10

Financial Sustainability in Public Administration. A Synthesis of the Contributions for Improving Financial Sustainability

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1 Introduction

The high volume of debt and deficit in the last years provoked by the economic and financial crisis has endangered the public service delivery. It has made public administration to adopt strong measures against the crisis such as budget cuts, public funding reductions, or lowering transfers among different levels of government. Also, this financial position of public administration has highlighted the relevance of accountability in public administration, especially financial accountability, which is linked to the concept of intergenerational equity (GASB 2013). This way, financial sustainability of public entities has become a key concept for public administration even more important than the other dimensions of the sustainability or of the public sector

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management (Afonso and Jalles 2015). Nonetheless, this is a new concept that requires attention from researchers because it needs to be built.

International Organizations have defined it as the ability of the local government to manage expected financial risks and shocks over the long-term financial planning period, without necessity to introduce substantial or disruptive revenue (and expenditure) adjustments (EC 2011; EU 2012a, b; IFAC 2012, 2013). And the IFAC (2013) has declared that long-term financial sustainability should include information about its three interrelated dimensions: revenues, services, and debt (IFAC 2013).

So, this book has tried to analyze this new concept of financial sustainability and how it can be measured. In addition, this book has tried to analyze why these methods used to manage public finances have not been appropriated to warn governments about the financial crisis of the decades of the 2000s and how new methods to assess financial sustainability should be built to analyze the three dimensions that IFAC (2013) is proposing, which have been applied by some governments all around the world to monitor financial sustainability.

In this regard, Lucianelly and Citro (2017) have undertaken a review of current literature to provide an overview of the transformation and main uses of performance information in the higher education sector (HE) as the result of public policy changes. In their chapter, they perform a review of the development of the concept of financial sustainability in the HE, where concepts like financial distress, financial condition, financial sustainability, or financial viability have been used. They conclude that it is quite difficult to develop a single measure for financial sustainability at an institutional level given the diversity of different missions and the complexity of the system of funding for each university in different countries, but it is relevant that HE does not only have an effective management and good governance in the short term. HE also has to ensure their financial sustainability in the long term (Lucianelly and Citro 2017).

This way, it is relevant to undertake research to define, measure, and identify determinants of financial sustainability in public administration.

2 Measurement and Methods Used to Calculate and Report Financial Sustainability

Bisogno et al. (2017) indicate that most of previous studies address financial condition/health as a wide and complete concept, without taking into account the specific relevance of sustainability, which has been considered as a component of these previous concepts. The concept of financial sustainability refers to preservation of social welfare through public policies and public services delivery, which makes us to put the emphasis on the provision of public services rather than focusing only on the efficiency of public administration.

Nonetheless, there is no consensus in the measurement of financial sustainability. It ranges from those focused on the debt measures (IPSASB 2013), to those focused on sustainability indicators (EU 2012a, b), on non-financial budgetary results index (Cuadrado-Ballesteros et al. 2014) or on the adjusted income of the public administration (Rodríguez-Bolívar, Navarro-Galera and Alcaide-Muñoz 2014, Rodríguez Bolívar et al. 2016). In any case, spending, revenues, and debt features are present in all proposals to measures of financial sustainability.

Also, Bisogno et al. (2017) make a review of the determinants of financial sustainability based on prior research. This analysis is interesting because having a systemic view of the financial sustainability determinants means improving the decision-making process of managers and politicians, supporting better the ability of an entity to meet its service delivery, and financial commitments (IPSASB 2013: 5), which in turn means having a positive effect on welfare state, citizens' quality of life, wellbeing, accountability, and so forth.

On another hand, Rodríguez et al. (2017) highlight the relevance of demographic variables in the achievement of financial sustainability of local governments. In fact, although demographic variables have been considered relevant for financial sustainability (EC 2016; EC 2011; EU 2012a, b; IFAC 2013), scarce research has been prefunded regarding this item in EU. With the performance of a data panel of the large municipalities of Spain during a 9-year period which covers the period before, during, and after the crisis, findings show that the dependent population and the unemployment rate are risk factors for financial sustainability. This way, authors suggest that the usage of management tools, which combine accounting and demographic information, is necessary to handle financial sustainability in order to provide useful information to policymakers and managers for making appropriate decisions about financial sustainability.

Manes et al. (2017) analyze how specific accounting tools and techniques can assist in the control of a local government's financial sustainability based on the governance setting adopted for service delivery. They analyze five case studies in which each one of them offers an example of different service provision settings. From the consideration of the five governance settings, authors identify three main problems, a coordination problem in corporation settings, a conflict problem in market settings (contracting-out and devolution), and a cooperation problem in network settings (public–public collaboration and public–private partnership) and, by this way, demonstrate that promoting financial sustainability requires the adoption of accounting tools and techniques consistent with the governance model adopted.

Finally, Nistor et al. (2017) present two conceptual models—financial sustainability and integrated reporting—and overlap the constituent elements in a matrix, allowing the analysis of delineation matches, as well as the characteristics of forward-looking capital allocation. In their research, they find 30 occurrences of financial sustainability elements which are embedded in the integrated reporting model (pinpointed within the principles, fundamental concepts, and content elements of integrated reporting). So, they affirm that, ultimately, integrated reporting could be a tracking tool for the level of financial sustainability and could be a means to overcome potential challenges regarding the management of financial resources in an organization.

3 International Experiences in Managing and Monitoring Financial Sustainability in Governments

Having a review of the methods used to calculate and report financial sustainability, Biondi and Boisseau-Sierra (2017) explore the link between sovereign debt capacity and financial sustainability in central government with the aim at disentangling financial sustainability mechanisms that are specific to the public sector. They conclude that absolute or relative debt levels are not sufficient to examine financial sustainability of governments and that the sustainability assessment cannot be reduced to a comparison between the interest rate and the growth rate of the economy, as it would be the case in a general equilibrium model where debt is supposed to be fully covered by tax revenues.

On another hand, De Widt (2017) investigates how local government financial sustainability is influenced by the regulatory framework in which local governments operate. To achieve this aim, De Widt (2017) focuses the efforts on the impact of fiscal rules, the monitoring structures in place, and on the institutional arrangements that apply to non-compliant local authorities in three countries (England, Germany, and the Netherlands). Findings demonstrate that the design and enforcement of budget rules in local government is strongly influenced by the wider institutional context in which local authorities operate.

Finally, Alonso-Cañadas et al. (2017) investigate the financial sustainability of Spanish Universities. Applying a comparative approach, authors examine the net debt capacity and the average payment period to suppliers of all sample universities. Also, they focus the efforts in explaining the differences in the position of these variables among sample universities. This way, findings show that the net debt is significantly affected by the productivity of the university, the ideology of the party governing the Autonomous Community, the experience of the university, the size of its community, and the financial support received from the regional government. However, the average payment period is only influenced by productivity and ideology.

4 Concluding Remarks

The book collects relevant studies that highlight the need for analyzing financial sustainability in public administration. To begin with, it is necessary to clearly operate the definition of financial sustainability issued by international organizations with the aim at establishing clear methods to calculate and evaluate financial sustainability. Also, although many different experiences have been analyzed in this book to contribute to this knowledge, future research should be lead to widen this knowledge as well as the factors that could affect financial sustainability in different levels of governments. In general, financial sustainability measures have proved to be useful to assure the provision of public services in the future but main internal and external challenges that have been identified in the empirical studies included in the book should be deeper analyzed in future research to fully understand the best public policies to monitor and keep financial sustainability safe in public administration.

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