



MONITORING SUBNATIONAL FINANCES: ARE THE DATA GOOD ENOUGH?

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Context for the presentation

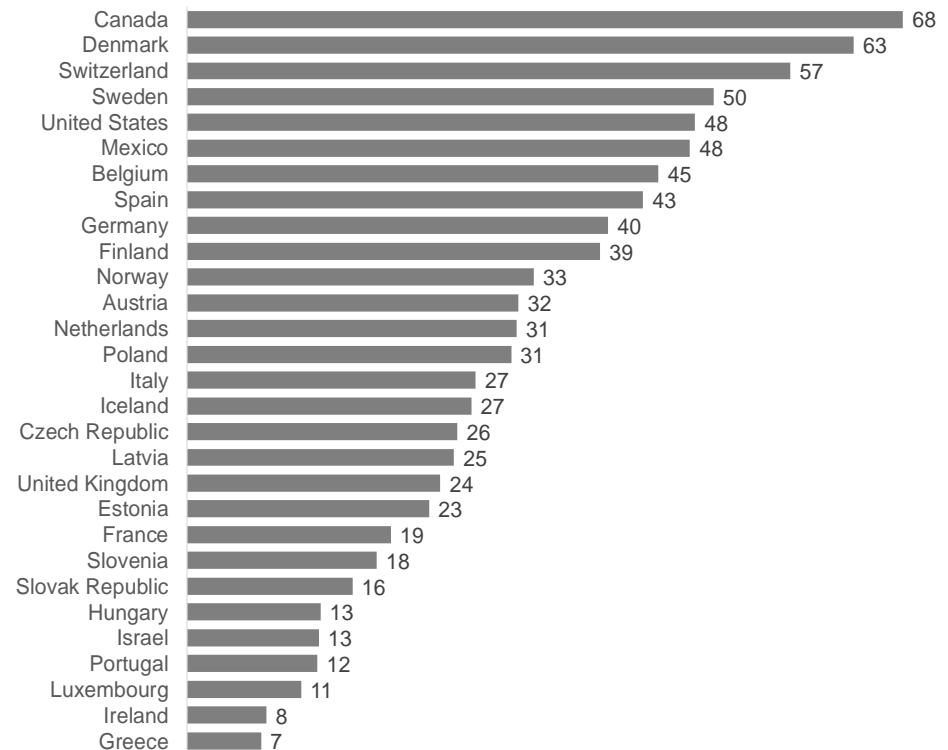
- The work is being done for two OECD networks:
 - Network on Fiscal Relations across Levels of Government;
 - Senior Budget Officials' Network on Financial Management and Reporting.
- It follows on from OECD work on, e.g., accruals reforms and practices in OECD countries and insolvency regimes for sub-nationals.
- It draws on questionnaire responses from 29 OECD countries and 3 Key Partners and a closer look at practice in a few of those countries. However, work is still in progress, and the data need to be reviewed.



Why do subnational finances matter?

- At sub-national level:
 - Delivery of public services;
 - Insolvency risks.
- At national level:
 - Constraining fiscal targets or rules;
 - Fiscal (bailout) risks.

Spending of sub-national governments as a percentage of the spending of general government



Source: OECD Fiscal Decentralisation Database, Table 5, date from 2016 as accessed 7 July 2019.



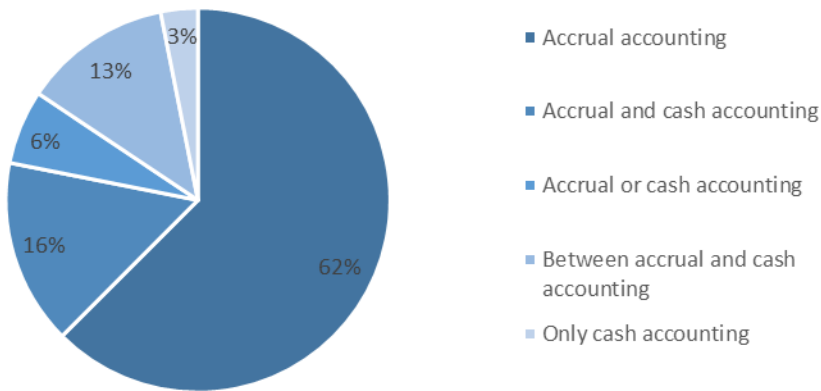
What kind of accounting system is needed for monitoring sub-national finances?

- Fiscal problems eventually show up in the insufficiency of cash inflows to meet required cash outflows, including debt service, but early detection of problems is possible.
- Early detection is easier if accounts are:
 - Comprehensive in the range of assets and liabilities they recognize
 - Broad in their institutional coverage
 - Timely
 - Reliable (implying internal controls and external audit)
 - Supplemented by fiscal forecasts

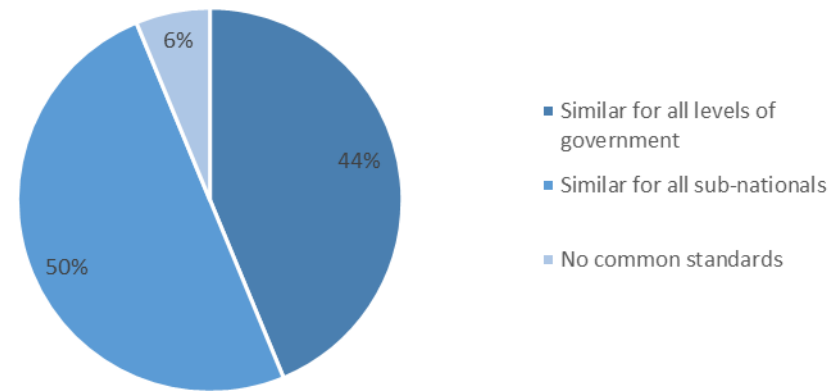


Accounting frameworks for SNGs appear sound in the OECD...

Accounting basis for year-end financial reports



Comparability of standards



Note: preliminary data, final data to be published by the OECD in 2020.

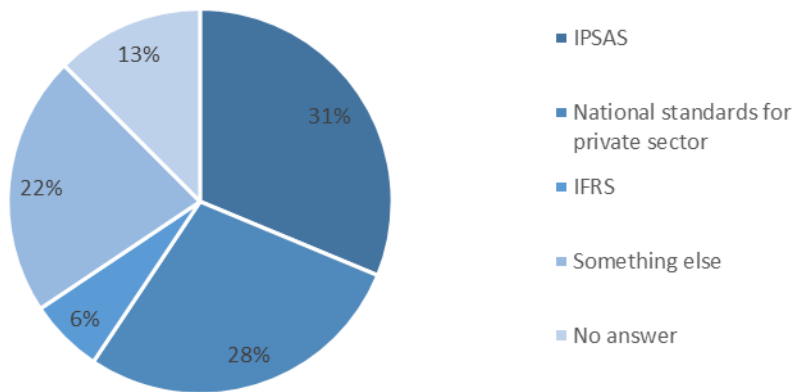
Accrual accounting is now widespread among sub-nationals in the 31 countries responding to the survey.

In a majority of countries, common standards often allow for comparable information among sub-nationals.

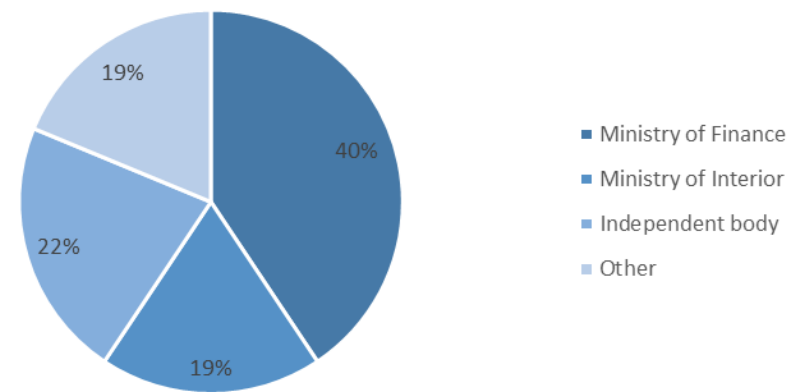


... but “details” matter.

Sources of the accounting standards



Institutional responsibility



Note: preliminary data, final data to be published by the OECD in 2020.

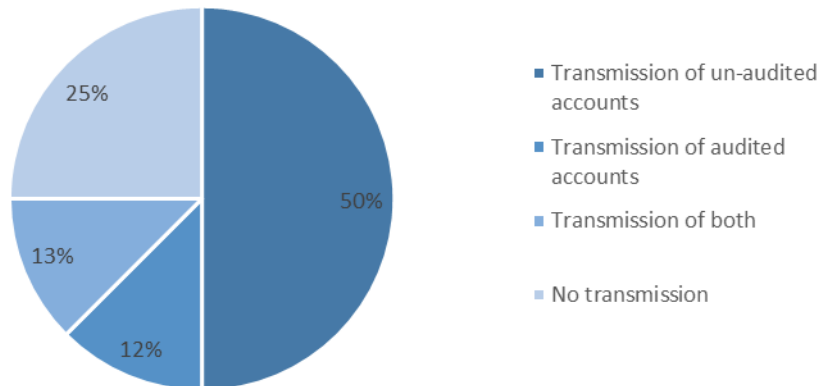
Sources for national standards vary, leading non-debt liabilities (e.g., PPPs) being potentially not recognized in the accounts.

Legislations often give almost very significant discretion to governments in defining their reporting standards.

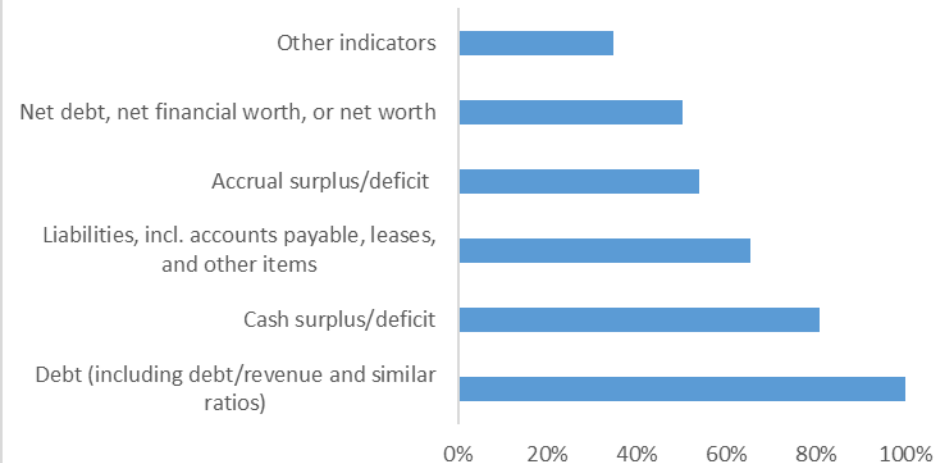


Monitoring is widespread but could use more sophisticated financial ratios.

Reporting to national government



Indicators used for monitoring



Note: preliminary data, final data to be published by the OECD in 2020.

Regular communication of financial data is mandatory in virtually all unitary countries (as opposed to federalist countries).

Debt and cash surplus/deficit are still favored for monitoring subnational public finances, although accrual-based indicators are increasingly used.



Preliminary findings

Accounting for sub-national governments

- Accrual-basis and harmonized in a majority of countries, but still considerable discretion in how standards are set

Reporting

- Year-end reporting is mandatory (to national government or to the public) and the importance of external oversight increasingly recognized

Monitoring

- Emerging use of new, accrual-based indicators for better assessing the sustainability of subnational governments' finances and the fiscal risks they pose.



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