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IJPSM
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118

The relevance of Spanish local financial reporting to credit institution decisions

An empirical study

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Abstract *Financial reporting information had been aimed mainly at internal users and audit offices, but this has changed in recent years. Potential users have widened, among whom we should mention certain financial institutions, owing to their particular relevance. In this context, based on a sample of 54 credit institutions, this study aims to obtain evidence on the information that is shown to be useful to these users in their decision-making, by looking at the Spanish financial reports. A study is also made of causes that restrict the usefulness of local financial information, along with possible suggestions to make this information more useful to credit institutions. The results reveal that owing mainly to legal reasons, the profit and loss account and the balance sheet are the least relevant financial statements to credit institutions' indebtedness operation decision making. Likewise, it is obvious that current local financial information needs to become more opportune, reliable, complete and understandable.*

Introduction

In the complex economic world, consisting of different agents – Public Administrations, public and private non-financial firms, financial institutions, etc. – decisions have to be taken continuously. They have to have at their disposal economic and financial information that is exhaustive both in content and in quality, and with sufficient guarantees to make it reliable, is fundamental in reducing its uncertainty.

In this respect, the last few decades have seen a process of development as regards public financial information in numerous countries, such as Australia, Canada, the USA, France, Spain, the UK or New Zealand, brought about, in each country, for differing reasons (Lüder, 1992, 1994; Chan, 1994; Montesinos and Vela, 1996; Pallot, 1996). Moreover, in many of them a conceptual framework has been deemed necessary (GASB, 1987; AARF, 1990; CICA, 1990; IGAE, 1991; AECA, 2001), the structure of which requires, first, establishing who are the users of this information, and what are their needs, given that the utility of this information to a specific group of users will depend on whether this information satisfies their interests or needs.

Within this context, credit institutions, which are important financiers of public administrations in general and, in particular, of local administrations, can be considered as one of the most common user-groups of the financial



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information provided by the former, which means that their information-needs should be catered for with the maximum possible guarantees.

Thus, the main objective of this study is to provide evidence to establish what local public financial information is most relevant for the credit institutions' decision-making, by evaluating the utility behind the compulsory financial information currently supplied by local Spanish administrations.

However, given that there is a noticeable separation between those that process the information and those that use it, we have felt it necessary to complete our study by looking at the causes that restrict the utility of this information, according to the opinion of this user group, and by contemplating any possible solutions.

The need to provide useful public financial information to the users

During the 1970s and the 1980s, many authors and organisations dealt with the task of identifying the type of users public accounting information should be aimed at (Anthony, 1978; Drebin *et al.*, 1981; GASB, 1985, 1987). This same line has been followed in the 1990s and the catalogue of users was extended, as we can see in the work carried out by the International Federation of Accountants (IFAC, 1991), which added international agencies or governments, along with economic and financial analysts to the other users, or as in the study of Ingram *et al.* (1991), who introduce subsidy granters (see Table I).

Most of the studies that were published along these lines in the 1970s and 1980s contained a common element: they ignored the orientation of public accounting information towards external users with limited access to the

Users	Anthony (1978)	Holder (1980)	NCGA (1983)	GASB (1987)	AARF (1990)	CICA (1990)	IFAC (1991)	IGAE (1991)	AECA (2001)
Creditors and investors	×	×	×	×	×	×	×	×	×
Resource suppliers		×	×	×	×	×	×	×	×
Financial institutions	×	×	×	×	×	×	×	×	×
Financial analysts					×	×	×	×	×
Managers	×		×	×	×	×	×	×	×
State and other governing authorities	×		×		×	×	×	×	×
Controlling bodies				×	×		×	×	×
Elected representatives	×		×	×	×	×	×	×	×
Employees			×	×	×				×
General public	×		×	×	×	×	×	×	×
Source: Own production									

Table I.
Users of public
accounting information

information in question (Patton, 1978). However, this trend has been modified in recent years, and these users have been granted a more relevant place (GASB, 1997).

However, different users will have different information needs, according to their interests, functions and competences, leading to relatively complicated inter-relations owing to the fact that there are users that occupy multiple roles (Drebin *et al.*, 1981). Thus, identifying the needs of public accounting-information-users has been dealt with in numerous statements and studies carried out by various bodies or authors.

Looking at the theoretical studies, we can find general proposals that aim to show the needs of each user group (Anthony, 1978; Drebin *et al.*, 1981; Mautz, 1982; NCGA, 1983; GASB, 1985; Likierman, 1989; Ingram *et al.*, 1991), along with others that attempt to influence the informing organisations, by highlighting the specific needs of certain user groups that they consider to be significant regarding their relevance in the use of this information (FASB, 1985; Henke, 1988).

However, as Jones (1992) points out, taking certain users and certain needs, for which there is no empirical evidence, to establish the objectives of public accounting information, can lead to an output of information that is not as useful as it was expected to be. Mayston (1992) considers that a great step forward would be to study what information is relevant in order to protect the individual interests of each information-user group, instead of analysing the users and their needs. This would allow an optimisation of the financial information that is to be produced.

In this respect, numerous empirical studies have looked into both the needs of different users and the real utility of public accounting information. We would like to refer expressly to some of these studies owing to the close links they have with the research that we are currently involved in.

Some of the outstanding studies are:

- Patton (1978) – he carries out empirical research into the effects of financial statement consolidation on local bodies;
- Holder (1980) – in a piece of research done for the NCGA, he limits the study of the information needs of users to those that have the following two characteristics: limited authority over the informing entity and a relatively intense need for financial information;
- Robbins (1984) – analyses the information needs of US municipal stocks or bonds analysts;
- Coy *et al.* (1997) – studies the usefulness of public accounting information offered by New Zealand universities for 14 user groups;
- Lin and Raman (1998) – study whether government financial information is useful to citizens residing in metropolitan areas; and

- Tayib *et al.* (1999), who researches into the needs and demands of local taxpayers in Malaysia.

In the Spanish public sector and, more specifically, at a local level, the credit institutions, which are important providers of financial resources for local administrations, through lending operations, are currently one of the most relevant user groups. If we take into account the total sum of the local administrations' outstanding debt – 3.2 per cent of GDP in 2001, according to figures from the Bank of Spain – and the financial difficulties that they are generally in, knowledge regarding financial viability is one of the primordial objectives that the local accounting system should be capable of addressing adequately.

About this particular matter, it is necessary to take into account that the laws establish that the local entities are the only ones responsible for the repayment of their debts, without there being, in general terms, any guarantees on the part of the State. The principal economic resources available for the fulfilment of their financial obligations in relations to the bodies are found in the earmarking of their tributary income and the alienation of the possessions of financial character. Also, as commented on later, there is a financial control on the part of the State, which insists that the local entities obtain specific authorisation to reach an agreement on credit operations when they find themselves in a difficult economic situation and/or with large debts.

In line with what we have just said, the credit institutions, to decide on the finance-granting to the local entities, among other considerations, should consider the capacity of the entity to generate future financial flows, that permit the repayment of the debt and the financial costs, taking into account their present level of indebtedness. It is equally necessary to evaluate the volume of assets as a possible guarantee, for the repayment of the loans.

Faced with this situation, we feel it necessary to highlight the importance of studying the utility of local public financial information for the credit institutions, as well as establishing the causes that restrict this information's usefulness and the possible solutions available, given the close link there is between these agencies and the local bodies, bearing in mind their evident need for information and their limited possibilities for obtaining it.

Regulations regarding indebtedness and financial information in local Spanish administrations

In order to properly understand the results of our study, we believe we should mention certain aspects regarding the regulation of indebtedness in local bodies, along with the requisites concerning their financial information.

Legal framework of indebtedness

Articles 51 to 55 of Law 39/1988 which regulates Local Treasures (LRHL), describe the authorisation regime of local Spanish indebtedness. The LRHL

establishes that local entities, their autonomous bodies and fully funded local capital enterprises can arrange all kinds of credit operations, both short- and long-term.

Long-term operations must be used for investments, or the full or partial substitution of pre-existing debts (refinancing). However, the LRHL does include two circumstances in which credit can be used other than for investment financing: one deals with the financing, in extreme cases of need and urgency, of current expenditure, and the other allows for covering cash deficits.

In this respect, the cash surplus, at the end of the financial year, is obtained from the difference between net short-term receivables, liquidity and net short-term current liabilities. In turn, short-term credit operations cover transitory cash needs and, all together, cannot go beyond 30 per cent of the revenue collected from the previous financial year's current operations.

In order to contract debt operations without the need for governmental authorisation, the local organisation must have positive net savings and the total amount of the debt owing to short-term and long-term credit operations cannot amount to more than 110 per cent of the revenues collected in the previous financial year.

To this effect, net savings are defined as the difference between the revenues collected from current budget resources and the budget obligations from non-financial current expenditure, reduced by the amount of a theoretical equal annual amortisation payment – including interests and principal – of the outstanding principal at beginning of period and of the planned credit operation.

As for the regime of credit guarantees, Article 50 of the LRHL regulates the assets that can be presented as a guarantee when contracting debt operations. Participation in State revenues is expressly excluded. The prevailing criterion is that of linking the revenues earmarked with the financed expenditure by means of debts, as long as there is a direct relationship between both, with the possibility existing of constituting a real guarantee over non-public service earmarked assets.

Spanish local financial reporting requirements

The evolution experienced by Spanish local public accounting has been directly linked with the developments that have occurred in the state public accounting. However, and in spite of the strong influence, local accounting has fallen behind in the process of adapting itself to the accounting standards that the State has established for the whole of the public sector.

The 1977 General Budgeting Law began a far-reaching process of reforms and modernisation of Public Administration accounting, which affected both the objectives of the accounting and the accounting transactions. Government accounting is considered for the first time as an information system not only

concerned with budgets. Two of the most significant landmarks in the whole process concern:

- (1) the passing, in 1981, of the first Public Chart of Accounts (PGCP); and
- (2) in 1994, the passing of the new chart (NPGCP) to substitute the previous one.

In both cases the private-sector charts of 1973 and 1990, respectively, were used as models.

The reforms and modernisation of local public accounting were legally backed by the LRHL. The accounting system designed in this Law constituted a great transformation in comparison with the system that had existed up until then, regulated by the Accounting Instructions of 1952 and which was basically budget orientated. The required development envisaged in the LRHL was brought about through the Ministry of Economy and the Treasury's Order of 1990, establishing the new Accounting Instructions for Local Administration (ICAL), which were introduced on 1992 and which adopted the State accounting system in use at that time.

According to that set down in the LRHL, the General Account of Local Bodies, formed at the end of the financial year and made up of the account of the body itself, that of its autonomous entities and those of the enterprises with 100 per cent own local capital, will reveal the management carried out in all economic, financial and budgetary aspects.

The informational output generated by the ICAL accounting system, which includes, as an appendix, the local administration Chart of Accounts (PGCAL), applicable to the local entities and its autonomous bodies, is fully standardised, since it is subject, in terms of structure and content of the financial statements, to the standards established by the ICAL (see Table II).

In any case, when the State Government passes the adaptation of the NPGCP to the framework of Local Administration, which is still pending, the currently compulsory financial statements will be restricted to the balance sheet, the statement of financial performance, the budget settlement statements and the Memorandum, the latter containing, as well as the statement of source and application of funds, the ample financial information included in the ICAL's remaining accounting statements.

Because of the importance that it acquires, it is necessary to make a especial mention of the statement of expenses budget execution, Statement of the income budget execution, and the budgetary result. The statement of expenses budget execution, with different levels of aggregation of information, shows the process of execution of the expenses budget, from its engaged expenditures till the payment, passing through the net obligations recognised.

For its part, the statement of the income budget execution collects the sequence of the execution of the income budget:

IJPSM
17,2

Information on
economic-financial
situation and evolution

Statements

Balance sheet
Statement of source and application of funds
Cash situation statement
Debt statement

Appendices

Trial balance
Cash surplus statement

124

Information on
economic results

Statement of financial
performance:

Surplus or deficit from operating activities
Surplus or deficit from extraordinary activities
Surplus or deficit from portfolio activities
Changed in the closed budget receivables and
closed budget debts

Information on budget
implementation and
settlement

Statements

Net surplus or deficit for the period
Surplus or deficit from commercial activities
Budget settlement statement
Closed budget statement
Expenditure commitments related with future
budgets statement

Appendices

Budgetary appropriation change statement
Revenue commitments related to future
budget statement
Expenses earmarked for specific purposes
statement

Table II.

Statements included in
the annual general
account of Spanish local
authorities

Source: Own production

- (1) budgetary revenue estimations;
- (2) net receivables recognised, payments; and
- (3) receivables due for collection at year end.

Finally, the budgetary result of the fiscal year shows to what extent the net receivables recognised have been sufficient to meet the net obligations recognised, showing the surplus or deficit in the execution of the budget.

With regard to the annual financial information of the enterprises with 100 per cent local-organisation capital, it will be, in any case, prepared concerned with the financial standards of the Spanish business enterprises. In short, the balance sheet, the statement of financial performance and the memorandum.

Finally, we should mention two significant facts:

- (1) the optional nature of presenting consolidated financial statements, which, together with the lack of official standards in this respect, does not favour the production of financial information in the Spanish local framework; and
- (2) we have the lack of timeliness of the auditing reports of local administration financial statements produced by the audit office, which, when carried out, are done so with a delay of various years regarding the audited facts.

Methodology and data

The study has been carried out based on a survey done by means of a questionnaire mailed to the risk analysis departments of the Spanish financial sector's national credit institutions, and in a specific way, to the specialists in the analysis of local risks, who were asked as well if they had obtained training in local public accounting. The object group was 50 banks, 94 credit co-operatives and 51 savings banks.

The survey received the following response level:

- from the 50 banks, 15 questionnaires were received;
- from the 51 savings banks, 26; and
- from the 94 credit co-operatives, 13.

This represents a response index of 30 per cent, 50.98 per cent and 13.38 per cent, respectively, providing some 40,7 per cent of the total of them, of specialists in the analysis of risks, with knowledge of local public accounting. Bearing in mind the participation of the various credit institutions in the financing of Spanish local administrations through loans – banks, 56 per cent; savings banks, 41 per cent; credit co-operatives, 3 per cent—the level of response can be considered as acceptable.

When drawing up the survey, items were considered that aimed to capture a general evaluation of the utility of local financial information, its restrictions and its possible solutions, by addressing the following aspects:

- financial statements used for finance-granting decisions and their degree of usefulness, above all for short – and long-term debt operations (see Appendix, questions 1 and 2); and
- some of the causes that restrict the utility of local financial information and possible solutions so that such information may be made more useful for decision-making (see Appendix, questions 3, 4 and 5).

The questionnaire used deal with mainly closed questions, although there are also some open and semi-open questions—the latter meaning including an open question in the closed-question modality. Given the difficulty of statistically dealing with open questions, the responses were grouped together and structured according to the variables provided by the entities themselves. As for the closed questions, there are three types of response: dichotomous questions, value-scale questions, using a scale ranging from one to five, and hierarchical scale questions.

Response analysis has been done by computer processing the data employing statistical analysis techniques, and using, in particular, frequency tables.

Results and discussion

In order to analyse the results obtained, the following itinerary was used:

- the utility of compulsory local public financial information; and
- causes that restrict the utility of this information, and possible solutions.

The utility of local public accounting information to credit institutions

As we can see in Table III, the most-commonly used compulsory financial statements are – with percentages of over 70 per cent – in descending order, the debt statement, the budget settlement statement and the cash position statement. Following these, with percentages of over 60 per cent, we have the expenditure commitments related to future budgets statement, the expenses earmarked for specific purposes statement, the cash surplus statement, the closed budget statement and the statement of sources and applications of funds. Finally, and at considerable distance, we have the operative statement and the balance sheet.

However, although these statements are used to a greater or a lesser extent, they are not all equally useful. In fact, as we can see in Table IV, around 90 per cent of those responsible for the departments of risk analysis of the entities interviewed that use the budget settlement statement, consider it “quite-very” useful to decide on the financing, what they concede to the local entities. In many case, it is convenient to remember that approximately 22 per cent of those responsible who were interviewed, didn’t use this statement. The debt statement receive that same evaluation by 88 per cent of the entities that use it, and somewhat further away is found the cash position statement, which is found to be “quite-very” useful by 65 per cent.

But if we weigh up the accounting statements used against the degree of utility they provide, according to the opinions given in the survey, we find that the budget settlement statement is the most useful, closely followed by the debt statement. In third and fourth places are situated the cash statement and the cash surplus statement, respectively. The closed budget statement, the statement of sources and applications of funds and the expenditure commitments relative to future budgets statement come in fifth, sixth and

	Used		Not used		Total sample
	<i>n</i>	(%)	<i>n</i>	(%)	
Balance sheet	32	50.26	22	40.74	54
Statement of finance performance/operative statement	30	55.56	24	44.44	54
Cash position statement	40	74.07	14	25.93	54
Cash surplus statement	36	66.67	18	33.33	54
Statement of sources and application funds	34	62.96	20	37.04	54
Debt statement	43	79.63	11	20.37	54
Budget settlement statement	42	77.78	12	22.22	54
Closed budget statement	35	64.81	19	35.19	54
Expenditure commitments related to future budgets statement	37	68.52	17	31.48	54
Expenses earmarked for specific purposes statement	30	55.55	24	44.45	54

Table III.
Summary of responses to “What statements do you use for financial decisions?”

	Low utility		Medium utility		High utility		Very high utility		Total
	n	(%)	n	(%)	n	(%)	n	(%)	
Balance sheet	2	6.25	11	34.38	8	25	11	34.38	32
Statement of finance performance/operative statement	6	20.00	7	23.3	8	26.6	9	30	30
Cash position statement	5	12.50	9	22.5	11	27.5	16	37.50	40
Cash surplus statement	8	22.22	5	13.89	5	13.89	18	50	36
Statement of sources and application funds	2	5.88	10	29.41	13	38.23	9	26.47	34
Debt statement	1	2.33	4	9.30	12	27.91	26	60.47	43
Statement of budget execution	1	2.38	4	9.52	8	19.04	29	69.04	42
Closed budget demonstrative statement	7	20.00	6	17.14	4	11.43	18	51.43	35
Expenditure commitments related to future budgets statement	7	18.91	9	24.321	14	37.83	7	18.91	37
Expenses earmarked for specific purposes statement	6	20.00	9	30.0	7	23.33	8	26.66	29

Note: The answers numbered with 1 and 2 have been considered to be of little interest

Table IV.
Summary of responses to "How useful are the statements you use?"

seventh place, respectively, with very similar scores. The expenses earmarked for the specific purposes statement and the statement of financial performance prove to be less useful than the others. At the bottom of the list is the balance sheet, the least useful of all.

In view of the above, it seems clear that there is a preference for statements that are purely budgetary, or connected with the budget, as well as for statements linked with liquidity or debt.

These results highlight the relative utility of the balance sheet and the statement of financial performance when analysing the solvency of local bodies for the credit institutions. It is precisely these two financial statements that were included in the Spanish local accounting model when it was last reformed in 1990, in an attempt to provide it with a greater economic and financial-dimension.

As regards short-term and long-term indebtedness operation decisions, we should point out that, according to the data obtained for long-term operation decisions, the four accounting statements that are most often used are, in this order, the budget settlement statement, the debt statement, the closed budget statement and the cash surplus statement; for short-term indebtedness decisions, the closed budget statement is substituted by the cash position statement and the order of utility is altered, since the cash surplus statement comes second, followed by the debt statement.

As we can observe, the budget settlement statement is first in the list in both cases, which is consequent to the aforementioned legal requisites with regard to indebtedness. These same legal considerations, which, in the case of formalising liquidity operations do not use the credit operations' outstanding principal at beginning of period as a reference variable for their authorisation, may justify the substitution of the debt statement by the cash surplus statement in short-term indebtedness decisions.

If we reflect on the possible reasons to justify the above results, we could mention a series of arguments. On the one hand, the borrowing capacity of Spanish local public bodies is not legally determined by aspects related to their economic and financial position, but rather by the revenue settled in the financial year and by the volume of debt.

On the other hand, there are a number of financial statements, such as the budget settlement statement, the cash surplus statement or the debt statement, among others, that are not produced in the private sector and which, in evaluating the financial situation and the future of local bodies, are considered by the credit institutions to be more relevant than the balance sheet and the statement of financial performance.

Causes that restrict the utility of compulsory local financial information for credit institutions, and possible solutions

The maximum levels of utility that local financial information can reach for users such as the Spanish credit institutions can be subject to restrictions for various reasons, though there are possible solutions for the elimination of this obstacles. We should point out that these last items have been designed as open questions, allowing the credit institution to freely express what it deems most essential, in order to correct the limitations experienced. Thus, from the responses obtained, we can highlight that:

- (1) One of the first causes could be owing to the lack of reliability that the economic and financial statements of local bodies generally have for the credit institutions. In fact, the opinions regarding the extent to which Spanish local accounting information is submitted to adequate external controls or audits are quite clear, since 91.6 per cent consider that there are "none-very few" or "only average" external controls.

In short, the responses obtained call for more wide-ranging and agile external controls so that the credit institutions, among others, can obtain reports that give social credibility to the financial statements of local bodies.

In view of the content and extent of the opinions expressed on this matter, it seems clear that the credit institutions consider it essential that for an adequate evaluation of the solvency and liquidity of the local entities, it is necessary to dispose of reliable information, and that it therefore has been submitted to external or auditing controls.

(2) Second, in order to fully appreciate the utility of the financial information local bodies are provided with, the ease of understandability of the content of these accounting statements needs to be measured. We recognise that this understandability is measured in terms of a user who is accustomed to these questions and is, therefore, capable of analysing the information diligently. We feel it, therefore, necessary to find out whether the opinion of these users is different depending on whether they have received training in local public accounting or not. We need to bear in mind that only 40 per cent of the risk analysis departments of the credit institutions analysed had staff that were specialised in public financial reporting.

The results show us a relatively logical consequence: that this information is less understandable and, therefore, less useful to those agencies that employ staff that are less specialised in this field (see Table V). However, for the information to be more understandable, it is not only a case of the credit institution having staff specialised in public accounting. There is also a need to modify or improve the presentation or the content of certain financial statements. Above all:

- the debt statement should be more detailed;
- within the balance sheet's fixed assets, a differentiation should be made between those assets that are not destined to public use nor are earmarked to a specific public service, since they could be the object of foreclosure; and
- the cash surplus statement should be more detailed, above all in terms of presentation and calculation of doubtful debtors and off-budget liabilities.

The foregoing replies show once again the emphasis that credit institutions place on having available the risk evaluation of the local administration, for more complete information about the volume and

	Total sample		With local accounting system experts		Without local accounting system experts	
	<i>n</i>	(%)	<i>n</i>	(%)	<i>n</i>	(%)
Not at all	3	5.6	1	4.5	2	6.3
A little	17	31.5	4	18.3	13	40.5
Average	16	29.6	6	27.3	10	31.3
Quite a lot	14	25.9	9	40.9	5	15.6
A lot	4	7.4	2	9.0	2	6.3
Total	54		22		32	

Table V.
Understandability of
local administration
accounting information
in terms of user
capability

composition of the debt, the classification of fixed assets, and the sources and application of collection and payment.

- (3) In addition, the relevance of the information offered by the ICAL to the credit institutions will be determined by the including in this information of all the necessary attributes to ensure that events and situations are validly represented.

Therefore, in order to analyse the overall nature of the information offered by the ICAL, we have looked at whether the information it contains suffices for decision-making, or whether, on the contrary, other relevant information is also required. Thus, after examining the replies received, we can see that, in effect, they consider that, in order to have more exhaustive information, other, non-financial information should be added.

Of course, this could be extremely varied, though, after examining the responses, three main areas emerge:

- (1) *Political system.* The respondents consider that attributes could be taken into account referring to, for example, the political relationship between the local body and central government, the main political parties and the dates of forthcoming elections, the profile of political leaders, the distribution of responsibilities in tax matters, etc. In other words, all those political criteria that might help to show the future financial stability of the local body.
- (2) *Demographic structure.* It is seen as fundamental to emphasise the body's current population, its distribution, its resources such as land and its exploitation, etc. In addition to these, we could add others such as migratory flows, birth and death figures, etc., which would help to give a future perspective of the income that could be generated by the local body.
- (3) *Economic structure.* The need to analyse local bodies is highlighted by bearing in mind criteria referring to the economic structure of the municipality, including factors such as local per capita income, local GDP growth, employment growth, etc., which appear as determining factors when evaluating income and its possible growth.

Likewise, according to the responses obtained, the credit institutions find that the information offered should be complemented by:

- *The drawing-up of a net savings statement*, in which full details are given of their components and calculations, along with another statement that shows the revenue that has been affected as a guarantee of indebtedness, so as to avoid that same revenue being earmarked by more than one indebtedness operation.

- *The drawing-up of forecasting statements*; in other words, the need to have information regarding mid- and long-term investment plans or projects, as well as cash plans.
- *Overall information* regarding the activity managed directly or indirectly by local bodies, by means of consolidated yearly accounts. This would provide more valuable overall information than that drawn from the yearly accounts of each separate entity.

To the above we should also add that, although it is compulsory to provide all the statements included in the ICAL, in practice this is not the case and, thus, the credit institutions are often left with insufficient information for their decision-making.

This combination of information, formed from diverse financial statements which are now non-existent, would facilitate the decisions of the credit institutions, allowing them to know an essential aspect of the legal capacity of indebtedness, the compromises of future investments that may require future credit operations, as well as a better knowledge of the activity the equity realises directly and by means of its dependant entities.

The fact that it is often impossible for the credit institutions to obtain the local financial information on time, since it is often made public with great delay, means that such information may lose its capacity to influence the decisions made. In fact, the opinion of the credit institutions in this respect is clear and concise, since only 21.5 per cent believe it to be "quite or very" timely.

In this way, the credit institution would reduce the gap which exists between the moment of receiving the information, and of its utilisation, minimising the possible risks involved in changes in the financial situation of the local entities.

Conclusions

The objective of this study is to provide evidence regarding the Spanish local public financial information that is relevant to the credit institutions' decision making and has an acceptable level of guarantee. To achieve this objective, and in keeping with similar studies carried out on users, we have designed a questionnaire aimed at the persons in charge of the risk analysis departments of credit institutions that would provide us with their opinions on the following questions:

- (1) how useful the compulsory local financial information is to them;
- (2) restrictions to the utility of this information; and
- (3) possible solutions so that the information offered by the local bodies might become more useful.

From the responses obtained, with regard to the first question, we can point out the following basic conclusions:

- There is a generalised opinion that the most commonly used statements are those that are purely budgetary, or connected with the budget, along with those related to liquidity; not only their greater use being obvious, but also their greater utility.
- The statement of financial performance and the balance sheet, included in the local accounting model after the last reforms carried out in 1990, in order to provide the model with a more important economic and financial dimension, are, in fact, the financial statements that are least relevant to credit institutions' indebtedness operation decision making.
- In indebtedness operation decisions, both in the short and in the long term, the budgetary settlement statement is of most use, followed, in the former, by the cash surplus statement and, in the latter, by the debt statement.

All this shows the preference the credit institutions have for the risk analysis of the local entities for the statements that reflect the budgetary and cash flows, as well as the volume of debt and its composition.

Alongside these results, the survey offers data that allow us to deduce that the restrictions regarding the utility of this information lie mainly in:

- the lack of adequate external control or audits;
- the information's lack of timeliness;
- the fact that all the compulsory information is not always produced; and
- the lack of credit institution staff specialised in public financial reporting.

Thus, a greater reliability and timeliness of the financial information supplied by the local entities would improve the evaluation of risk for the credit institutions.

Finally, linked to these restrictions we should mention the improvements in the financial information or the new information needs that credit institutions deem essential so that the information they receive be more understandable and exhaustive, to help them in their decision making. Thus, they require:

- More detailed information regarding the debt; differentiation within the fixed assets that appear on the balance sheet between those that can receive a real guarantee and those that cannot; a more developed cash surplus statement.
- Non-accounting information, highlighting the fact that the analysts take into account both financial and non-financial variables; in other words, the financial information is not the only data the credit institutions need, since having qualitative information is also of great relevance.
- New financial information: the drawing-up of forecasting financial statements, consolidated information and a net savings statement.

In view of these results, we maintain that if we are to bear in mind the specific interests of this group of users, the compulsory accounting information currently provided would need to be extended to include new financial statements and qualitative data, and the content of some financial statements would need to be modified. In any case, the additional costs owing to the introduction of these improvements, along with the benefits to be drawn, would need to be evaluated.

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Further reading

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INFORMATION ON PRACTISES		
1. Although local entities are obliged to produce a series of yearly accounts and statements, which of the following (mark with a X), and to what extent, are of most use to you in the decision process on financing for its approval.		
• Balance sheet	<input type="checkbox"/>	1 2 3 4 5
• Statement of finance performance/operative statement	<input type="checkbox"/>	1 2 3 4 5
• Cash position statement	<input type="checkbox"/>	1 2 3 4 5
• Cash surplus statement	<input type="checkbox"/>	1 2 3 4 5
• Statement of sources and application funds	<input type="checkbox"/>	1 2 3 4 5
• Debt statement	<input type="checkbox"/>	1 2 3 4 5
• Budget settlement statement	<input type="checkbox"/>	1 2 3 4 5
• Closed budget statement	<input type="checkbox"/>	1 2 3 4 5
• Expenditure commitments related to future budgets statement	<input type="checkbox"/>	1 2 3 4 5
• Expenses earmarked for specific purposes statement.	<input type="checkbox"/>	1 2 3 4 5
2. From the statement and annual account mentioned in the previous box, show, in order, those that demonstrated a higher grade of usefulness in taking decision about the next debt operations:		
<u>Long term debts</u>	<u>Short term debts</u>	
1.....	1.....	
2.....	2.....	
3.....	3.....	
4.....	4.....	
3. According to your experience, to what extent do you think local accounting information fulfills the following requisites?:		
➤ To be available when needed		1 2 3 4 5
➤ To be expressed simply and comprehensively		1 2 3 4 5
➤ Exhaustive enough to help financial entities in their decision making		1 2 3 4 5
➤ Elaborated with objectivity and impartiality		1 2 3 4 5
➤ Goes through adequate external controls or auditing		1 2 3 4 5
4. In the case that you consider that the local accounting information supplied does not contain some of the previous requirements, please indicate how this lack might be resolved.		
.....		
.....		
.....		
5. What information, which you consider necessary for decision making, is not included in the annual accounts currently drawn up by local entities?:		
.....		
.....		
.....		

Figure A1.

