximize the municipality's cash position by ensuring that cash balances are sufficient to meet its obligations without forgoing investment income. Cash management is the process whereby the cash inflows and outflows are controlled so that current obligations will be met on time and any excess cash can be invested to earn income. At some points in the year, municipalities have excess cash that is not immediately required, while at other points in the year, the cash inflow may be insufficient. By exercising proper cash management, a municipality can potentially increase its interest revenue and reduce its bank service charges.[2]

A cash flow forecast is a detailed projection of the timing and amounts of cash inflows and outflows for a specified time period, generally covering one year broken down into weekly or monthly time periods.

A cash flow forecast records receipts and disbursements when the money is received or paid. Cash flow forecasting offers the following benefits:

- A format for planning the most effective use of available cash.
- A schedule of anticipated cash receipts and a method of verifying whether that schedule is achieved.
- A measure of the significance in terms of cash of unexpected changes in circumstance (reduced receipts or unexpected disbursements).
- An estimate of the money needed to pay suppliers and employees on time.

Considerations for Policy Development

When developing a cash flow forecasting strategy, municipalities should consider six different factors (see *Appendices I-VI*).

Appendices

Appendix I: Components that Should be Considered when Developing a Cash Flow Forecast
Appendix II: Steps for Designing Cash Flow Forecasts
Appendix III: Designing a Cash Flow Worksheet
Appendix IV: Historical Cash Flow Analysis
Appendix V: Importance of Ensuring Liquidity
Appendix VI: Cash Flows and Capital Disbursements

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[2] Service Nova Scotia and Municipal Relations. Local Government Resource Handbook. Halifax, NS: Province of Nova Scotia, October, 2000. http://www.novascotia.ca/snsmr/municipal/publications/government-resource-handbook.asp

Appendix I: Components that Should be Considered when Developing a Cash Flow Forecast

Development of Cash Forecasting Procedures

Cash forecasting procedures should be developed so that the most current information (such as accounts payable and accounts receivable) is reflected in the forecasts and that the forecasts are as accurate as possible. One component that should be considered is a cheque-clearing system that can derive statistics from the accounts payable system, and the bank clearing data.[3]

Computerized Forecasting System

Information systems should be in place to ensure the current information can be gathered and updated promptly for accurate cash forecasts. Cash management systems and procedures should make use of appropriate and modern administrative practices. Staff involved in these positions should have the ability to work and maintain these systems.[4]

Long-Term Cash Flows

Both short and long-term cash forecasts should be prepared to support short and long term investment decisions. It is important for those purchasing and selling investments to know when to match the maturity dates with the dates of cash requirements or surpluses. The cash forecasting system should provide at least a one-year rolling cash forecast that should be constantly updated for changes. The annual cash flow forecast will be changed to include all cash inflows in addition to outflows.[5]

Variance Reporting of Cash Forecasts

Significant variances between actual and forecasted cash flows should be measured, monitored, and reported on an on-going basis to management. The performance indicators should be included in the appropriate program overview. The variances should be recorded and explained – what caused the variance to happen, along with solutions if required to correct the variance, and establish actions to avoid a recurrence if required.[6]

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[3] City Hall, Saskatoon, SK. Minutes of Regular Meeting of City Council. September 9, 1991.
http://www.saskatoon.ca/CITY%20COUNCIL/Documents/m1991/m_council_090991.pdf

[4] Ibid.

[5] Ibid.

[6] Ibid.

Appendix II: Steps for Designing Cash Flow Forecasts

It is important to ensure that cash flow forecasts are as accurate as possible, so a solid framework for cash flow forecasting should be designed. A cash flow forecast is an estimate of when revenue will be received and when expenses will be paid. A cash flow forecast shows all cash receipts, as they are expected to be received, and all cash payments determines whether the revenue generated is sufficient to meet monthly expenses.

Steps to Preparing a Cash Flow Forecast

1. **Examine previous years monthly financial data**
    - For an accurate prediction, previous monthly financial data should be examined when forecasting the succeeding year's potential receipts and disbursements.

2. **Design a cash flow work sheet**
    - Helps organize cash flows through projected receipts and accounts receivable.[7]
    - A practical example of a cash flow worksheet can be found in *Appendix III*.

3. **Consider cash flow receipts**
    - For new operations (i.e. programs), the average monthly revenues of a similar size municipality or operation in Nova Scotia can be compared as a benchmark.
    - For existing operations, receipts from the same month in a previous year, adjusting for any current circumstances for that month in the succeeding year.
    - Cash receipts can be predicted by taking into consideration tax bill due dates, tax sale dates, and expected payment dates of transfers from other governments.[8]

4. **Consider cash flow disbursements**
    - Municipalities should only show the cash you expect to pay out each month.
    - Cash disbursements can be predicted by using past year's payroll information and pay dates for the coming year, information on transfers to other governments and their due dates, and information on other contractual payments (for example: debt charges or rental charges).

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[7] Department of Fisheries and Oceans. Harbour Authority Manual – Cash Flow Forecast. Government of Canada. http://www.dfo-mpo.gc.ca/sch-ppb/manual-manuel/finance-eng.htm#s14
[8] Service Nova Scotia and Municipal Relations. Local Government Resource Handbook. Halifax, NS: Province of Nova Scotia, October, 2000. http://www.novascotia.ca/snsmr/municipal/publications/government-resource-handbook.asp

- For example, if the municipality is paying the supplier in 30 days, the cash payouts for January's purchases will be shown in February. If you can obtain trade credit for longer terms, then cash outlays will appear two or even three months after the purchase has been received and invoiced.[9]

5. Reconciliation of the cash receipts to cash disbursements

- The reconciliation section of the cash flow worksheet begins by showing the balance carried over from the previous months' operations.
- The total of the current months' receipts are added and the total of the current month's disbursements are subtracted. This adjusted balance will be carried forward to the next months' disbursements. This adjusted balance will be carried forward to the first line of the reconciliation portion of the next month to become the base where the next month's cash flow activity will be added and/or subtracted.[10]
- Cash flows should be managed to maintain minimum balance requirements.

6. Cash flow maintenance

- Cash flow forecasts should be revised on an ongoing basis and should be constantly modified to current circumstances and new conditions.
- At the end of each month, actual cash flow figures should be compared to the planned figures to determine if there is a great discrepancy between the two sets of figures.
- If significant variances exist, they should be analyzed, and assumptions should be adjusted to reflect the actual figures more closely.[11]

In addition to the steps involved in designing cash flow forecasts, municipalities should also be aware of certain components of their financial activities. Municipalities should ask themselves the following questions when designing cash flow forecasts.

- Does the municipality send out an interim tax bill?
- Is the interest rate on past due taxes high enough to discourage the paying of other bills before the tax bill?
  - **Municipal Government Act Section 113 – Tax Collection: Incentives and Interest**
    (1) The council may provide incentives for the early payment of taxes.
    (2) The council may impose interest, at a rate determined from time to time by policy, for non-payment of taxes when due.
    (3) Interest shall be added to the unpaid taxes and shall be collected as if the interest originally formed part of the unpaid taxes.

[9] Canada Business Service Centres. Preparing a Cash Flow Forecast. Government of Canada.
[10] Ibid.
[11] Department of Fisheries and Oceans. Harbour Authority Manual – Cash Flow Forecast. Government of Canada. http://www.dfo-mpo.gc.ca/sch-ppb/manual-manuel/finance-eng.htm#s14

(4) Interest shall be calculated according to the length of default in payment.
(5) The council may provide that interest be compounded, not more frequently than a month.
(6) The council may provide that interest shall be calculated from the date the tax rate is set if taxes are not paid within thirty days of the due date.
(7) The council may adopt a formula by which, and the time when, the rate of interest on overdue taxes is automatically adjusted.
(8) Unless the council otherwise provides, incentives shall be allowed and interest charged on area rates and rates collected for any other body at the same rates and under the same terms and conditions as the council has provided for its own taxes.

- Does the municipality have a tax sale policy?
    - **Municipal Government Act Section 134 – Tax Collection: Tax Sale**

(1) Property may be sold for taxes if the taxes with respect to the property are not paid in full for the taxation year immediately preceding the year in which the tax sale proceedings are commenced, but the proceedings shall not commence before June 30th in the year immediately following that taxation year.
(2) Property shall be put up for tax sale if taxes are in arrears for the preceding three fiscal years.
(3) The council may defer tax sale proceedings for property for up to two years.
(4) A municipality is not required to put a property up for tax sale
   a. If the solicitor for the municipality advises that a sale of the property would expose the municipality to an unacceptable risk of litigation;
   b. If the amount of taxes due is below the collection limit established by the council, by policy;
   c. If the property has been put up for sale three times in the preceding three years and no satisfactory offer has been made with respect to it;
   d. If the municipality and the taxpayer have entered into a tax arrears payment arrangement and the taxpayer is in compliance with the agreement.
(5) Where the municipality and a taxpayer have entered into a tax arrears payment arrangement, the period for which the tax lien is effective is extended by the period of the tax arrears payment arrangement.

- Does the municipality send invoices promptly?
- Does the municipality make daily bank deposits?

- Does the municipality take advantage of all discounts offered on invoices by suppliers?
- Does the municipality hold invoices until the due date or do they pay invoices when received?[12]
- Does the municipality take advantage of any related technologies (i.e. electronic payments)?

12 Service Nova Scotia and Municipal Relations. Local Government Resource Handbook. Halifax, NS: Province of Nova Scotia, October, 2000. http://www.novascotia.ca/snsmr/municipal/publications/government-resource-handbook.asp

Appendix III: Designing a Cash Flow Worksheet

There are a variety of ways that a cash flow forecast worksheet could be designed to suit the unique needs of a municipality. However, it is recommended that cash flow worksheets show only revenues from operations.

The format should allow for a double width column along the left side for the account headings, then two side-by-side vertical columns for each month of the year, beginning from the month you plan to open (i.e.: the first dual column might be labelled April Planned, April Actual, and April Variance). The cash flow worksheet often then breaks into three distinctive sections. The first section (at the top left portion of the worksheet, starting below and to the left of the month names) is headed Cash Revenues (or Cash In). The second section, just below it, is headed Cash Disbursements (or Cash Out). The final section, below that, is headed Reconciliation of Cash Flow.[13]

ITEM	April Planned	April Actual	April Variance	May Planned	May Actual	May Variance
Cash Receipts						
Total Cash Receipts	$40	$10	$30	$75	$35	$40
Cash Disbursements						
Total Cash Disbursements	$50	$60	$10	$60	$70	$10
Reconciliation of Cash Flow						
Opening Cash Balance	$0	$0	$0	($10)	($50)	($40)
Add: Total Cash Receipts	$40	$10	$30	$75	$35	$40
Deduct: Total Cash Disbursements	$50	$60	$10	$60	$70	$10
Closing Cash Balance (carry forward to next month)	($10)	($50)	($40)	$5	($85)	($80)

Suggestion for Cash Flow Sub-headings:

Cash Receipts:
Tax Payments
Other Receivable Payments
Grants in Lieu (Federal, Provincial, Aliant, NSPI, etc)
Short Term Investment Maturities
Other (Debt Issued, Capital Cost Sharing)
Miscellaneous (Fines, Fees, Deed Transfer Tax, etc)

[13] Canada Business Service Centres. Preparing a Cash Flow Forecast. Government of Canada.

Interest Revenue

Cash Disbursements:
Salaries & Wages
Benefits (Receiver General, Pension payments, etc)
School Board Payment
Regular Monthly Payments (Rent, Telecommunications)
Contract Payments (Solid Waste Pickup, etc)
Capital Disbursements
Miscellaneous
Short Term Investments

Appendix IV: Historical Cash Flow Analysis

In addition to the structure of the cash flow forecasting mechanism, a municipality should also conduct the actual forecasting that is based on past cash flows. Some questions need to be addressed when analyzing past cash flows to help determine future financial decisions. Municipalities should ask:

- What was the operating cash flow generated by the provider during the past three years?
- What were the capital expenditures during the past three years?
- What were the other sources and uses of funds during the last three years?

Answers to these questions will help municipal financial officers determine future municipal financial situations, as well as cash inflows and outflows. After determining the historical aspects of a municipality's cash inflows and outflows, cash flow projections must be made.

- What are the provider's assumptions concerning the cash flow over the next five years?
- What is expected operating cash flow for the provider over the next five years?

In addition to taking historical conditions into consideration and making the appropriate cash flow forecasting, the municipality should also have specific details of information available. Municipalities should have cash flow statements for the past three years, cash flow projections for future periods, cost reduction plans and progress towards targets, and a restructuring business plan.[14]

An accurate dollar forecast of revenues and expenditures cannot be completed without accounting for inflation and other changes in the value of the current dollar compared to past dollar values.

The following are some common assumptions that can be used in forecasting:

- CPI Inflation - [Nova Scotia, Annual Average (Jan - Dec)]
- Uniform assessment
- Interest rates
- Taxable assessment growth
- Municipal property tax revenue increases
- Residential and commercial expansion
- Fuel and oil prices
- General economic conditions.[15]

[14] "Implementation Guidelines for the Service Manager's Guide to Joint Local Transfer Planning." Guide to Risk Management for Projects in Difficulty. April 8, 2002.

[15] Financial Management Capacity Building Committee. Financial Forecasting in the Budget Preparation Process. Halifax, NS: Province of Nova Scotia, 2003.

Appendix V: Importance of Ensuring Liquidity

Since a key component to cash flow forecasting is ensuring that the municipality has enough liquid assets to cover daily costs, it is important to assess liquidity in a cash flow forecast. A municipality may have a large tax base and a budget surplus, but they may still be cash poor. Consequently, cash flow statements should be projected to the year-end using a list of assumptions.

When planning for the future levels of cash inflows and outflows, municipalities should be aware of the changing circumstances surrounding the cash flow. As a result, steps should be introduced to enhance projection.

- Changes to financial resources plan
    - Increase sources of cash
        - Borrow short-term cash needs
        - Borrow on a longer term basis
        - Shorten average collection period on accounts receivable through better collection efforts
    - Decrease the uses of cash
        - Reschedule capital projects and payments
        - Make arrangements with suppliers for extended payment terms
- Re-evaluate expenses
    - Examine expenses to determine if any can be reduced or eliminated.[16]

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http://www.gov.ns.ca/nsmfc/documents/FinancialForecastingintheBudgetPreparationProcess.pdf.

[16] Frankston, Fred. "A Simplified Approach to Financial Planning." Journal of Small Business Management. 19. January, 1981.

Appendix VI: Cash Flows and Capital Disbursements

Capital disbursements are typically the most difficult to forecast. Municipalities should work closely with their departments to determine the timing of the outflows/major payment dates. Capital expenditures may be a significant portion of a municipality's budget, so it may be important to consider capital expenditures in cash flow forecasting.

By projecting capital expenditures, resources can be more effectively allocated, which may enable more capital projects to be developed. Since most capital projects may take more than one fiscal year, the total cost of the project should be allocated over the expected time to complete the project. This method of capital budgeting offers municipalities the potential to finance a greater number of projects concurrently, and to minimize the amount of idle capital by using smart cash management policies and practices. The project, once approved, represents a future commitment on the part of Council beyond the financing actually provided to the project under the cash flow budget.[17]

Sources of financing of project expenditures are to be identified in the project financing cash flow projection table. Regardless of the source of financing, whether it is tax levy, user rates, or debenture debt, it must be entered for each year of the cash flow projection and it must be equal to the expenditures projected for that year.[18]

One of the available tools for forecasting capital budgets is the Municipal Finance Corporation's 'Debt Affordability Model'. The debt affordability model can assist Councils in determining the appropriate level of debt for their municipality when deciding if they should launch a capital project. This model can help Councils determine how much debt they would acquire as a result of the capital project. This is done by the use of trend analysis, projections of economic and revenue growth, and future capital improvement needs. Debt affordability considers the municipality's future health by making sound long-term financial decisions using current information, past trends, and future projections.[19] For more information on the debt affordability model, please contact the Nova Scotia Municipal Finance Corporation.

[17] Financial Management Capacity Building Committee. Multi-Year Capital Planning. Halifax, NS: Province of Nova Scotia, 2003. http://www.nsmfc.ca/component/option,com_docman/Itemid,76/gid,39/task,cat_view/

[18] Ibid.

[19] Municipal Finance Corporation. Municipal Debt Affordability Model - AMA 2005 Annual Spring Workshop. Halifax, NS: Nova Scotia Municipal Finance Corporation, 2005.

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