Some Thoughts on Performance Management of Local Government Debt

Yunnan Yunling Engineering Cost Consulting CO., Ltd
Yang Baokun
Kunming, China

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Chairman & CEO of Yunnan Yunling Engineering Cost Consulting Co., Ltd.
Registered Cost Engineers,
Vice Chairman of Yunnan Construction Engineering Cost Management Association
Director of Innovation & Development Committee
Standing Director of Performance Management Research Committee of Society of Public Finance of China
Member of the Board of Directors of the Investment and Finance Branch of the Chinese Society of Technology Economics (CSTE)
PPP Expert Database Expert of the National Development and Reform Commission and the Ministry of Finance
Evaluation Expert in the Fourth Batch of Demonstration Project of the Ministry of Finance
Researcher of Research Institute of Complex Engineering & Management, Tongji University
Member of the PPP Expert Committee of China University of Political Science and Law
PPP Think-tank Expert of Central University of Finance and Economics
Expert of PPP Expert Database of Yunnan Provincial Department of Finance, Hunan Provincial Development and Reform Commission, Hubei Provincial Finance Department and Henan Provincial Finance Department.
Deputy Editor of BIM Model Project Management Application (BIM Technology Textbook Series of the National Universities)
Chief Editor of PPP+BIM Project Life Cycle Management and Consultation Series.
Winner of the “Outstanding Contribution Individual” in the Development of the Construction Industry in the 60th Anniversary of the Founding of the PRC by Yunnan Provincial People’s Government in 2009

Research Fields (3 theoretical Systems)
PPP Project Life Cycle Management and Consulting
BIM Technology Life Cycle Management and Consulting,
Whole Process Engineering Cost Management Consulting
Local government debt performance management should take the construction of project database as a core, implement the concept of standardized performance management, establish a scientific and reasonable indicator system, and promote the continuous improvement of local government debt performance management.
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01 The Necessity and Importance of Local Government Debt Performance Management

02 Current Situation of Local Government Debt Performance Management

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The Necessity and Importance of Local Government Debt Performance Management
## Comprehensive performance management policies and systems

In the report of the 19th National Congress of the Communist Party of China (CPC) stated that it is necessary to speed up the establishment of a modern fiscal system and establish a central and local fiscal relationship with clear powers and responsibilities, coordinated financial resources, and regional balance. Establish a comprehensive, standardized, transparent, standard, and constrained budget system to fully implement performance management.

Notice of the ministry of finance on the management of local government debt in 2018 (Caiyu [2018] No.34): (1) Standardizing local government debt limit management and budget management according to law. Implement the full implementation of performance management requirements, establish and improve the performance management mechanism of government debt funds that “must pay for debts, be invaluable and accountable”, and improve the performance of fund use.


## Reform of the government accounting standards system

The government accounting standard system, which was implemented on January 1, 2019, standardized government liabilities.

- Specific liability criteria
- Through liability criteria
- The accrual system is based on the government accounting reform
In June 2017, Yunnan Provincial Government took the lead in setting up the local government debt management committee, which established a series of systems and systems to achieve unified and centralized management of government debt.

Shaanxi Provincial Finance Department issued the interim measures on performance evaluation of Shaanxi provincial government debt management in September 2018.

Shanghai has issued the implementation measures of Shanghai municipal budget performance management (Shanghai financial performance [2014] no. 22), the notice of Shanghai municipal government on several opinions on further strengthening the management of municipal government debt (Shanghai government [2014] no. 44) and other systems.
The importance and necessity of comprehensive performance management of local government debt

Comprehensive performance management of local government debt is the most basic requirement for local government management

- It is not only an important decision to implement the new budget law, but also an important step to improve the national governance system and improve the efficiency of the use of fiscal funds.
- The performance management of local government debt is determined by the debt compensation.
- The characteristics of revenue and expenditure of local government debt funds determine that more attention must be paid to performance management.
- Comprehensive performance management becomes an important criterion for whether the scale of government debt is moderate and whether the use is effective.

Comprehensive performance management of local government debt is an effective measure to solve the existing problems in local government debt management

- Solve the problem that local governments borrow more than they repay.
- Address inefficiencies in the use of local government debt.
- The establishment of local government debt performance evaluation system can prevent local government debt from infinite expansion to some extent.
Current Situation of Local Government Debt Performance Management
Current Situation of Local Government Debt Performance Management

The content of local government debt performance management is included in the scope of local government budget management, and it has not been promoted as an independent and important link to formulate policy documents for promotion and application, which has aroused great attention of governments and departments at all levels.

01. Improve the legal and institutional system

02. Establish a quota management mechanism

03. All government debt under budgetary management

04. Carry out risk assessment and early warning

05. Issue local government bonds to replace stock debt

06. Research and develop emergency response plans

07. To stop the illegal acts of secured financing

Local government debt management "Closed loop" system

The content of local government debt performance management is included in the scope of local government budget management, and it has not been promoted as an independent and important link to formulate policy documents for promotion and application, which has aroused great attention of governments and departments at all levels.
Local government debt performance management practices mainly focus on performance evaluation and results application. There is no more involved in ex ante performance evaluation, performance target management and performance tracking management.

Lack of monitorable and evaluable performance monitoring and management tools and methods to identify invisible debt and measure debt risk.
Performance management of debt is not classified in combination with the characteristics of general debts and special debts, especially in the field of special debts.

- The government didn’t do the preliminary argument before borrowing;
- The project is not mature enough, and the application requirements are insufficient.;
- Performance target setting is unclear, unreasonable, and untargeted;
- There is no performance tracking and evaluation of the bond issuance process procedure compliance, data completeness, lag of issuance schedule, unreasonable debt issuance plan, non-compliance, etc.
- There is no performance tracking inspection and evaluation on the use of debt funds, the proportion of the progress of capital expenditures and the progress of project construction, the efficiency of special debt funds, and whether the project revenues are self-balanced and so on.
- The disclosure of bond information is not timely and sufficient, and the mechanism of accountability and accountability is not fully implemented.
Local government debt performance management is initiated from the financial department, but it has not been radiated to local governments and their departments related to the declaration and use of debt funds. An comprehensive, full coverage, all-round and dynamic debt fund performance evaluation mechanism has not been established.

Even in the performance evaluation indicator system of local government debt set by local financial departments, there is a lack of standardization and unification of first-level indicator and second-level indicator at the national level. Different provinces and counties design their own indicator system, which is difficult to ensure the comparability and objectivity of performance evaluation results.

The feedback and application of local government debt performance evaluation activities carried out by local financial departments are not fully linked to debt fund arrangement and policy adjustment, inefficient and invalid funds and long-term accumulated funds have not been reduced or cancelled, and the accountability mechanism of departments or responsible persons has not been fully implemented.
## Construction of local government debt performance evaluation index system - local finance department

### Shanghai government debt management performance evaluation table - 1

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<th>First-level indicators</th>
<th>Secondary indicators</th>
<th>Three-level indicators</th>
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<td>Source Management of Debt Funds</td>
<td>Ratiocination of debt ratios</td>
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<td>Debt Target Setting</td>
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<td>Government debt budget management</td>
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<td>Information Disclosure System of Government Debt Management</td>
<td>Debt Information Disclosure</td>
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<td>Establishing the Subject System of Performance Management</td>
<td>Multiple performance management system</td>
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<td>Establishing and Improving the Reporting System</td>
<td>Information submission system</td>
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<td>Perfecting and standardizing the accounting system of government debt</td>
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### Shanghai government debt management performance evaluation table - 2

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<td>Project completion quality</td>
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<td>Degree of active cooperation in work</td>
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<td>Capacity Building of Government Debt Management</td>
<td>Economic performance</td>
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<td>Social results</td>
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<td>Classified Disposal of Government Debts in Non-Securities Stocks</td>
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<td>Advance replacement of government debt</td>
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<td>Speed up the Speed of Government Bond Funds Expenditure</td>
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<td>Special subtraction</td>
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### Special items

- Implementing "One Vote Denial" to the Performance Evaluation of Government Debt Management
- Liability for Illegal Debt Financing by Letters from Superior Level
Consideration and Suggestions on the Construction of Local Government Debt Performance Management Mechanism
The significance of establishing and improving the performance management of local government debt

The risk of government debt does not only come from the size, structure and growth rate of debt, but also needs to pay attention to the use of debt funds, as well as the use of debt funds to form assets and future returns, which are the key factors ultimately affecting the solvency of the government.

China's economy has shifted from a stage of rapid growth to a stage of high-quality development. To establish a performance evaluation system for local government debt and strengthen the performance management of local government debt are the inherent requirements of high-quality development.

Only by putting government debt performance management in a relatively independent and important link, strengthening the comprehensive assessment of the debt management situation and the use of debt funds and the effectiveness of debts at all levels, can we urge governments at all levels to further establish a standardized debt financing mechanism and effectively restrain the behavior of “borrowing, using, managing, and returning” of local government debts, effectively preventing financial and financial risks, and continuously improving the level of government debt management.
Local government debt performance management process

Debt-raising
The government shall compile and report relevant materials and carry out debt raising activities in compliance within the debt raising plans for review and approval.

01
Pre-debt Assessment
Develop an annual investment plan based on project importance and funding needs and strictly implement it. Harden fiscal budget constraints, from the source to curb the local government's transitional debts to build and seek political achievements.

02
Use
Supervise and evaluate whether government borrowing funds are compliant and efficient.

03
Information disclosure, result feedback and application
Whether information disclosure is compliant and timely; whether the performance results are timely feedback and used; whether to implement accountability and accountability mechanisms.

04
Repay
The government shall repay the agreed principal and interest on schedule and maintain the government's credit.

05
### Main Contents of Performance Management of Local Government Debt

#### Assessment and Decision-making Links of Debt Lending
- Pre-demonstration and set up a project database
- Design project investment and financing mode and operation mode, determine project investment and financing scale and project performance objectives
- Reasonable Estimation of Government Debt Lending Scale
- Preparing and approving debt plans

#### Debt-raising
- Whether the relevant procedures for borrowing projects are complete or not, and whether the financing and borrowing have been approved
- Whether project cash flow forecast is scientific and compliant
- Whether the documents for debt-raising projects are complete
- Whether the selected method of guarantee meets the requirement of borrowing

#### Use of debt funds
- Tracking the flow of debt funds, whether they are used for the construction of designated government public welfare projects according to the purpose of issuing debt, whether they have been borrowed, misappropriated to other projects or used to make up for recurrent expenditures
- Whether the relevant financial and fund management system has been established for the use of debt funds, and whether the system is applicable and effectively implemented
- Whether to carry out periodic follow-up evaluation, and timely summarize and correct deviations or situations in the use of debt funds to achieve periodic performance goals

#### Debt principal and interest repayment
- Whether the sources of debt service funds are in compliance, whether the debt service funds are financial funds
- Whether the debt repayment procedure meets the requirements of the Budget Law and the relevant provisions of local government debt management
- Analyse the ratio of annual interest expenditure of local government to local fiscal revenue, and whether there exists the situation of paying interest by borrowing debt.
- Whether to push corporate debt to the government for repayment

#### Information Disclosure and Result Feedback
- Whether information disclosure is in compliance and timely
- Performance management results are used to determine whether local governments have excessive debt and illegal new local government hidden debt
- According to the results of performance management, problems were found in time, rectification measures were put forward, government debt risks were monitored, and "reverse accountability and lifelong accountability" was adopted.
- The results of performance management can be used as an important reference for the allocation of new government debt limit, balanced transfer payment from higher government to lower government and other special funds.
Local government debt performance management process

1. Pre-debt Assessment
   - Pre performance evaluation
   - Scale of bond issuance project
   - Demand for funds
   - Determine reasonable and scientific investment and scale of debt funds
   - Set targets for the use of debt funds
   - Refine and decompose performance objectives

2. Debt-raising decisions
   - Target execution tracking management
   - Deviation correction and adjustment

3. Debt to declare
   - Debt fund performance management information disclosure
   - External and internal oversight

4. Credit approval
   - Feedback and application of performance management results
   - Investigate responsibility and implement accountability mechanism

5. To issue bonds

6. Use and repayment of debt funds

Whole-process performance tracking inspection and performance management (evaluation)

Comprehensive, full coverage, all-round, dynamic performance management

Main body of local government debt performance: external supervision units such as government departments, departments of industry or budget, finance, auditing, etc.

Main body of government debt performance management: government departments at all levels, industry or budget, and project implementation agencies
Further clarify the implementation of Comprehensive, full coverage, all-round, dynamic government debt performance management, improve the responsibility and constraint mechanism of government debt performance management, and clarify that local governments at all levels and various departments are responsible for government debt performance management.

Establish a whole process government debt performance management chain, establish pre-existing performance evaluation and decision-making mechanism of government debt, strengthen government debt performance target management, monitor government debt performance, and conduct government debt performance evaluation and application of results.

Strengthen the comprehensive assessment of the debt management of all levels of government and the effectiveness and effectiveness of debt funds, effectively restrain the “borrowing, using, managing, and returning” behavior of local government debts, effectively prevent financial and financial risks, and continuously improve the level of government debt management.

According to the results of performance management, the responsible person of the government debt project is indeed responsible for the performance of the project, and the responsible person of the major project is subject to the lifelong accountability system for performance, so as to ensure the accountability of the debt and the ineffectiveness.
Operational Level Advice

1. Strengthen research on the full life cycle and dynamic performance management of local government debt.

2. Strengthen project feasibility and investment and financing decision-making, and control the amount and scale of government debt funds from the source.

3. Strengthen the analysis and research work on the establishment, adjustment and implementation of performance targets.

4. Strengthen the research and development of the common indicators for the performance evaluation of national unified government debt projects. Ensure the comparability and fairness of the performance evaluation results of government departments at all levels.
Operational Level Advice

5. Strengthen the application of the results such as phase tracking and performance evaluation of government debt projects.

6. It is recommended to introduce a third-party consulting agency to conduct full-life local government debt performance management consulting.
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<th>First-level indicators</th>
<th>Indicator score</th>
<th>Secondary indicators</th>
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Best wishes for the success of Asian evaluation week

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Yang Baokun  13808797501
757277341@qq.com