

Research on Performance Evaluation of Local Government Debt Expenditure Based on Debt Budget Management

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Based on the logical model of the traditional performance evaluation index system framework, this paper sets out the key performance factors of the four indicators from the logical analysis framework of “input-process-output-influence” and designs a set of local government debt performance evaluation index system formed by four layers including 36 indicators. On this basis, it is proposed to change the past budget implementation practice of conventional audit, to strengthen the debt budget performance audit. The introduction of the results-oriented budget would be helpful for supervision and monitoring results of the use of local government bonds that are raising funds from multi-field channels. Guaranteeing and guiding the financial funds can invest in people’s livelihood and meet public opinion, while affording a more comprehensive study of local government debt management performance.

Keywords: local government debt, performance evaluation, index system, debt budget management

Implementation of Local Government Debt Expenditure Performance Management Basis

According to Tian, Li, Zhou, and Li (2015), the statistical analysis of 152 papers published by CNKI using bibliometrics and word frequency statistics shows that there is no debt expenditure or local government debt related to vocabulary in the keywords with more than two times. The higher frequency of the key words is: performance evaluation 27.56%, financial expenditure 21.79%, index system 6.41%. Therefore, in the field of local government debt expenditure research still less uses performance analysis or performance evaluation methods. But the theoretical research shows that the use of performance management methods to strengthen the local debt risk monitoring has certain feasibility. The basic feature of the new performance budget in line with the budget tool to manage the characteristics of local government debt risk, is conducive to playing the local government risk management of the subjective initiative¹.

Project Supported: This article is of Humanities and Social Sciences Research Youth Fund project of the Ministry of Education “supply side of the structure of reform under the perspective of China’s tax reform” (item No. 16YJC790132) medium-term results.

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¹ Han Zenghua, Local Government Debt Risk Control from the Perspective of Budget Management. Journal of Shijiazhuang University of Economics, 2010 (01): 76-80.

Liu (2012) proposed that debt risk should be taken into account in terms of debt itself, debt resources, and debt efficiency. China's debt analysis should not only be a risk issue, more importantly, economic efficiency. Performance-oriented local government debt management refers to the local government to its commitment to the debt, combined with the resources and output performance level, the risk identification and effective control to minimize the loss of debt risk, improve the government financing plan reliability, debt size rationality, debt repayment timeliness, is to ensure the sustainable development of the government capacity of management activities.

Local government debt performance management needs environmental basis for effectively implementing. Debt expenditure performance evaluation system is only the beginning of performance management. If local government would advance debt management in depth, coordination from budget, accounting, information, personnel, and other aspects will be needed. First of all, government debt is one of the important sources of government revenue, should be included in the unified management of the budgets. By using the budget tool, the local government could definitude its own assets and liabilities and debt risk size and level. Secondly, we should implement the government debt accounting system, which is based on the accrual basis. Under the performance-oriented local government debt management, it is urgent to make groundbreaking progress in the local government debt accounting, establishing a good government financial information platform to provide a solid foundation for implementation. The accrual accounting system is an accounting system that is compatible with government debt performance management. Thirdly, establish the information disclosure system of local government debt management. It depends on the connotation, extension, type, index system, and risk standard of local government debt risk. Therefore, it is an extension of the result of debt performance management, but also for the next round of performance management to provide the basis. The information disclosure system includes three elements: First, disclosure system to the higher government, the second is to the National People's Congress, the third is to the public system. Fourth, establish the main body of multi-performance management (Afonso & Jalles, 2013). Local government is manipulated by local government managers who are "economic man". "Economic man" characteristics sometimes damage the overall interests of society because of personal interests. This problem also exists in local government debt performance management. Therefore, on the one hand, it is inseparable from the participation of local government managers; they are endogenous motivation to achieve good governance. On the other hand they cannot be the only subject; it need introduce the public, intermediary organizations and other common participation in management, taking into account the results of evaluation to make it more just and comprehensive. Fifth, the point of the performance-oriented local government debt management is to establish a scientific performance evaluation system. The design of the system should be guided by the theory of government debt, adapting to the characteristics of local government debt. The selection of evaluation subject, the design of evaluation process, the selection and classification of evaluation index, the collection and analysis of data to meet the modern performance management theory requirements.

Design of Evaluation Index System of Local Government Debt Performance

Information asymmetry theory (Akerlof, 1970) considers the problem of a "lemon market". Information asymmetry between the public and government creates a strong desire for access to information (2008). A government audit is a reputation mechanism that maintains the safety of financial capital and increases government accountability (Chen, Pan, Wang, & Shen, 2016).

In the performance management system of debt budget performance, the design of performance evaluation index is the key position, which is the core link of performance evaluation of debt expenditure. The performance evaluation index of local debt expenditure is a specific concept and specific value which reflects the overall phenomenon of performance evaluation of debt expenditure. It is an important means to measure, monitor, and evaluate the economics, efficiency, and effectiveness of debt expenditure and reveal the problems of debt expenditure (Jin & Song, 2014).

In view of the local government debt performance evaluation research in the initial stage, this paper intends to refer to the traditional performance evaluation index system framework design logic model, from the “input-process-output-influence” logical analysis framework, to reflect the local government debt performance evaluation index system framework.

According to the whole process of local government debt performance, combined with the “4E” standards of debt performance economics, efficiency, effectiveness, and fairness, the key performance factors of four categories of indicators are determined and a set of four layers including 36 indices of local government debt performance evaluation index system is established. The characteristics of these indicators should fully cover various dimension including the economic development, citizen satisfaction, people's life improvement, social harmony, sustainable development, public services, internal processes, e-government, human development, and culture promotion (Shang, 2011).

Table 1

Local Government Debt Performance Evaluation Index System

Target layer element	Criterion layer	Group layer	Base element index
Performance evaluation index of local government debt	Input	Debt funding sources	Bank loan debt ratio
			Mortgage loan debt ratio
			Government guaranteed debt ratio
			Issue of local government bond debt ratio
		Debt capital investment costs	Average interest rate
			Average debt repayment period
	Process	Debt target setting	Public project input ratio
			Whether the scale of debt funds is compliant
			Debt to invest in compliance
		Debt organization and supervision	Whether the debt funds have a reliable source of debt service
			Management system procedure perfect
			Capital operation supervision and improvement
Debt funds management	Information disclosure system is perfect		
	Debt repayment rate		
	Debt income ratio		
	Debt overdue		
Use of debt funds	Balance of assets and liabilities		
	Debt funds are in place		
			Earmarked rate

Table 1 to be continued

Target layer element	Criterion layer	Group layer	Base element index
Performance evaluation index of local government debt	Output	Target fulfillment	Project goal completion rate
			Project objectives are timeliness
			Project acceptance validity
		Project completion efficiency	Completion of infrastructure projects
			Urban infrastructure completion rate
			Non-public project completion rate
	Influences	Project completion quality	Public transport improvement rate
			Per capita road area growth rate
			Per capita green area growth rate
		Economic benefits	Debt capital expenditure project income growth
			Local government debt assets growth
			Fiscal revenue growth
Social benefits	Increased GDP		
	Urbanization rate		
	Environmental pollution index		
			Employment rate
			Public satisfaction of the questionnaire

Results of Local Debt Performance Evaluation Applied to Debt Risk Management

Local government debt risk management and local economic development and stability objectives should keep synchronous. Local government debt risk management can not violate the inherent stability of the local economic development requirements, and limited budget funds must play the greatest monetary value. At present, all levels of government consider a lot on the regulatory requirements in the preparation of budget and allocation of funds, while less consideration on the performance of achieved results after use of funds. Budget implementation takes regular audit as the main, but less performance audit (Zheng, 2017). In inspection of the local government debt issuance and management more emphases are put on the compliance of use of budget funds. Of course, the review of compliance is a reflection of fiscal discipline, and there is nothing wrong with it, but debt funds are used for public goods and services, with strong externalities, whose role is often lagging behind. Introducing results-oriented budgets in raising local government bond funds and supervising and inspecting the using results, help to guide the financial funds to invest in people's livelihood, to meet public needs. It affords a comprehensive study in local government debt management performance.

Flynn (2004) argues that the importance of performance management to modern public management is that the responsibility is implemented. Through the performance evaluation, the public sector can make it clear that the resources are effectively utilized and the responsibility for achieving the desired results is achieved. Second is the expectations of interested parties. Public service has different customers, interested parties wanting the public sector to provide services to his desire. Performance is a measure way of whether to meet the requirements of different customers. Third is the emphasis on results-orientation. The core of performance management is the assessment. The essence is to emphasize the results of public administration, which is the pursuit of efficiency of the market economy needs. Fourth, dual requirements integrated by personal performance and organizational performance are needed. The combination of the two together could promote the overall performance of the organization, which will help improve the public sector awareness of the service.

Through the management of local government debt risk performance, the responsibilities of local government departments could be well implemented. This is exactly the purpose of performance management to make the local government become an efficient and accountable government, so that the performance of local government managers and organizational performance could be combined up.

Local government debt risk is one of the contents of government public administration². First, the formation of debt risk is the difficulty to fulfill its debt service liability, due to the existence uncertainty factors of government contingent liabilities, leading to the local government debt operating in an information opaque environment. Through the performance evaluation, the public debt management department can make clear the effective use of resources and achieve the desired results of the responsibility. Second, the money market and the capital market in the gradual market-oriented operation of the reform process ultimately complete the transformation of the main body of the economy to independent economic status. Long-term speaking, if artificially intervene in the main business activities of the market, relying on administrative control, it cannot effectively achieve the debt allocation efficiency optimization. In the future development of urbanization it will not be able to adapt to the optimal allocation of urban managerial resources requirements. Results-oriented performance management emphasizes the results of public administration, through the standardized assessment process to strengthen the debt operation of budget hard constraints and market supervision to meet the needs for market economy in pursuing efficiency. The whole process results-oriented performance management must pull and promote more concerns about the real benefits debt funds could bring to public services and public goods. Then strengthen control of non-standard decision-making behavior from the source, improving the scientific aspects of management decisions and the normative process. Through the performance evaluation, it can improve the implementation of the accountability mechanism, provide the basis of judging whether the management is effective, and provide the scientific basis for the scientific decision-making to eliminate the “GDP view of achievements” fundamentally.

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² Han Zenghua. Debt Risk Monitoring and Performance Management: Observed from Local Government. Reform. 2016 (06): 25-30.