

THE ROLE OF ACCRUAL ACCOUNTING FOR FINANCIAL SUSTAINABILITY IN LOCAL GOVERNMENTS: A CASE STUDY

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ABSTRACT

PURPOSE

In the last years, many countries were involved by the financial crisis both at the central and local level. In this context, international authorities have highlighted the need for sustainable strategies to be developed to create the necessary conditions to achieve financial health as well as ensure intergenerational equity (Cabaleiro et al., 2013).

Local Governments (LGs) in poor financial health become unable to deal with their financial obligations and still provide public services, given that quality or quantity of these services often results damaged (Raphael et al., 2010). At first glance, the weakening of the financial condition can be observed particularly in LGs with a reduction of public revenues followed by public expenditure cuts (Pérez-López et al., 2013; Bailey et al., 2014; Checherita-Westphal et al., 2014; IMF 2014;).

The level of a suitable financial condition is not easy to represent since it cannot be readily measured with a single performance indicator but rather is determined by different measures which are directly observable. It is worth noting that some factors are under the control of managers (as well as politicians) of a local government, while others are not (Bisogno et al., 2014).

Accordingly, the literature has investigated the determinants of financial health to measure the financial condition proposing three indicators. These are the level of sustainability, flexibility, and vulnerability, to represent the ability of an entity to preserve the social welfare of citizens with the available resources (Greenberg and Hiller, 1995, the CICA, 1997; Zafra-Gómez et al., 2009; Bisogno et al., 2017).

This paper aims to deepen the financial condition in the municipality of Rome analyzing the effects of accrual accounting in the financial reports. The study has been focused on a first plan of rebalancing the debts collected over the years, launched in 2008, and on a second one of reducing the expenditures, started in 2015.

The city of Rome represents an interesting case-study because the implemented strategies on financial sustainability have brought some positive effects in a situation of financial crisis. The case study pursues the financial resilience through the combination of capacities and reactions such as

management of slack resources, income generation (Barbera et al., 2015) and more attention on the meaning of the measures and indicators coming from the public accounting system.

DESIGN/METHODOLOGY/APPROACH

From a methodological point of view, the paper is based on a case study, which offers the opportunity to understand what happens instead of what ought to happen (Scapens, 1990) in a specific context.

Scholars have been debating approaches to analyze the contents of financial sustainability. Our analysis has taken into account the peculiarities of financial plans imposed by the specific legislation for Rome as the capital of Italy. It represents an explanatory case study, where the theory is used to understand and explain the particular, rather than to produce generalizations.

The framework presented is based on (a) an in-depth literature review of financial sustainability of public organizations (b) analysis of financial reports collected on the institutional web site of the municipality of Rome related to the last three years (c) analysis of the first results.

FINDINGS

The data collected showed a good result for the plan *"Rebalance the debts"* but also revealed quite a difficulty to reach the goal of the *"Cost-efficiency Plan"*. In 2015, the mayor started a strict cost-cutting plan with a 10% cut of structural expenditures over three years. The analysis of the income statements of the last two years (2016-2017) has clarified the critical aspects of the new policies. These first findings could be particularly useful for administrators and sustainability offices for planning and giving more relevance to financial sustainability reports. More details about the emerging trend in managing the crisis with the new accounting system are analyzed in the paper.

PRACTICAL IMPLICATION

The framework opens the door to follow-up research: data collection of best practices in the management and accrual accounting of LGs that may improve the financial sustainability of public institutions.

ORIGINALITY AND VALUE

The municipality of Rome represents an interesting case study because the City of Rome is the capital of Italy and the home of the Italian government with 2,870,336 residents. In a further step, these findings could be compared with other large municipalities data sources. This deepening may lead to a new approach to management as an innovation key for the sustainability of the public sector where

public managers and policy-makers become substantially more and more aware of the immediate and long term impact of their decisions on economic and financial results.

Keywords Financial sustainability, Local governments, Accrual accounting

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