

Local Finance Benchmark

The Basque approach



Programmatic Cooperation Framework for
Armenia, Azerbaijan, Georgia, Republic of Moldova, Ukraine and Belarus

Funded
by the European Union
and the Council of Europe



Implemented
by the Council of Europe



1. Basque Institutional Framework.

Basque Powers



Industrial policies



Education

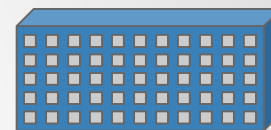


Health Care



Police Forces

Basque Government



Provincial Powers



Tax collection



Social Welfare



Agriculture



Technical support and financial backing to the local authorities

Provincial councils



Local Powers



Waste management



Cemeteries



Local taxes



Culture & Sport



Parks and gardens



Water management

Local authorities



Democratically elected chambers

1. Basque Institutional Framework.

Segments of population

251
municipalities

2,189,000
inhabitants

> 100,000 inhab..... 3

50,000 – 100,000 inhab..... 3

10,000 – 50,000 inhab. 36

2,000 – 10,000 inhab. 63

500 – 2,000 inhab. 84

< 500 inhab. 62

> 100,000.....3

< 100,000.....248

2. Local Finance Benchmark. WHY?

2.1 Social / Public demand

Why the interest in best practices in financial and budgetary issues?

Citizens



Involvement



Transparency



municipalities



Services



**Financial
Resources**

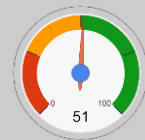
2. Local Finance Benchmark. HOW?

2.2 Available methodology

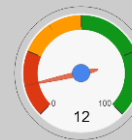


In short, what is LFB?

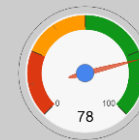
System of Indicators with implicit recommendations.



Financial



Transparency



Citizen
Participation

Based on:

Financial Resources of Local and Regional Authorities Rec (2005)

Financial and Budgetary Management at Local and Regional Levels Rec(2004)

3. LFB. BASQUE APPROACH

3.1 Monitoring group



Basauri, Bilbao, Galdakao, Getxo, Ermua....WHO?

- Participation in innovative initiatives and best practices about:
 - ✓ Transparency
 - ✓ Public ethics
 - ✓ Gender equality
 - ✓ Finances
 - ✓ Citizen involvement
- Audit as a management tool.

Some awards...



- **Bilbao. 2011.** EPSA award winner for the project “Political management based on economic stringency and strategic budgets”.
- **Bilbao. 2008-2015.** Municipal transparency award.
- **Getxo. 2015.** Municipal transparency award.
- **Ermua. 2012.** Pioneering work in favor of equality of women and men award.

3. LFB. BASQUE APPROACH

3.1 Monitoring group



Town	BASAURI (Bizkaia)
Population	41,624 inhab. (2014)
Budget	€ 56,330,000 (2014)
Business	Services (65,7%), Industry (27,9%), Construction (6,3%) and Agriculture (0,1%) (2012)
Population segment	10,000 – 50,000 inhab.

Town	BILBAO (Bizkaia)
Population	346,574 inhab. (2014)
Budget	€ 530,296,000 (2014)
Business	Services (87,6%), Industry (6,9%), Construction (5,4%) and Agriculture (0,1%) (2012)
Population segment	< 100,000 inhab.

Town	GALDAKAO (Bizkaia)
Population	29,351 inhab. (2014)
Budget	€ 36,314,000 (2014)
Business	Services (67,3%), Industry (24,3%), Construction (8,2%) and Agriculture (0,2%) (2012)
Population segment	10,000 – 50,000 inhab.

3. LFB. BASQUE APPROACH

3.1 Monitoring group



Town	GETXO (Bizkaia)
Population	79,544 inhab. (2014)
Budget	€ 130,910,000 (2014)
Business	Services (88,9%), Industry (4,2%), Construction (6,8%) and Agriculture (0,1%) (2012)
Population segment	50,000 – 100,000 inhab.

Town	ERMUA (Bizkaia)
Population	16,109 inhab. (2014)
Budget	€ 24,061,000 (2014)
Business	Services (52,6%), Industry (37,4%), Construction (9,9%) and Agriculture (0,1%) (2012)
Population segment	10,000 – 50,000 inhab.

3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit

LFB ORIGIN

STRATEGIC
LINES

8

SECTIONS

42

INDICATORS

Financial and
Budgetary
Management
Rec (2004)

100

164

Financial
Resources
Rec (2005)

3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit

ADAPTATION

GOAL

To have a complete directory of procedures in both areas (financial resources and financial management) which implementation and appropriate checkup will guarantee the aim of best practices in the mentioned areas.

UNDER CRITERIA

- To keep the LFB Toolkit frame.
- Indicator = procedure. We try to avoid the overuse of ratios.
- To check with the law, to be useful and achievable.

3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit

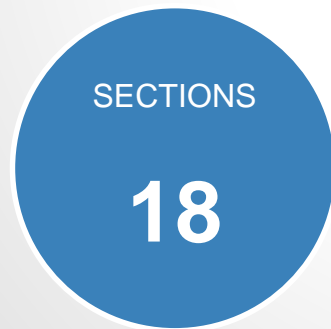
ADAPTATION

RESULTS

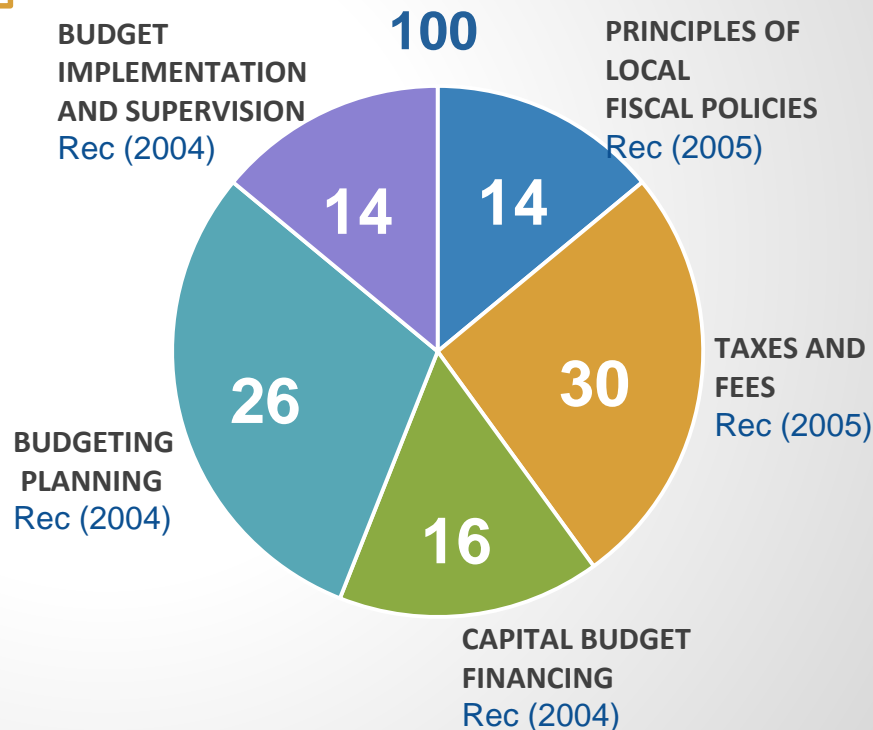
From **264**
indicators



To **100**



INDICATORS

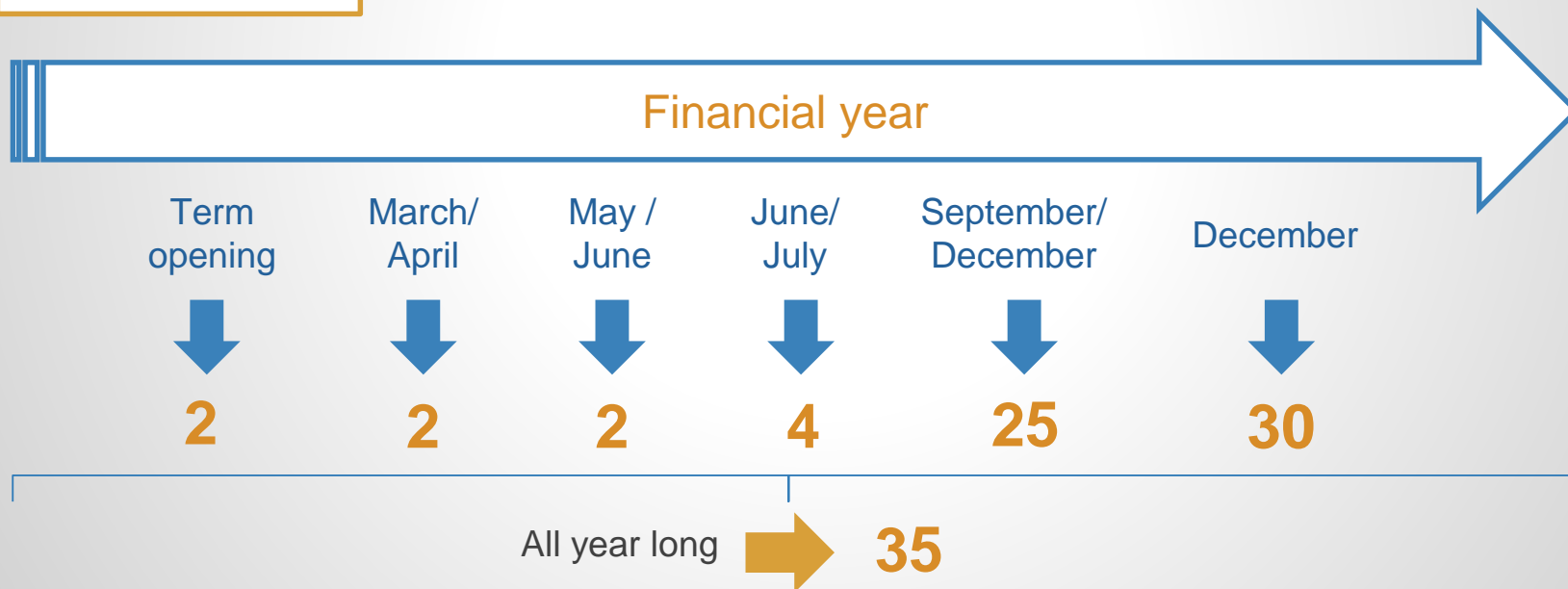


3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit

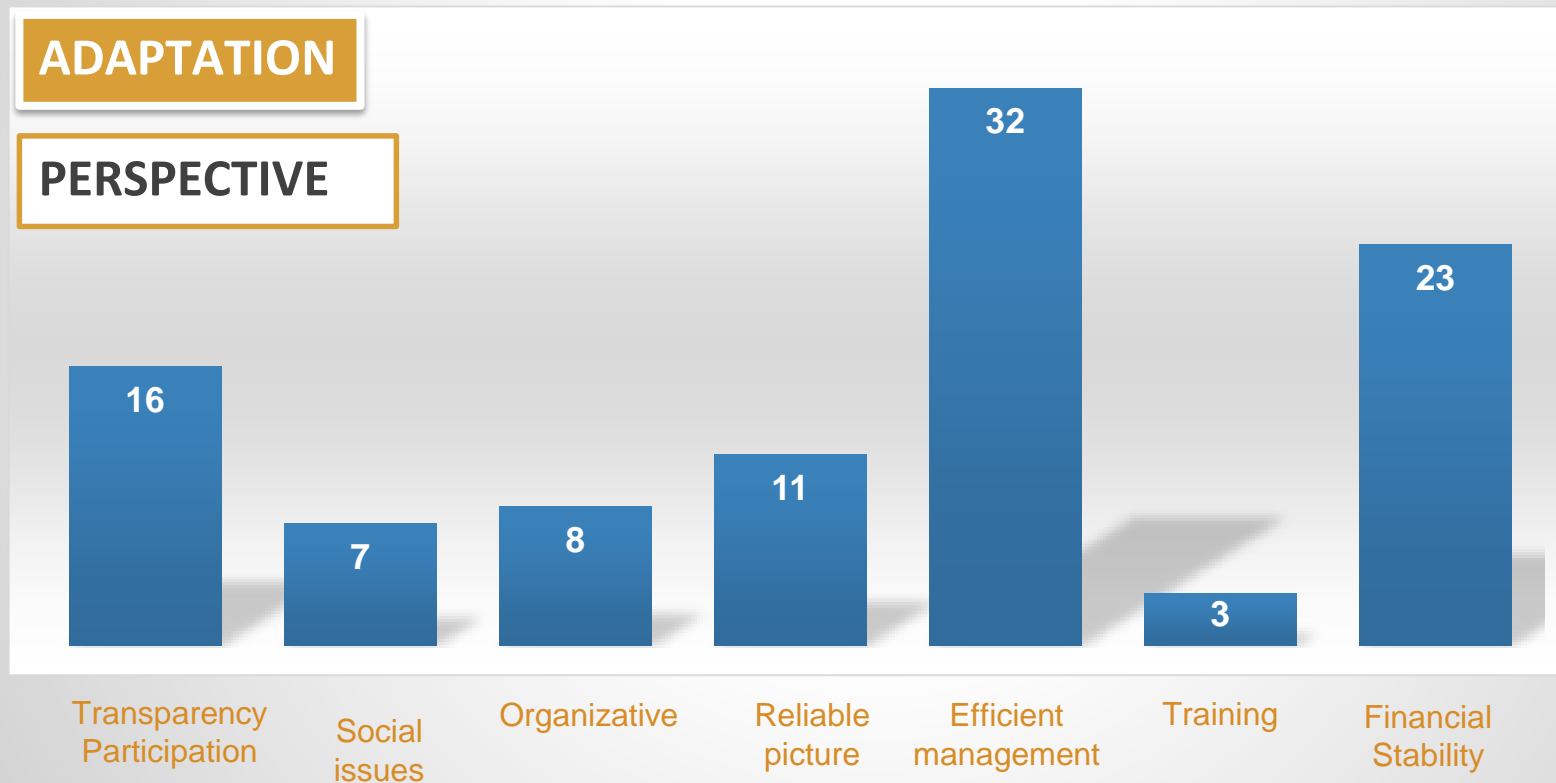
ADAPTATION

CHRONOLOGY



3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit



3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit

PRINCIPLES OF LOCAL FISCAL POLICIES

SECTIONS

- Design of tax policies
- Transparency and citizen involvement
- Tax timing
- Use of ICT's
- Development of professional competences and skills of the local public servants



3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit



PRINCIPLES OF LOCAL FISCAL POLICIES

CHRONOLOGY



- 4 January - December
- 2 June - July
- 5 September - December
- 3 December

PERSPECTIVE

- 4 Financial Stability
- 1 Training
- 4 Efficient management
- 2 Organizational
- 1 Social Issues
- 2 Transparency Participation

3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit



TAXES AND FEES

SECTIONS

- Tax Policies
- Information and Advertising policy
- Tax Administration
- Audited Tax System
- Fees and charges



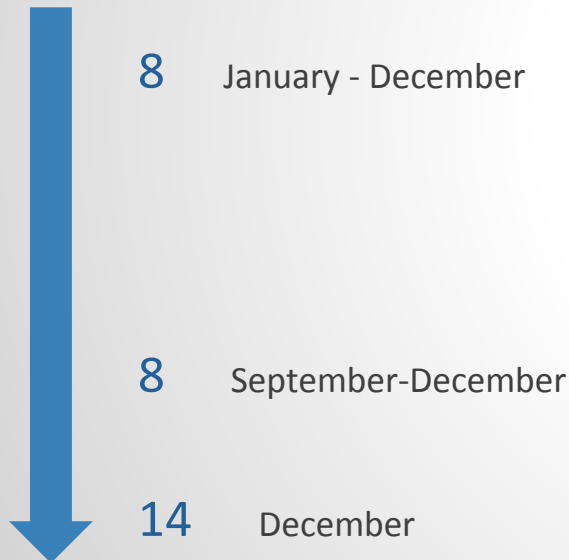
3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit



TAXES AND FEES

CHRONOLOGY



PERSPECTIVE

5 Financial Stability

12 Efficient management

2 Organizational

5 Social Issues

6 Transparency Participation

3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit



CAPITAL BUDGET FINANCING

SECTIONS

- Capital budget financing
 - Efficient management of local investments
 - Suitable financing
 - Short term loans and cash management
- Local property
 - Rules of control of the assets and liabilities
 - Long term financial stability



3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit



CAPITAL BUDGET FINANCING

CHRONOLOGY

7 January - December

9 December

PERSPECTIVE

6 Financial Stability

2 Efficient management

6 Reliable picture

2 Transparency Participation

3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit



BUDGETING PLANNING

SECTIONS

- Fiscal strategy design
- Budgeting methods and capacity
- Budgeting procedures
- Fiscal policy objectives



3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit



BUDGETING PLANNING

CHRONOLOGY



- 2 Beginning legislature
- 7 January-December
- 2 Mach-April
- 2 June-July
- 11 September-December
- 2 December

PERSPECTIVE

- 6 Financial Stability
- 2 Training
- 9 Efficient management
- 2 Reliable picture
- 3 Organizative
- 1 Social Issues
- 3 Transparency Participation

3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit



BUDGET IMPLEMENTATION AND SUPERVISION

SECTIONS

- Special rules of budget amendments and implementation
 - Regular evaluation and budget amendments limited
 - Independent opinion on final reports
 - Transparency related to subsidiary organizations
 - Efficient management of the services provided by the local authorities
- Special control and supervision on activities



3. LFB. BASQUE APPROACH

3.2 Adaptation toolkit



BUDGET IMPLEMENTATION AND SUPERVISION

CHRONOLOGY



9 January - December

2 May - July

1 September-December

2 December

PERSPECTIVE

2 Financial Stability

5 Efficient management

3 Reliable picture

1 Organizational

3 Transparency Participation

3. LFB. BASQUE APPROACH

3.3 Evaluation

The toolkit has no evaluation system, so we had to develop a specific one for the Basque reality

- Two risks
 - ☐ Subjectivity
 - ☐ System where all the indicators have the same importance.

CRITERIA

- Relevance of the procedure / indicator
- Areas to analyze:
 - Appropriate and complete
 - Assimilation and formalisation
 - Evidence provided
- All of them divided into:
 - Compulsory
 - No expressly regulated
 - Ratio

3. LFB. BASQUE APPROACH

3.3 Evaluation

SCORING

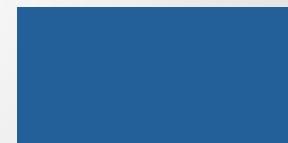
RELEVANCE	POINTS
HIGH	15
MEDIUM	10
LOW	5



HIGH
16



MEDIUM
68



LOW
16

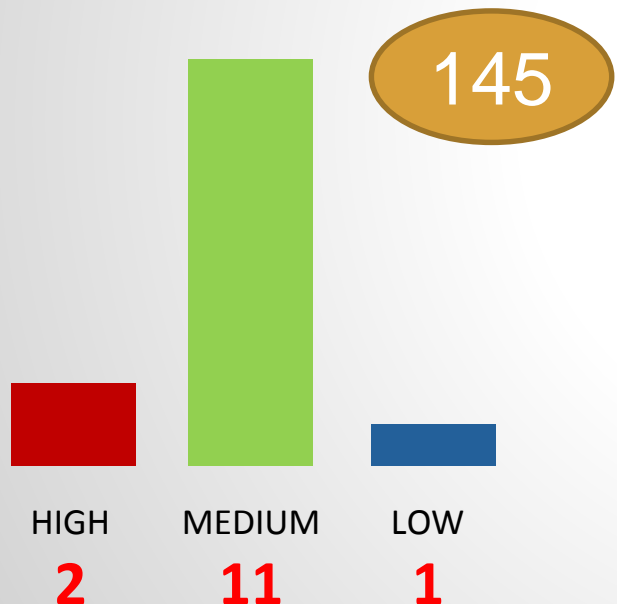
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3. LFB. BASQUE APPROACH

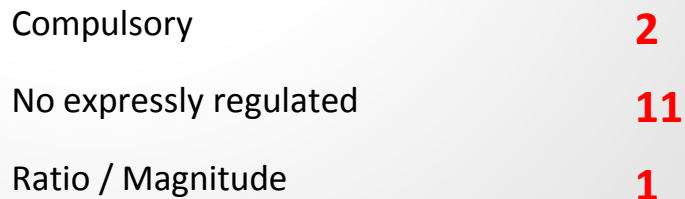
3.3 Evaluation

PRINCIPLES OF LOCAL FISCAL POLICIES

RELEVANCE



CATEGORY



3. LFB. BASQUE APPROACH

3.3 Evaluation

TAXES AND FEES

RELEVANCE

265



HIGH

4



MEDIUM

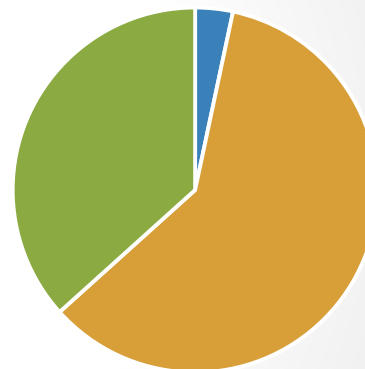
15



LOW

11

CATEGORY



Compulsory

1

No expressly regulated

18

Ratio / Magnitude

11

3. LFB. BASQUE APPROACH

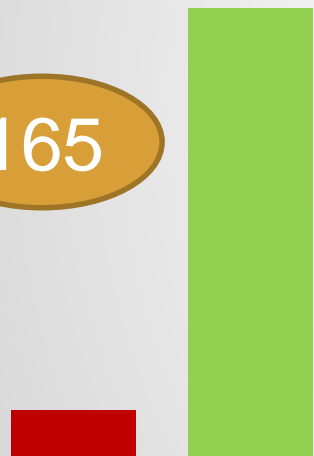
3.3 Evaluation

CAPITAL BUDGET FINANCING

RELEVANCE

CATEGORY

165



HIGH

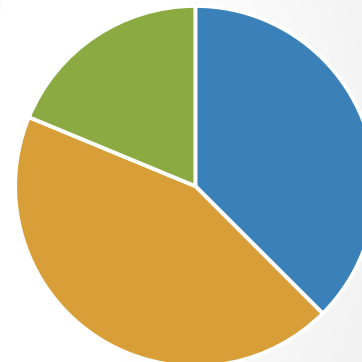
1

MEDIUM

15

LOW

0



Compulsory

6

No expressly regulated

7

Ratio / Magnitude

3

3. LFB. BASQUE APPROACH

3.3 Evaluation

BUDGETING PLANNING

RELEVANCE

300



HIGH

8



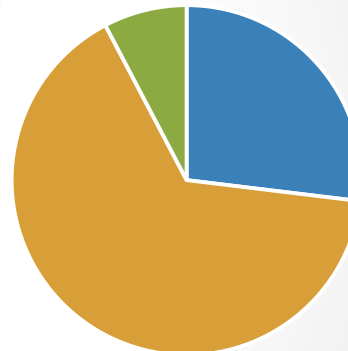
MEDIUM

18

LOW

0

CATEGORY



Compulsory

7

No expressly regulated

17

Ratio / Magnitude

2

3. LFB. BASQUE APPROACH

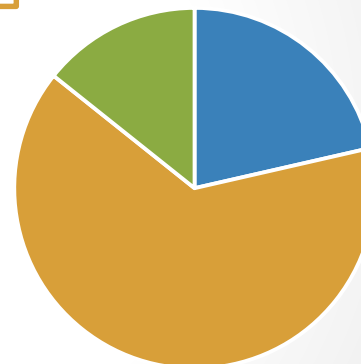
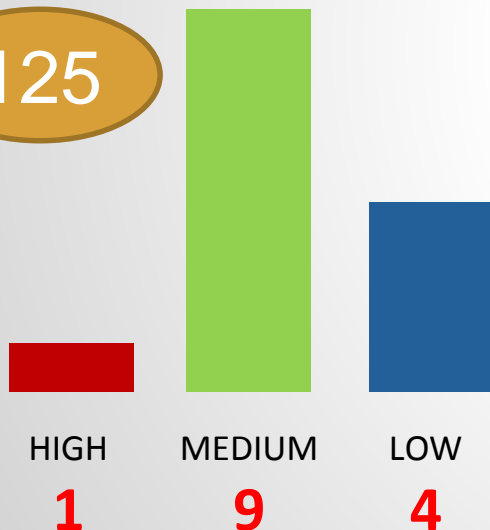
3.3 Evaluation

BUDGET IMPLEMENTATION AND SUPERVISION

RELEVANCE

CATEGORY

125



Compulsory 3

No expressly regulated 9

Ratio / Magnitude 2

3. LFB. BASQUE APPROACH

3.3 Evaluation

FACTOR 1: Appropriate and complete

3 grades:

- A. Outstanding
- B. Satisfactory
- C. Inadequate



3. LFB. BASQUE APPROACH

3.3 Evaluation



FACTOR 1: Appropriate and complete

RESTRICTIONS

Total percentage of assigned points

Regulated

No Reg. / Ind.

if Inadequate

< 30%

< 40%

if Satisfactory

< 60%

< 70%

3. LFB. BASQUE APPROACH

3.3 Evaluation

FACTOR 2: Assimilation and formalisation

Aspects:

- A. Grade of assimilation of the procedure
- B. Involvement of the governing bodies



3. LFB. BASQUE APPROACH

3.3 Evaluation

FACTOR 3: Evidence provided

Main points of interest:

- A. Quality and quantity of the supporting documentation
- B. Degree of accesibility to this information
- C. Time required to get the information



3. LFB. BASQUE APPROACH

3.3 Evaluation



VALUATION SYSTEM - SUMMARY

Category	Factor 1			Factor 2		Factor 3	
	Appropriate and complete			Assimilation and formalisation	Evidence provided	Total % of assigned points	Total points (*)
	Inadequate	Satisfactory	Outstanding				
No Regulated	0 to 19%	20 to 49%	50 to 60%	0 to 20%	0 to 20%	0 to 100%	
Indicator	0 to 19%	20 to 49%	50 to 60%	0 to 10%	0 to 30%	0 to 100%	
Regulated	0 to 9%	10 to 39%	40 to 50%	0 to 10%	0 to 40%	0 to 100%	

(*) This column registers the product between the value of the previous column and the total of assigned points to each procedure / indicator based on the **relevance (High 15; Medium 10; Low 5)**

3. LFB. BASQUE APPROACH

3.3 Evaluation

Some examples...

Procedure / Indicator			Set up/ Calculated				Evaluation of the level of..			Assimilation and formalisation	Evidence provided	Total percentage of assigned points	Individual evaluation	Max. Scoring	
							Appropriate and complete								
N°	Relevanc.	Category	N/a	No Infor	No	Yes	Low	Medium	High						
XX	Medium	No Regulated		✓									0,00	10,00	
XX	Low	Indicator				✓			50,00%		2,00%	30,00%	82,00%	4,10	5,00
XX	Low	Regulated	✓										0,00	N/a	
XX	Medium	Regulated			✓								0,00	10,00	
XX	High	No Regulated				✓			60,00%		20,00%	20,00%	100,00%	15,00	15,00

4. Conclusions

Aims

The adapted toolkit

To check the toolkit in order to identify if the indicators were useful and achievable.

The evaluation system

- A. To analyse the manageability of the system.
- B. Demanding enough



Information

- A. In many cases the provided information did not match with the procedure.
- B. Significant delays related to the required information
- C. Difficulties to understand the implication and the extent of the indicators.



4. Conclusions

Lessons

- A. A need to simplify the toolkit from 100 indicators to 80.
- B. The best way to collect the required information.
- C. To work with a monitoring group rather than just a municipality has enriched the project (tackling the diversity and complexity of the municipalities).
- D. The importance of an evaluation system focus on objectivity.
- E. The toolkit is not a self-assessment process.
- F. The important involvement of the municipalities.



Lessons
Learned

5. Evaluation results



STRATEGIC LINE 1: PRINCIPLES OF LOCAL FISCAL POLICIES

BEST AVERAGE

- ✓ The local plenary session approves bylaws regulating local taxes and public service costs.

WORST AVERAGE

- ✓ The local entity has and applies a training plan to make sure that the technical personnel in charge of managing these financial resources are always properly trained.

5. Evaluation results



STRATEGIC LINE 2: TAXES AND FEES

BEST AVERAGE

- ✓ Reductions in tax rates are justified for social or charity reasons.
- ✓ The local entity makes it easier for the contributor to deal with the administrative paperwork related to their tax obligations.

WORST AVERAGE

- ✓ Estimations made and costs incurred as a consequence of the appeals and claims lodged by contributors.
- ✓ The local entity verifies the adjustment of the fees and prices policies as well as policies for the tax reductions, to taxation policy targets.

5. Evaluation results



STRATEGIC LINE 3 : CAPITAL BUDGET FINANCING

BEST AVERAGE

- ✓ Financing costs due to capital operations meets the limits and criteria imposed by the applicable standard.
- ✓ Financing the liabilities derived from debt occurs in accordance with the limits and criteria imposed by the applicable standard.

WORST AVERAGE

- ✓ The local entity maintains an inventory of goods and duties.
- ✓ Citizens are aware of the local entity's position regarding budgetary stability and financial sustainability in accordance with the limits and criteria set by the provincial government.

5. Evaluation results



STRATEGIC LINE 4: BUDGETING PLANNING

BEST AVERAGE

- ✓ The information system used to prepare the budget makes it possible to find out and understand the forecasts made.
- ✓ Expenditure is made in line with the phases established in the applicable regulatory framework.

WORST AVERAGE

- ✓ The annual budgeting process begins with the debate of the budgetary objectives.
- ✓ Citizens are aware of the proposals tabled for debating the budgetary objectives and the results obtained, and can make contributions.

5. Evaluation results



STRATEGIC LINE 5: BUDGET IMPLEMENTATION AND SUPERVISION

BEST AVERAGE

- ✓ Financial imbalances are corrected in accordance with the procedures set forth in the applicable regulations.
- ✓ The issue, presentation, debate and approval of the general accounts meets the requirements established by the applicable legislation.

WORST AVERAGE

- ✓ The local authority holds Budget debates over the year with updated quarterly economic, financial and budgetary information.
- ✓ The local authority only engages in commercial activities for which there is no competitive market.

5. Next steps / Challenges

1. To expand the size of the sample. In both geographical and in terms of size of municipalities.
2. To develop a reduced toolkit for smaller municipalities.
3. To benchmark the results inside the Basque country and with other countries/regions in Europe.
4. To keep the toolkit updated, rethinking the indicators, eliminating useless and incorporating new demands.

By the end of this year



Programmatic Cooperation Framework for
Armenia, Azerbaijan, Georgia, Republic of Moldova, Ukraine and Belarus

Funded
by the European Union
and the Council of Europe



Implemented
by the Council of Europe



Aitor Alzola
aalzola@betean.com