BUILDING FINANCIAL RESILIENCY AND PREPARING FOR CHANGE IN A “VUCA” WORLD
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NEW NORMAL HAS EMERGED

- Slow to moderate growth
- Continuously increasing service requirements
- Unfunded mandates
- Domestic and global industry changes
- Rapid technological change
- Altered political landscape
- Aging populations
- Persistent community issues
- *Opportunities for and likelihood of disruptions increasing*
WHAT DOES “VUCA” MEAN FOR YOUR ORGANIZATION?

- Volatile
- Uncertain
- Complex
- Ambiguous

WHY IS “STRUCTURAL BALANCE” NO LONGER SUFFICIENT?

- Structural balance is necessary, but insufficient, to ensure ongoing financial health of public entity
- Structurally balanced system has achieved balance, but is potentially brittle
  - External shock can unbalance system and cause major disruptions or breakdowns, e.g., severe economic downturn or natural disaster
  - Balanced budget and operations do not signify resiliency
- Resilient system not only survives shocks, it thrives
BUILDING FINANCIAL RESILIENCY IS VITAL

- Thriving Through Change
  - Withstand acute shocks and chronic stresses
  - Maintain and improve essential services
  - Recover quickly and effectively
  - Adapt, succeed and renew under adverse and unforeseen conditions
  - Move from recovery and sustainability to resiliency
CHARACTERISTICS OF FINANCIALLY RESILIENT GOVERNMENT

- **Diversity** – avoid single point of failure or single solution
- **Redundancy** – have more than one path of escape
- **Decentralization** – when centralized systems fail, it’s catastrophic
- **Transparency** – don’t hide your systems
- **Collaboration** – working together to become stronger
- **Fail gracefully** – it happens, ensure it doesn’t make things worse
- **Flexibility** – be ready to change, don’t count on stability
- **Foresight** – think, hear footsteps approaching, and prepare
KEY TOOLS TO BUILD FINANCIAL RESILIENCY

- Enhance long-term financial planning
- Reform budget process
- Address liabilities
- Evaluate and manage enterprise-wide risks
- Advance culture of accountability
- Advance innovative and adaptive culture
PLANNING IS INDISPENSABLE

- “In preparing for battle, I have always found that plans are useless and planning is indispensable.”
  - General Dwight D. Eisenhower

- Long-term financial planning is central to financial resiliency
  - Supports important characteristics of resiliency: diversity, decentralization, and collaboration (GFOA)
ENHANCE LONG-TERM FINANCIAL PLANNING

- Combines financial forecasting with strategizing
  - Prepare for and make sound investments in future
  - Project revenues and expenditures for at least 5 years, longer time horizon recommended
  - Anticipate future impact of cost increases, contracts, revenue trends, service demand, and liabilities
- Demonstrates commitment to maintain long-term financial health
  - Impacts bond credit ratings and credibility with community
LONG-TERM FINANCIAL PLAN = FOUNDATION

Strategic Plan
Comprehensive Plan
Capital Improvement Plan
Financial Policies
Long-Term Financial Plan
INTERLUDE ON FINANCIAL POLICIES

- Financial policies = Rudder to steer toward operational success and financial sustainability and resiliency
  - Fund balance and reserves
  - Revenues, expenditures, and operating budget
  - Capital asset management and debt management
  - Long-term financial planning
  - Procurement
  - Accounting, auditing and financial reporting
  - Internal controls and risk management
  - Economic development
REFORM BUDGET PROCESS

- Move from incremental budget to policy-based perspective
  - Zero-based budgeting or priority-based budgeting
- Priority-based budgeting (PBB)
  - Make decisions about which services will continue and at what level
  - Use community input about service priorities and needs
- Stakeholder input is essential
ADDRESS LIABILITIES

- Must identify all long-term liabilities to create accurate long-term financial plan and priority-based budget
- Use long-term financial plan and PBB to model scenarios to address liabilities
- Critical to bond credit rating and debt financing
  - Investors view unaddressed liabilities as threat to bond repayment
- Transparent and inclusive process is essential
- Enterprise-wide, holistic and strategic approach to risk management
- Effective risk management ensures continuity of government services
- Develop comprehensive risk management program that identifies and reduces risks to property, interests and employees
  - Evaluate and manage risks in the physical, legal, operational, political, social, economic, internal and other pertinent environments
ADVANCE CULTURE OF ACCOUNTABILITY

- Accounting, auditing and financial reporting are critical
  - Transparency, integrity and business intelligence
- Performance management systems are powerful tools
  - Monitor progress on outcomes and results
  - Early warning systems
  - Reveal opportunities to improve service and efficiency
  - Good metrics key to effective performance management
  - Team-based approaches produce more robust systems
ADVANCE INNOVATIVE AND ADAPTIVE CULTURE

- Make innovation a discipline throughout organization
- Incorporate innovation and continuous process improvement in management systems
  - E.g., Lean Process Improvement, The Malcom Baldridge National Quality Award
- Transform to reduce cost and increase flexibility
  - Consolidation, shared services, P3, community partnerships, volunteer programs
- Create culture of flexibility and responsiveness
CONTINUOUS CYCLE

Plan → Implement → Assess → Adjust → Plan
FINANCIAL RESILIENCY CHECKLIST – PART I

- Look to the future – ask the right questions – expect the unexpected
- Develop long-range financial plan with guiding principles and strategic objectives
- Update financial policies comprehensively (reserves, debt, revenues, etc.)
- Establish culture of financial discipline and sound debt management
- Continuously refine priority-based budgeting – what’s important and how much
- Emphasize team-based approaches, stakeholder involvement and transparency
- Evaluate and manage enterprise-wide risks
- Critically evaluate and update business preparedness and continuity plans
- Develop plan to address long-term liabilities
FINANCIAL RESILIENCY CHECKLIST – PART 2

✓ Stress affordability and structural balance – operating expenses match operating revenues
✓ Reexamine revenues – diversification and dependency on volatile sources
✓ Revisit expenses – fixed vs. discretionary
✓ Maintain quarterly reporting and monitoring – more often if appropriate
✓ Utilize performance management system – monitor progress and reveal early warnings
✓ Develop strategies for unfunded mandates
✓ Highlight and reward innovation, flexibility and responsiveness
- In what areas do you think your organization does well?
- In what areas do you think refinements would increase your organization’s financial resiliency?

From Liberating Structures by Henri Lipmanowicz and Keith McCandless
INTEGRATED PLANNING SUPPORTS FINANCIAL RESILIENCY

- Strategic Plan
- Comprehensive Plan
- Capital Improvement Plan
- Financial Policies
- Long-Term Financial Plan
What refinements would enhance your organization’s financial resiliency?
- Strategic Planning
- Financial Planning
- Financial Policies
- Budget and Financial Management

Choose an area to review in detail using the following slides and additional reference materials in Appendix.
1. How does your organization’s Strategic Plan support financial resiliency?

2. Are there any refinements that would augment your organization’s financial resiliency?
   - Reference the Financial Resiliency Checklist and Strategic Planning Considerations (slides 18-19, and 24).
STRATEGIC PLANNING CONSIDERATIONS

- Is there a formal or informal organizational strategy?
- Is the strategy developed through a systematic planning process with broad stakeholder engagement?
- Is the strategy universally known and supported and does it consistently help to drive day-to-day behavior at all levels of the organization?
- Are there realistic short- and long-range goals consistent with the mission and values of the organization?
- Does your organization set measurable objectives and timeframes for achieving them?
- Is there a process for clarifying and revising the organization’s strategy?
- Is there an ongoing process for scanning the environment to consider potential threats and opportunities?
1. How does your organization’s Financial Planning support financial resiliency?

2. Are there any refinements that would augment your organization’s financial resiliency?

FINANCIAL PLANNING CONSIDERATIONS

- Does your organization have a long-run financial plan that incorporates operating and capital budgets and all funding sources, including debt?
- Are there clear and consistent links between the financial plan and the organization’s strategic goals?
- Are there systematic processes for broad stakeholder engagement in financial planning?
- Does your organization’s planning process include consideration of the changing environment and its implications for the organization’s operations?
- What risk factors do you believe deserve more attention and pro-active planning?
FINANCIAL POLICIES REVIEW

1. How do your organization’s Financial Policies support financial resiliency?

2. Are there any refinements that would augment your organization’s financial resiliency?
   - Reference the Financial Resiliency Checklist and Financial Policies Considerations (slides 18-19, and 28)
1. Does your organization have written financial policies and procedures and follows them consistently?

2. Are the financial policies and procedures reviewed on a regular basis to assess whether they are adequate, inadequate or excessive?

3. How do your organization’s financial policies compare to GFOA Best Practices (see Appendix)?

4. What areas do you believe deserve more attention and pro-active planning?
1. How does your organization’s Budgeting and Financial Management support financial resiliency?

2. Are there any refinements that would augment your organization’s financial resiliency?
BUDGETING AND FINANCIAL MANAGEMENT CONSIDERATIONS

- Are there clear and consistent links between the operating and capital budgets and the organization’s strategic goals?
- Are there systematic processes for broad stakeholder engagement in budget planning?
- Does the organization consistently generate more revenue than expenses?
- Are cash requirements analyzed through cash flow statements?
- Does the organization keep reasonable reserves to meet cashflow needs and buffer against difficult times?
- Are comparisons of both actual and planned budgets monitored and analyzed for decision-making?
- Are there appropriate capital asset management and debt management plans?
- Are reports provided to senior managers and the governing body on a regular basis?
- Is financial information provided in a timely fashion to those who need it?
What are your key takeaways?

What are the best things you can do to increase your organization’s financial resiliency?
QUESTIONS?

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APPENDIX

ADDITIONAL BUDGETING & PLANNING REFERENCE MATERIALS
THE STRATEGIC PLAN SETS THE COURSE

- Comprehensive and systematic management tool
  - Assess current environment
  - Anticipate and respond appropriately to changes in environment
  - Envision the future
  - Increase effectiveness
  - Develop commitment to organization’s mission
  - Achieve consensus on strategies and objectives for achieving the mission.

- Strategic planning is about influencing the future, not just preparing or adapting to it.
Good budget process is more than preparation of a legal document that appropriates funds for a series of line items.

Good budgeting is a broadly defined process that has political, managerial, planning, communication, and financial dimensions.

- Incorporates long-term perspective
- Establishes linkages to broad organizational goals
- Focuses budget decisions on results and outcomes
- Involves and promotes effective communication with stakeholders
- Provides incentives to government management and employees
FOUR PRINCIPLES OF BUDGET PROCESS

1. Establish broad goals to guide government decision making
   - A government should have broad goals that provide overall directions for the government & serve as a basis for decision making.

2. Develop approaches to achieve goals
   - A government should have specific policies, plans, programs, & management strategies to define how it will achieve its long-term goals.

3. Develop a budget consistent with approaches to achieve goals
   - A financial plan & budget that moves toward achievement of goals, within constraints of available resources, should be prepared & adopted.

4. Evaluate performance & make adjustments
   - Program & financial performance should be continually evaluated, & adjustments made, to encourage progress toward achieving goals.

GFOA and NACSLB, Recommended Budget Practices: A Framework for Improved State and Local Governmental Budgeting
TWELVE ELEMENTS OF BUDGET PROCESS

- Establish broad goals to guide government decision making
  1. Assess community needs, priorities, challenges & opportunities
  2. Identify opportunities & challenges for government services, capital assets & management
  3. Develop & disseminate broad goals

- Develop approaches to achieve goals
  4. Adopt financial policies
  5. Develop programmatic, operating & capital policies & plans
  6. Develop programs & services that are consistent with policies & plans
  7. Develop management strategies

GFOA and NACSLB. *Recommended Budget Practices: A Framework for Improved State and Local Governmental Budgeting*
TWELVE ELEMENTS OF BUDGET PROCESS (CONT’D)

- Develop a budget consistent with approaches to achieve goals
  8. Develop a process for preparing & adopting a budget
  9. Develop & evaluate financial options
  10. Make choices necessary to adopt a budget
- Evaluate performance & make adjustments
  11. Monitor, measure & evaluate performance
  12. Make adjustments as needed
FINANCIAL POLICIES ARE STRATEGIC GUIDES

- Provide guidelines for financial decision making and set the strategic intent for financial management
- Central to a strategic, long-term approach to financial management
- Adopting formal written policies, preferably by the governing body, helps governments:
  - Institutionalize good financial management practices
  - Clarify strategic intent for financial management
  - Define boundaries
  - Support good bond ratings
  - Promote long-term strategic thinking
  - Manage risks to financial condition
  - Comply with established public management best practices
KEY FINANCIAL POLICIES – PART 1

- General Fund Reserves
  - Target amount of reserves
  - Conditions for using reserves

- Revenues
  - Use of one-time revenues
  - Covering costs with user fees

- Expenditures
  - How money is expended, including personnel, outsourcing and long-term liabilities

- Budgeting and Financial Planning
  - Structurally balanced budget
  - Long-term financial planning

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KEY FINANCIAL POLICIES – PART 2

- Debt
  - Acceptable uses
  - Maturity and amortization guidelines
  - Post-issuance compliance program

- Capital asset management
  - Lifecycle of capital assets - Capital improvement planning, capital budgeting, project management and asset maintenance

- Accounting, auditing and financial reporting
  - Role and responsibilities of an audit committee
  - Key accounting principles
  - Ensure external audits are properly performed
KEY FINANCIAL POLICIES – PART 3

- Internal controls and risk management
  - Comprehensive framework of internal control
  - Traditional property and hazard risks and enterprise-wide risks

- Procurement
  - Encourage efficient, effective and fair public procurement
  - Clear authority and responsibility definitions
  - Guidelines for organization and procurement professionals to follow

- Economic development
  - Use of incentives
  - Return on investment guidelines