

Chapter 12

Financial Sustainability: A Walk for Its Definition, Measure, and Link With the Intergenerational Equity

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ABSTRACT

This chapter debates the current situation about the definition and measurement of financial sustainability, as well as its links with the concept of intergenerational equity. To achieve this aim, the chapter joins the experience of the prior research of the author of this chapter with the findings obtained by the authors of the chapters of this book. Some avenues for future research are identified with the aim at improving the knowledge about this issue in public administrations.

INTRODUCTION

The public sector plays an essential role in the development and in the economy of a country (WB, 1988), since governments directly invest in the different sector of the economy in order to encourage the economic growth (Gupta, 2013). Also, public administrations provide a wide range of public services with a twofold objective: covering the social services that the private sector could not bear and making the social services affordable for every citizen.

Nonetheless, the economic crisis and its consequence in the high volume of debt and deficit of public administrations in the last years has undermined the capacity of governments to continue provided public services, creating significant imbalances in economic growth in different regions (Méndez et al., 2015). Also, this reduction

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in the quality and amount of public services joined to the decentralization process followed by public administrations has spurred a demand for providing higher quality financial information and better information transparency (Dumay et al., 2010; Guthrie et al., 2010), so as to detect financial distress (Zafra et al., 2009) and achieve sustainable financial balance (Burritt & Schaltegger, 2010). Although this pressure for financial sustainability has become relevant at any level of public administration, it is especially relevant at local governments because they are closest to the general public, provide a wide range of public services (Saiz, 2011), and support the greatest burden as far as public services are concerned.

This situation has led leading international organizations (CICA, 1997; EU, 2012a; IFAC, 2013) and prior research (Cabaleiro et al., 2013; Groves et al., 2003) to focus their attention on the analysis of the public finances to encourage public administrations to achieve financial health and ensure intergenerational equity. Thus, the European Union (EU), for example, has issued recommendations linked to governmental solvency in terms of inter-temporal budget constraints (EU, 2012a) and has called Member States to implement solid accounting systems in drawing up budget forecasts with the aim at producing high-quality, comparable statistics (EC, 2011). Also, the OECD (2015) has issued a detailed overview of institutional frameworks for financing relevant public services such as, for example, in the Health System. Therefore, nowadays, the achievement of the financial sustainability in public entities has been considered as a prerequisite to get the financial health.

Although several attempts have been made at formulating a definition of financial sustainability, this term is a fuzzy concept that is not used consistently within the literature or international bodies. Nonetheless, following World Commission on Environment and Development (Brundtland –WCED-, 1987) and international organizations (GASB, 2011; IFAC, 2013), financial sustainability can be defined as the ability to continue current policy without changes in public services and taxation and without causing a continuously rising debt. This concept has been told to collect three interrelated dimensions: service, revenue and debt (IFAC, 2013). This book has been driven to set interesting insights regarding the definition and measurement of financial sustainability, the link of this concept with equality an, intergenerational equity in public administration and, finally, the analyses of factors and public policies recommended for improving financial sustainability in public administrations.

DEFINITION AND MEASURE OF FINANCIAL SUSTAINABILITY

As noted previously, although financial sustainability has become a relevant issue in public administrations, it is nowadays a fuzzy concept. A first concern about this

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