GUIDING PRINCIPLES FOR FINANCIAL RESILIENCY

BY HEATHER JOHNSTON

Most governments are developing ways to provide a high level of services with fewer resources. The best way to accomplish that over the long term is to weave strong, goal-oriented financial practices into the fabric of your organization. These are the organization's guiding principles, and they ultimately lead to resiliency, which can be defined as an ability to recover from or adjust easily to misfortune or change. Given the many changes that are underway in local government, anything we can do to make it easier for the organization to adapt to change is critically important.

BENEFITS

Avoid Short-Term Thinking. As much as government officials want to act in the best interest of the public, pressing challenges sometimes arise that require immediate reaction — and that can lead to decisions that are inadvertently in conflict with an organization's long-term interests. To help avoid this situation, governments should adopt guiding principles that articulate the organization's values. Doing so ensures the government's long-term ability to provide valuable services to its citizens, which is what financial resiliency is all about — making sure that decisions are aligned with the organization's most fundamental beliefs about what is in the best interest of the community in the long run.

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Identify Conflicts and Alignment. The guiding principles are intended to provide direction to everyone — elected officials, appointed managers, finance officers, and departmental staff. It's helpful to achieve some distance from short-term emotions and compare your decision to the organization's guiding principles for financial resiliency. In this way, you can better identify any potential conflicts and make sure you are aligning the organization's allocation of resources with its goals.

DEVELOPMENT

Help Leaders Express their Vision. People typically find it difficult to articulate what guides their decision making, but there are ways to help them with this. The finance officer can get the process started by talking with elected officials and members of the governing board about their vision for the future of the organization. The organization's goals and values are an excellent place to start the conversation. Ask probing questions about the future — for example, ask elected officials to describe what a thriving, growing organization would look like in the future, while also identifying some of the risks to achieving that vision. The ensuing discussion will help shape the guiding principles.

Review Past Decisions. It's also possible to discern the organization's core values by reviewing past decisions, both good and bad. For example, all the council members of one city referred to a downtown redevelopment project as a major positive turning point because it was funded not just by the city, but in cooperation with community groups and private businesses. The council was excited about the possibility of extending this type of cooperative spirit to other challenges faced by the community. Hence, a principle for budget decision making in this city could be, "The city will always attempt to work with others so it can do more than it would be able to do alone." This would discourage programs that might be easier in the short term (because the city doesn't have to do the hard work of lining up partnerships) but more expensive in the long run (because the city would have to rely on its own resources).

Keep It Authentic. After discovering the standards that provide the foundation of the organization, a set of formal principles should be drafted by someone who can keep his or her own interests separate from the task at hand. Wherever possible, the wording and phrases should be consistent with what elected officials, senior management, and other decision makers have said. After participants have been given the opportunity to review the draft and suggest modifications, the governing board should formally adopt the principles as official guidance for board and executive management decisions.

BEST PRACTICES

Link to the Organization's Work. Guiding principles are not helpful unless they are easily understood and can be linked to the work of the organization. The guiding principles for financial resiliency are intended to support the government in the pursuit of its mission and vision, so they should be broadly consistent and parallel the community's overarching values. One example of a guiding principle used by Yolo County, California, is to "provide fiscally sound, dynamic, and responsive services." This is supported by departmental objectives such as "managers are aware of the full cost of their decisions" and "the county should know whether customer needs are met."

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Provide Guidance for the Future. Next, the principles should provide forward-looking guidance regarding the way trends might affect the government in the long term. For example, a community that is expecting rapid growth will emphasize a long-term balance between the cost of servicing new growth and the revenues received from growth, compared to a community that expects little to no growth.

Be Clear. Third, and perhaps most challenging, the principles must be specific. In the public sector, mission statements and strategic goals are often purposely written in vague and ambiguous language in order to accommodate a wide range of stakeholder viewpoints. But if the organization's guiding principles are too open-ended, they can be used to justify almost any decision. Yolo County has made its principles concrete by embedding them in a complete framework of goals and objectives for the financial health of the county (see Exhibit 1).

PART OF THE PROCESS

Ultimately, the principles should be integral to what the organization is doing, and how.

Embody the Principles in the Budget Process. The annual budget process is where the principles often have their greatest impact. The finance officer can design the process to directly reflect these tenets. For instance, Yolo County's budget ensures that services will continue and that the government will operate within its means. The budget process might then include provisions to identify and divest under-performing programs and to make sure that non-recurring revenues such as asset sales are not used to fund ongoing expenditures such as sheriff salaries, for example.

Reflect the Principles in Decision Making. Leadership staff should understand the guiding principles and reflect their purpose by setting the example for department staff, demonstrating that the guiding principles are the basis of decision making for the organization. This can be reflected in the questions leaders ask, the analysis they request, and so on.

CONTINUING RELEVANCE

Incorporate the Principles into Training. The guiding principles can be used to instruct new members of the organization about its values. An orientation session for new board members might include a review, along with some examples of principled decisions that past boards have made, and the positive results. The principles can also be used when training departments in the budget process.

All staff should be trained about how the guiding principles are relevant to their day-to-day work. For example, some segments of a city distrusted government leaders because they felt that urban renewal projects hadn't been planned with adequate consideration to the ways local residents would be affected. As a result, one of the city's major guiding principles addressed this issue by directing the organization to solicit public input and engage neighborhoods in planning, economic development, and resource allocation.

One day, the parks and recreation department began renovations on a neighborhood park, which included removing obsolescent structures such as an underused softball backstop. The local residents were worried that this foreshadowed full-scale development of the park site, and a large public

Exhibit 1: Framework for Implementing Financial Sustainability

Strategic Goal	**Financially Sustainable County Government**				
Meaning	A financially sustainable county government provides valuable services to county residents within available means while proactively taking measures to build and preserve its ability to provide services in the long run.				
Key Concepts	Valuable Services	Within Available Means	Proactive Measures	Preserve Ability	Long-run View
Principles	Ensure continuing value of services in the future	Operate within available means and with minimal debt	Take charge of the organization's financial destiny	Build and preserve ability to produce	Plan to stay in business for the long term
Policy Objectives	■ The county should periodically assess the current and future needs of its customers. ■ The county should know whether customer needs are met. ■ The county should should periodically adjust the mix of services to maintain optimal usefulness.	■ Annual budgets are balanced, that is, financing sources equal total financing uses and no deficit exists. ■ Budgetary controls are enforced. ■ Managers are aware of the full cost of their decisions. ■ Financial responsibility is everyone's responsibility. ■ Department heads are accountable for budgetary resources under their control. ■ County debts are at healthy level.	■ The county should identify key threats to financial health and plan to address them. ■ The county should foster entrepreneurial activities that permit self-sufficiency. ■ County management periodically assess the county's financial health and take the necessary corrective action to stay on course with the financial plan. ■ The county should take measures, (reserves succession plans) to protect core services from destabilizing events. ■ The county should identify stakeholders in the county's financial health and partner with them to chart and control the county's financial destiny.	■ The county should identify key assets, including infrastructure, financial capital and human resources and maintain their productivity. ■ Cost recovery should be based on the objective of preserving ability.	■ The county should forecast long-term trends in services and resources and adopt strategies to maintain financial health. ■ County management should consider the longterm effect of key decisions. ■ The county should develop and maintain a long-term financial plan that is consistent with the county mission and other long-term plans such as the General Plan and capital improvement plans.

backlash ensued. It is not difficult to imagine how telling new parks and recreation employees this story would impress upon them the need to seek public consultation when planning significant changes to community assets.

Keep the Principles in Front of People. There will be times when short-term pressures will inevitably distract decision makers from the guiding principles, so the government should take steps to keep them in mind — especially when decisions are being made that have the potential to significantly affect the organization's financial condition. For example, collective bargaining sessions could begin with a review. Go over the principles at the very beginning of the budget process to provide context for how budget requests and decisions should be made, and again as the organization is making its final allocation decisions.

> Before you can honor the organization's principles, of course, you have to know what they are.

Including every department in the development phase means the principles could be included in every group's plans and documents, making it clear that they are for the organization as a whole, not just the finance department. They could also be referenced or built upon in every department's missions and goals, keeping them at the forefront of the entire organization.

CONCLUSIONS

Finance officers are well versed in the nature of tradeoffs in financial decision making. Weaving the financial resiliency principles into the organization's culture makes these tradeoffs clear to others. Perhaps more importantly, this integration allows decision makers to link all of their choices about resources to the overall goals of the organization. Doing so helps the organization weather the inevitable storms that come along, making sure that all parties continue moving in the same direction toward a vibrant future.

Note

1. Chip Heath and Dean Heath, the authors of *Decisive: How to Make Better Choices in Life and Work* (New York: Random House, 2013), talk about "honoring your core priorities" and letting those core priorities guide your decision making. The idea of principles of financial resiliency is partially derived from their work.

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