



Benchmarking local finances

- Starting point: local government learn from each other
- Policy makers need, objective, comparable information

CoE developing two complementary instruments:

**I. Local Finance
Benchmarking
toolkit
(LFB)**

**II. Local Finance
Database and
Indicators
(LFD&I)**

CoE Recommendations on financial resources and management

- I. Financial resources (2005)
- II. Financial and budgetary management (2004)

Recommendations => bases of benchmarking:

- a) for central authorities: *local government finance systems*:
 - 76 items on financial resources
 - 43 items on financial management
- b) for local (regional) authorities: *local practices*
 - 31 items on financial resources
 - 43 items on financial management



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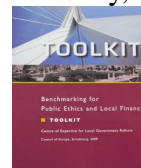
Areas of standard finance benchmarks

1) Financial resources:

- Local taxation: sufficient, diverse, locally administered
- Fees, charges: significant, local autonomy, cost recovery, social policy
- Borrowing: for capital financing, debt limits
- Local property: inventories, management

Not all areas are relevant at LGU level:

- Fiscal equalization: spending needs and revenue capacities, transparent, predictable
- Grants to local governments: general vs. specific grants, incentives created



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Areas of standard finance benchmarks (2)

2) *Financial management:*

- Fiscal strategy: multi-year, discussed
- Budgeting framework: regulated procedures, openness, local implementation autonomy, methods and capacity
- Budget implementation: regulations on commitments, recording, accounting, mid-year adjustment, control and monitoring, balanced budget
- Financial monitoring system: transparency, accuracy of fiscal information, audit capacity

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Local government practices and national systems

<i>Areas of local finances:</i>	a) Local practices: (decision making, management quality)	b) National systems (scope of decentralization)
<i>1.financial resources</i>	Assessment Data analysis	Statistical data Institutional review
<i>2.financial management</i>	Review Evaluation	Institutional review Data analysis

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Benchmarking: scoring by areas of recommendations

0. Defining critical areas of local finances, financial management in each country
1. Section ➡ area ➡ components ➡ sub-categories
2. Specifying the activities, indicators measured
3. Identifying sources of verification, documents
4. Scoring (interval scale: 0-10)
5. Interpretation of the results:
 low scores ➡ factors behind the differences?



External evaluation and not self-assessment!

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An example: local taxation

SECTION, AREA, COMPONENT	ACTIVITY, INDICATOR	VERIFICATION STATEMENT, DOCUMENT	SCORE, WEIGHT
SECTION: <i>II. Local taxation</i>			
AREA: Local tax policy design			
COMPONENT: b) Local taxes should produce high yield (R9) c) Local taxation should be operated at low administrative costs (R9)	<ul style="list-style-type: none"> •Local tax revenues in % of total/current budget •Local tax revenues in % of local own source revenues •Total tax administration costs in % of local expenditure on administration •Tax yield compared to total costs of tax administration (for all and by taxes) 	Municipal fiscal statistics Local budgets	0-10

What are the benefits of benchmarking?

1. ***It is a mirror:*** comprehensive analysis of local finances and financial management
2. ***What is done well:*** successes, innovations
3. ***What to change:*** areas of improvement
4. ***Ranking tool:*** positioning a country/city
5. ***Lessons for policy makers:*** need for change, lacking capacities, wrong incentives, missing regulations
6. ***Learning from each other:*** internationally (Eastern Partnership); within your country

Evidence based analytical and diagnostic tool!

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LFB results: comparing local practices



http://www.coe.int/t/dgap/localdemocracy/Centre_Expertise/Local_Finance_Benchmarking/

Bulgaria: 6 pilots (2007)=>70 (2015)

- significantly simplified LFB
- local interest after elections
- transformed to self-assessment tool
- paid service to members
- lessons for legislative changes

Ukraine (2012): 10 city pilots

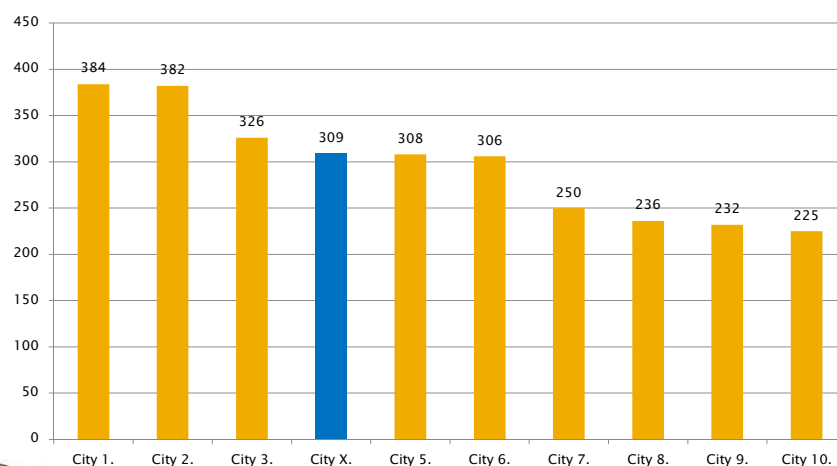
- ✓ focus on budgeting and transparency
- ✓ unified rules=>diverse implementation
- ✓ lacking local taxing powers, revenue administration autonomy
- ✓ strong data component
- ✓ no host organization

Three country pilots (POR, GRE, ESP, 2013): self-assessment: lacking capacity, need for local support

Basque Country (2015): Bizkaia region, 5 pilots, web application, LG Association hosting (EUDEL)

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Ukraine: total scores in pilot cities



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Policy lessons:

7 city pilots



Lower scores items:

- Multi-year planning, impact assessment methods
- Public involvement, transparency in budgeting
- Support to tax policy design, tax administration
- Improved external audit and not intervention
- Need for capacity dev. (administration, elected)
- Better service contracts, performance control
- Proper local assets management techniques

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Piloting in the Bizkaia region (Basque country)



- Adaptation with 80 items
- Focusing on taxes and fees, capital budget financing, budget planning, budget implementation, supervision
- Objective scoring method, weighting
- Reports are kept confidential
- Steering Committee with EUDEL, pilots, consultant
- Piloting: Basauri, Bilbao, Galdakao, Getxo, Ermua

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Piloting in the Bizkaia region: findings

I. Resource policies	5.64
II. Taxes and charges	5.07
III. Equity and investment financing	7.01
IV. Budgetary planning	4.03
V. Budgetary implementation, monitoring and control	4.54
<i>Average</i>	<i>4.91</i>

Main lesson on LFB: should be part of an organizational and management improvement programme

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LFB project implementation

Activity, stages	Time needed (month)
1. LFB program launching, project planning	1
2. LFB Toolkit adaptation	1
3. Piloting LFB in selected cities, municipalities (survey and reporting)	2
4. Proposals for host organization, ministries (country report)	1

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Cooperation with the pilots

Services received:

1. Adapted LFB survey results (scores)
2. City specific report with recommendations

Tasks, responsibilities:

1. Active participation at the LFB project meetings
2. Commenting the draft adapted LFB toolkit
3. Assisting local LFB experts: sharing municipal documents, data
4. Feedback on the draft report

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Host organization

Services received:

1. Adapted standard LFB Toolkit
2. LFB survey results and reports on the pilots
3. Right to use LFB toolkit (copyright with CoE)
4. Policy recommendations on fiscal decentralization

Tasks and responsibilities:

1. Managing and promoting the LFB piloting activities
2. Designing sustainability:
 - a) organizational and management forms,
 - b) options for financing,
 - c) publicity, advocacy and promotion activities

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II. Local Finance Database and Indicators (LFD&I)

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Local Finance Database and Indicators

Support to

1. implement the LFB survey
2. design policies on local finances
3. improve local transparency
4. international comparison

Who will benefit?

- National partners: policy design, advocacy
- Local govt.: unit costs, revenue potential
- General public: increased accountability

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Data content

- Information by municipalities (for all of them)
- Fiscal and statistical data (app. 50)

Revenues:

- Own, shared revenues (typology?)
- Grants, transfers
- Loans

Expenditures:

- Current, capital
- Economic: salary, operation and maintenance
- Functions (sectors)

Statistical: admin status, population, area

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Potential indicators

Revenues:

- own revenue rankings
- grant dependency
- creditworthiness

Expenditures:

- municipal profiles
- differences
- concentration
- indebtedness

Statistical data: urbanization, size

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Building the database

- Identification of data sources: availability, format
- Data collection: public data, cleaned, comparable
- Hosting the database: user friendly, capacity to update
- Dissemination, marketing: presentation, simulations, research
- International comparisons

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