DCU BULLETIN

Division of Credit Unions

Washington State Department of Financial Institutions

Phone: (360) 902-8701 ***FAX: (877) 330-6870***

November 12, 2013 No. B-13-18

Strategic Planning and Budgeting Guidance

The purpose of the bulletin is to address strategic and operational planning, i.e. strategic plans, business plans, and budgets. Strategic plans, business plans, and budgets are essential tools that help a credit union's board of directors and management identify, measure, and monitor short-term and long-term financial and operational goals and targets. These tools enable a credit union to maintain a well thought-out focus, make sound decisions, and identify risks or weaknesses within its operations.

Examiners have determined that weak strategic planning, business plans, and budgeting are a common factor in CAMEL 3 and 4 rated credit unions. This bulletin is intended to identify some of the more common weaknesses that examiners have noted so that all credit unions can avoid them.

During safety and soundness examinations, Division of Credit Unions (DCU) examiners identified the following common areas which impacted the usefulness of strategic plans, business plans, and budgets:

- Inconsistency and/or lack of continuity between the strategic plan, business plan, and budget – examiners found some budgets, including pro forma balances sheet projections, that were not consistent and/or lacked continuity with the same year business plan goals;
- Goals and actions that were not specific, realistic, measurable, and that lack target dates;
- Plans that did not focus on a credit union's most important financial and operational needs;
- Plans that lacked specific objectives to make the credit union stronger;
- Plans that appeared to be a mirror copy of the prior year;
- Plans that lacked detail and accountability;
- Budgets that were not supported by realistic key financial and operational elements; and
- A balance sheet forecast to support the budget was not made.

Examiners will use the guidance in this bulletin and the guidance in the planning section of Chapter 7 of the NCUA Examiner's Guide on Management to review budgets and strategic plans.

Strategic Planning

Strategic planning should focus on the long-term deployment of resources used by the credit union to achieve its objectives and goals over the next three to five years. In some circumstances, a more extended timeframe maybe necessary. An effective strategic plan encompasses all areas of the credit union's operations.

As part of the strategic planning process, the board of directors and management should consider services to members, competitive factors, location, economic factors, membership demographics, and the credit union's inherent risks, as well as the credit union's strengths, weaknesses, opportunities, and threats This process will clarify what the credit union is currently doing and what actions and processes the credit union could implement to strengthen its operations and financial position in the future. A sound strategic plan should have the following elements:

- Financial goals;
- Operational goals;
- Projected growth of assets, deposits, and loans;
- Acquisition, implementation, and use of technology;
- Timeframes for achieving the stated goals and objectives; and
- An assessment of the credit union's current competitive and operational environment and an evaluation of its external and internal factors, such as regulatory issues, membership base changes, and competition.

Operational goals are especially important if the credit union plans to enter into a new market, launch new products or services, open new branches, or change its internal structure.

Business Planning

Business planning should focus on shorter-term actions designed to implement the strategic plan in the next one to two years. A sound business plan flows logically from the strategic plan. The board of directors should review and approve the business plans in the context of its consistency with the strategic plan. The business plan should have the following elements:

- Specific objectives;
- Actions/steps to take to accomplish the priority issues and to achieve objectives; and
- Time frames in which to complete the actions and to achieve the business plan goals.

Note: It is important that business plans be accompanied by action plans that stipulate the individual(s) or committee(s) responsible for accomplishing each objective.

Budget

The budget should be based on the financial and operational goals established in the business plan. The budget should be conservative, realistic, and project cash flows occurring during the year. In addition, the budget should be supported by documented assumptions that correlate with the business plan. The budget should have a corresponding pro forma balance sheet. Most credit unions should use a monthly budget; however, a quarterly budget may be appropriate for smaller credit union.

The board of directors should review and discuss a monthly or quarterly budget variance analysis. The board should evaluate material line item variances (from budget to actual), and if necessary, the board should help determine actions to bring material variances back into line with the budget projections.

Other Considerations

When developing the strategic plan, business plan, and budget, the credit union should utilize "what-if" scenarios in an asset/liability management model to project potential effects on its balance sheet and risk profile. The board of directors and management should ensure that goals and growth assumptions within the plans and budget will result in satisfactory financial results. Once the plans have been developed, the board of directors and management should ensure the budget, policies, procedures, staffing, and resources are consistent with the plan's objectives.

The business plan, including its goals and objectives, should be communicated throughout all levels of the credit union in order to create a strong commitment by staff, management and officials to implement actions to achieve the business plan goals. Communications to individual staff members may need to be only those areas necessary for them to perform their jobs and to accomplish the credit union's mission.

The board of directors should periodically review the strategic plan and business plan to evaluate the credit union's progress in meeting its goals and objectives and to determine the continuing reasonableness of the plans. As needed, adjustments should be made to the plans throughout the year to ensure the plans remain useful and relevant tools. Budgets should only be changed if very significant changes occur, which would greatly alter the effectiveness or reasonableness of the budget.

Examination Considerations

During safety and soundness examinations, examiners will review the strategic plan, business plan, and budget to evaluate the adequacy of a credit union's future objectives and goals in relationship to the credit union's financial performance (past and anticipated). This will be done to evaluate the effectiveness of management and to access the financial outlook of the credit union. Examiners will look for a well structured process that is appropriate for the size, complexity and financial and operational needs of the credit union. Strategic planning, business planning, and budgeting are important factors in the "Management" CAMEL component rating.

Any questions about this Bulletin should be directed to Doug Lacy-Roberts at Doug.Lacy-Roberts@dfi.wa.gov or (360) 902-8753.