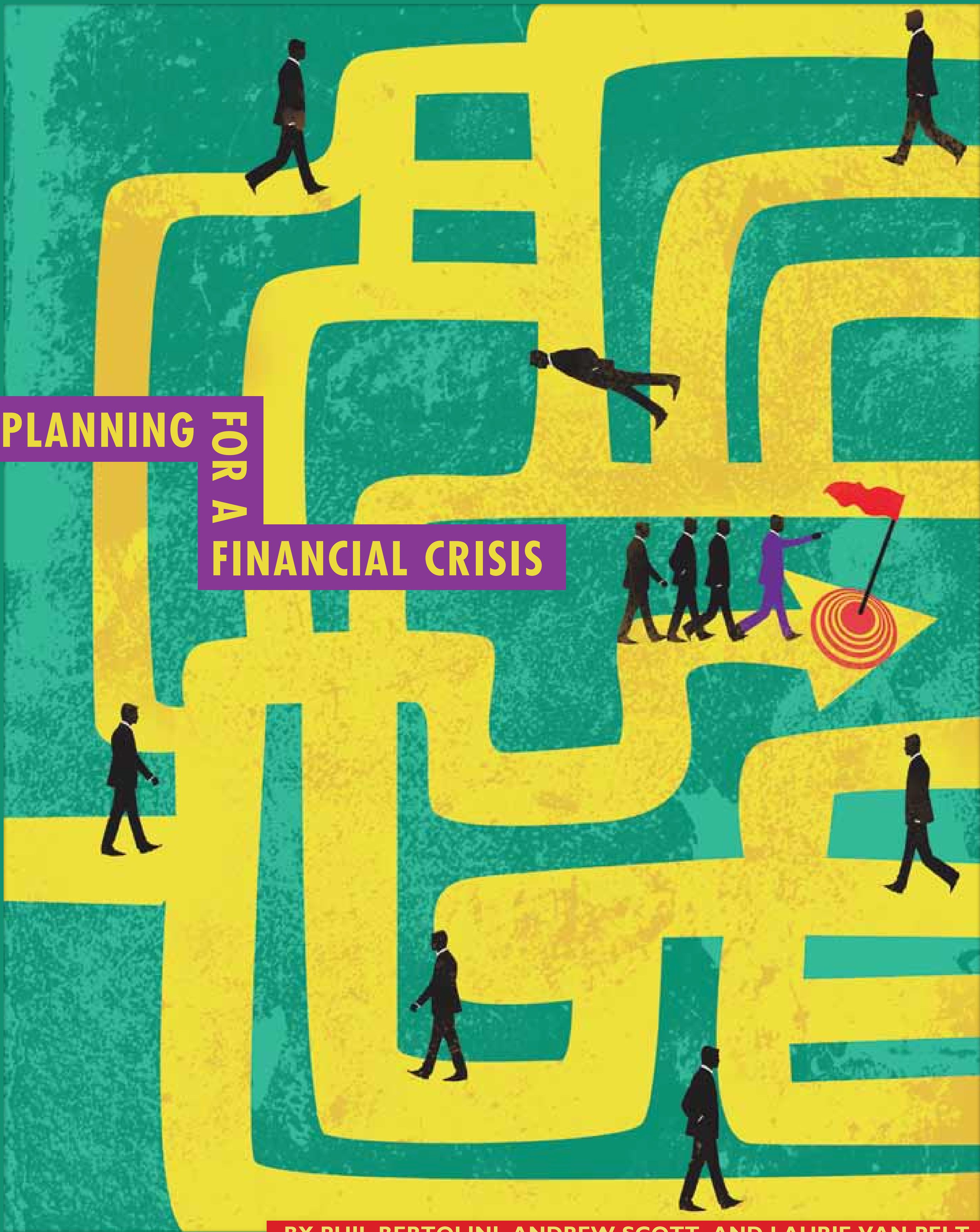
PLANNING FOR A FINANCIAL CRISIS



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Some governments are able to respond nimbly when changes are needed, while others struggle in the face of adversity, sinking deeper into financial distress with each successive crisis. Leaders who are dealing with financial stress sometimes make decisions that are less than optimal. They fail to consider a broad array of potential solutions because of immediate emotional pressures. Being resilient under conditions of financial stress requires making smart decisions that address short-term needs without making the long-term situation worse.

Most governments have faced financial stresses in the past and will do so again in the future. Before the next financial crisis hits, governments should consider developing a financial crisis policy, including a library of strategies that could be employed to deal with a financial crisis.

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DEVELOPING A POLICY

Governments usually have evacuation or sheltering plans in place for emergencies such as fires, tornadoes, and earthquakes. These plans provide clear advance direction such as where to go and what to do, depending on the nature of the emergency. The plans might designate certain people as area leaders during an emergency, giving them special authority and responsibility for a limited time. There are periodic drills to practice for an automatic, predictable, and organized response.

Why not use a similar approach in the event of a financial emergency? Having a financial crisis policy in place before the actual crisis can achieve benefits similar to those of a disaster policy. The basics for a sound financial emergency policy are outlined below.

Define "Financial Emergency." Governments often fail to take action when confronted with a financial emergency because the leaders are unaware of the magnitude of the situation or are slow to accept the facts. A pre-determined definition of financial emergency, combined with routine self-assessments of financial health,[1] can save valuable time during a crisis — time that can then be used to better cope with the financial emergency.

Deciding what constitutes a financial emergency in advance will provide clarity as to when a financial emergency policy should be invoked. Indications of crisis might include:

- Recurring operating deficits.
- A dependence on one-time sources of revenues to balance ongoing operations (such as selling assets).
- Fund balance or cash levels that fall below a pre-defined threshold.
- The inability to make timely payments to creditors.

In defining a financial emergency, governments should refer to any extant financial policies for guidance. For example, a reserve policy might define the minimum acceptable levels of fund balance. In states that legally define when a financial emergency exists for local units of government, localities should design their policies to recognize and resolve the emergency before a potential state intervention.

Delineate Procedural Steps. Governments should outline the procedures they will use for addressing the emergency. Note that additional steps may be needed to meet the needs of the governing body.

1. *Formally declare a financial emergency.* An official, formal declaration should be made when the definition of financial emergency has been met.
2. *Designate responsibility for managing the emergency.* Someone should be assigned to manage the emergency, and that person should appoint a core team consisting of subject matter experts in the areas of finance, human resources, operations/programs, and communications. The governing body may also delegate certain authorities to facilitate a rapid response.
3. *Deploy a financial emergency management plan* A flexible plan that has been pre-approved by the governing body should be in place to provide strategies the government can use to handle the crisis. The emergency team can create a plan for each individual emergency by outlin-

ing the details of the situation and choosing the pre-approved strategies that will best mitigate these specific problems.

4. *Identify and declare an end to the emergency.* The policy should include predefined criteria for determining the end of a financial emergency. At that point, an official declaration that the financial emergency has ended should be issued. Any additional directives needed after the financial emergency, for monitoring or transitional purposes, should be included in the declaration announcement.

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DEVELOPING A PLAN

When a government is confronted with a financial emergency, it probably cannot afford to spend a significant amount of time researching solutions. Instead, it makes sense for the jurisdiction to consider what other entities have done to resolve their financial crises and determine whether those solutions are applicable to the current situation.

The government's financial emergency management plan should be contain two parts: 1) a library of strategies the governing body has already approved for use in any situation that seems plausible (an economic recession is likely to occur at some point, but it probably isn't necessary to plan in detail for, say, a collapse of the currency); and 2) a customized plan, or playlist, that the emergency team will create to address a specific financial emergency, once it has been declared.

Build a Library of Solutions. Once you've identified all the potential financial emergency scenarios, it's time to build a solutions library. Identify different options — acceptable short-term solutions and long-term strategies the government might use to cope with the crisis and regain financial sustainability. You can draw from the library of retrenchment tactics the governing body has already approved for dealing with likely potential financial crises policy as needed. These options might include a freeze on hiring, purchasing, and travel, for example.

The solutions library should include tools the financial emergency team can use to closely monitor and report on revenues and expenditures on at least a monthly basis — in this way, the team can know how the techniques are performing when they are implemented. It should also include systems of accountability for staff members who manage budgets and for achieving service objectives during the emergency.

Create a Playlist. The second, episode-specific part of the plan goes into effect after an emergency is declared. This is where the emergency team outlines the cause(s) of financial distress and chooses which of the pre-approved near-term and long-term strategies should be used to resolve the emergency.

"Self Help" for Financial Crisis Planning

To plan effectively for a financial crisis, governments need to remember three things:

- **Know What You Have.** Many governments do not have a basic understanding of the assets at their disposal. Assets such as financial, physical, and human resources must be clearly identified in order to determine the organization's baseline.
- **Know What You Need.** After a baseline is determined, governments must start identifying what needs to be done to either halt the financial crisis or recover from the crisis. Both short-term and long-term tactics are paramount to success.
- **Know How to Get Help.** Governments cannot stick their heads in the sand when a financial crisis presents itself. Knowing who to rely on and where to get assistance is a must.

Note that your government can also put pre-approved options together in advance. That way, it will be able to respond even more quickly and effectively to any given scenario — a severe economic recession, for instance.

CONCLUSIONS

Once a government has taken the steps outlined above — defined a financial emergency, adopted a financial policy, and outlined a plan — the plan can be tested through simulation drills. As with traditional emergency management, practice makes it easier to take swift action when a real crisis occurs.

This article provides the necessary foundation for building a solid financial crisis response plan, including a pre-approved tactical and strategic responses to financial distress. Keep in mind that the most successful disaster plans are those that are practiced over and over again, and a financial crisis plan is no different.

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Note

1. Regular financial checkups help prevent financial crisis. Governments should conduct a periodic financial health self-diagnosis and report the results to the chief elected official and governing body. Elected officials and staff can then take steps to remediate any financial weaknesses.

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