



ALMA MATER STUDIORUM
UNIVERSITÀ DI BOLOGNA

PULSAR CFRR World Bank Group

**Smart Interactive Talk - Interpretation of Financial Information and
the Use of Performance Indicators in the Public Sector**

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European cities (CEFG/CSPF groups) experiences The Financial Health Template

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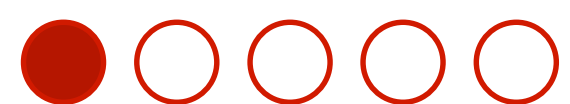
Goal

Comparing Financial Health

Across Countries

Goal Comparing financial health across countries

- In 2014 a group of six cities (Barcelona ES, Dublin IE, Hamburg DE, London UK, Milan IT, Vienna AT) established a space for mutual learning, the City Economic and Financial Governance (CEFG) group by EIPA, in the field of economic and financial governance and to generate **comparable financial and accounting** data among European cities
- In 2015 the first **Financial Health Template** was created
- In 2016 and 2019 the group was enlarged to **Amsterdam NL, Bordeaux FR, Vilnius LT** and the FH Template was applied to them also



Dilemmas

**Comparing the
Incomparable?**

Dilemmas Comparing the Incomparable?

Dilemma #1

Government financial statistics
versus government financial
reporting

Dilemma #2

Traditional accounting systems
(budgetary) versus New Public
Management approaches

Dilemma #3

Contrasting measures of
financial sustainability in local
governments

Dilemma #4

Jurisdiction perimeter and
consolidation of accounts



Context

Competing

Accounting Systems

Context Competing Accounting Systems

City	Type of accounting implemented & used*					Perimeter		As of
	Cash	Modified-cash/Modified-accrual	Accrual (domestic principles)	Accrual (IPSAS principles)	Other	No. of relevant subsidiaries	Consolidated report (accrual)	
<i>Amsterdam</i>		●	⊙			n/a	No	2016
<i>Barcelona</i>	●	●		●⊙	● ⁽¹⁾	45	Yes	2017
<i>Bordeaux</i>	●		⊙	●		ca. 20	No	2016
<i>City of London</i>				●⊙ incl. IFRS		n/a	No	2015
<i>Hamburg</i>	●⊙		●⊙		● ⁽²⁾	380	Yes	2015
<i>Milan</i>		●⊙ ⁽⁵⁾	○⊙ ⁽⁵⁾			18	Yes	2015
<i>Vilnius</i>	●		●	⊙		339	Yes	2016

○ implemented and not used for decision making, ● implemented and used for decision making, ⊙ implemented by law, according to Ernst & Young, 2012



Comparison

The Financial Health

Template

Comparison Different Frameworks Available

	IMF GFS	ESA GFS	GASB 34	IPSAS	MFSA
Standard setter	International Monetary Fund (IMF)	Eurostat	Governmental Accounting Standards Board (GASB)	International Federation of Accountants (IFAC)	World Bank
First issue (last update)	1986 (2014)	1995 (2013)	1999 (2016)	2006 (2013)	2014 (2014)
Approach to accounting	Financial statistics	Financial statistics	Financial reporting	Financial reporting	Financial reporting
Basis of accounting	Accrual	Accrual	Accrual and Modified Accrual	Accrual	Cash/Modified Accrual
Purpose	Provides a comprehensive conceptual and reporting framework suitable for analysing and evaluating fiscal policy, especially the performance of the general government sector and the broader public sector of any economy (IMF, 2014: 1)	Internationally compatible accounting framework for a systematic and detailed description of a total economy (that is, a region, country or group of countries), its components and its relations with other total economies (Eurostat, 2013: 1)	Enhances the understandability and usefulness of the general purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors (GASB, 1999: 1)	Prescribes the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities (IPSASB, 2013: 32)	Assesses the city's financial health and to identify specific actions to improve mobilization of local resources, public spending, investment programming, and access to external financing (World Bank, 2014: 402-3)
Specific for local gov.	No	No	Yes	No	Yes
Involvement of city gov. representatives or specialists	No	No	Yes	No	Yes



Comparison The Financial Health Template

STATEMENT OF OPERATING PERFORMANCE (OP)

This report gives evidence to revenues and expenditures/expenses and their balance, generated by current operations.

		Million Euros			
code	item	2013	2014	2015	comments
OP1	City Tax Revenues	602,6	596,2	602,7	
OP2	City Fees & Charges Revenues	120,2	115,2	136,6	
OP3=OP1+OP2	City's Own Revenues Coming from Citizens	722.8	711.4	739.3	
		78,2	175,9	162,2	Other current revenues include accounting results of the previous year
OP4	Other City's Own Current Revenues				
OP5=OP3+OP4	City's Own Revenues Total	800.9	887.3	901.5	
OP6	Tax Sharing Revenues	243,6	240,1	220,4	
OP7	Current Earmarked Grants from Other Governments	9,9	7,8	13,4	
OP8	Current Non-Earmarked Grants from Other Governments				
OP9=OP5+OP6+OP7+OP8	Current Revenues	1.054.5	1.135.3	1.135.3	
OP10	Interests and Other Costs of Debt	15,7	18,4	20,0	
OP11	Personnel Expenses	125,4	132,2	132,8	
OP12	Other Current Expenditures	520,7	540,2	526,7	
OP13=OP10+OP11+OP12	Current Expenditures	661.8	690.8	679.6	
OP14	Depreciation	111,6	117,2	142,2	
OP15=OP13+OP14	Total Expenses	773.4	807.9	821.8	
OP16=OP9-OP13	Gross Operating Balance	392.7	444.5	455.7	
OP17=OP9-OP15	Net Operating Balance	281.1	327.4	313.5	



Comparison The Financial Health Template

CAPITAL OPERATIONS

These two reports give evidence of capital operations both in terms of financial flows generated, and their balance in terms of capital financial capacity or need, and assets created or consumed

CAPITAL FINANCIAL FLOWS (CF)

<i>code</i>	<i>item</i>	2013	2014	2015	comments
CF1	Disposal of Fixed Capital	24,2	13,1	30,9	Other capital revenues include deferred surplus and reserves
CF2	Capital Grants from Other Entities	31,4	47,9	43,8	
		423,7	295,6	280,9	
CF3	Other Capital Revenues				
CF4=CF1+CF2+CF3	Capital Revenues	479.3	356.5	355.7	
CF5	Acquisition of Fixed Capital	403,4	392,1	391,1	
CF6	Capital Grants to Other Entities	90,3	76,9	72,0	
CF7=CF5+CF6	Capital Expenditures	493.7	469.0	463.0	
CF8=CF4-CF7	Capital Financial Capacity (+) or Need (-)	-14.4	-112.5	-107.3	

CAPITAL CREATION OR CONSUMPTION (CC)

<i>code</i>	<i>item</i>	2013	2014
CC1=CF5-CF1	Gross Creation of Fixed Assets	379.2	379.0
CC2=CC1-OP14	Net Increase of Fixed Assets	267.6	261.8



Comparison The Financial Health Template

FINANCIAL FLOWS (FF)

This report gives evidence to two main financial balances, i.e. the net lending/borrowing and the overall financial flows balance

<i>code</i>	<i>item</i>	2013	2014	2015	comments
FF1=OP16+CF8	Net Lending (+) or Borrowing (-)	378,4	332,1	348,4	
FF2	Disposal of Financial Fixed Assets				
FF3	Acquisition of Financial Fixed Assets				
FF4=FF1+FF2-FF3+LD2-LD3A	Overall Financial Flows Balance (Current Year)	388,7	394,6	387,4	



CASH STATEMENT & DEBT

These three reports give evidence to three important elements of the financial situation: cash (and its flows along the year), and short and long term liabilities.

CASH STATEMENT (CS)

<i>code</i>	<i>item</i>	2013	2014	2015	comments
CS1	Cash as of January 1st	379.2	360.8	388.6	
CS2	Receipts from Operations	1.329,5	1.317,5	1.315,2	
CS3	Payments from Operations	1.347,9	1.289,7	1.327,9	
CS4=CS2-CS3	Cash Flow Generated from Operations	18.4	27.8	12.8	
CS5	Receipts from Overdrafts and Other Cash Facilities				
CS6	Receipts from Other Financial Operations				
CS7	Repayments of Ovedrafts and Other Cash Facilities				
CS8	Repayments of Other Financial Operations				
CS9=CS5+CS6-CS7-CS8	Cash Flow Generated from Cash Facilities and Other Financial Operations	0,0	0,0	0,0	
CS10=CS4+CS9	Total Cash Flow	-18.4	27.8	-12.8	
CS11=CS1+CS10	Cash as of December 31st	360.8	388.6	375.8	

PENDING PAYMENTS (PP)

<i>code</i>	<i>item</i>	2013	2014	2015	comments
PP1	Pending payments as of January 1st				
PP2	Pending payments from Previous Years Paid or Cancelled				
PP3	Pending payments from Current Year (Year End)				
PP4=PP1-PP2+PP3	Pending payments as of December 31st	0,0	0,0	0,0	

LONG TERM DEBT (LD)

<i>code</i>	<i>item</i>	2013	2014	2015	comments
LD1	Long Term Debt as of January 1st	540,4	549,8	605,4	PPP rents are included for 35,5 M€ from 2013.
LD2	New Long Term Debt	60,1	120,0	100,0	
LD3	Debt Repayment (Principal)	49,7	64,3	95,6	
LD3A	<i>Debt Repayment (Principal) Excluding Extraordinary Repayments</i>	49,7	57,5	61,0	
LD4=LD1+LD2-LD3	Debt as of December 31st	550,8	605,5	609,8	

Comparison The Financial Health Template

FINANCIAL HEALTH KPIs (FH)					
	code	KPI	2013	2014	2015
Autonomy	FH1=OP5/OP9	Financial Autonomy - How much is the city independent from other governments? -- usually, the higher the better --	76,0%	78,2%	79,4%
	FH2=FF4/OP9	Overall Financial Flows Balance - How big is the financial flows overall surplus or deficit? -- it should not be <0; in case it is positive, future generations will receive benefits from old generations --	36,9%	34,8%	34,1%
Balance	FH3=FF1/OP9	Net Lending or Borrowing Capacity - How big is the surplus or deficit generated by the current and capital operations (similar to FH2, but excludes financial operations)? -- it should not be <0; in case it is positive, future generations will receive benefits from old generations	35,9%	29,2%	30,7%
	FH4=OP9/(OP13+LD3A)	Operating Balance - Is there a balance between current resources and structural expenditures? -- it should be >100% and in that case new capital assets can be purchased without incurring in new loans; <100% shows a dangerous imbalance --	148,2%	151,7%	153,3%
	FH5=OP10/OP9	Cost of Debt - It shows how big is the cost of debt and how much takes from the current economic capacity (current, operating revenues) of the city government -- the lower the better	1,5%	1,6%	1,8%
Debt	FH6=LD4/OP9	Debt Repayment Capacity - How big is the long-term debt compared to annual current revenues? -- like the Maastricht's Stability Pact Debt/GDP ratio	52,2%	53,3%	53,7%
	FH7=LD4/LD3A	Debt Repayment Length - How long does it take to repay the stock of debt at current level of repayment (in years)? -- the lower the better, since it means that the city has less dead weight for its financial future	11,1	10,5	10,0
	FH8=LD4/OP16	Debt Paydown Capacity - How long does it take to repay the stock of debt if all current surplus were used? -- the lower the better	1,4	1,4	1,3
	FH9=PP4/(OP13+CF7)	Amount of Commercial Debts - Does the city demonstrate any difficulties in paying creditors? -- the lower the better --	0%	0%	0%
Short Term	FH10=CS5/OP9	Cash Facility Burden - An excessive use of cash facilities (e.g. overdrafts) may be a symptom of short term solvency difficulties -- the lower the better	0,0	0,0	0,0



Learning

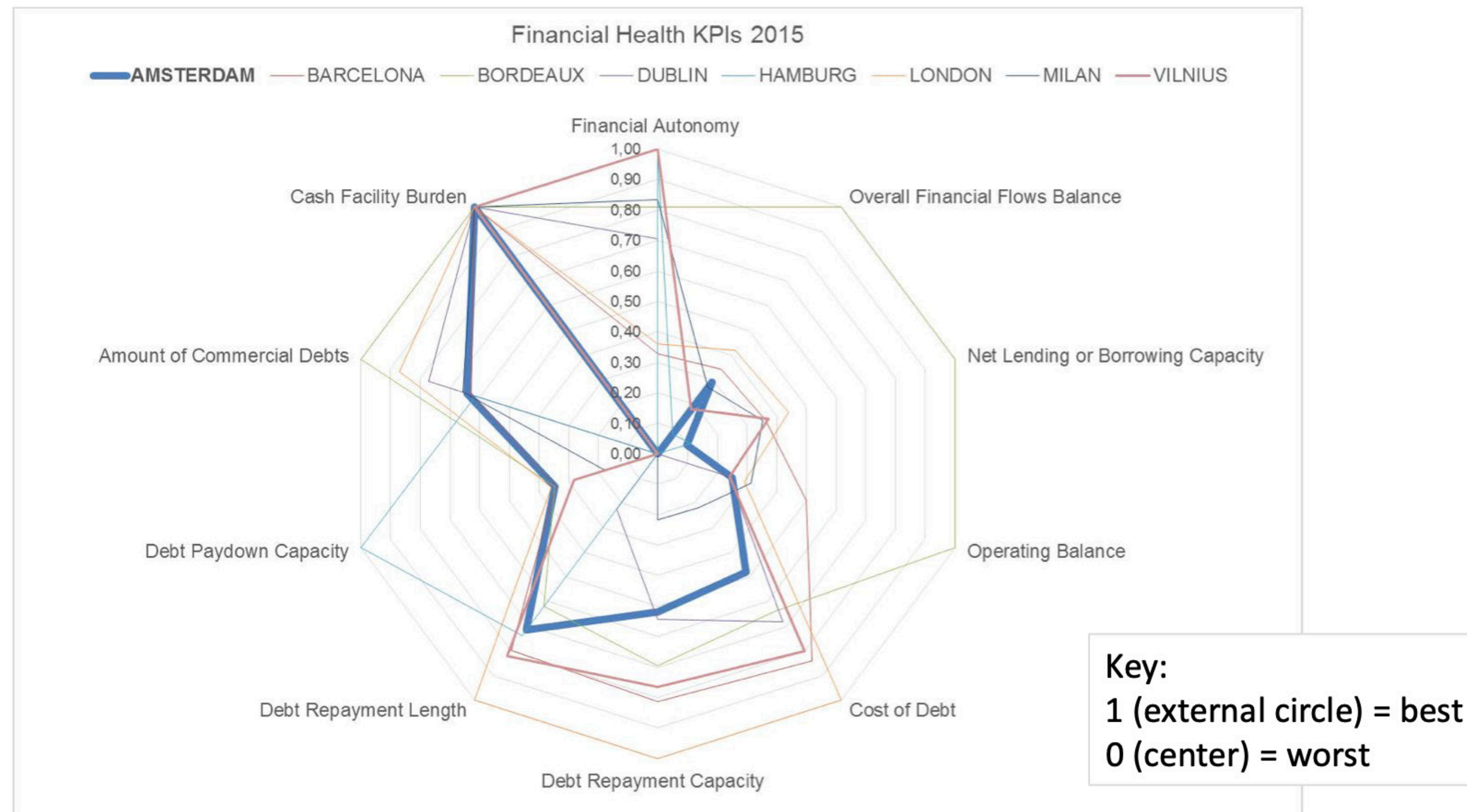
Comparing:

What Has Emerged?

Learning Comparing: What Has Emerged?

AMSTERDAM

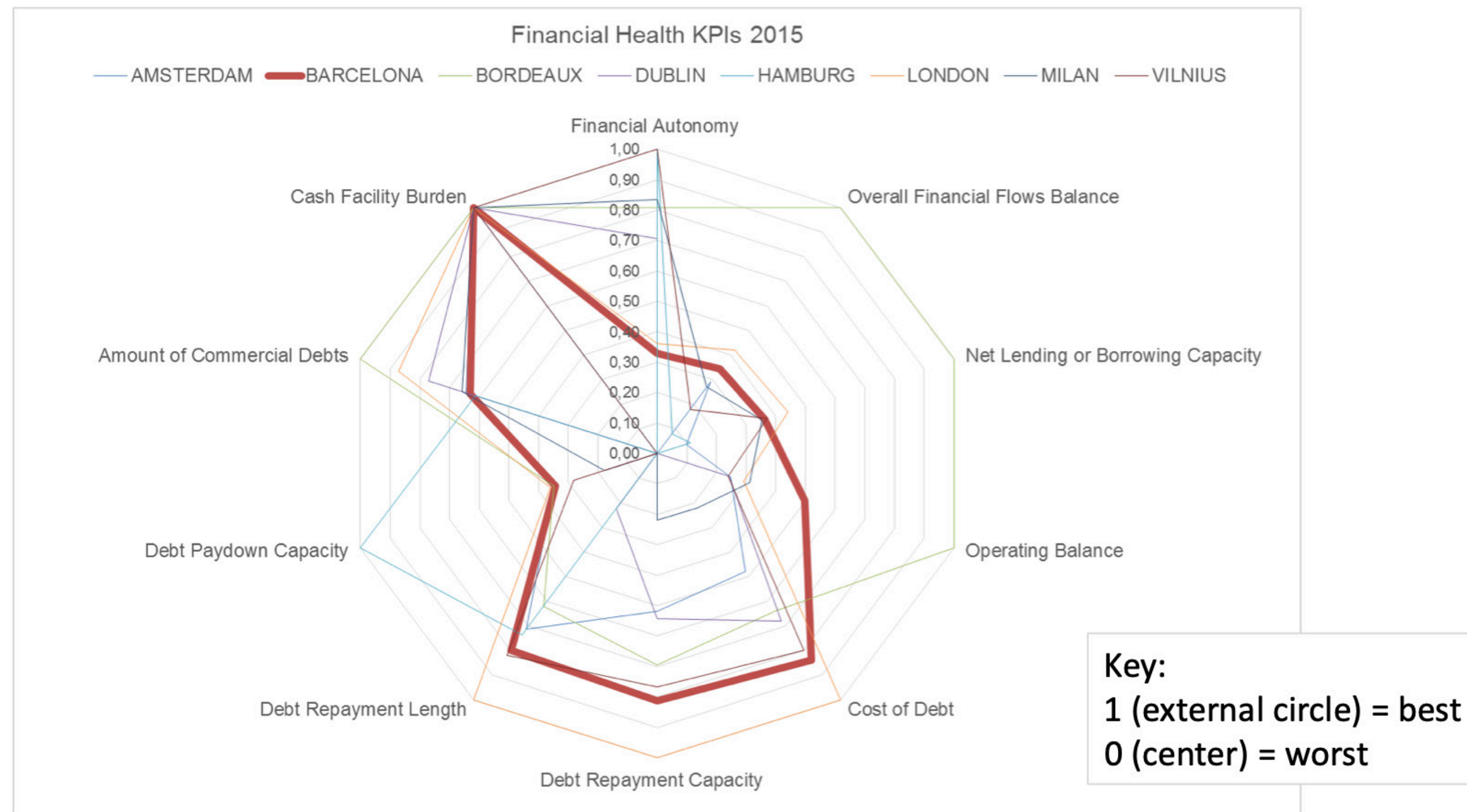
BENCHMARKING SCHEME



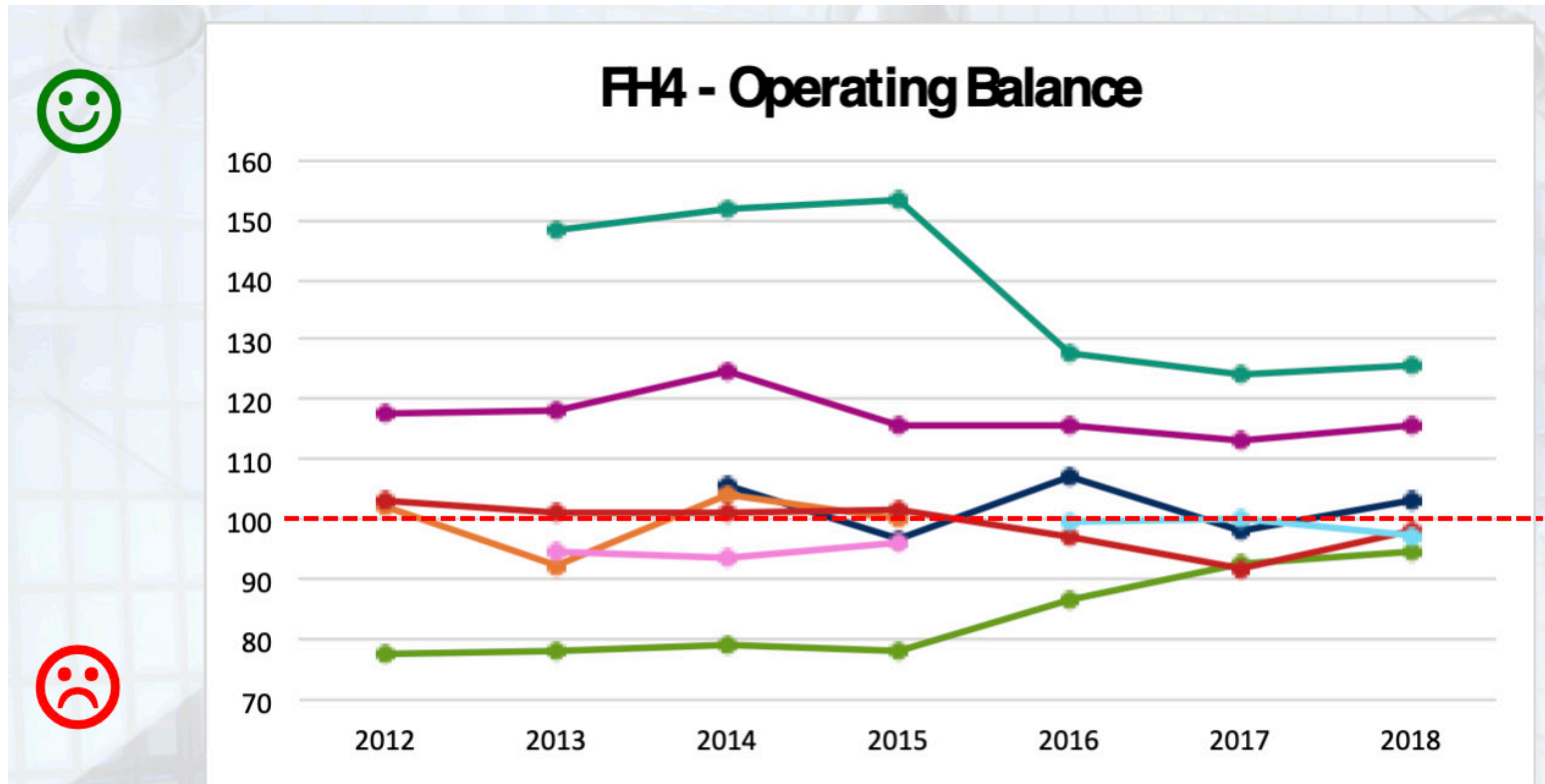
Learning Comparing: What Has Emerged?

BARCELONA

BENCHMARKING SCHEME



Learning Comparing: What Has Emerged?



Learning Comparing: What Has Emerged?

- “Finally **we see** what we do with accounting”
- **Sense making** of financial impacts of policies at an **international level**
- Need to **communicate** to policymakers and citizens
- Helpful for **rating agencies** (comparability of data)
- Framework that assist **current needs of comparable financial information** in a context of slow moving accounting harmonization



References Publications

- Padovani, E., Young, D. W., Scorsone, E. (2018) “The role of a municipality’s financial health in a firm’s siting decision.” *Business Horizons* 61 (2), 181-190
- Padovani, E., (2018) “City Economic and Financial Governance (CEFG) group: un esperimento di armonizzazione contabile volontaria fra città europee.” In: (Eds) Manes Rossi F. and Caperchione E., *L’armonizzazione contabile nelle pubbliche amministrazioni in una prospettiva internazionale*. 78-104. Milano: FrancoAngeli, ISBN 978-88-917-77201-5
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