

LEARNING THROUGH COMPARISON: *LOCAL FINANCE BENCHMARKING PROGRAMME IN UKRAINIAN CITIES*

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Why to benchmark local finances?

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1. ***It is a mirror:*** comprehensive analysis of local finances and financial management
2. ***Ranking tool:*** will position your city
3. ***What you do well:*** successes, innovation
4. ***What to change:*** areas of improvement
5. ***Lessons for policy makers:*** lack of capacity, wrong or missing incentives, regulations

Assessing national or local practices

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<i>Areas of local finances</i>	National systems, decentralisation	Local, regional authorities
<i>Financial resources</i>	Statistical data Institutional review Scorecards	Data analysis Scorecards
<i>Financial management</i>	Institutional review Scorecards	Scorecards

How: the Charter and Recommendations

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I. Financial resources (31 items):

- a. Local fiscal policies: taxes, transparency, using IT, staff capacity development
- b. Local tax system: design, policy, publicity, administration, system audit
- c. Fees, charges: cost recovery, social policy

II. Financial management (43 items):

- a. Fiscal planning: multi-year, timing, participation
- b. Budget implementation, adjustment, control
- c. Audit, supervision

Scoring by areas of recommendations

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SECTION, AREA, COMPONENT	ACTIVITY, INDICATOR	VERIFICATION STATEMENT, DOCUMENT	SCORE, WEIGHT
SECTION: e.g. <i>II. Local taxation</i>			
AREA: <i>Tax administration</i>			
COMPONENT: a) Smooth, timely revenue flow	<ul style="list-style-type: none"> - regularly updated taxpayer registry - proportional distribution in time - information on delayed taxes - warning practices are in place - procedures on non-payment 	Local tax regulation Reports on local revenues Tax administration	0-10
b) Simple tax administration	- ...	- ...	0-10

Adjusting to Ukrainian conditions

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1. Limited local autonomy in local finances
2. Strictly standardized financial management practices (on paper)
3. Semi-legal solutions in a heavily regulated environment
4. Separate state and local functions (e.g. local tax administration at Oblast level)
5. Strong vertical, administrative accountability

Benchmarking financial resources

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Local tax policy design (16 indicators):

approved by elected bodies, considerable revenues, information on tax base, effective tax administration

Public information and involvement (8):

budget preparation and approval, publishing local documents, legislation, using website

Staff capacity development (3): trainings

Example: user charges

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AREA	ACITVITY	VERIFICATIO N	INDICATOR	POINTS
Collection level of duties, charges should not reduce the demand for services (R.27)	1. Pricing methods correspond to the local policy goals 2. Impact of the increase in duties (illegal dumping, illegal connection)	Local budgets and reports; Pricing regulations; Indicators of service quality	Annual change in residential and enterprises debt level for housing and utility services (including energy)	< 90%: 10 90%-110%: 5 110%<: 0

...and financial management

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Local expenditure planning (10): efficiency of current spending (unit costs);

Capital investment programs (4): sources of funding, unfinished projects

Planning methods (5): strategic planning, multi-annual planning, regulations on planning procedures, budget forms, technical capacity

Budget implementation (14): monitoring, analysis, amendment, instructions, contracts

Example: sound budgeting

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AREA	ACITVITY	VERIFICATIO N	INDICATOR	POINTS
Analytic data make the budget more understandable and transparent (R.47)	<ol style="list-style-type: none"> Budget tables are clearly and logically connected; Presenting a high number of indicators; Structured indicators help planning 	<p>Budget templates</p> <p>Draft budgets</p> <p>Approved budget</p>	<p>Set of budget tables with explanations in the draft budget memorandum of the local budget implementation report</p>	<p>0 – only draft resolution</p> <p>2 – key revenues, expenditures</p> <p>4 – all rev, exp</p> <p>6, 8 – outcome indicators</p> <p>10 – fiscal impact of budget decisions</p>

Municipal finance database

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- 25 indicators
- fiscal autonomy: reclassified taxes
 - local rate setting within limits
 - legislated sharing ratio with limited changes
- measuring revenue raising capacity
- unit costs of services
- capital investment projects

Implementation: lessons from Bulgaria

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Focus: budgeting; revenue policy; financial control

Ownership: local government association (NAMRB)

External assessment: 4-6 experts with local inputs

Implementation: significant restructuring of the toolkit; harmonized information base, criteria

Outputs: descriptive/analytical report + scoring

Confidentiality: pushed by NAMRB

Sustainability: service for association members

Where we are in Ukraine?

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1. Focus defined: local and not national (systemic)
2. Beneficiaries identified: ministry, AUC, cities
3. Setting the objectives: areas with local discretion
4. Experts invited for adaptation and adjustment: external evaluation and not self-assessment
5. Limiting expert subjectivity: verifiable (rigid) indicators
6. Piloting (2) => Implementation in 8 more cities
7. Reporting, advocacy and action
8. Balancing confidentiality and publicity
9. Guidebook => for future users of finance benchmarks