

Budgets:

The Board's Plan for Governance Investment

BY MICHAEL HEALY

The board of directors fulfills an essential governing role in a cooperatively owned, democratically controlled business. Few assets are more valuable to a cooperative than a board that functions well, learns what it needs to do its job expertly, and provides excellent leadership. Providing that excellent leadership requires expertise, and developing expertise requires investment.

In carrying out the board duties, directors invest plenty of time and energy. Along with the directors' personal investment, the co-op itself should invest sufficient financial resources to help the board properly accomplish its job. Boards then must plan for, acknowledge, and account for their use of the co-op's resources. We can account for these costs in the same way that we account for expenses in any department: in the annual budget and in financial statements. Just as a department within the operational side of a co-op should have a budget, so too should the board.

How do we develop and evaluate our budget?

Governance is clearly distinct from operations, but the board's budget still must fit within the context of the operational budget. The general manager must be able to anticipate the expenses that the co-op will incur over the course of the year—whether those expenses are the cost of rent or the cost of training new directors. In this way, the board is like an operational department: the board should have a reasonable budget that is based on its plan for the year, formulated in a timely way so that it can be incorporated into the overall co-op budget, and monitored over the course of the year.

The essential difference between the governance and operational portions of the overall budget is that the board, not the staff, is responsible for developing the board's budget. In developing a budget, boards must make five critical decisions:

- What we want to accomplish;
- How we plan to spend money in the coming year;
- When the budget will be created;
- Who will actually create the budget;
- How we will evaluate our budget;

You will probably have a few rounds of conversation with the whole board to answer questions, decide priorities, and establish expectations. In making the first two decisions from the list above, you can ask and answer a few key questions to help you find your way to a budget clearly tied to the board's goals and plans. These questions can include:

- What do we want to accomplish as a board? Is there a cost associated with any of our goals? What is that cost?
- What did we spend last year? Was that not enough or too much? Were we able to accomplish what we wanted?
- How much of the co-op's total budget will we commit to governance? What can we afford? What do other co-ops spend?

APPENDIX A Sample Chart of Accounts: Governance

Note: Not all of these expenses are actually determined by the board, even though all are considered Governance expenses within the CoCoFiSt reports.

CATEGORY	COMMENTS
Board Professional and Administration Expense	
Board Compensation	Whether directors get a discount on purchases or a stipend, here is a place to account for it.
Professional Fees (facilitation, legal, etc.)	Do you have a facilitator for board meetings? Are you planning on revising your bylaws and asking a lawyer to review your revisions?
Board Insurance	Even if the board has delegated responsibility for acquiring this Directors and Officers Insurance to the general manager, the cost gets assigned to Governance.
External Monitoring	This does not include the annual audit, which is an administrative expense—even if the audit happens because the board asks for it.
Administration (documentation, staff, communication)	The salary of a board administrator, though not determined by the board, is considered a Governance expense.
Misc. Board Professional and Admin. Expenses	
Board Development	
Retreat	Is there a cost for the meeting space for your annual retreat? Are you hiring a consultant to facilitate?
Training and Conferences	Travel expenses and enrollment fees to send directors to CCMA, for example. Do you plan to invite a speaker to a board meeting? Does the board plan additional trainings beyond your annual retreat?
CBLD	The Cooperative Board Leadership Development program has a set annual fee.
Resources: subscriptions, books, etc.	Does every director receive Cooperative Grocer? Do you plan to add resources to your board library?
Misc. Board Development	
Board Member Linkage	
Membership Meetings	The costs associated with member meetings.
Annual Report	The cost of printing and distributing an annual report.
Board-Directed Member Linkage	Does your board's annual plan include special events such as "Breakfast with the Board"?
Misc. Board Member Linkage	
Board Expenses	
Board Misc. Expense	Can't find a category for a specific expense? Here you might account for things such as meals at board meetings or gifts for departing directors.
Governance Expense Not Categorized	

APPENDIX B

CBLD WORKSHOP PROPOSED POLICY SAMPLE

POLICY TYPE: Governance Process

POLICY TITLE: Gx-Governance Investment

LAST REVISED:

The Board shall invest in its governance capacity. Accordingly:

- Gx.1 Board skills, methods and supports will be sufficient to ensure governing with excellence.
- Gx.2 Governance costs will be prudently incurred, though not at the expense of endangering the development and maintenance of superior capability.
 - A. Training and retraining will be used liberally to orient new members and candidates for membership, as well as to maintain and increase existing members' skills and understandings.
 - B. Outside monitoring assistance will be arranged as necessary so that the board can exercise confident control over organizational performance.
 - C. Outreach mechanisms will be used as needed to ensure the board's ability to listen to owner viewpoints and values.
 - D. Professional and administrative support will be provided.
- Gx.3 The Board's annual budget will be developed in a timely way so as to not interfere with the development of the Cooperative's annual budget. In no case will we complete this work later than [date].

The board's decisions regarding some of these fundamental questions can guide your Governance Investment policy and the budgeting details that will follow. The easiest of the decisions to make is probably the one of timing. The board's budget must be completed on the same timeline as the operational department budgets. Ask your general manager to tell you the timeline, and then plan the rest of your work by figuring backwards. Though it's always acceptable to finish the job early, a board should never hold up the operational budgeting process by submitting its own portion late.

Who is responsible?

Concerning who is responsible, we begin with two critical parameters that do not change: the board as a whole is ultimately responsible for its own budget, and the board can delegate the work of creating that budget to whomever it chooses. One choice for delegation is the board treasurer. The board could also delegate the work to a task force formed for this purpose. In fact, the board could even delegate this work to the general manager-as long as the whole board has clearly stated its expectations and retains the ultimate authority for accepting its own budget. Delegating the work to the general manager is not the same as making the general manager responsible for the budget.

Finally, evaluating the previous year's budget and monitoring the Governance Investment policy go hand-in-hand. You will find it most helpful to carry out the monitoring process in the context of creating next year's budget. As with any policy, your Governance Investment policy should be monitored with data-a comparison of actual to budgeted expenditures,

for example. One person can be assigned the responsibility of writing the monitoring report, but only the whole board can answer questions such as, "Did we spend the right amount?" and, "Did we accomplish what we wanted?" Once the board has answered these questions, you then have some basis for your decisions about next year's budget.

What do we budget for?

Now that we have a clear process, we can look at a budgeting tool. Managers who participate in the CoCoFiSt (Common Cooperative Financial Statements) program use a common Chart of Accounts, a standardized way to keep track of income and expenses. The budget categories (Appendix A) are based on the CoCoFiSt mode. Boards may find that using this common model will make it easier to compare your budget to other co-ops' board budgets.

A board does not need to plan to spend money in every category, and the actual amount allocated in any category will vary from board to board or year to year. In allocating amounts to the various categories, the person or group who is assigned responsibility for creating the budget will rely on clear direction from the board about the board's priorities and plans for the upcoming year-these decisions drive the budgeting process.

How do we guide our budgeting work?

All of this work, from asking the big-picture questions to figuring out the detailed numbers for any line item, should be guided by a board policy. Within the Policy Governance framework, a board would have a Governance Process policy, perhaps called "Governance Investment," in

which the board lays out the values and the delegated responsibilities that guide this work. You will find a sample of such a policy in Appendix B.

Budgeting does not have a definite beginning or end; rather it is a constant cycle of decision-making and feedback in the form of monitoring. The time to jump into this cycle is *now*:

- Begin the conversation at the board level.
- Agree on an initial policy (or set of expectations).
- Assign responsibility for creating the budget details.
- Regularly check to see how you are doing.

Member-owners count on their elected board to make many decisions that serve the best interest of our cooperatives. Deciding to carefully and thoughtfully invest in the board itself will help ensure that the co-op is more than a store-it is an example of the power inherent in democratically controlled business and capital. The budget is just one tool the board uses to maintain and build its capacity to grow with the cooperative. ■