



A Comprehensive Framework for Financial Planning

Using the National Advisory Council on State and Local Budgeting framework to improve your budget

■ BY MIKE BAILEY

Over the 40 years I've been involved in local government financial leadership, I've seen many different approaches to financial planning. As a reviewer for GFOA's Distinguished Budget Presentation Awards program since 1987, I've been able to see hundreds of budgets from a wide variety of entity types. My experience suggests that the vast majority of local governments use an "incremental approach" to developing their budgets—the next budget uses the current budget as the starting place. The economic environment informs the "increment" (the amount by which you automatically adjust the next budget from the current one). In good times, the increment might include an assumed cost-of-living adjustment or an assumed adjustment to compensate for increases in prices. In difficult times, that increment might be a "no change" approach, or even a reduction.

This is often coupled with a means of reviewing changes to the increment through enhancements, supplements, or some other form of exception to the status quo.

Over the past years, various approaches to the incremental budget methodology have emerged, including a zero-based aspect, outcome or performance orientation, and priorities-based budgeting. GFOA has recognized some of these as best practices. One of these best practices for budget development provides a comprehensive framework, or approach, to developing your financial plan. This article will explore the National Advisory Council for State and Local Budgeting (NACSLB) as such a framework.

A still-useful definition

The NACSLB's original framework was published in 1997 and is still available on GFOA's website at [gfoa.org/materials/nacslb](https://www.gfoa.org/materials/nacslb). The project that developed this work was unique in some interesting ways. While GFOA led the effort, it involved participants from a wide variety of entities and disciplines, including the Association of School Business Officials International, Council of State Governments, International City/County Management Association, National Association of Counties, National Conference of State Legislatures, National League of Cities, and U.S. Conference of Mayors, along with members of academia, labor representatives, and industry representatives. The group created a definition of budgeting and a mission for budget development, along with the recommended framework.

According to the NACSLB's definition, the budget process consists of activities that encompass the development, implementation,

and evaluation of a plan for the provision of services and capital assets. The definition includes a long-term perspective, linkages to broad organizational goals, a focus in budget decisions on organizational outcomes, involving stakeholders in the work, and incorporating incentives to organizational employees for their involvement. Many of these elements have become more commonplace in our budget work over the years, but in the mid-1990s, these were novel ideas. Budgeting was more about managing finances and had not yet focused on stakeholder engagement or organizational effectiveness.

The NACSLB work described the mission of the budget process as helping decision-makers make informed choices about providing services and capital assets and promoting stakeholder participation in the process. The focus was on collecting the right information and presenting it in a way that focused on what organizational decision-makers needed to complete their work in the budget—that is, making the eventual decisions about allocating scarce community resources. You'll note the reference to promoting stakeholder participation, which was, again, an emerging concept in that era. Today there are numerous initiatives around stakeholder engagement.

Building on the definition and mission descriptions, the NACSLB created a comprehensive framework that illustrates how this work might be accomplished. The framework is described below, but as you read about it, consider how the framework speaks to the different participants in a budget process. This is the aspect I continue to be impressed with and inspired by today.

The framework's strength is that it enables a budget manager to consider, develop, understand, and then explain the budget process in an organized, connected, and systemic way.

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The 4 Principles of the Budget Process

The framework lives within four principles. These are “big ideas” that help to frame the overall process. In working with elected officials (those who make the budget decisions), these principles help them to stay at the policy level as they consider their role in the budget process. The four principles are:

- 1 Establish broad goals to guide government decision-making.
- 2 Develop approaches to achieve the goals.
- 3 Develop a budget consistent with the approaches to achieve goals.
- 4 Evaluate performance and make adjustments.

The NACSLB framework was published more than 20 years ago, but it remains an effective tool in budget process development.

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Another way to think about these principles might be borrowed from the GFOA's Distinguished Budget Presentation program. It suggests that elements reside in a context of policy, operations, financial management, and communication. Establishing broad goals is the policy aspect. Developing approaches to achieve the goals connects the operational elements of the organization to the budget. Putting that into a financial context aligns the agency's resources with its operations, which are already aligned with the goals. Lastly, any plan needs to be monitored and adjusted as it is implemented.

Within each of the four principles are a number of elements that represent achievable results. For example, there are three elements within the first principle (establishing broad goals). The elements within each of the principles are listed on the following page.

Further, each element consists of practices or activities that will

sound very familiar for finance officers involved in the budget process. Again, by way of example, let's examine one of the elements: “Assess community needs, priorities, challenges and opportunities.” One of the recommended practices is to regularly collect and evaluate information about trends in community condition, external factors affecting it, opportunities that might be available, and problems and issues that need to be addressed. As a finance officer responsible for the budget process, what activities are you doing or managing that respond to the need to stay aware of the issues identified in this practice?

While this work is a very comprehensive view of the budget process (including capital budgeting), it is relatively easy to consume and understand. Its strength is that it enables a budget manager to consider, develop, understand, and then explain the budget process in an organized, connected, and systemic way.

Establish broad goals to guide governmental decision-making:

- ① Assess community needs, priorities, challenges and opportunities.
- ② Identify opportunities and challenges for government services, capital assets, and management.
- ③ Develop and disseminate broad goals.

Develop approaches to achieve goals:

- ④ Adopt financial policies.
- ⑤ Develop programmatic, operating, and capital policies and plans.
- ⑥ Develop programs and services that are consistent with policies and plans.
- ⑦ Develop management strategies.

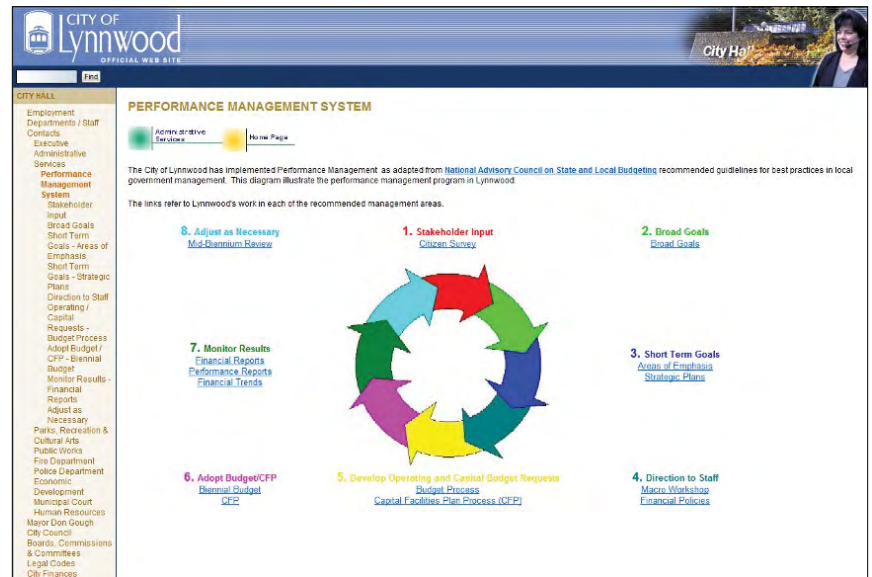
Develop a budget consistent with approaches to achieve goals:

- ⑧ Develop a process for preparing and adopting a budget.
- ⑨ Develop and evaluate financial options.
- ⑩ Make choices necessary to adopt a budget.

Evaluate performance and make adjustments:

- ⑪ Monitor, measure, and evaluate performance.
- ⑫ Make adjustments as needed.

EXHIBIT 1 | THE CITY OF LYNNWOOD'S NACSLB FRAMEWORK MODEL




The structure speaks to participants at their different levels of involvement. For example, service program managers can understand the importance of developing programs and services in a way that allows them to respond effectively to the established broad goals. Elected decision-makers can perceive how the content of a budget presentation rolls toward the accomplishment of organizational policy-level goals. Budget staff can better understand the role of financial policies in the work of budget development.

Conclusion

The NACSLB framework was published more than 20 years ago, but it remains an effective tool in budget process development. The City of Lynnwood, Washington—where I served as finance director—formally adopted this framework by resolution and then used it as a way to explain this work to our organization and our community. Our financial planning webpage

included an illustration of our version of this model (see Exhibit 1). The steps of the process, which were represented as a repeating circle of work, were linked to the related work products the city developed. This proved to be an effective financial transparency tool as well as an easy way to walk through the city's financial planning process with the website as the teaching tool.

There are many good ways to effectively plan for the best use of scarce community resources in order to provide the right value back to that community. Many are represented as GFOA's best practices. One of those is—still—the work of the National Advisory Council for State and Local Budgeting. 

***Mike Bailey** has worked in local government finance for 40 years and is currently the Director of Internal Audit and Strategic Projects at the Northshore School District.*