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Guest Article:

Government Finance — Policy or Procedure?

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Most elected officials in local government would agree that it is the role of the elected official to set policy and the function of government staff to implement procedures consistent with that policy. However, in practice, it is difficult to clearly draw the line between policy and procedure. Webster's dictionary specifically defines policy in the governmental context as "a high-level overall plan embracing general goals and acceptable procedures." Procedure is defined as "a particular way of accomplishing something." Consistent with its definition, policy is often procedural. However, when procedures determine policy, they have overstepped their bounds.

Elected representatives have the responsibility of preventing administrative procedures from determining policy by defining policy and procedure within the context of each issue. One particular issue that has typically been given little attention in terms of policy development is government finance. Government finance policy rarely moves beyond broad generalizations and ad hoc decision-making.

For example, governments often have policy (even statutes) requiring a balanced budget, while rejecting revenue-raising proposals on a case-by-case basis. This paradox is currently on display in Washington as the debate over budget cuts and tax hikes rages on in the face of the Gramm-Rudman Act.

At the local level, the conflict might be a government's need to respond to striking employees despite insufficient funds for a pay increase. The result might be drastic short-term measures, such as budget cuts in other areas, to solve the crisis at hand, but without regard to the government's broad policy. Beyond general guidelines, such as fiscal conservatism or a balanced budget, most local elected governing boards do not adopt an in-depth fiscal policy.

Government finance is complex and mathematical. To understand a government's financial position, one must review that government's financial statements, budget, revenue sources, tax base, economic indicators, and governing legislation. While all local governing boards spend a great deal of time on the annual budget, most of this other material is reviewed piecemeal, if at all. One reason for this is the recurrent appearance of numbers in all of this information. Many people have a tendency to shy away from mathematical concepts because they are dry and difficult.

Furthermore, no natural constituency pressures the local elected governing board to address financial matters. The public is more concerned with issues that seem to have more of an effect on daily living, such as growth, new schools, and police services. However, nothing affects the ability of a decision whether to provide that service, but rather, that every government should strive to be in the best financial condition in order to make good government possible.

It is essential for local government to establish a clear fiscal policy, but where does government finance policy end and procedure begin? Policy should give direction to staff in such a way that overall financial goals can be achieved without the implementation of procedures unacceptable to the community.

One of the most important reasons for elected officials to participate in financial planning is the great opportunity for elected officials and staff to have competing interests. Government staff provides services. The services that government employees provide are directly tied to the government's budget. Therefore, government staff has an incentive to increase the government's revenues. A conflict occurs when the revenue-raising measures pursued by the staff contain some other inherent problem. For example, a finance staff may encourage economic development to enhance the tax base, but the community may prefer a no-growth stance.

Furthermore, elected governing boards should decide what level of service is sufficient. Government staff will increase service to the extent allowed by resources. But the role of the elected governing board is to determine when services are at an optimum level. The only way to resolve this natural conflict is to formulate a comprehensive financial plan that recognizes this conflict and specifically addresses procedural matters wherever there is danger of procedure determining policy.

The key to strategic planning is the identification of basic goals and the development of a series of actions to accomplish them. A strategic plan is dynamic in the sense that goals are reshaped in anticipation of, or in response to, changing conditions. A comprehensive financial plan reviewed and approved by the elected governing board not only serves as a road map to direct staff on a daily basis toward accomplishing the government's financial goals, but helps elected officials and staff crystalize their thinking and formulate strategy. Finally, the creation and periodic revisions of a comprehensive financial plan offer the opportunity for community participation.

A good comprehensive financial plan will address both policy and procedural questions and will evolve to meet new challenges faced by the government. Such a plan should identify community goals, target objectives, and establish an organizational structure to implement the fiscal policy as set forth.

Government officials, elected and staff, are bombarded with proposals, ranging from new development to bond issues, that have an impact on the financial well-being of the government. A comprehensive financial plan will provide the background to evaluate such proposals, on both the staff and governing board level. Furthermore, the comprehensive financial plan will serve as a catalyst to generate proposals and programs that serve the government's adopted fiscal policy. Government finance is both policy and procedure. A comprehensive financial plan allows them to get together.