

# THE USEFULNESS OF PERFORMANCE AND FINANCIAL REPORTING IN LOCAL GOVERNMENT: THE SPANISH EXPERIENCE

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## ABSTRACT

The literature has revealed the insufficiency of strictly financial information and the necessity of adding non-financial information, especially performance reporting. At the international level, appropriate measures have been developed concerning inputs, outputs, outcomes, efficiency and effectiveness to increase the accountability and the transparency of local government.

In Spain, local entities with more than 50,000 inhabitants have had to include performance indicators in their financial report since 2006. However, there is no evidence about how this information is used for accountability and management purposes. This paper aims to explore the perceptions of public sector managers in Spain about the application and use of performance management tools, especially performance indicators. Moreover, we want to compare the usefulness of this information with that of accrual financial reporting, which has been elaborated in Spanish local governments since 1992.

With the objective of evaluating the usefulness of performance measures and financial reporting, we have carried out a survey of Spanish local governments with more than 50,000 inhabitants.

The results of our study show that many Spanish entities really do not elaborate this information because they do not have a cost accounting model and, as a consequence, it is difficult to obtain these measures. Furthermore, most of the entities that have introduced performance indicators do not use them for decision-making or accountability. In spite of the numerous benefits described in the literature, few local entities recognize the advantages brought about by performance measurement systems.

With respect to accrual financial reporting, after two decades of reforms in financial and management systems, financial directors still consider that budgetary reporting is more useful, basically because the control of expenditure is still based on the budget.

**Keywords:** performance reporting, local government, public management, performance indicators, local accounting.

## 1. INTRODUCTION

Local government management has been characterized in the last two decades by the adoption of reforms to improve efficiency and effectiveness in the delivery of public services, and especially to provide better services to citizens and to increase the transparency and accountability of governments. These changes in management can also be seen as a way to increase democratic practice in local government (Stewart, 1996), and in fact many governments have introduced participative budgets voluntarily.

After the Anglo-Saxon experiences, Southern European countries have introduced sets of legislative measures in response to general demands for greater transparency in the use of public resources and increased accountability, as well as for improvements in the quality of public services. The *performance management movement* has driven these reforms (Sanger, 2008). The actions taken include accrual accounting reforms, in some cases accompanied by accrual budgeting, performance management systems, results-oriented and performance budgeting and performance benchmarking. New assessment and management tools, such as balanced scorecards, have also been developed and put into use. According to the OECD (2005), public administrations implement performance measurement systems in order to increase efficiency and effectiveness and to improve decision-making (internal use) and external transparency and accountability (external use).

For external reporting, the main aim of the reforms has been to compile and utilise information to meet the traditional objectives of public accounting: accountability and decision making. The literature has revealed the insufficiency of strictly financial information in this task and the necessity of adding non-financial information, especially performance indicators (Walker, 2002). The GASB made such a recommendation in the Statement of Concepts 2 and it also features in many articles in the literature (Lancer et al., 2007), where a long list of the uses of performance measurement has been identified (Sterck and Wouter, 2004).

There is however some scepticism about the implementation of these recommendations, about whether entities really do elaborate performance measures and especially about their usefulness. Many studies have been carried out, especially in the US, to try to answer these questions. The development of similar studies in other countries will make it possible to carry out international comparisons and new conceptual advances.

Although researchers recognise the role of performance measurement and reporting, many have warned of the difficulties of using them (Guthrie, 1994; Kluvers, 1998; Pollit and Bouckaert, 2004; Rivenbark and Kelly, 2000) and others of the unintended consequences of performance measurement (Smith, 1995). Furthermore, many authors observe that there is a gap between the intended and real changes that take place with the introduction of performance measurement systems (Pollit and Bouckert, 2004, Olson et alt. 1998). This has been explained by Vakurri and Meklin (2006) on the basis of the ambiguity theory, which maintains that decision making and performance measurement are not completely rational. There are many limitations, conflicting interests, uncertainties, paradoxes and ambivalences which make performance measurement a tricky undertaking. For example, there is ambiguity about what users should do with performance measurement and unintended uses of performance measurement information. For other authors, there are severe measurement problems which may render ideas of result-oriented management cultures untenable. NPM has been considered by many to have failed in terms of outcomes; this has been a bitter disappointment for policymakers and users (Lapsley, 2009).

In Spain, there are important differences in performance management adoption among local governments, especially because of differences in size; most local authorities have fewer than 20,000 inhabitants. Performance measurement is more urgent for larger entities because they manage larger budgets and have greater resources. Institutional bodies try to guide and promote these changes. For example, since 2006, larger local entities have had the obligation to include performance indicators in their financial reports. Moreover, the introduction of performance management techniques such as management accounting, total quality management systems and environmental management systems has been recommended.

At the moment, the real situation in Spanish local government with respect to the adoption of these tools is not clear. As in other countries with more experience in the use of performance measures, there is some doubt as to whether they are actually used in the decision-making process or if they have in fact improved management and accountability.

This paper aims to explore the perceptions of public sector managers in Spain about the application and use of performance management tools, especially performance indicators, four years after legislation made their use obligatory. We wish to analyze whether performance measures are used, how they can help improve public service management and the outcomes of performance measurement systems. We link the functioning of performance measurement with organizational aspects in order to analyse the characteristics of the entities that have more effective performance measurement systems. This can help us to identify the

changes necessary to improve the introduction of a real public management sector, which is the main objective of the paper.

We base our study on a questionnaire sent to managers of local governments with a population of more than 50,000. The aim is to find out what techniques are employed for performance management and how they work to improve public performance in local authorities, as well as to evaluate the perceptions of managers about the usefulness of these new analytical tools for better practice in the local sector. Using the data from this questionnaire, we will look for the main variables which influence good practice in performance management and the usefulness of the tools.

## **2. SEARCHING FOR APROPIATE PERFORMANCE AND FINANCIAL MANAGEMENT IN SPANISH LOCAL GOVERNMENT**

In Spain the last two decades have been characterised by reforms in the public sector aimed at increasing the efficiency of public resources as well as accountability and democratic participation. The General Budgetary Law, that establishes the legislative framework for public entities, states that the principles of economy, efficiency and efficacy should be the cornerstone of public management and several tools have been implemented in order to put these principles into practice.

Local entities use a financial accounting system based on the business accounting model, but which includes particularities for public sector entities. They use the accrual basis for the elaboration of financial statements, but the predominance of the budget is maintained. This is due to a legal and administrative culture unlike that of Anglo-Saxon countries. Budgetary reporting is still based on the modified cash basis of accounting. There is a double entry system and a transaction is introduced simultaneously in the budgetary system and in the accounting system, with their corresponding codes and rules.

The system thus produces two kinds of information, financial reporting and budgetary reporting, and consequently two measures of results, accrual and budgetary. Moreover, there is no conciliation between the two results, which is compulsory in other European continental countries such as Italy. Under this dual system, with the presentation of the budgetary information in a single statement, the accounting criteria are not affected theoretically by the budgetary criteria, because the latter dominate only in the budgetary statements, maintaining non-connected criteria and reporting systems.

The Accounting Instruction for Local Government (*Instrucción de Contabilidad para la Administración Local*, ICAL), which came into effect in 1992, defines the structure and content of the financial statements that local governments must present. The ICAL requires the presentation of a balance sheet, an operating statement and a statement of sources and applications of funds, using the accrual basis of accounting. Moreover, a cash flow statement and a budget execution statement are also elaborated. The ICAL contains a format for the presentation of these statements, as well as the accounting principles applicable and the criteria for the valuation of the elements of the financial statements. There is a simplified model for entities with fewer than 5,000 inhabitants, the main difference being the details of the financial statements, but the accounting principles and valuation criteria are the same as in the normal model.

In 2004, this standard was amended (the new rules became effective in 2006) and an important change was introduced, namely that local entities with more than 50,000 inhabitants should include performance indicators and financial and economic indicators in their financial reports for external purposes. The financial indicators to be included are: liquidity, immediate liquidity and debt per inhabitant. There is a long list of budgetary indicators to be included, such as expenditure execution, payments index, total expenditure per inhabitant and capital expenditure. With respect to *performance indicators*, it is stated that these should allow the evaluation of the economy, efficiency and effectiveness of, at least, the services financed with public taxes or prices. Some performance indicators are included as examples, such as the cost per inhabitant, efficiency of the service, cost per unit of service delivery, employees of the service per inhabitant, actual delivery services to forecast delivery services and the number of services delivered per inhabitant. However, the standard does not fix what indicators should be included in the report, giving flexibility to entities. This can increase the difficulties of implementing performance reporting, or can be interpreted as a possibility to report only what is easy to obtain and show good face. Furthermore, as each entity must define its indicators, it is not possible to compare different entities.

With this initiative, the Spanish Accounting Committee not only followed international tendencies (GASB or AASB), but went beyond these by making performance reporting compulsory.

Performance measurement can be viewed as a tool to enhance internal management and accountability through performance information. It requires public managers to fix objectives and to control whether these objectives have been fulfilled or not and what resources have been used for the service delivery.

This is a very new development in the Spanish framework where there have not been many advances in previous years in performance management systems. Prior to this reform, performance indicators were not compulsory and only a few local governments used them on a voluntary basis.

However, there are still important problems for the implementation of performance reporting systems. There is no compulsory requirement to establish a cost accounting system, which is the basis of performance measurement because it permits the calculation of the cost of different activities. Such a system allows entities to obtain the information necessary for the evaluation and measurement of the results of management, providing data that is useful in the decision-making process. Furthermore, cost accounting encourages the construction of indicators for which information on costs is essential. In the United States, a number of local governments are using the activity-based costing (ABC) model as a way to reduce costs and improve performance. Their benchmarking of projects focuses attention on cost accounting rules and uniformity in reporting.

In Spain, although local managers are conscious of their importance, we do not know if local governments are really implementing management techniques to measure performance. For this reason, our first research question is: what management techniques are used in Spanish Local Governments? This question was previously tackled in Montesinos and Brusca (2009), but we want to know if there has been any improvement.

If they have not implemented any measurement systems, it is difficult for managers to determine performance indicators. Furthermore, managers are reticent about the publication of performance indicators. In fact, Royo et al. (2009) show that in practice, not many entities include this information in their financial reports or publish it on their websites.

For this reason, we have formulated our second research question: do Spanish local entities really fulfill their obligation to include performance indicators in their financial reports? If not, why not?

The third research question is: to what extent do entities that elaborate performance indicators consider them useful and for what are they used? Have they really improved local government management? Citizens are sure to appreciate such information but, under the present system, they are usually unable even to consult local government Financial Reports.

### **3. THE BENEFITS OF PERFORMANCE REPORTING IN PRACTICE: AN INTERNATIONAL OVERVIEW**

Many empirical studies have analyzed the preparation and usefulness of performance measures for management decision-making and the use that managers make of them, while others have analyzed the disclosure of performance reporting for accountability purposes. According to Hartley's (2005) terminology, all of these studies can be considered as analyzing the relationship between innovation (the introduction of new ideas that work) and improvement (increases public value in the quality, efficiency or fitness for purpose of governance of services). As he remarks, in the public sector, innovation and improvement need to be seen as a conceptually distinct and not blurred into one phrase.

Most of the literature about performance measurement for local government comes from the United States where performance measurement is supported and encouraged by a number of organizations and professional associations including the International City/County Management Association (ICMA) and the Government Finance Officers Association (GFOA). But the greatest achievements have come from the efforts of the Governmental Accounting Standards Board. The GASB Concepts Statement 2 (1994), Service Efforts and Accomplishments Reporting, later amended by Concept Statement 5, encouraged state and local governmental entities to experiment with the development, use, and reporting of Service Efforts and Accomplishments (SEA) measures.

Since then, local governments have worked hard at developing their own performance measurement initiatives. Their efforts have evolved under different names such as benchmarking, SEA reports, strategic performance plans, performance budget reports, and efficiency measures.

A significant number of studies have tried to find out to what extent American state and local governmental entities have been developing, using and reporting performance measures.

For example, in 1996 the GASB sent a survey to 5,000 individuals working for state and local governments, of which 2,295 were municipalities. 900 responses were received (18%), of which 407 corresponded to municipalities (17.7% responding).

Of the municipalities, 44.2% answered that they had developed performance measures, although only 30.5% had developed output or outcome measures. 37% of the municipalities said they used performance measures (22% used output or outcome measures).

With respect to the aspects of management for which output and outcome measures are used, 73 (18%) municipalities said they were using them for strategic planning, 82 (20%) for resource allocation and 76 (19%) for program management and monitoring. Only 19% of the municipalities report output measures to internal management, the same number report them to elected officials and 17% to citizens and the media.

Later, the GASB carried out another similar study, published in 2002, involving a survey sent to various state budget offices, agencies, and city/county departments. The results of this survey show that performance measures were being developed and implemented in most governments at both state and local levels. However, most of these measures were input or activity/process measures. Many of these governments were still working to develop true outcome and explanatory measures to help them establish a truly balanced measurement system. The survey revealed some encouraging aspects. For example, more than half of the respondents indicated that the implementation of performance measures had increased their efficiency and effectiveness. Furthermore, approximately 70 percent agreed that their governmental entity had been better off since implementing performance measures. The results of this survey indicate that, despite some shortcomings in the overall implementation of performance measures, state and local governments were becoming more aware of the importance of a good performance measurement system for a better, more effective government.

Poister and Streib (1999) observed that although many cities, especially larger jurisdictions, had performance measures, it appeared that 40 percent or fewer made any kind of meaningful use of them in their management and decision making-processes. Among cities that were already substantially involved in performance measurement at the time, there was still considerable room for improvement on both the technical side (developing good measures and reporting results on a timely and useful basis) and in terms of building broader commitment to the measures and using them effectively to improve management and decision making.

Lancer and Holzer (2001) showed that only a subset of the state and local governments that collected measures actually used them to improve decision making. Ho (2003) conducted two surveys of 30 cities with populations of 10,000 to 100,000, one for finance directors or city administrators and the other for mayors. Only 9 reported performance information in their budget, but the author found that officials were familiar with the idea of performance measurement and the integration of performance information in the budgetary process, indicating that performance measurement had long passed the awareness stage of diffusion.

Moreover, most officials believed that performance measurement could improve program efficiency, effectiveness and communication to citizens about the accomplishments of government. However, he found that insufficient interest on the part of city councils in using performance measures could be a significant barrier to performance reporting.

Sanger (2008) summarizes the following points that can be highlighted in the USA context: performance measurement is growing in states and local governments, but more often without the engagement of citizens and with unrealized use for management; some improvement is evident at all levels of government but cities do better than states and performance management efforts are growing most successfully at the agency level; jurisdictions and agencies with the best performance reporting and performance management efforts have strong mission driven leaders at the helm who communicate the mission, motivate employees, shape strategies and provide support, rewards and sanctions for achievement. Similar findings are shown in the *Association of Government Accountants Report* (2009).

To sum up, American studies reveal that many cities have introduced performance measurement to show how they use taxpayers' money to accomplish results, and that some of them have integrated performance measurement with strategic planning and goal-setting, but that the debate about their use and usefulness is still open (Poister and Streib 1999 and 2005, Garsombke and Schrad 1999, Berman and Wang 2000, O'Toole and Stipak 2001, Willoughby and Melkers 2001, Lancer and Halzer 2001, Wang and Berman 2000, Bernstein, 2002, Ho and Chan 2002, Ho 2003, Chan 2004, Smith 2004, Willoughby 2004, Melkers and Willoughby 2005, Ho and Ni 2005, Pandey and Garnet, 2006, Ammons and Rivenbark 2008, AGA, 2009).

Several authors have also tried to analyze the reasons and factors that can explain the successful functioning of performance measurement systems, or otherwise. Moynihan (2005) argues that the gap between dissemination and use occurs partly because of an absence of routines in which data are examined and interpreted. Chang (2006) argues that the use of a particular aspect of performance measurement within a public sector organization might depend on the power relationship between its constituents and the organization itself. For Yang and Holzer (2006) the good functioning of a performance measurement system depends on many factors such as technology advancement, political context and resource allocation.

Ammons and Rivenbark's (2008) study suggests that the likelihood that performance data will be used to influence operations is enhanced by the collection of and reliance on higher-order measures, especially efficiency measures, rather than simply workload or output measures,

the willingness of officials to embrace comparison with other governments or service producers and the incorporation of performance measures into key management systems.

In conclusion, success depends on the organizations themselves, on “the demand side” (Sanger, 2008). Any effective use of performance measures for management requires strong and committed leadership, both from the top down and the bottom up.

From the perspective of accountability, many studies have been carried out in the US to discover the extent to which local governments include performance reporting. O’Toole and Stipak (2001) concluded that the use of SEA reporting among local governments was substantial but not extensive, especially when compared to the more widespread use of strategic planning, performance measurement and revenue and expenditure monitoring.

Smith (2004) conducted a study of US municipalities of over 25,000 inhabitants, showing that performance reporting varies considerably between the budget and the annual financial report, the number of measures being much greater in the budget. Moreover, there is great variability in the measures used even in the same city for different services. Another aspect highlighted is the opposition from managers and those responsible for preparing the performance reporting. The use of the comparable data method is needed in order to substantially increase the number of governmental entities that are publicly reporting these measures. Cheng et al. (2007) suggest that voluntary reporting is increasing, albeit with significant variance and that there are also visible examples of performance measurement in many different states.

Although most of the literature is from the USA, we can also refer to some studies on other countries, for example, a Canadian study financed by the CICA, carried out by Pollanem and Young (2000), similar to that of the GASB (1997), which reveals a gap between the actual and desired use of performance measures in Canadian municipalities. McDavid and Huse (2008) remark similar conclusion in a government in Canada.

In the United Kingdom, local governments were legally required to publish performance reporting on which they are benchmarked. Like the Citizen's Charter, the Best Value Initiative and the National Indicator Set Handbook of Definitions were intended to improve the efficiency of local government, with a set of national performance indicators to provide comparative data (Harris 2000). The Secretary of State specified firstly performance indicators by reference to which a best value authority performance should be measured; and secondly performance standards to be met by best value authorities in relation to the performance indicators specified (Cunningham and Harris, 2005, p. 25-26). Later the Audit Commission published a Compendium for local authorities in England. Best value policy has

resulted in further interest among local councils in the EFQM model (Brenan and Douglas 1999). However, at this moment the system is changing, and the National Indicator Set has stopped, being replaced for 2011/2012 by *the single data list for local government*, which provides a single, comprehensive list of the data that central government needs from local authorities. It represents an important change in the accountability process and centralization of the UK Local Government, giving more discretion for local governments and reducing their obligations for performance reporting giving them more flexibility to do what they consider properly.

In Australia, performance reporting is not compulsory and there are important differences in the performance measurement systems developed by entities (Walker, 2002. Lee, 2008). States have been encouraged to adopt best practice in the development of performance indicator systems and each state has carried out its own initiatives for the local governments under its jurisdiction. Queensland, South Australia, the Northern Territory and Tasmania have made a great effort to develop their performance indicator framework and to link it to partnership or benchmarking objectives. For example, in Queensland, the main purpose of the performance management programme is to produce an annual publication of comparative performance information to help local government evaluate its performance. Now, some accountants and professionals are asking for the development of nationally comparable performance indicators that will need to address these issues. In practice, Lee (2008) shows that much of the non-financial information (output and outcome measures) appears to be underdeveloped, perceived as less useful for disclosure in the annual reports than financial information and less frequently reported.

In the Netherlands, accrual and performance budgeting is being implemented and performance indicators are recognized as an important tool. Many Dutch municipalities have now included quantitative performance indicators in their budgets and financial reports. Municipalities are free to gather the performance information which they think is relevant. In practice, the entities include this information but its use is not clear.

For example, Bogt (2004) studied whether performance reporting was really used by Dutch aldermen, concluding that many aldermen see little value in the output-oriented performance information that is available in the planning and control documents of their organizations and that they used it only infrequently. In their opinion, output-oriented performance indicators are not a complete success. Nevertheless, a later study by the same author (Bogt, 2008) shows that although politicians were critical of performance measurement systems, many regarded benchmarking as a potentially important instrument for the future.

Hengel et al. (2007) studied the use of performance indicators in Dutch municipalities and show that the size of the municipality seems to be important for the development of performance indicators: larger municipalities tend to develop more output indicators than smaller municipalities. There is also a relationship between the results orientation of the political parties and the development of performance indicators. Jansen (2008) showed that politicians hardly used the written performance reports, while Elsacker, Bogt and van Helden (2008) found that the roles of performance measurement differ between entities.

In Sweden, local governments use their own self-developed models, although state initiatives have been taken to make it easier for local government to mutually compare their performance, and many of the performance evaluations performed in the Swedish municipalities involve comparison with other municipalities, which increases the potentialities and usefulness of the measures (Siverbo and Johansson, 2006, Johanson and Siverbo, 2009).

In Norway, management by objectives and results has been adopted in civil service organizations (Laegrid, Rones and Rubecksen, 2006). Moreover, local government has had experience with performance indicators in a benchmarking initiative as a catalyst for innovation in service delivery (Askim, 2004). In 2000, the Norwegian Association of Local and Regional Authorities and the Ministry of Labour and Government Administration started a project based on inter-municipal benchmarking, with the objectives of improving the quality of service delivery and to generate indicators for the development of quality and resource efficiency in local government. Participation was voluntary and free of charge for the municipalities. The project focused on two types of indicators: indicators of inputs and outputs (classified into three types: priority, availability and productivity) and indicators that relate inputs and outputs or outcomes. The results of Askim et al. (2008)'s study show that municipalities do obtain organizational learning from benchmarking and that there are also indications that learning from benchmarking is subject to politics.

Denmark probably has the most sophisticated system for collecting performance indicators, costs and statistical information at national level and making these data comparable (Council of Europe, 1997). The Ministry of the Interior presented the Key Local Government Indicators initiative, which involved all local entities. The indicators are structural and input and output. A database and a book are published yearly which contain information on each municipality's local services and performance indicators related to these services.

In Switzerland, Brun and Siegel (2004) point out that a lack of appropriate outcome measures and indicators can be identified, limiting the execution of the parliaments' audit function.

Public Management reform is an ongoing process and has not created information requirements.

In Italy, financial reports must be supplemented by some standard efficiency and effectiveness indicators set by the Central Government. However, Steccollini (2004) shows that service performance information is generally scant. Local governments mainly rely on compulsory efficiency and effectiveness indicators, but they do not generally comment on them nor develop ad hoc indicators. Some local governments insert detailed programme information, which is generally very long and descriptive. Only the largest local governments use voluntary effectiveness indicators in their annual reports.

## **4. AN EMPIRICAL ANALYSIS IN SPANISH LOCAL GOVERNMENTS**

### **4.1 OBJECTIVES AND METHODOLOGY**

The objective of this paper is to study the implementation of performance management in Spanish local governments and to identify improvements resulting from performance management and performance indicators.

The specific objectives of the study are the following:

1. To analyze the tools used for performance and financial management in Spanish local governments. Really, we want to know whether has been or not innovation (Hartley, 2005) in Spanish public services management.
2. To find out whether these entities establish performance indicators and which type of indicators they use.
3. To analyse the perception of public sector managers about the usefulness of the information elaborated, especially for management and accountability purposes. In this case, we want to know whether has been or not improvement. Moreover, we compare the usefulness of financial information, budgetary information and performance measures.
4. To show what performance measures are used for.
5. To study the characteristics of the local entities that have made the greatest efforts: size, measured by population, and the existence or not of a professional manager.

A questionnaire was sent to the financial directors of local governments on the understanding that they were best placed to know the details of the financial and economic system.

However, they were asked to pass the questionnaire to the local government general manager, quality manager or other official if appropriate.

A total of 130 questionnaires were sent to local entities with more than 50,000 inhabitants. To date, 38 replies have been received, a response level of 29.23%. This is not a high response but is comparable to other similar studies (GASB 1997).

The data obtained was processed by statistical analysis techniques, using SPSS statistical software. Frequency tables were used to study the answers to the questionnaire.

Before analyzing the results, we summarize some characteristics of the responding entities and the context in which the results should be interpreted. As can be seen in Table 1, most of the respondents are from the smallest councils with populations between 50,001 and 100,000. The participation decreases with the bigger entities. Only 5.2% of the respondents are from entities with more than 500,000 inhabitants.

*Table 1. Response level by size*

<i>Number of inhabitants</i>	<i>Total of entities</i>	<i>Nº of questionnaires received</i>	<i>% of response over sending</i>	<i>% of response over received</i>
<i>Between 50.001 and 100.000</i>	73	26	35.61%	68.42%
<i>Between 100.001 and 500.000</i>	51	10	19.61%	26.31%
<i>Between 500.001 and 1.000.000</i>	4	1	25%	2.63%
<i>More than 1.000.001</i>	2	1	50%	2.63%
<b>Total</b>	130	38	29.23%	100%

Only three of the responding entities stated that they have a manager or officer responsible for management, similar to the model of the business sector. This is often considered to be the first step for the introduction of management techniques from the business world.

## **4.2. PERFORMANCE MANAGEMENT IN LOCAL GOVERNMENTS**

Although there are innumerable tools available for performance management, in the questionnaire we have selected only the alternatives most adaptable to the case of Spanish local government: cost and management accounting; performance indicators, balanced scorecard, participative budgets, service charters and quality management.

The analysis of the answers received indicates that these techniques are not generalised among Spanish councils. As can be seen in Table 2, the use of these tools is, in most cases, under 20 percent. Only two of the councils have a system of cost accounting, both with less

than 100,000 inhabitants, which can be considered essential for implementing more sophisticated management systems. In fact, the only two that use cost accounting consider that it allows managers and financial directors to know the cost of services, to assign budgetary resources to services using cost information, to fix the targets of each service and especially to fix taxes and prices. One of the entities has a manager and the other one has not.

Neither do performance indicators appear to be a generalized tool for performance measurement and management. Only 34.3% of the entities used them, and in some cases they are not economy, efficiency and efficacy indicators, but only financial indicators. In any case, there are differences in function of the size, because 84.6% of the entities that affirm that they use performance indicators have less than 100,000 inhabitants.

*Table 2. Tools used for financial and performance management*

	YES		NO	
Cost accounting	2	5.3%	36	94.7%
Performance Indicators	13	34.2%	25	65.8%
Balance Scorecard	2	5.2%	36	94.7%
Participative budgets	10	26.3%	28	73.7%
Service Charters	6	15.8%	32	84.2%
Quality plans	5	13.2%	33	86.8%
Quality management systems	5	13.2%	33	86.8%
Citizen satisfaction surveys	7	18.4%	31	81.6%
EFQM Models	5	13.2%	33	86.8%
CAF (Common Assessment Framework )	1	2.6%	37	97.4%
ISO 9000	13	34.2%	25	65.8%
ISO 9001 Certified obtained	8	21.1%	30	78.9%

Only two entities use the Balance Scorecard, a technique used in the business sector that is now emerging in local governments around the world as an innovative approach to performance measurement. Its philosophy and characteristics adjust to the aims of new public management and to a focus on management by results, so it is considered an effective management technique in local entities all over the world, especially in Anglo-Saxon countries such as Australia, New Zealand, the United Kingdom and the United States (Australian National Audit Office, 2002; Chan 2004; Farneti and Bestebreur 2004; Wisniewski and Olafsson 2004; Modell, 2004). It can provide a means of shifting the focus away from individual initiatives and programmes and onto the outcomes that such initiatives are intended to achieve (Kaplan 2001). In fact, entities that have implemented it have reported positively about their experience and felt that the balanced scorecard could be a useful management tool for their organizations (Chan 2004).

The traditional perspectives of the balanced scorecard are: customers, processes, finance, and learning and growth. However, they can be modified to adapt to the necessities of any entity and, for example, in the case of the local sector, an environmental perspective can be added. The aim is to show how the results achieved can be improved. Both Spanish entities that use the Balance Scorecard have added two specific perspectives for local government: employees and the environment. These entities are those that obtain the greatest benefits from the use of performance indicators, possibly because they have integrated them into its management system. Both are entities with less than 100,000 inhabitants and employ a professional local government manager.

There is no regulation in Spain about Service Charters for local government, although on the basis of the initiatives of central government (where service charters are compulsory) and regional governments, some local entities are adopting service charters for some services. The elaboration of service charters by local entities requires, firstly, a definition of the objectives and the services that the entity or department provides as well as the criteria for measuring the results. It is a way of involving public employees in achieving the objectives. According to our results, only 15.8% of the entities use service charters for measuring and evaluating performance. In all the cases, they are entities with less than 100,000 inhabitants.

Performance management means that entities must define their strategies and the objectives they want to achieve to satisfy citizens' needs. In order to do this, local governments can adopt quality-oriented management processes. In fact, total quality management is one of the paradigms of the performance management discipline and is closely related to it. A possible option is the elaboration of quality plans or strategic plans in order to offer adequate services. Nevertheless, in our case only 13.2% of the entities elaborated quality plans and another 13.2% use quality management systems. In both cases, 80% of the entities that use quality plans and quality management systems have less than 100,000 inhabitants.

One specific tool for quality management is the EFQM Excellence Model, developed by the European Foundation for Quality Management (EFQM,) the European Commission and the European Organization for Quality, and whose objective is to help organizations to know themselves and improve how they work. In our sample, only five entities have adopted this model, while one other entity uses the Common Assessment Framework (CAF), a specific model for organisational self-assessment in the public sector.

Another option is to implement standardized quality management systems, among which can be highlighted the ISO 9000 or 9001. The percentage of entities that have implanted ISO 9000

is 34.2 % while 21.1% of the total have obtained the ISO 9001 certificate for at least one service. Most of the entities that have implemented EFQM, ISO 9000 or have ISO 9001 certificate, correspond to entities with less than 100,000 inhabitants. And as a consequence, it appears that is easier for smaller entities to introduce of management accounting techniques than for bigger entities than are more complex.

Performance measurement is a social-learning process involving the evaluators and the evaluated. Participation, interaction and communication are essential characteristics of such a process (Yang and Holzer, 2006). Performance measurement is directly related with citizen participation and a well-designed performance measurement system needs to incorporate such participation in order to capture citizens' perceptions. A fundamental part of management reforms has been increasing democratic participation, redefining the concepts and traditional forms of citizen participation and democracy. In 80% of the cases correspond to entities with less than 100,000 inhabitants.

We have included two questions on citizen participation relating to participative budgets and satisfaction surveys. A significant percentage of entities use participative budgets (26.3%), showing that Spanish entities are concerned about democratic participation. And specially entities with less than 100,000 inhabitants, where a 30.8% of the entities have implemented participative budget.

Only 18.4% of the entities conduct citizen satisfaction surveys, a tool that is commonly used in other countries as a form of increasing the satisfaction of citizens with services and improvements in service management. The proportion is higher in entities that also have participative budget, where 42.85% of them have implemented citizen surveys.

It can be seen that few entities have adopted performance measurement systems. The differences between entities are significant, even among those of the same size. For example, there co-exist entities that have implemented the Balance Scorecard as if they were businesses and others which cannot identify the costs of a specific service from day to day even though the regulations oblige them to establish prices and taxes based on service costs. It is hard to imagine a business manager unable to calculate the cost of manufactured goods and services given that such information is essential for several reasons including putting a selling price on products.

**4.3. PERFORMANCE REPORTING**

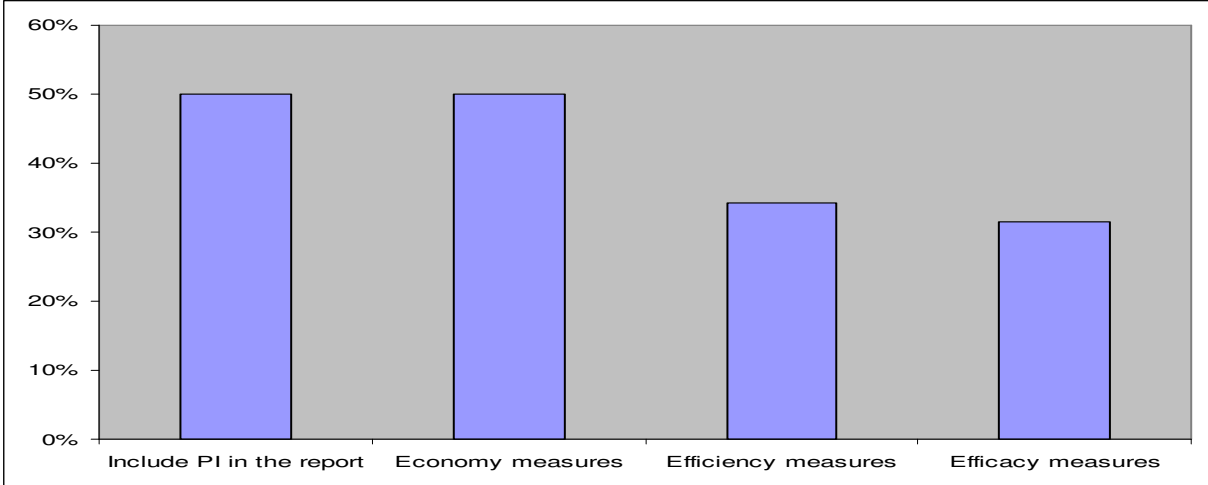
With respect to performance reporting, the ICAL obliges entities to include performance indicators in their Financial Reports. A total of 68.4% claim that they do, although in many cases they are not in fact performance indicators but financial or budgetary indicators. Only 50% can claim to have used economy, efficiency or efficacy indicators. By size, the bigger entities affirm in major proportion comply with this obligation.

The others do not include the required information in their reports because they have problems in circulating the indicators with the management tools at their disposal. For example, they do not use cost accounting or they do not fix objectives for their services. In fact, many managers have explained to us that although they consider that performance reporting can be important in order to account for the management of services, there are many obstacles in developing it.

This tends to confirm the existence of difficulties in implementation argued in previous research (Guthrie, 1994, Walker, 2002, Sanger, 2008). For example, Mayston (1985) warned of the difficulties of measuring achievement in quantitative terms or the difficulty of capturing all of the quality information relevant to assessing outcomes.

The types of indicators used are economy indicators in 50% of cases. Just 34.2% of entities elaborate efficiency indicators, while only 31.6% use efficacy indicators. In most cases, the indicators are used only for specific services, especially those that have prices attached to them, such as refuse collection, kindergartens, water supply, sports, culture, entertainment, education, health, social services, citizens advice, or street cleaning.

*Figure 1. Performance Reporting in Spanish local governments*



**4.4. THE UTILISATION OF PERFORMANCE INDICATORS**

Performance measurement systems can be used for two objectives in the public sector, the decision making process for achieving service improvements and accountability (Behn, 1998; ANAO, 2002; Peters, 2007). These general objectives can be divided into other more specific objectives.

Considering only those entities that have implemented performance indicators, we have attempted to ascertain what they are really used for in terms of both the decision making process and accountability purposes.

As can be seen in table 3, the utilization in all cases has a mean value under two (out of five). In all cases, around 66% recognize that they do not use performance indicators for the decision making-process. It can be seen that only a very few entities use the information for elaborating the budget, for fixing service targets, electoral program targets or workers’ targets.

*Table 3. The utilisation of Performance Indicators for the decision making process*

	Low	Medium	High	NR	Mean	SD
For elaborating the budget	61.1%	11.1%	11.1%	16.7%	1.73	1.16
For taking decisions about service delivery	55.6%	22.2%	5.6%	16.7%	1.87	1.06
For deciding which services are unnecessary or can be reduced	77.8%	0%	11.1%	11.1%	1.67	1.234
For deciding which services should be increased	66.7%	5.6%	11.1%	16.7%	1.67	1.113
For fixing workers’ targets	66.7%	5.6%	11.1%	16.7%	1.60	1.121
For fixing service targets	66.7%	0%	22.2%	11.1%	1.87	1.356
For fixing electoral program targets	66.7%	5.6%	11.1%	16.7%	1.73	1.100

Nor does it appear that indicators are widely used for taking decisions or introducing changes in service delivery.

The utilization of performance indicators for the decision making process is way under desirable levels. If we refer to the criteria proposed by Bouckcart (1993) for evaluating a system of performance measures, we can see that our indicators have little functional use. They are not functioning because they are not helping organizations to improve their goals.

The situation is very similar if we analyze the use of performance reporting for accountability purposes. Only 5.6% of the entities make a substantial use of this information for evaluating service management, and only a few of the entities that elaborate performance indicators compare their results with those of other similar entities, through benchmarking techniques or similar, while 16.7% do not know or do not answer. Nevertheless, 66.7% claim that they use the information for making temporal comparisons of their indicators. The use of the information for accounting to city councils is also low.

Finally, only a low percentage of the entities (27.8% including medium and high responses) consider that performance indicators are used for accountability to citizens. In fact, only one of the entities that elaborate performance indicators said that they published a report to citizens, so it can not be said that Spanish local governments have increased transparency and accountability to date.

*Table 4. The utilisation of Performance Indicators for accountability*

	Low	Medium	High	NR	Mean	SD
For evaluating service management	50%	27.8%	5.6%	16.7%	1.93	1.100
For making comparisons with other entities	66.7%	5.6%	11.1%	16.7%	1.73	1.100
For making comparisons with previous years	33.3%	27.8%	27.8%	11.1%	2.87	1.506
For accountability to politicians (City Councils)	50%	22.2 %	16.7%	11.1%	2.40	1.549
For accountability to citizens	55.6%	22.2%	5.6%	16.7%	1.73	1.100

To sum up, performance indicators are not currently used to any great extent in Spanish local government, neither for the decision making process nor for accountability purposes. The main reason is that as the information is difficult to obtain, even more so if there is no cost accounting, whatever information is produced is merely used for completing the file but not for any more positive application.

Despite the compulsory requirement to produce performance indicators, financial directors remain unaware of the possibilities for their use, in spite of the many advantages set out in the literature. Those who do produce performance information do not then use it, indicating that the process to date has been deficient.

**4.5. THE BENEFITS OF USING PERFORMANCE INDICATORS**

Having established that the utilisation of performance indicators was not high, we then analysed the extent to which the implementation of these measures that has taken place has led to service improvements or an increase in accountability. The results are shown in table 5.

Although the introduction of performance indicators should result in an improvement in the management process, in many cases the opinion of financial directors is not consistent with such a view. Only a low percentage (around 11%) considers that the introduction of performance measures has produced an important improvement in management, a reduction in service costs, or an improvement in the quality, efficiency and efficacy of services. A similar percentage considers that there are some medium level benefits while around the half of respondents to the survey consider that performance indicators have had no advantages.

*Table 5. The benefits of using Performance Indicators*

	Low	Medium	High	NR	Mean (over 5)	SD
To achieve important improvements in management	50%	22.2%	11.1%	16.7%	1.93	1.22
To reduce the cost of service delivery	55.6%	11.1%	16.7%	16.7%	1.93	1.438
To improve service quality	61.1%	5.6%	11.1%	22.2%	1.73	1.163
To improve service efficiency	50%	27.8%	0%	22.2%	1.73	1.033
To improve service efficacy	50%	16.7%	11.1%	16.7%	1.80	1.265
To improve accountability	33.3%	22.2%	33.3%	11.1%	2.80	1.656

To date we can not claim that the introduction of performance indicators has led to the important benefits as described in the literature. The benefits of reforms have been overvalued in theory and undervalued in practice.

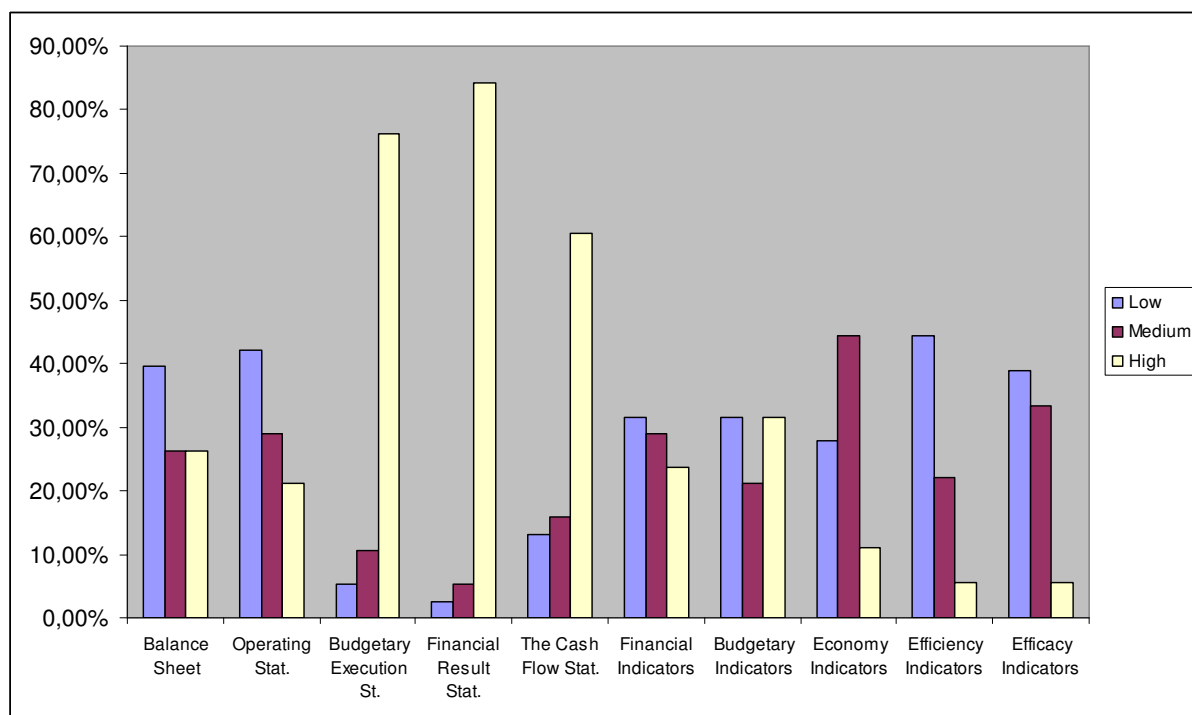
#### **4.6. THE USEFULNESS OF THE FINANCIAL REPORT INFORMATION**

We have tried to compare the usefulness of traditional financial reporting and that of performance indicators introduced subsequently. As can be seen in Table 6, the budgetary execution statement and the financial result or cash surplus statement are still the most useful in the opinion of the financial directors. The most useful information is the financial or cash surplus, a financial measure which shows the available financial resources that can be used for the subsequent period. Following this is the budgetary statement which 76.3% of directors say has a high degree of usefulness and which only 5.3% consider irrelevant. All the entities with more than 100,000 inhabitants consider this statement as very useful. This is due to the fact that the main objective of local government reporting is still accountability, rather than usefulness for the decision making process. Furthermore, the control of expenditure is based on execution of the budget.

*Table 6. The Usefulness of the Financial Report Information*

	Low	Medium	High	NR	Mean	S. D.
The balance sheet	39.5%	26.3%	26.3%	7.9%	2.77	1.28
The operating statement	42.1%	28.9%	21.1%	7.9%	2.51	1.27
The budgetary execution statement	5.3%	10.5%	76.3%	12.5%	4.2	0.87
The financial result or cash surplus	2.6%	5.3%	84.2%	5.3%	4.54	0.741
The cash flow statement	13.2%	15.8%	60.5%	10.5%	3.82	1.27
The financial indicators	31.6%	28.9%	23.7%	15.8%	2.81	1.378
The budgetary indicators	31.6%	21.1%	31.6%	15.8%	2.91	1.353
Economy indicators	27.8%	44.4%	11.1%	16.7%	2.60	1.352
Efficiency indicators	44.4%	22.2%	5.6%	22.3%	2.85	2.154
Efficacy indicators	38.9%	33.3%	5.6%	16.7%	2.29	1.204

Figure 2. The Usefulness of the Financial Report Information



It is worth noting that the balance sheet and the operating statement have only low to medium usefulness. The situation has not changed much since twelve years ago in Spain (Brusca, 1997). The bigger entities consider more useful the balance sheet and the operating statement than the entities with less than 100,000 inhabitants.

With respect to the indicators that local entities have to include in their financial reports, financial directors do not greatly appreciate the budgetary and financial indicators. This may be because they obtain other more interesting information from the report, and they do not need these ratios.

In the performance indicator categories, we have included only the responses of entities that say they elaborate this type of reporting. Only a low percentage (under 15%) consider this information very useful, which is consistent with our results about the utilisation of performance reporting for decision making and for accountability purposes. The information is considered even less useful than the financial and the budgetary indicators.

We have tried to compare between the entities that have complied with the reporting requirement in terms of economy, efficiency and effectiveness and those that have not (meaning that the former may have more advanced systems) through the T-test of difference of means. The results show no differences in the usefulness of accounting and budgetary information as a function of whether it is complying or not with this requirement.

#### **4.7. INNOVATION AND IMPROVEMENT IN SPANISH LOCAL GOVERNMENTS**

Hartley (2005) identifies 4 possible types of relationship between improvement and innovation, as can be seen in figure 3. Following this conceptualization, we have tried to draw the map situation in the Spanish context. That is, with the responses to our questionnaire, we have classified the situation in the 38 entities that have completed it. We use the cluster analysis technique, the main aim of which is to group objects according to their features, that is the characteristics of the performance management tools used and the benefits that they consider out of implementing them.

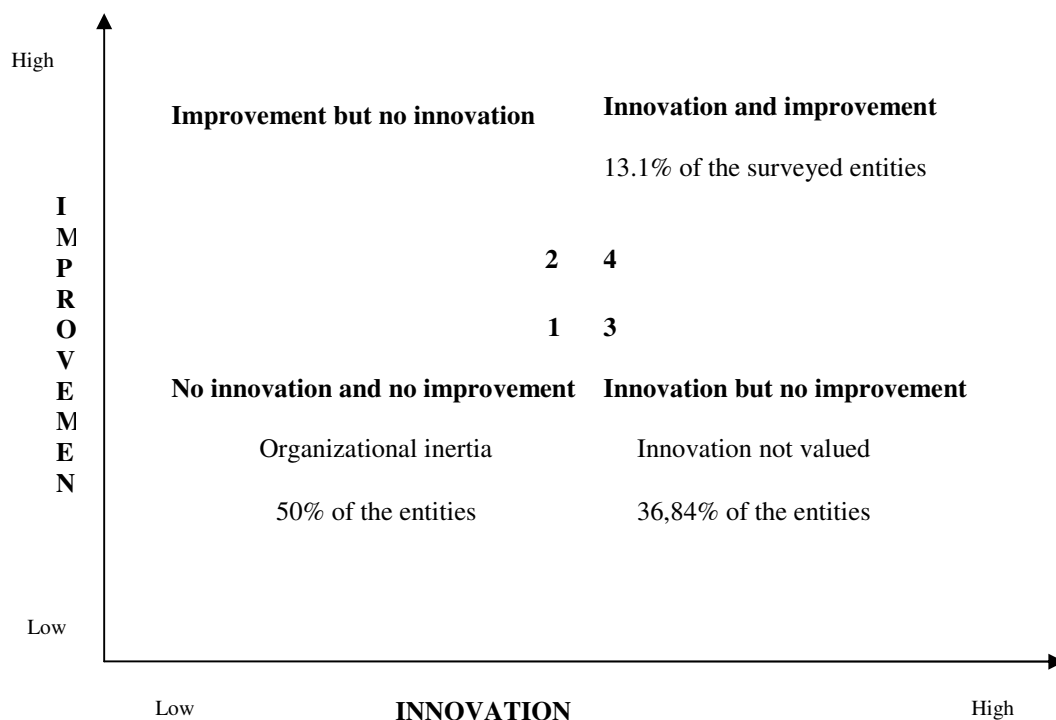
As can be seen in the figure 3, an important number of entities (19 in total, which represents 50% of the total) will be introduced in box 1, where organizations have neither improvement nor innovation. It corresponds to entities that have not introduced tools for performance management and they have not considered improvement in performance management or even in accountability purposes. In this case, organizations may be in inertia, either not recognizing the need to innovate or improve to meet new needs.

In box 2, where improvement occurs but without innovation, we have not registered any entity, because we only have analyzed the results of introduction of innovations, so we can not value if entities have improved or not without introducing management techniques, it was not contemplated in our questionnaire.

In box 3 the organization engages in innovation but there is no resulting improvement. A total of 14 entities that affirm to have adopted some of the tools for performance management, but without benefits of implementing them, can be registered in this box. To this respect, in terms of Hartley terminology, it would be only rhetorical innovation, that is, new language and new concepts appears to be predicated on the assumption that improvement follows. The author points out that one reason can be found in the traditional public administration theory which separates policy-making from implementation.

Only 5 entities (13.1%) will be registered in the box 4, the desirable category, organizations engaging in both innovation and improvement with important benefits. They are entities that have introduced performance management techniques, such as cost accounting, balance scorecard, quality management systems, performance indicators or EFQM, and consider that the information reported have had important benefits for accountability and services delivery management.

Figure 3. Innovation and improvement in Performance Management in SLG



## 5. DISCUSSION

Recent public sector reforms and innovations have tried to introduce the rationalization of public resources management. To respond to the need for the information necessary for these processes, the performance measurement movement has emerged and management by objectives and results systems have been developed. At the same time, institutions have encouraged public sector entities to account for their performance with non financial indicators, including performance indicators in financial reports.

The introduction of performance measurement systems has been seen as an innovation that can help in the rationalization of decision making processes as well as in accountability and transparency in the use of public resources. The possibilities for the introduction of performance measurement systems are numerous: performance indicators, benchmarking projects, budget by objectives systems, quality management systems, Balance Scorecard initiatives, etc.

Different governments have chosen the possibilities that best adapt to their needs, with differences between countries. For example, in the USA, United Kingdom, the Netherlands, Sweden, Denmark and Switzerland the use of performance indicators in local governments is generalized. However, the literature has revealed that these initiatives do not always achieve the desired effects and that there is a gap between rhetoric and practice. Really, there could be innovation but not always improvement.

The difficulties involved in implanting a valid and comprehensible system of indicators can be one of the reasons for this gap. Efficiency measurement is not easy. A measure that relates outputs to resources with precision requires the accurate measurement of outputs and inputs, and it is difficult to calculate these. A cost accounting system is absolutely necessary to calculate inputs. In the USA, Ammons and Rivenbark (2008, 310) stated that the problem for most governments lies primarily in accounting for inputs; the cost accounting systems in many local governments, if they exist at all, fail to capture total cost. Perhaps they overlook overheads or other indirect costs, ignore the cost of employee benefits or fail to include annualized capital expenses. Moreover, exemplary performance measurement systems are costly to develop because they require investments in measurement design and staff training (Sanger, 2008).

In Spain, the General Budgetary Law and the Law of Budgetary Stability establish that the principles of economy, efficiency and efficacy should guide decision making in public administration. Accounting standards oblige these entities to report in terms of performance, leaving the entities themselves to develop the indicators. To determine the extent to which these objectives have been fulfilled is one of the objectives of this paper.

In spite of the requirements mentioned above, our results show that the measures and tools necessary to make these principles effective appear not to have been created. The present situation in Spain shows that only half of the entities analyzed have introduced innovation, but in most cases there is no improvement. That does not permit us to say that the reform has led to rationalization in decision making.

Our results show that the current use of performance measurement among Spanish local governments is limited and only a few entities have implemented it. The use of performance measurement tools such as cost accounting, performance indicators or the balanced scorecard is, in all cases, low. So, the situation is worse than in other countries such as the United States, where studies have shown that most local governments have implemented performance management techniques, with some entities using the balance scorecard. At the

moment, we can not say that the focus of public managers is on performance measures or even on cost measures or cost efficiency but on the legal control of expenditure. There is a gap between rhetoric and practice.

In most cases, entities do not employ cost accounting techniques and so can not calculate service costs, which makes it difficult to develop efficiency measures. A similar problem has been detected previously in other countries, such as the United States (Ammons and Rivenbark, 2008) and Australia (Walker, 2002; Lee, 2008) where although entities have cost accounting systems there are some difficulties in determining full cost or in comparing the cost of different entities.

The use of quality management tools is also still in its early days in Spanish councils, 21.1% have the ISO 9001 certificate for at least one service and 34.2% of the councils report having the ISO 9000.

Performance reporting is not generalized because, although Spanish regulations require the inclusion of this type of information in financial reports, many local governments do not fulfil their obligations because they do not have adequate systems for the development of these measures.

Furthermore, entities that have introduced performance indicators do not use them for decision-making or accountability. In spite of the numerous benefits described in the literature, few local governments recognize the advantages brought about by performance measurement systems. In many cases, the introduction of that innovation has not carried out to an improvement in public sector management.

After two decades of reforms in financial and management systems, budgetary reporting continues to be considered more useful by financial directors, basically because the control of expenditure is still based on the budget. The legislation gives the budget and the cash flow surplus<sup>1</sup> a fundamental role in the management of local governments. A similar situation is shown in Australia (Lee, 2008), where public sector managers view financial information necessary for accounting for their financial expenditure.

As in other countries, we should recognize that the extent and benefits of the reforms have been overvalued and are more theoretical than real (Guthrie and Parker, 1998; Pollit and Bouckaert, 2004, Shick, 2001, Lee, 2008). One reason for this situation could be lack of

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<sup>1</sup> The cash flow surplus represents an amount that can be used for financing budgetary expenditure in the following year.

experience owing to the fact that the reforms are recent. A training period as well as long term vision is required to really understand the potential uses of information. Other possible explanations for the current situation are the lack of motivation to implement initiatives or the lack of leaders committed to the implementation of performance measurement systems.

As Lee (2008) states, academics and researchers still have much work to do to improve the quality of performance information and its reporting as an accountability mechanism.

Our study has also revealed some encouraging aspects. For example, local governments are becoming more aware of the importance of a good performance measurement system for a better and more effective government even though they consider that some difficulties have to be overcome before a performance reporting system can be developed.

In order for effective performance measurement systems to be implemented in Spanish local governments in the future, the following aspects should be taken into account:

First, the introduction of economy, effectiveness and efficacy measures should begin in the lowest tiers of local management. You can not build a house from the roof downwards. The basis must be the implementation of solid performance measurement systems that can help in the decision making processes and in performance accountability. The first step should be the introduction of cost accounting systems because input information is basic for determining efficiency measures, and although it is difficult to standardize cost accounting (Walter, 2002; Ammons and Rivenbark, 2008), common principles for cost determination could be introduced. The calculation of unit costs for the delivery of services in the public sector is an area where there are not many standards, hence, agencies undertaking the same activity in different entities could produce quite different estimates of the cost of providing a particular unit of service and doubts must be held about the validity of some published data on the cost of programs (Walker, 2002).

Second, to make performance measurement more relevant, current practice must be reformed to construct a real accountability and learning instrument that goes beyond the input-output model, an instrument that is more appropriate for mechanical managerial control. It should include program evaluation, policy evaluation and organizational analysis (Yang and Holzer, 2006).

Third, new systems require significant managerial investments in measurement design and staff training for the collection, use and reporting of performance measures (Sanger, 2008).

To be effective, measures must be clear, accurate and credible for internal and external audiences.

Fourth, entities should be convinced of the advantages of implementing performance measurement systems right from the start, and should appoint a leader to manage the process. An effective introduction of performance measurement and performance-based management requires a cultural change and takes a committed leader with considerable skill willing to provide significant managerial investment and rewards (Sanger, 2008). Moreover, in order to obtain the desired benefits they should be willing to use the information and even to compare themselves with other entities. So, the obligatory use of this information is not sufficient: it is necessary to bring about a change from the management point of view, as has been done in countries such as Norway (Jonhsen and Vakkuri, 2008) or Sweden (Siverbo and Johanson, 2006; Johanson and Siverbo, 2009), where these indicators are voluntary and the entities participate voluntarily in benchmarking processes.

Fifth, the audit and availability of performance indicators are important. If the information is not verified, users do not know if it is reliable, and if it is not available, accountability can not be improved. Some difficulties arise from the performance audit. Given that there are no accounting standards prescribing how to calculate the cost of programs—and there are many ways to do that, depending on whether and how common costs and overheads are allocated—it is difficult to see how a formal audit process of cost calculations could proceed. When performance is not evaluated by governments or when evaluation results are not accessible to the public, the public relies mostly on anecdotal sources (Yang and Holzer, 2006). The sharing of data creates a taste for and expectation of measurement and accountability, which ratchets up pressure for it from outside (Sanger, 2008).

We hope that the points raised in this paper can help towards encouraging a genuine introduction of performance measurement systems and performance reporting. As factors that are important in fomenting these initiatives, we can mention the political and social situation in which there are increasing demands for greater transparency in public management and greater control of high levels of public expenditure; the budgetary discipline and the necessity of controlling public debt deriving from the restrictions imposed by the European Union; financial necessities, and the growing interest of university professors and professional bodies.

However, there are factors that negatively affect reforms. One of these is nature of a highly bureaucratic culture, strongly rooted in the public administration and even in citizens,

although this is beginning to change. Traditional cultural norms operating in public bureaucracies may form a fundamental and challenging obstacle (Sanger, 2008). Lastly, management by results and objectives is not considered in a favourable light by public managers, and there is a lack of resources in certain administrations, especially a lack of an adequate cost accounting system. Politicians also have reservations about moving towards performance measurement systems.

## **CONCLUSIONS**

The search for improvements in the management and quality of public services seems to be a constant in all public administration reforms. In Spain, the General Budgetary Law refers to the principles of economy, efficiency and efficacy as the basis for decision-making in public sector administrations.

At local level, some reforms have been carried out and these represent an important step towards the modernization and adaptation of our public accounting system to the objectives of providing the information needed for decision-making. Since four years ago local governments have been required to introduce a new note into financial statements where three kinds of indicators are to be included: financial indicators, budgetary indicators and performance indicators.

However, the results of our study show that in Spain the present reality is a long way from the theoretical expectations described in the literature. The tools employed are insufficient to produce results-based management. There is no generalization of cost accounting systems in Spanish local governments and the emphasis is still on input, not on outcomes or outputs. Performance Measurement systems in Spain are in their infancy. Entities that have developed performance indicators do not value them very much from the perspectives of improving the decision making process or for accountability purposes. Therefore, we can not really say that the reform of Spanish public management has had a marked impact on efficiency and efficacy in the use of public resources. After 20 years of reforms, the information that managers value most is still budgetary information because the legislation controls public expenditure on the basis of this information.

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