

Some Thoughts on Performance Management of Local Government Debt

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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

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.

On June 10, 2019, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the Notice on Perfecting the Issuance of Local Government Special Bonds and the Matching Financing of Projects.

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.

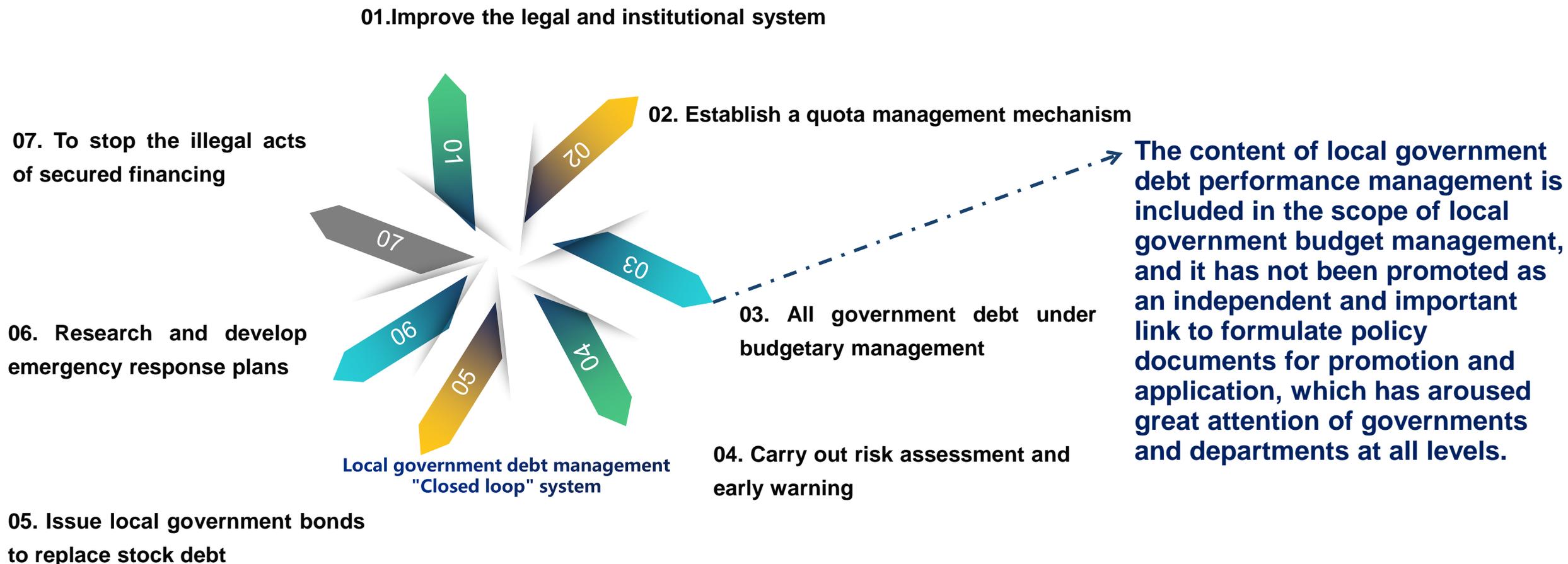
Comprehensive performance management of local government debt is an effective measure to solve the existing problems in local government debt management

- ✓ 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.

02

Current Situation of Local Government Debt Performance Management

Current Situation of Local Government Debt Performance Management



- **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



First-level indicators	score	Secondary indicators	score	Three-level indicators	score		
Government debt financing mechanism	10	Improving the Management System of Lending and Financing	5	Establishment of a Leading Group on Debt Management	3		
				Construction of Comprehensive Debt Management System	2		
		Source Management of Debt Funds	5	Rationalization of debt ratios	3		
				Input cost of debt funds	2		
Government debt budget management	20	Debt Target Setting	3	Reliable sources of debt-servicing funds	3		
				Quota Budget Management	6	Perfecting quota management and budget management system	2
		Budget Adjustment of Government Debt Limit	2				
		Foreign debt quota management	2				
		Bond Quota Allocation Scheme	8	Budget Management of General Debt Bonds	4		
				Advance management of special debt bonds	4		
		Direction of Use of Government Bond Funds	3	Commit to compliance	3		
		政府债务管理配套制	12	Information Disclosure System of Government Debt Management	4	Debt Information Disclosure	2
						Information transparency of bond projects	2
				Establishing the Subject System of Performance Management	2	Multiple performance management system	2
Establishing and Improving the Reporting System	4			Information submission system	2		
				Statistical Reporting System of Implicit Debt	2		
Perfecting and standardizing the accounting system of government debt	2	Government Debt Accounting System	2				
Supporting System of Government Debt Management	22	Operational process	12	Standardizing the monthly newspaper system of the government	2		
				Debt funds in place	2		
				Special fund is special	2		
				Debt dependence	2		
				Debt burden	2		
				Debt repayment	2		
				Supervision of Debt Fund Operation	2		
		Management process	10	Benefits of Local Financing Platforms	2		
				Incidence of local debt disputes	2		
				Debt overdue rate	2		
				Government debt indicators	2		
				Establishment of Early Warning Mechanism for Debt Risk of Municipal Government	6	Publishing Emergency Response Plan for Local Government Debt Risk	2
						Formulating a Debt Risk Resolution Scheme	2
Serious Government Debt Financing Discipline	6	Notify the results of debt risk warning	2				

First-level indicators	score	Secondary indicators	score	Three-level indicator	score
Government Debt Operation Result Supervision	6	Goal achievement	2	Debt Input Infrastructure Completion Rate	1
				Debt Input into Environmental Protection Construction Completion Rate	1
		Project completion efficiency	2	Timeliness of completion of project objectives	1
				Validity of project acceptance	1
Capacity Building of Government Debt Management	4	Enhancing the Ability of Grass-roots Officials	2	Improvement of the Management Ability and Quality of Full-time Personnel	1
		Degree of active cooperation in work	2	To undertake research projects assigned by the Municipal Finance Department	1
Project selection management and external effects	8	Economic performance	4	Income Growth of Debt Funds Expenditure Projects	1
				Business Profit Growth	1
				General revenue	1
				Gross Local Product Increase	1
		Social results	4	Urbanization rate	1
				Environmental pollution index	1
				Growth rate of per capita disposable income	1
				Questionnaire on Public Satisfaction	1
Dealing with Stock Government Debt and Preventing Bond Funds from Sinking	12	Classified Disposal of Government Debts in Non-Securities Stocks	4	Strengthening the Construction of Classified Disposal	2
				Report on the results of classified disposal	2
		Advance replacement of government debt	4	Replacement of Unmatured Inventory Debts	4
Speed up the Speed of Government Bond Funds Expenditure	4	Expenditure Progress of New Bond Funds	2		
		Expenditure Progress of Replacement Bond Capital	2		
Special items	20	Special subtraction	20	Liability for Illegal Debt Financing by Letters from Superior Level	
				1. Major debt risks	
				2. Discovering illegal guaranteed debts	
				3. The Government Debt Balance Breaks through the Government Debt Limit issued by the Municipal Finance Department	
				4. The overdue repayment of the principal and interest of government bonds has a significant public opinion impact.	
				5. The use of government bond funds is seriously inconsistent with the regulations and is not rectified or thoroughly rectified.	
				6. Private misappropriation of funds for personal or other purposes	
				7. Disclosure of false, confidential information or failure to comply with the prescribed disclosure procedures has caused significant adverse effects.	
				8. Major pollution to the social environment and adverse effects.	

03

Consideration and Suggestions on the Construction of Local Government Debt Performance Management Mechanism

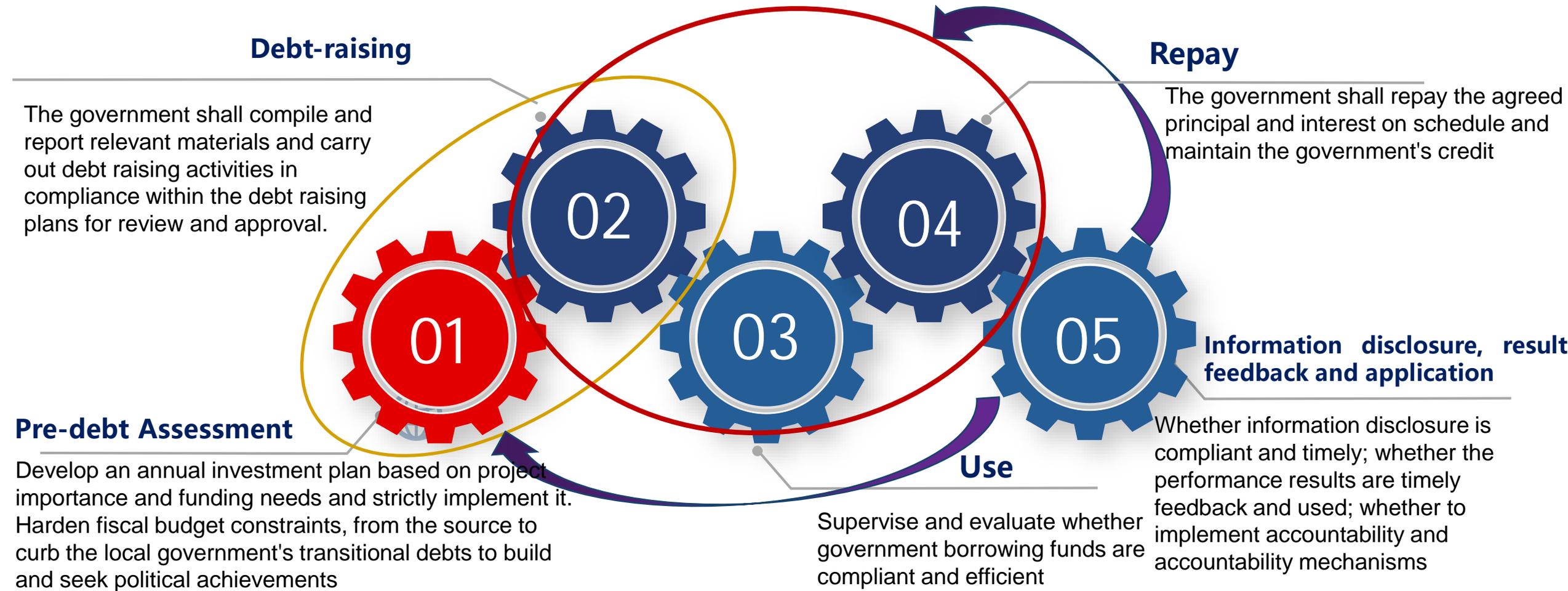
The significance of establishing and improving the performance management of local government debt

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



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

01

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

02

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

03

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**

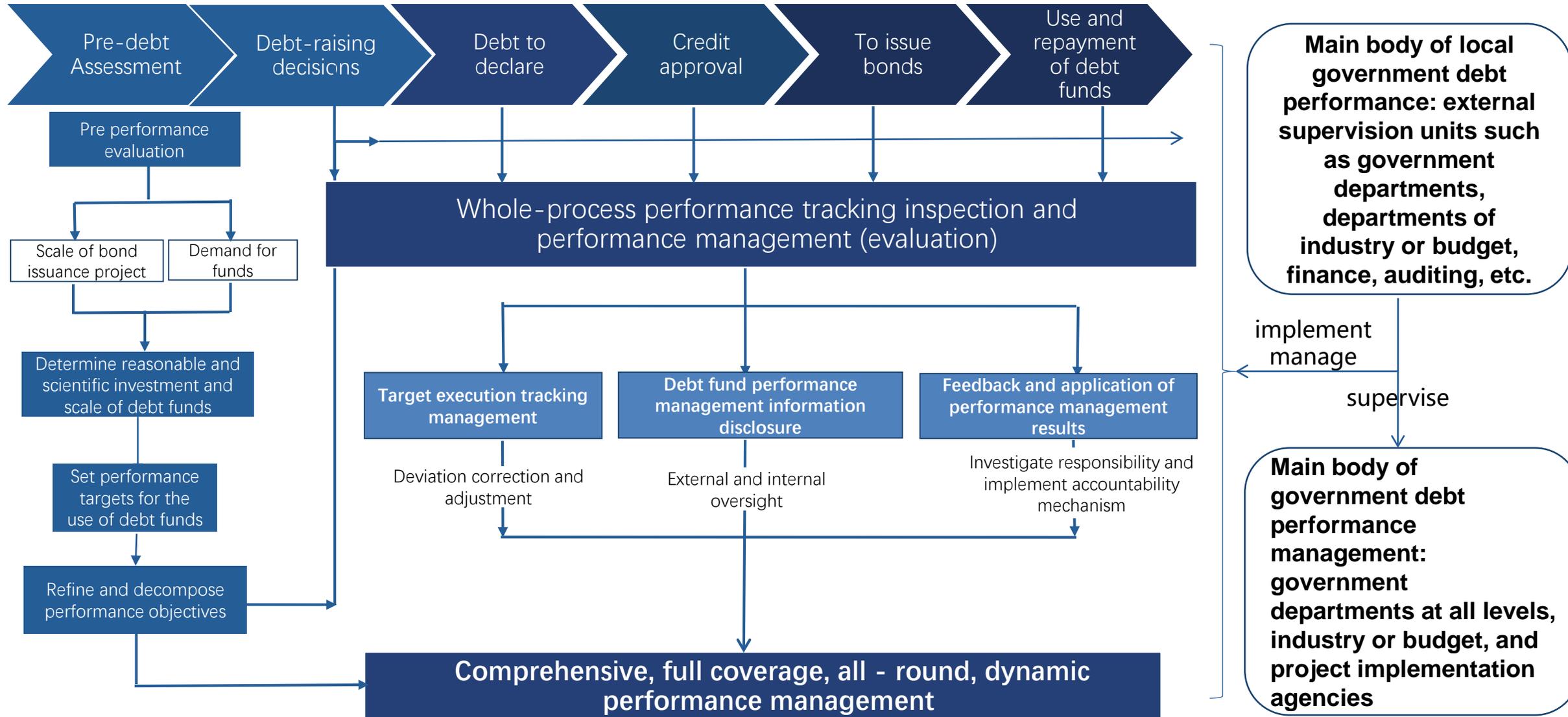
04

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.**

05

Local government debt performance management process



1

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.

2

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.

3

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.

4

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.

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.

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.

Local government debt performance evaluation index system

First-level indicators	Indicator score	Secondary indicators	Indicator score	Three-level indicators	Indicator score
Debt assessment and decision-making	15	Debt Assessment	6	The Scale of Project Investment and Financing and the Appropriateness of the Choice of Debt Financin	2
				rationality	4
		Debt decision-making	9	Matching between Project and Policy Environment	3
				Clear and consistent performance objectives	3
				Debt plan compliance	3
Debt-raising, use and repayment	30	Debt financing	4	Whether the relevant procedures for debt-raising projects are complete and the data are compliant	4
		Use and Accounting of Debt Funds	9	Compliance in the Use of Debt Funds	6
				Standardization of Accounting	3
		Fund monitoring and organization management	8	Institutional Construction	2
				Debt Fund Supervision	6
				Compliance of Debt Payment Procedure	2
		information disclosure	7	Validity of execution of loan contract	5
				2	Compliance and timeliness of information disclosure

Local government debt performance evaluation index system

First-level indicators	Indicator score	Secondary indicators	Indicator score	Three-level indicators	Indicator score	
Benefit effect	45	Output Quantity	17	Debt repayment rate	10	
				Performance rate of loan contract	7	
		Output quality	8	Accuracy of capital plan	8	
		Economic performance	5	Accelerating the Income Growth of the Masses along Highways	5	
		environmental benefit	5	Improvement of Highway Surrounding Environment	5	
		social influence	15		Accelerating traffic improvement	5
					Accelerating the Development of Agricultural Economy	5
					Accelerating the Promotion of Highway Network System	5
		Political impact	5	Promoting the Political Environment	5	
Satisfaction	10	Satisfaction of Target Groups and Stakeholders	10	Acceptance of Debt Funding Projects by Target Groups and Stakeholders	5	
				Satisfaction of target groups	5	
Total score	100					

Best wishes for the success of Asian evaluation week

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field of project investment

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