



Questions and Answers on Capital- Replacement Plans and Asset Management Plans

What is a capital-replacement plan?

A capital-replacement plan is a roadmap for keeping your co-op in good repair into the future. A plan tells you

- how long the chief elements of your property should last and
- how much money to put aside to replace or make major repairs to them.

A good plan is based on a building condition assessment (BCA) that reports on the condition of all parts your building and estimates their remaining useful life, including their current and future replacement cost. This [guide](#) from the Agency will tell you more about BCAs.

How is it different from an asset-management plan?

An asset-management plan (AMP) goes one step further than a capital-replacement plan. Like the latter, it tells how you will pay for replacing the **different parts of your building when you need to do so**. A complete AMP also sets out continuing maintenance and repair costs. It normally covers a period of at least 25 years. Over that period, the plan should map out a path that will leave your co-op with enough money to meet its regular expenses at all times, while covering the cost of maintaining its property.

A complete AMP provides your co-op with

- a replacement schedule (which your AMP may call a renewal schedule) and
- a financial plan.

Just like a capital-replacement plan, the **replacement schedule** details the timing and cost of capital work to your property. The **financial plan** captures ordinary maintenance costs, as well as all capital costs. Based on this information, it tells you how much cash to add to the reserve each year.

What does a capital-replacement plan look like?

Like an AMP, a capital-replacement plan has two parts:

- a replacement schedule and
- a financial forecast.

The schedule lists all the capital items you will need to replace during the building's lifetime. Then it estimates how long each item will last and its replacement cost at today's prices.

The financial forecast tells you how much you'll need to spend each year on capital repairs and replacements and indicates what you should be putting aside each year in your replacement reserve fund.

Why do we need a plan?

Your co-op's buildings are getting older year by year and you need to know how long you can expect the different parts to last.

Having a plan—and following it—will help ensure that you have funds on hand whenever your property needs work. No doubt you've already replaced some roofs and other major items, like flooring and appliances, at least once. You need to plan for the next round of replacements. To be sure you don't overlook other parts of the

property that are wearing out, a full-scale plan, based on a recent BCA, is essential.

When you plan ahead, you may find that you have funds that you will not need to spend on your building for some time. In that case, you can put that money into a longer-term investment that will earn a better rate of return.

Your members—present and future—may not think about the kind of plan you have, or whether you have one at all. However, they will like the results when you follow it. They will enjoy living in a well-maintained building where replacements are made as needed.

What does the Agency look for when approving a capital-replacement or asset-management plan?

If your co-op still has an operating agreement with Canada Mortgage and Housing Corporation (CMHC), the Agency can be helpful in reviewing your plan. We look to see that it is based on a recent assessment of the current condition of your property, done by a professional, and a financial forecast that looks ahead at least 10 years.

If the plan shows a funding shortfall in any year, we will ask you how you plan to bridge the gap. For instance, are you planning to borrow money? If so, where from? Depending on our confidence in the plan, we can grant an approval of anywhere from one to five years. You will need to submit an updated plan at the end of that period. The Agency will remind you to prepare an updated plan about a year before you need it.

If your BCA is no more than five years old, it may be recent enough to follow in updating your plan. If your BCA is older than that, you will need to have it updated before you revise your plan for Agency approval.

A plan is like a weather report: the further it looks into the future, the less certain it is. For this reason, you should review and update it regularly. Your review should take into account

unexpected building problems, changing costs, and repairs that are carried out earlier or later than planned.

Here are a few other points to bear in mind in preparing a capital-replacement or asset-management plan:

1. A BCA may tell you that your building envelope is showing signs of failing. If so, you will need a more detailed study called a Building Envelope Condition Assessment (BECA).
2. Your BCA and BECA should square with each other. The estimated replacement cost for an item may not be the same in the two reports. You will want to ask why.
3. If your plan assumes a different replacement year for an item than shown in your BCA or BECA, the plan should explain why. Remember to budget for extra maintenance costs if a replacement is delayed.
4. If you leave any items from the BCA or BECA out of your capital plan or add an extra item, be sure to say why when sharing your plan with the Agency for approval.
5. Your plan should include estimated project-management fees, taxes and contingency allowances. And it should estimate future inflation and investment rates.

Why is Agency approval of our capital-replacement or asset-management plan important?

All capital plans for deep-subsidy co-ops and co-ops with financial workouts need CMHC's approval. It falls to the Agency to review and recommend the plans to CMHC.

If your co-op has a CMHC operating agreement, you'll have more spending freedom when your plan has been approved by the Agency. If we have approved your plan and you keep contributing in full to your reserve, your co-op can use reserve funds to pay for any items that

appear in the current three-year period of the plan without asking us to approve your spending. If your co-op has a rent-supplement or Rental Assistance Program agreement but no other agreement with CMHC, you do not need approval to spend from your reserves or submit your plans for approval.

How much will a capital-replacement plan cost us?

Your BCA can run from \$3,000 to \$10,000. How much you spend will depend on such things as the size of your co-op, where it is and how many buildings you have.

You can pay for the studies from either your capital-replacement reserve or your operating budget.

How do we get started?

Our advice is to hire experienced professionals to do both the BCA and the plan. Both Co-operative Housing Federation Canada (CHF Canada) and CHF BC offer asset-management planning services. The Agency's technical-services staff can advise you on the process. When you receive your draft condition-assessment report, study it carefully. Key to getting a sound assessment is your detailed knowledge of your own co-op.

What do we do with our plan once it is approved?

Your capital-replacement or asset-management plan is a tool to help you manage your annual capital replacements and budget your reserve contributions. Each year at budget time, review the capital expenditures and reserve-fund contributions set out in your plan for the next year.

To get the best value out of your plan, update it as you complete your capital replacements. Adjust your forecast if you find that some capital items need replacing sooner than expected or that others are lasting longer. Change projections to actuals, adjust the projections, if necessary, and revise your contributions. On a fee-for-service basis, our technical-services team is there to help you with these updates and any decisions you need to make.

Where can I find out more about capital-replacement and asset-management plans?

You can find resources on the [Agency's website](#).

CHF Canada's **Guide to Capital Reserve Planning** avoids technical language and is easy to use.

CMHC's **Capital Replacement Planning Workbook** also has useful information about capital items.

The **CHF Canada Resource Centre** is another source of helpful information on keeping your co-op in good repair.

Go to the Agency's **Guide to Private Financing** for more information on borrowing.

Your local federation may also be able to help you.

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