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STRENGTHENING INSTITUTIONAL FRAMEWORKS FOR LOCAL GOVERNANCE

Benchmarking local finances

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Why to benchmark local finances?

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!

Basis: CoE Recommendations on financial resources and management

I. Financial resources (2005)

II. Financial and budgetary management (2004)

Recommendations => bases of benchmarking:

a) central authorities, on local finance systems:

- 76 items on financial resources
- 43 items on financial management

b) local (regional) authorities, on local practices

- 31 items on financial resources
- 43 items on financial management



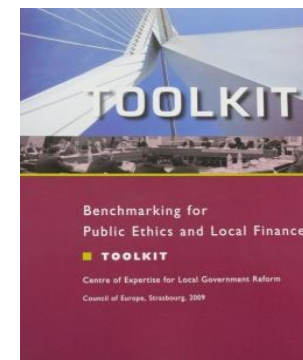
Financial resources, financial management at national and local level

<i>Areas of local finances</i>	a) National systems (decentralization)	b) Local (regional) authorities
<i>1. Financial resources</i>	Statistical data Institutional review	Data analysis Assessment
<i>2. Financial management</i>	Institutional review	Review Evaluation

Areas of standard finance benchmarks

1) Financial resources:

- Local taxation: sufficient, diverse, locally administered
- Fiscal equalization: spending needs and revenue capacities, transparent, predictable
- Grants to local governments: general vs. specific grants, incentives created
- Fees, charges: significant, local autonomy, cost recovery, social policy
- Borrowing: for capital financing, debt limits
- Local property: inventories, management



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, transactions, recording, accounting, adjustment, control and monitoring, balanced budget
- Financial monitoring system: transparency, accuracy of fiscal information, audit capacity

National systems or local government practices

External evaluation and not self-assessment!

Benchmarking: scoring by areas of recommendations

0. Defining critical areas of local finances, financial management

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?!



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

Measurement techniques

1. Expert judgement, peer review (qualitative)

- Analysis of documents, local practices
- Performance indicators
- Secondary analysis of surveys, assessments

2. Data on local governments (quantitative)

- fiscal autonomy: reclassified taxes (OECD FN)
 - local rate setting; legislated sharing ratio
 - transfers: scope of local discretion
- budget size, composition, unit costs of services
- capital investment spending
- local indebtedness

Scoring methods

Importance of the indicator: equal or weighted

Components of scoring

- ▶ Legal requirement or non-regulated
- ▶ Method applied or missing
- ▶ Assessing the quality of the domestic/local practice (low, medium, high)
- ▶ Established procedures, evidences exist

Implementing LFB: *local comparison*



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

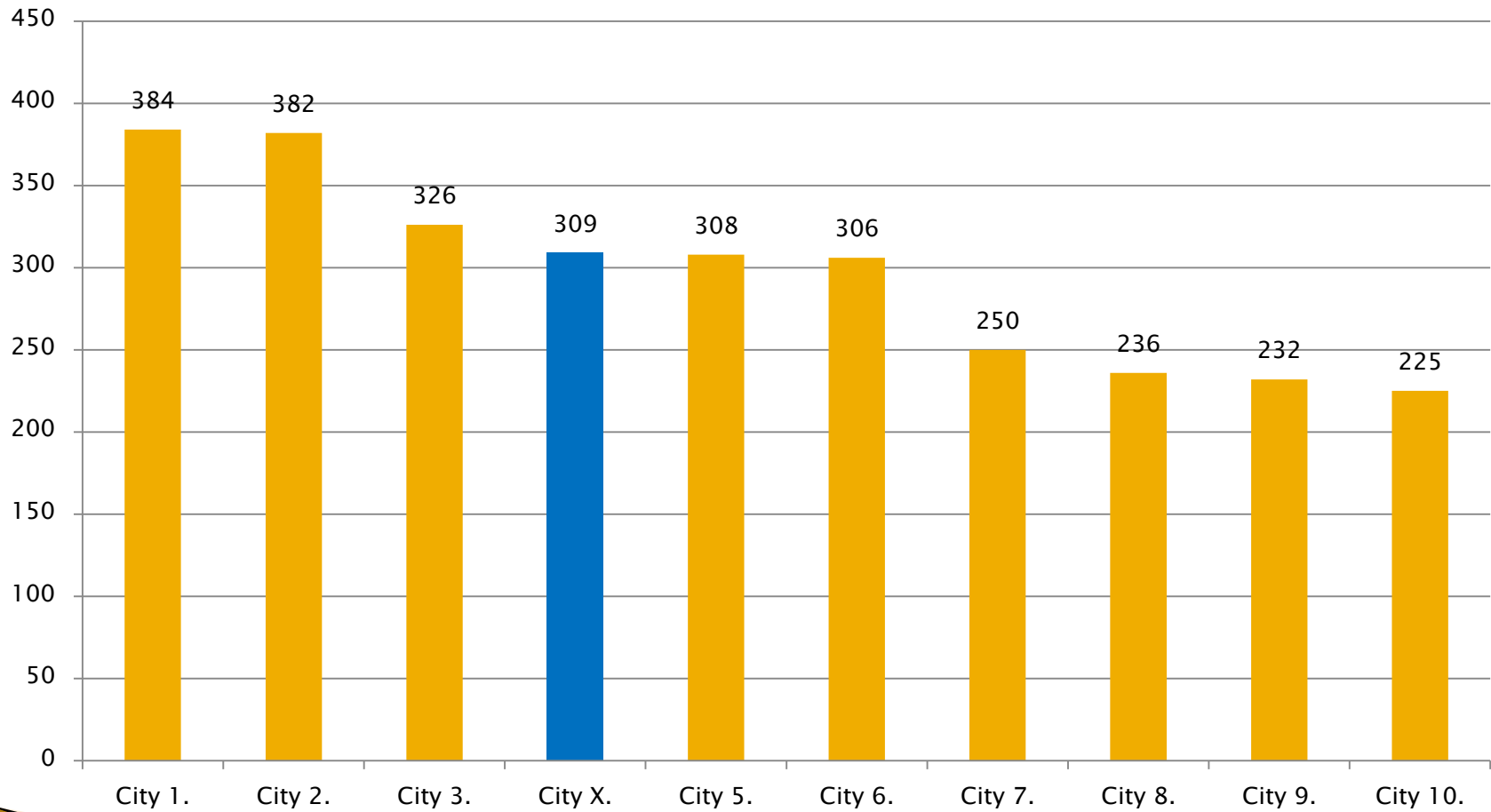
- ✓ focus on budgeting and transparency
- ✓ unified rules=>diverse implementation
- ✓ lacking local taxing powers, revenue administration autonomy
- ✓ strong data component
- ✓ no host organization

Three country pilot (2013):

- POR: local elections; GRE: crisis, reforms; ESP: regional differences
- self-assessment: lacking capacity, need for local support

Basque country (2014-): Bizkaia region

Ukraine: total scores in pilot cities



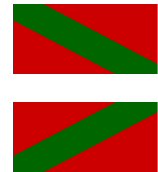
Formulating policy lessons: *areas of improvement in Ukraine*



<i>Areas of local finances scored zero</i>	No. of cases
Frequent budget amendments during the fiscal year	9
Low shares of local taxes and duties	8
Lack of borrowing	8
No PPP projects	8
Internet is not used in local (tax) policy design	7
Information disseminated to citizens (booklets, leaflets)	6
Limited local funds in capital investment projects	6
Low share of non-public funding of capital investments	6
High ration of unfinished, delayed construction projects	5
Not depositing temporarily free funds in banks	4
Limited budget proposals from NGOs, citizens	4

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

Piloting in the Bizkaia region (Basque country)



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

Piloting in the Bizkaia region: findings

- Reports are kept confidential

I. Resources 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>

- LFB should be part of an improvement programme

CoE/EU Eastern Partnership Programmatic Co-operation Framework project

Strengthening institutional frameworks for local
governance (thematic group)

Local finance benchmarking component (6 countries)

Implementation stages:

1. assessing the legal-regulatory framework ✓
2. adapting the standard LFB Toolkit:
 - a) specific conditions for in-country comparison
 - b) benchmarking systems (regional comparison)
3. piloting the adjusted local finance benchmarks
+ lessons for systemic reforms

LFB implementation: obstacles and options

- 1. Lacking incentives:** centralized system, fragmented system, limited management capacities *but* presenting successful cases, support to amalgamation (UKR), developing LED capacities (GEO)
- 2. Data availability:** evidences (legislation, regulations, procedures, statistics, inventories, opinion polls, media); disaggregated fiscal indicators, accessible
- 3. Political constrains:** sensitive information during elections; support from government agencies
- 4. Public awareness:** emphasis on customer orientation, joining the national programs, influential local government associations, CSO/NGO partners and donors, TA programs

Conditions of successful Local Finance Benchmarking

1. **Technical quality:** selecting areas of local financial autonomy, manageable toolkit adaptation
2. **Capacity to implement LFB** (external evaluation and *not* self-assessment)
3. **Getting support from partners, participants** (pilots)
4. **Critical mass of information** for comparison: more cases, regular surveys
5. **Balancing confidentiality, publicity**
6. **Sustainability** of the LFB program
7. **Host organization:** analytical capacity to formulate recommendations

LFB Programme contact



Council of Europe,

Center of Expertise on Local Government Reform

http://www.coe.int/t/dgap/localdemocracy/Centre_Expertise/default_en.asp

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