Gaining Commitment to a Long-term Financial Plan

By Shayne Kavanagh, GFOA

Long-term financial planning is an established best practice in public management and is a leading interest of finance officers across North America. A long-term financial plan is a collaborative and visionary exercise in which technical analysis, such as long-term forecasting, debt capacity analysis, and capital improvement planning, are used to reveal potential future imbalances in the financial position. Then, strategies to mitigate these imbalances (or to take advantage of opportunities) are developed in concert by elected officials and managers. Of all the components of a long-term financial planning process, gaining support for long-term financial strategies has proven challenging for many public managers. These long-term strategies might entail short-term sacrifice or at least de-
layed gratification. They also require consistent commitment over a multi-year period. These characteristics are at odds with the prevailing political environment found within many local governments. This doesn’t mean that long-term financial planning is impossible, just that public managers will need to employ what the noted thinker on public management, Mark Moore, calls “political management.”

I. POLITICAL MANAGEMENT

Political Management is about building a climate of tolerance, ongoing support, or active cooperation for a manager, policy, or overall strategy among those outside the scope of a manager’s direct authority. The authorization or operational assistance of those outside the manager’s direct authority is needed to fulfill the public purposes for which the manager will be held accountable. Moore describes three main approaches to political management:

- ENTREPRENEURIAL ADVOCACY: The manager focuses on getting the right people to authoritatively back a policy or strategy.
- NEGOTIATION: The manager identifies a preferred policy and then negotiates with relevant centers of power to gain an outcome, as that is as close as possible to the manager’s preferred position.
- MANAGING POLICY DEVELOPMENT: Rather than concentrating on getting a particular policy approved, the manager concentrates on developing a system that produces good policy decisions, either on a single issue or on an on-going basis.

This article will focus on the last of these approaches, managing policy development, because it aligns most closely with the practice of creating a strong long-term financial planning process, which is the goal of public finance officers. In order to gain initial acceptance of a strategy and on-going support for its implementation, a strategy development process, and the strategy that results from it, must have two key features: “democratic legitimacy” and “substantive legitimacy.” Democratic legitimacy is the extent to which a strategy or process is perceived to reflect the will of the community. Substantive legitimacy is the extent to which the strategy or process incorporates relevant expertise. The rest of this article is devoted to how public managers can impart democratic and substantive legitimacy to a strategy development process. These concepts are illustrated using the experiences of local governments from Canada and the United States that have successfully advanced strategies for long-term financial health in their own organizations.

II. DEMOCRATIC LEGITIMACY

Achieving democratic legitimacy requires a process of democratic deliberation and consultation on the issues at hand and the strategies to address those issues.

Elected officials are the representatives of the public, so the democratic legitimacy of any planning process starts with them. There are many ways to compel elected officials to be more engaged. Foremost is to base the long-term financial plan on a strategic plan. The strategic plan describes elected officials’ vision and service objectives for the community. To the extent that the financial plan is perceived as elemental to operationalizing the strategic plan, the financial plan will receive greater support from elected officials. Figure 1 shows how this concept works in the District of Maple Ridge, British Columbia, and the City of Coral Springs, Florida. The strategic plan is regarded as primarily the jurisdiction of the elected officials (though senior staff are heavily involved in its development), while the business plan (which includes the long-term financial plan) and budget are used by staff to translate the Council’s priorities into action. This linkage gives elected officials confidence that the staff’s operational plans are reflective of their broader vision for the community. The elements of long-term financial planning (forecasts, financial strategies, etc.) are built into the business plan to ensure that the strategic plan and budget are financially sustainable.

Another useful tactic for engaging elected officials is to tie a specific revenue strategy to a valued service initiative. This increases acceptance of a revenue initially and helps maintain it over time. Maple Ridge adopted a one percent tax increase to pay for infrastructure maintenance. Linking the increase directly to a valued community objective legitimized the tax.

Beyond engaging elected officials, democratic legitimacy is greatly enhanced by engaging the general public. Many elected of-
officials are more comfortable with committing to a strategy if they know that it was developed through a process of broader democratic deliberation. Further, this process of deliberation should produce a strategy that is more acceptable to the community and may even help public officials find citizens who are willing to help implement the strategy. This latter point is particularly important, because convincing people to agree that a strategy is a good idea is one thing, obtaining active support for the strategy when the implementation runs into snags (which it almost inevitably will) is quite another.6

Managers should use a variety of tools to gain representative input from the public, while working with elected officials to understand the issues for which they support gathering public input. Surveys, community meetings, and focus groups are common ways to engage the public in the planning process. Using more than one method helps to obtain input from different segments of the community. This kind of representativeness is important because input that is not representative will skew the findings, harming substantive legitimacy, and will not be seen as democratically legitimate.

CIRCLES OF STAKEHOLDERS
When developing their long-term financial plan, the First 5 Alameda County Commission in California, comprising nine volunteer members, thought in terms of different circles of stakeholders to engage. First, people and organizations directly involved in or impacted by the agency’s programs.

Second, funders and oversight authorities. Finally, private sector firms, other government agencies, or other actors that can influence the success of a financial strategy. Planners should consider the stakes all these groups have in a strategy and how to engage them.

For example, consider the case of a public hearing for a new community recreation center. If the group of citizens is self-selecting (as is usually the case at an open public hearing), the citizens attending are likely those with a high level of interest in the issue (e.g., those that would like to have a premium community center). They do not really represent the average voter, who might prefer a more modest center and lower taxes. In such a case, the public input will not have true democratic legitimacy and public engagement may be discredited both from the standpoint of decision makers (“citizens don’t know enough to participate effectively”) and citizens (“city hall doesn’t listen”). Try to work towards reasonably representative participation, be it through random sampling for surveys or actively recruiting diverse viewpoints to be included in community forums.

While the points made so far apply broadly to citizen engagement for any public purpose, it is important that democratic deliberations for financial planning, in particular, include issues of technical feasibility (financial or otherwise) as part of the deliberation, lest the deliberation become a “wish list” conversation. Here are a few examples of public engagement techniques used by the local

What happens if we...

...borrow?
...use reserves?
...raise taxes?

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governments who participated in our research that are particularly relevant to financial planning:

- **CITIZEN VALUE RATING**: Community surveys are a good way to obtain a broad overview of citizen opinion about the community and the local government. A survey can provide a perspective on finances by asking citizens their opinion on the value they receive for a tax dollar spent on their local government.

- **BUDGET GAME**: A budget “game” challenges citizens to allocate a hypothetical pool of limited resources among a portfolio of valuable services. Such an exercise gives citizens a better appreciation of the difficult choices that public officials must make. The City of Toronto featured such an exercise in its 2004 City Budget Community Workbook, which is available at www.toronto.ca/budget2004.

- **COMMUNITY CO-PRODUCTION**: Community groups are great potential participants in a planning process because they represent a constituency with a well defined interest in an issue. As such, they are rich potential sources of partners to help implement strategies that come out of the planning process. Coral Springs, for example, has held community visioning summits in which they invited community groups not just to engage in “blue sky” visioning, but also to make practical commitments to how they could help make this vision a reality. The District of Maple Ridge funds community groups to help implement the Council’s strategic priorities. Those groups that receive funding from the District are expected to participate fully in the District’s business planning process to ensure that value is received from the District’s investment.

- **VOLUNTEER PROGRAMS**: Citizen volunteers who work in staff capacities (e.g., recreation assistants, teacher assistants, citizen police patrols) can be engaged. For example, in Coral Springs, as part of their orientation, citizen volunteers are educated on the city’s financial planning model, the plan’s consistency with best practices, and the volunteers’ role in helping the city achieve financial sustainability. These civic-minded individuals are likely to speak with their friends and neighbors about their experiences. This type of approach can help build a grass-roots expectation for a long-term, strategic approach to the financial issues faced by local government.

Finally, for democratic legitimacy, it is important to follow a well designed process that respects relevant laws and that provides for a clear point of closure. The former point is fairly obvious: if the strategy development process does not respect relevant laws like open meetings acts, it will not be seen as legitimate. The latter point may be less obvious, however. Strategies, by necessity, are often implied in abstract terms in order to appeal to a broad audience and to allow for sufficient latitude to respond to changing conditions during implementation. As such, there is often no intuitive point at which strategy development is definitively complete. Therefore, the process should provide for an official point of closure. This can be accomplished by forming an “evaluation committee” comprising individuals of sufficient authority to review, provide meaningful feedback on, and approve strategies suggested by the participants in the process. The evaluation committee should be presented with clear recommendations by the participants at defined points during the planning process. The committee then should evaluate and prioritize the recommendations using a structured approach, which would then lead to a formal adoption of the strategies by the governing board at a public meeting. In most cases, there should be at least some overlap in membership be-

![FIGURE 2 Financial Model, City of Fredericton, New Brunswick](image-url)
between the evaluation committee and the governing board so that the governing board is not being asked to approve strategies it had no part in evaluating.

III. SUBSTANTIVE LEGITIMACY

Substantive legitimacy comes from pulling relevant expertise into the decision. Substantive legitimacy therefore starts with the staff, who must lead the way on using relevant data to inform decision-making. In financial planning, the foundation is an analysis of the financial and economic environment. This analysis helps decision-makers understand salient demographic trends, economic indicators, and metrics of the organization’s financial position. Just as importantly, it demonstrates that the staff has their arms around this issue. In Maple Ridge, decision-makers were provided data about infrastructure value, lifecycle, and replacement costs to help make the decision on the District’s asset maintenance strategy.

Also important is a good financial model that depicts a long-term forecast. The model should also show the impact of different strategic options on the forecast, which helps decision-makers better consider the principle alternatives available and their likely consequences. Figure 2 shows an example of a financial model that incorporates these characteristics from the City of Fredericton, New Brunswick.

Of course, staff must perform due diligence on the strategies presented to the governing board. GFOA typically recommends that small staff teams analyze the issues under study in the long-term financial plan and recommend strategies. These staff teams must back their recommendations with salient information such as the experience of other governments, practices from private sector organizations, and feasibility studies specific to the staff’s recommended course of action.

Staff also can bolster substantive legitimacy in the way they present strategies. Presenting a menu of strategies gives decision-makers more confidence, and a better sense of ownership over the final choice. However, a menu should not be too expansive due to the “paradox of choice”: too many choices actually lowers satisfaction with the process because decision-makers come to feel overwhelmed. Staff should use their expertise to reduce the menu to just the best alternatives. Staff should also provide their evaluation of the options, perhaps using a consistent set of criteria across the options, such as those suggested below. A numerical or color-coded rating system often helps decision-makers more readily absorb the evaluation.

- **NET BENEFIT**: Total benefit (usually in financial terms) less cost to implement.
- **DIFFICULTY**: Challenge associated with implementation.
- **TIME TO BENEFIT**: How rapidly the net benefit can be obtained.

Also, when evaluating financial strategies for decision-makers, the finance officer should represent the impact of the strategy on the stakeholders and the governing body. If a strategy has a different impact on one or more stakeholder groups, they need to be consulted and, to the extent possible, brought on board before the governing body makes its final decision. For instance, the City of Toronto decided that one of its strategic directions was for businesses to be more competitively positioned. To do this, it decided to change the relative contribution of residential versus commercial property taxes so that the commercial taxpayers were paying less over all. In advance of this change, meetings were held throughout the municipality to hear from interested parties concerning all aspects of the proposed change. Staff then incorporated the feedback into recommendations to City Council.

The finance officer should also demonstrate that the financial strategies are consistent with the board’s formally adopted financial policies. This shows respect for precedent and responsiveness to the accumulated decisions of the board with regards to how it defines its financial stewardship over the organization. The finance officer is not the only source of substantive legitimacy. External actors, such as a commission of influential citizens or an external consultant, can impart substantive legitimacy to a strategy or process. The City of Toronto used the Conference Board of Canada to assess the City’s financial and economic environment and reinforce the point that significant changes would need to be made in Toronto’s authorizing environment in order for the City to be fiscally sustainable. The independent report enhanced the credibility of the City’s argument and validated its strategies. Toronto also convened an Independent Fiscal Review Panel of leading citizens to review the City’s efforts to improve its performance over the past three to four years and make recommendations on areas that may offer additional savings. The City has already implemented some of the Panel’s recommendations and is pursuing a number of others.

Non-financial staff can help also. A finance director who was encouraging his governing board to adopt the town’s first formal policy on general fund reserves enlisted the chief of police to explain to the board that a healthy reserve was essential to allow the town to respond quickly and decisively to natural disasters. In another example, the director of public works at Maple Ridge showed photographs of road conditions at public meetings to illustrate the positive impact the District’s asset maintenance plan was having.

Gaining solid support for long-term financial strategies is one of the most challenging parts of a long-term financial planning process. By being mindful of democratic and substantive legitimacy, the finance officer can develop a system that produces strategies that decision-makers can support.

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