Crafting a Plain-English Financial Policy

BY MERRILL KING

Financial policies are critical in setting criteria for acceptable and unacceptable courses of action, government operations, and fiscal performance. When crafted well, they are of great benefit in guiding (and explaining) important financial decisions. But sound principles alone are not enough. Policies must be communicated effectively and accurately in order to be of practical use to end users and governing boards.

After a financial policy is developed, it must be adopted and implemented, and communicated to a wide variety of people (who have varying degrees of expertise) along the way. The policy should be accessible to everyone in its audience, especially those who don't have the same depth of knowledge as the person or people who created it. In fact, it's ironic that the deep knowledge one needs to create a financial policy can in fact be a roadblock to clear communication. Experts sometimes inadvertently use specialized concepts or language, or make incorrect assumptions about how much a non-expert knows about a given topic.

IDENTIFY YOUR AUDIENCE

It's critical to identify your audiences from the outset. With financial policies, there is always more than one. Writing with these diverse audiences in mind will help guide the policy's development.

The first group to consider is elected officials and other policymakers, including all applicable governing boards (e.g., councilmembers, appointed committee/board members, and, potentially, elected officials from oversight agencies at a state or regional government level). Keep in mind the current professions and backgrounds of these individuals whenever possible.

Another important segment of your audience is taxpayers and the general public. It's important to understand demographics, level of engagement, and how they can be influenced by interest. Consider the community's historical level of engagement in local government issues and residents' needs.

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Finally, consider the individuals who will be in charge of implementing the policy, especially governmental employees (both current and future). Auditors will use the policy to judge your compliance, and rating agencies will employ it to discern fiscal soundness. Other financial professionals may draw upon it to provide services to your government, and your financial peers may make use of it for their own deliberations as a point of comparison or example.

COVER ALL THE BASES

Most financial policies include sections about goals and objectives, scope, provisions, and administrative information. It can be helpful to start with an outline — a consciously structured skeleton of the final document.

Goals and Objectives. Sometimes labeled as a preamble or statement of purpose, the goals and objectives section of the policy states the principles that are critical to establishing agreement and buy-in of various audience members, particularly policymakers and end users. It also explains the policy's relevancy. An excerpt from a policy of the City of Minnetonka, Minnesota, illustrates the basic information included in this section:

Purpose of Policy: This policy establishes appropriate level of fund balances in government funds to ensure the city maintains prudent financial resources to protect itself against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenses or mandates.

Background: The City of Minnetonka recognizes it is essential to maintain adequate fund balances in its government funds to mitigate against current and future risks, to ensure stable tax rates, and to provide for long-term financial planning. Historically, maintaining such balances has significantly contributed to recognition of the city's continued creditworthiness, which has provided financial benefits to the city's taxpayers including lower costs of borrowing. Furthermore, a policy to establish appropriate level of fund balance is desirable, so that

excess government funds may be made available for alternative, appropriate uses.

Statement of Scope. The scope section sets out the parameters of the policy and identifies its application. Defining application boundaries enables the policy to be both comprehensive and concise. It helps prevent the policy's audiences from becoming overwhelmed and keeps policy development targeted and realistic.

This text, taken from Minnetonka's fund balance policy, lays out the policy's scope simply and completely:

The following policy applies to the city's general fund and capital funds and addresses the unrestricted portion of fund balances, which consists of committed, assigned, and unassigned classification of resources.

Provisions. The provisions section of the policy should provide guidelines with enough flexibility to accomplish the organization's goals under different types of circumstances. It may also contain definitions and explicit numerical targets and goals as needed. (Specificity is best for clarity.) In addition, the provisions section may identify reporting requirements and timeframes for subsequent review of the policy.

The City of Minnetonka fund balance policy defines terms needed by its audiences to understand its provisions, as shown in the following examples:

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- *Committed* balances are amounts that are constrained by formal action of the city council.
- *Assigned* balances are amounts intended for specific purposes as designated by the city manager.
- *Unassigned* balances are amounts that have not been designated for explicit purposes.

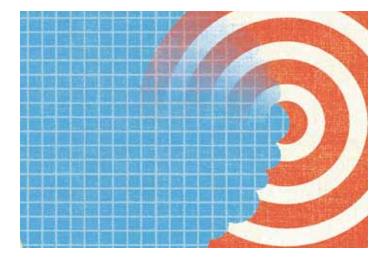**Administrative Information.** Finally, a financial policy should be labeled with its dates of adoption and subsequent amendment(s). These notations identify its formal endorsement, delineate authentication, can provide historical context when it is reviewed in the future.

PUT IT IN WRITING

GFOA best practices are very clear that financial policies must appear in writing.[1] The vocabulary and composition of that writing is hugely important in making it an effective communication tool.

First and foremost, use concrete language throughout the policy. Complex material requires simple language. Avoid jargon or other words that requires special knowledge or expertise. If you do need to use a special term, define it for laypeople. Always spell out acronyms.

The written policy should be concise. Avoid repetition and write with the goal of longevity, so that the text is understandable both now and in the future. The policy should not use the language of contemporary management and planning tools. Despite their usefulness, the vernacular of instruments such as Total Quality Management or Theory Z do not belong in financial policies.

Design and Format. Presentation can be a meaningful component in communicating financial policies to their intended audiences. Careful document design and formatting can boost effective communication. Effective use of formatting tools such as italics, boldface, bullets, numbering, colors, and fonts can create an executive summary of sorts, allowing readers to scan the documents and statements more quickly and find targeted provisions. By the same token, over-formatting can be counterproductive, generating visual confusion.

Tables are an effective way to present information, especially complex and multifaceted provisions of a finance policy. Note, however, that financial policies should not be presented in spreadsheets. Though Excel-style spreadsheets are familiar and useful to finance professionals, they may confound other readers and obscure the meaning of the policy.

It may also be useful to ensure consistency within and amongst the different and distinct financial policies used by a government. Use of formatting conventions, including size, layout, fonts, etc., can invoke recognition by the audiences of the documents' reliability and authority.

Accessibility. The GFOA best practice on financial policies suggests that policies should be available to stakeholders in a variety of formats. Today, publishing financial policies on the organization's website is expected. Hard copies may not be strictly necessary, though some people continue to find paper copies more functional and handy.

Electronic editions of the policy should be designed for ease of searching, downloading, and updating. Consider hyperlinks within documents, keeping in mind that links can break when references are changed or updated. Saving a master copy of collated financial policies in separate electronic files can greatly facilitate later reviews and amendments of each separate policy.

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OTHER RESOURCES

Model policies — examples taken from organizations that are similar to yours — can be a great resource as you craft or revise your government's financial policy. Within the same state and/or county, peer governments are operating under the same statutory structures and legal constraints. When peer governments have similar community populations, governing structures, and/or tax bases, they likely will have experienced similar political, financial, and logistical challenges in adopting and applying their financial policies.

CONCLUSIONS

A financial policy is central to your government's long-term strategy for financial management. Thoughtful and carefully crafted communication can help with the development of the policy itself, establish buy-in from stakeholders, and successfully employ effective and sound financial policies. ▮

Note

1. *Adopting Financial Policies*, Government Finance Officers Association best practice, 2015.

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