



Strengthening Institutional Frameworks
for Local Governance 2015-2017

Local Finance Benchmarking Toolkit: piloting and lessons learned

Georgia

Phase I

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Partnership for Good Governance
პარტნიორობა კარგი მმართველობისთვის

ევროკავშირი
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LOCAL FINANCE BENCHMARKING TOOLKIT: PILOTING AND LESSONS LEARNED

GEORGIA

PHASE I

Strasbourg, 2017

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Foreword

The Local Finance Benchmarking (LFB) project in Georgia was implemented in 2016-2017 under the thematic programme “*Strengthening institutional frameworks for local governance*”. It was managed by the Centre of Expertise for Local Government Reform, Directorate General of Democracy, Council of Europe under the CoE/EU Eastern Partnership Programmatic Co-operation Framework. The project¹ aims to support the local government reform, primarily by increasing the efficiency and accountability of local authorities.

Benchmarking of local financial resources and financial management practices is based on the toolkit developed by the Centre of Expertise in cooperation with other international organisations. The toolkit builds on a simple municipal management rule: in a decentralised environment local governments learn from each other, so comparison and information sharing will improve their performance.

The LFB toolkit assesses the local financial resources and financial management practices by scoring them along a standardised set of criteria. Then the scores are compared with the results in other similar municipalities, indicating the areas of the best and lower performance in a particular municipality and helping to identify the directions of improvement.

In Georgia the adaptation of the standard LFB has been completed through piloting. The LFB survey was implemented in five self-governing cities (Kutaisi, Zugdidi, Akhaltsikhe, Gori, Rustavi) and in two municipalities (Bolnisi, Marneuli). The localised survey covers 18 items in six critical areas of local financial resources and 17 items in six areas of local financial management.

During the LFB implementation, we closely cooperated with the “Vano Khukhunaishvili” Centre for Effective Governance System and Territorial Arrangement Reform (CEGSTAR) and the Ministry of Regional Development and Infrastructure. The results of the LFB survey and reports on the pilot municipalities were transferred to our local partners. They plan to use the final, revised version of the LFB toolkit and in the future will promote this instrument among the local governments in Georgia. The adapted toolkit is available in Georgian and the local expert team was trained to continue the benchmarking.

This publication contains all the outputs of the project:

- (i) adapted LFB toolkit;
- (ii) reports on the pilot municipalities;
- (iii) final reports with policy recommendations and proposals on the continuation of the project

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¹ Project website: <http://www.coe.int/en/web/good-governance/lfb>

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Local Finance Benchmarking Toolkit

LOCAL FINANCE BENCHMARKS

GENERAL PRESENTATION

The objective of the methodology is adaptation of LFB worked out by the Council of Europe to Georgian context.

Benchmarking includes several dozen activities and indicators divided by areas and sections. Georgian practice in local financial management is compared to the best international practice in accordance with each particular indicator.

Benchmarking includes 2 directions and 11 areas, 36 criteria and 70 indicators. Each criteria are assessed by scores and recommendations for Local Self Governments (LSGs) are issued.

The table below represents benchmarking methodology and structure.

Area	# of indicators	# of criteria
Local Financial Resource Benchmarking		
Cooperation with the national tax authority in collecting property taxes	4	6
Fees, charges and miscellaneous revenues	3	5
Capital Budget Financing	3	8
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Local Financial Management Benchmarking		
Fiscal policy	2	2
Budgeting methods and capacity	4	4
Budget policy	3	5
Administration Policy	3	5
Budget adjustments and implementation	3	6
Control and reporting	3	6
Total	36	70

Each area is assessed by set of indicators. Total score of each area represents the arithmetical average of all indicators' scores related to the area.

Indicators are assessed by "zero"-minimum score to "ten"-maximum score with 4 and 7 as intermediate ones. If within the indicator all criteria are fully satisfied the maximum score is applied, minimum score applies if criteria are not satisfied at all, while intermediate scores are applied if criteria are partially satisfied.

In order to receive a realistic assessment, local public servants should be interviewed as well as documents, data and information in electronic form should be studied.

LOCAL FINANCIAL RESOURCES BENCHMARKS

Area/Indicators	Criteria	Mean(s) of verification	Assessment methodology/scores
I. COOPERATION WITH THE NATIONAL TAX AUTHORITY IN TAX POLICY DESIGN			
1.1. Database of local (income and property) tax payers	<ul style="list-style-type: none"> Practice of availability and updating of the database 	Electronic and documentary data of LSGs	<ul style="list-style-type: none"> Taxpayers' database does not exist (0) Some information about taxpayers exists (number, large taxpayers) (4) Taxpayers' database exists in electronic or paper form (7) Taxpayers' database exists and periodically updated (10)
1.2. Local tax policy	<ul style="list-style-type: none"> Establishing tax rate from 0 to 1% of the property value 	LSGs decision regarding introduction of property tax	<ul style="list-style-type: none"> Minimum tax rate (0) Maximum tax rate introduced for all taxpayers (4) Tax rates are differentiated according to the population groups (7) Minimum tax rate introduced for wealthy population and businesses (10)
1.3. Openness of decision on introduction of property tax	<ul style="list-style-type: none"> Openness of decision on introduction of property tax Openness of information on local tax revenues 	LSG web-site, information board	<ul style="list-style-type: none"> No decision made regarding introduction of property tax (0) Decision regarding property tax is made but not publicly announced (4) Decision regarding property tax is made and put on the LSG's web-site (7) Decision regarding property tax is made and put on the LSG's web-site with rational of introduction of the tax (10)
1.4. Share of local taxes in total local revenues	<ul style="list-style-type: none"> Share of taxes Dynamics of taxes 	Financial department of LSG. Ministry of Finance	<ul style="list-style-type: none"> Share of local taxes is less than 25% , tax share decreasing during last 3 years (0) Share of local taxes is up to 50% (4) Share of local taxes is up to 50% and was growing during last 3 years (7) Share of local taxes is more than 50% and was growing during last 3 years (10)
II. FEES, CHARGES AND MISCELLANEOUS REVENUES			
2.1. Fees and cost of services	<ul style="list-style-type: none"> Calculation of cost of services includes direct, indirect costs and changes in services Increasing of cost of services includes changes in resources (labour, capital, energy) 	Resolutions regarding local permissions and fees Business plans of service delivery companies	<ul style="list-style-type: none"> Costing of services does not exist (0) Cost of services includes direct costs (4) Cost of services includes direct and indirect costs (7) Cost of services includes direct, indirect costs and changes in services (10)
2.2. Tariffs vs demand for services	<ul style="list-style-type: none"> Fees and tariffs reflect local social and economic policy Beneficiaries are classified by groups 	Resolutions regarding local permissions?? and fees	<ul style="list-style-type: none"> The fees and tariffs do not reflect local policy (0) The fees and tariffs foresees local policy for vulnerable population (4) The fees and tariffs reflect local social and economic policy (subsidies and preferences) at some stage (7) The fees and tariffs fully reflect local social and economic policy, services beneficiaries are classified (10)
2.3. Revenues from services, fees and permissions vs service costs	<ul style="list-style-type: none"> Exceptional revenues are used for capital investments? 	Data from financial department	<ul style="list-style-type: none"> The revenues generated from services are not connected with expenses f service delivery (0) The revenues generated almost fully covers expenses of service delivery (4) The services delivery expenses are equal to revenues generated from services (7) The surplus between revenues and expenditures on delivered services is used for developing of services (10)

Area/Indicators	Criteria	Mean(s) of verification	Assessment methodology/scores
III. CAPITAL BUDGET FINANCING			
3.1. Local capital projects' managing	<ul style="list-style-type: none"> Amount allocated for capital projects are separately presented in the budget Capital projects are implemented in accordance with the budget allocated beforehand Major capital projects are implemented timely 	Local budget Financial department of LSG	<ul style="list-style-type: none"> Capital projects are not reflected in the budget separately (0) Capital projects are reflected in the budget separately however the period and financial resources do not correspond to the actual ones (4) Capital projects are reflected in the budget separately however the period and financial resources correspond to the real ones at some stage (7) Capital projects are reflected in the budget separately however the period and financial resources fully correspond to the real ones (10)
3.2. Capital projects are financed from diverse sources	<ul style="list-style-type: none"> Operational incomes and expenses and total revenues and expenditures are identified in financial reports Donors' financing Transfers Loans 	Local budgets and financial reports Documentation on capital projects Loan agreements	<ul style="list-style-type: none"> Capital projects are financed from only state transfers (0) Capital projects are financed from the local budget and State budget transfers (4) Capital projects are financed from diverse sources (10) Capital projects are financed from donors (7)
3.3. Practice of receiving and management of loans	<ul style="list-style-type: none"> Information available in financial reports regarding received loans and managing of loans 	Local budgets and financial reports Documents on capital projects	<ul style="list-style-type: none"> Information about loans is not recorded (0) There is certain information about loans (4) Information about loans, principal amount and interest is recorded in the budget and financial reports (7) The strategy of loan management exists and information about loans, principal amount and interest is recorded in the budget and financial reports (10)
IV. LOCAL PROPERTY MANAGEMENT			
4.1. Recording and registration of municipal property	<ul style="list-style-type: none"> Availability and updating of database of municipal property Share of registered property in total property 	Local financial and property management department(s)	<ul style="list-style-type: none"> Municipal property is not recorded (0) There is certain information about municipal property (4) Database of municipal property exists and is regularly updated (7) Database of municipal property exists, it is regularly updated, the share of registered property in the total property is exceeds 70 % (10)
4.2. Assets and Liabilities of LSGs	<ul style="list-style-type: none"> Municipal assets reflected in LSGs balance Information regarding assets based on the inventarisation data and amortisation is accrued Cost of non-financial assets is periodically updated 	Local budget and financial reports Interview with financial departments	<ul style="list-style-type: none"> Balance sheet of the LSG does not include all assets and liabilities(0) Balance sheet of the LSG include fixed assets in constant ??price (4) Balance of the LSG include fixed assets based on the inventarisation data and amortisation is accrued (7) Balance of the LSG include financial and non-financial assets based on the inventarisation data and amortisation is accrued (10)

Area/Indicators	Criteria	Mean(s) of verification	Assessment methodology/scores
4.3. Rules of property management	<ul style="list-style-type: none"> • Clear regulations on selling and renting of municipal property • Share of operated or rented municipal property 	Regulations on property management Department of property management	<ul style="list-style-type: none"> • There is no rules of municipal property management (0) • Rules of municipal property management exists (4) • There are rules of municipal property management and according to those rules property is sold/rented (7) • 70 % of municipal property is rent/ operated according to municipal property management rules (not through direct award) (10)
4.4. Management of municipal enterprises and NPEs	<ul style="list-style-type: none"> • Services stipulated by organisations' statutes, conditions of quality and funding of services • Conditions of maintaining and management of assets 	Statutes of municipal enterprises and NPEs Volume and conditions of subsidies in the budget Forms of private-public partnership	<ul style="list-style-type: none"> • Cost of delivered services and the rules of funding of services are not defined for municipal enterprises and NLEs (0) • Cost of delivered services and the rules of funding of services are specified by for municipal enterprises and NLEs at some stage (4) • Cost of delivered services and the rules of funding of services are defined for municipal enterprises and NLEs (7) • Cost of delivered services ,the rules of funding, quality of services, conditions of maintaining of the assets are defined for municipal enterprises and NLEs (10)
V. IT			
5.1. Using IT in processing and analysing of information, management and financial operations	<ul style="list-style-type: none"> • Programmes of accounting and financial reporting • Local databases • Organisation of municipal services • LSGs web-page and e-mail • Information put on the web-page 	Local IT networks, programmes	<ul style="list-style-type: none"> • LSG does not use IT (0) • LSG use electronic modules of MoF and State Treasury (4) • LSG use electronic modules of MoF , State Treasury and own programmes. (7) • LSG use electronic modules of MoF , State Treasury and own programmes , has a web-based feedback mechanism). (10)
VI. CAPACITY BUILDING OF LSGS SERVANTS			
6.1. Training and improving of qualification	<ul style="list-style-type: none"> • Organised trainings, percentage of public servants included • Period of working time spent for trainings • Trainings delivered to LLC and NPEs • Trainings delivered to council's members 	HR department of LSG	<ul style="list-style-type: none"> • During last 2 years trainings did not delivered to the staff of LSG (0) • Trainings were delivered with donor organisations' support to a part of LSG staff (4) • Trainings are regularly delivered to staff of LSG and local councils (7) • LSG has personal development plan and trainings are delivered to staff (including local council's members, LLCs and NPEs) (10)

Area/Indicators	Criteria	Mean(s) of verification	Assessment methodology/scores
6.2. Staff with financial qualification	<ul style="list-style-type: none"> Staff with financial qualification works in all sectoral departments Financial reporting is available and usable for all departments 	HR department Interviews with sectoral departments	<ul style="list-style-type: none"> Number of staff with financial qualification does not exceed 3, financial reporting is not produced quarterly (0) Staff with financial qualification works only in financial department, financial reporting is produced and submitted to management (4) Staff with financial qualification works in economic profile departments, financial reporting is produced and sent to all department (7) Staff with financial qualification works in economic profile departments and in local council departments, financial reporting is produced and used in managing of municipal programmes. (10)
6.3. Ethics and conflict of interests	<ul style="list-style-type: none"> Code of ethics of public servants Procedures of conflict of interests Notifications regarding conflict of interests 	Internal regulations Law on Public Service Code on Local self-government	<ul style="list-style-type: none"> Internal regulations doesn't set up issues of ethics and conflict of interest (0) Issue of conflict of interests is mentioned in internal regulations of LSG (4) The issue of conflict of interests and ethics is clearly stipulated by internal regulations of LSGs (7) The issue of conflict of interests and ethics is clearly stipulated by internal regulations of LSGs, notifications from staff regarding violations of regulation received and response is done. (10)

DIRECTION: LOCAL FINANCIAL MANAGEMENT BENCHMARKS

Area/Indicators	Criteria	Mean(s) of verification	Assessment methodology/scores
I. FISCAL POLICY			
1.1. Policy framework	Link between priority document, strategy and budget Medium term ceilings of recourses	Annual budget law Priority documents Municipal strategies	<ul style="list-style-type: none"> There is no connection between priority (MTEF) document, strategy and budget (0) Link between priority document, strategy and budget is weak (4) Link between priority document, strategy and budget is strong (7) Link between priority document, strategy and budget is strong and based on the realistic assessment of existed financial and human recourses (10)
1.2. Medium term planning	Role of medium term planning in resource management	Medium term planning document Annual budget law	<ul style="list-style-type: none"> Medium term priority document is not updated regularly (0) Medium term priority document is updated once in an year (4) Financial part of the document is updated according to the main budget adjustment done during the year (7) Financial and programme part of the document is updated according to the main budget adjustment done during the year (10)

Area/Indicators	Criteria	Mean(s) of verification	Assessment methodology/scores
II. BUDGETING METHODS AND CAPACITY			
2.1. Procedure on budget preparation	Participated departments and their involvement	Internal regulations Statute of executive body	<ul style="list-style-type: none"> Budget is prepared by the financial department only (0) Budget is prepared by the financial department only and requested information from other departments (4) Budget is prepared by sectoral departments coordinated by the financial department (7) Budget is prepared by sectoral departments with participation of representatives of local councils, LLCs, NPEs and coordinated by the financial department (10)
2.2. Budget structure	Reflecting municipal competencies and services in the budget	Budget application forms Annual budget law	<ul style="list-style-type: none"> Budget structure includes organisational and economic classification (0) Budget structure includes some information regarding municipal services (4) Budget structure reflects information regarding municipal services (7) Budget structure reflects information regarding municipal services including administration and capital expenditures (10)
2.3. Expected results and indicators what is the objective/goal here?	Reflecting of policy results and products in financial documents	Budget application forms Annual budget law Budget execution report	<ul style="list-style-type: none"> Policy results and indicators are not set up (0) Policy results and indicators are set up partially (4) Policy results and indicators are fully set up for particular programme/service (7) Policy results and indicators are fully set up for particular programme/service , monitoring and reporting of planned results are implemented (10)
2.4. Reflecting of subordinated organisations in the budget structure	Incomes and spendings of subordinated organisations are reflected in the budget structure	Budget application forms Annual budget law	<ul style="list-style-type: none"> Subordinated organisations of the municipality are not reflected in the budget (0) A part of subordinated organisations of the municipality are reflected in the budget (4) Subordinated organisations of the municipality are reflected in the budget (7) Subordinated organisations of the municipality are reflected in the budget with all their incomes and spendings (10)
III BUDGET POLICY			
3.1. Involvement of elected body	The level of understanding of budget objectives by the elected bodies Hearing in the commissions Project lobbying practice	Statutes and internal procedures of the commissions Code on Local self-government	<ul style="list-style-type: none"> Local councils/committees are not involved in the budget preparation process (0) Local councils/committees are minimally involved in the budget process (4) Commissions of local councils review draft budget (7) Commissions of local councils consider review budget and execution reports, actively work with executive authorities in order to reflect all the recommendations in the budget (10)

Area/Indicators	Criteria	Mean(s) of verification	Assessment methodology/scores
3.2. Consideration of major investment projects	Procedures and practice on considerations of major policy and investment decision in local councils Mechanism of consideration with the stakeholders	Internal regulations Agenda and protocols of counsel meetings	<ul style="list-style-type: none"> Local council does not consider investment project (0) Investment projects are considered together with the budget (4) Major investment projects are considered by the council together with the budget (7) Together with the budget major investment projects are considered by the council by the initiation/responsibility of executive power (10)
3.3. Openness of budget documents	Mechanisms of citizen participation Availability of budget documentation Delivery of the budget to citizens in plain language	Internal regulations Municipal web-site	<ul style="list-style-type: none"> Budget documentation is not available for the population (0) The final version of the budget documentation is put on the web-site (4) Initial and final version of the budget documentation is put on the web-site (7) Dates of budget review, related documentation, with minutes of meetings are put on the web-site in plain language (10)

IV. ADMINISTRATION POLICY

4.1. Strategy of decreasing administration costs	Share of administration costs in total expenses Share of salaries in total expenses	Municipal budgets Budget execution reports	<ul style="list-style-type: none"> Administration costs grow during last 3 years without adding new services (0) Administration costs do not change during last 3 years (4) Administration costs have been decreasing during last 3 years without change of salaries share (7) Administration costs have been decreasing during last 3 years accompanied by new services/programmes, salaries share has been increasing (10)
4.2. Involvement of NPEs and NGOs in service delivery	Municipal services implemented by NPEs and NGOs Share of subsidies in total expenditures	Annual budget Financial reports	<ul style="list-style-type: none"> NPEs are not involved into service delivery (0) NPEs established by LSGs are involved into service delivery (4) NPEs established by LSGs are involved into other types of service delivery together with NGOs (7) NPEs established by LSGs are involved into other types and social services delivery together with NGOs. The share of NPEs in annual subsidised expenditures is more than 50% (10)
4.3. IMC	Areas of cooperation The practice of sharing of costs and benefits	Intermunicipal agreements and contracts, tendering documentation	<ul style="list-style-type: none"> No practice of IMC (0) There are negotiations regarding IMC (4) Joint project were implemented or planned (7) Joint project with cost distribution and expected benefits were implemented or planned (10)

V. BUDGET ADJUSTMENTS AND IMPLEMENTATION

5.1. Monitoring over budget implementation	Mechanisms of monitoring over budget implementation Mechanisms of budget reporting	Internal regulations Monitoring and implementation reports	<ul style="list-style-type: none"> No monitoring and reporting of budget implementation (0) Reporting of budget financial execution is in place (4) Reporting of budget financial and programme execution is in place (7) Monitoring and reporting of budget financial and programme execution is in place (10)
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Area/Indicators	Criteria	Mean(s) of verification	Assessment methodology/scores
5.2. Adjustments in approved budget	Frequency of adjustments in the approved budget Periods of adjustments	Changes in local budget during the year	<ul style="list-style-type: none"> Changes in the approved budget exceed 100 items?(0) Changes in the approved budget are included in Q2 of the year (4) Changes in the approved budget are only in case addition state transfers (7) Changes in the approved budget are only in case of the state transfers, not in the final 2 months of the year(10)
5.3. Financial relations between the local government and its subsidiary organisations	Finances and property of the municipality and its subsidiary organisations are distinguished Information regarding the subsidiary organisations is available for the public The issue of management and maintaining of transferred assets is considered Conditions of service delivery for the public are clarified	Statutes of the subsidiary organisations, instructions, orders	<ul style="list-style-type: none"> Finances and property have not been transferred to organisations established by the municipality (0) Finances have been transferred to organisations established by the municipality (4) Finances and property have been transferred to organisations established by the municipality (7) Finances and property have been transferred to organisations established by the municipality Conditions of property management and services delivery exist and their monitoring is implemented. (10)
VI. CONTROL AND REPORTING			
6.1. Internal Audit	The role and competencies of internal audit. Audit plan. Audit recommendations. .	Law on financial control and audit. Internal regulations Reports of audit service.	<ul style="list-style-type: none"> Internal audit office is not established (0) Internal audit office is established (4) Internal audit office is established, annual plan exists (7) Internal audit office operates according to the annual plan, audit recommendations are submitted to executive authorities, the steps toward implementation of the recommendations are done (10)
6.2. Usage of external consultants.	Consultants' involvement in project design, policy, strategy and service design	Contracts with individual consultants and companies	<ul style="list-style-type: none"> Municipality does not use consulting service (0) Municipality use consulting for infrastructure projects design and implementation(4) Municipality use consulting for infrastructure and social projects(7) Municipality use consulting for infrastructure and social projects, policy developing and monitoring (10)
6.3. Reporting to the population	Public discussion of the priorities and budgets. Regularity of meetings regarding local policy.	Minutes of meetings, protocols, mass-media reports	<ul style="list-style-type: none"> LSG does not report to the population (0) LSG executive authorities organise meetings with citizens and consider their needs (4) LSG executive authorities organise meetings with citizens and consider their needs and public meetings (7) At least once in a quarter LSG executive authorities organise meetings with citizens and public meetings, delivers reports on ideas received and considering of citizens notes. (10)

Piloting Local Finance Benchmarking

ABOVYAN MUNICIPALITY

GENERAL INFORMATION ABOUT THE MUNICIPALITY

Akhaltsikhe Municipality is an administrative – territorial unit situated in South Georgia, in Samtskhe Javakheti Region.

The municipality is located in Akhaltsikhe cavern, comprising the Mtkvari River and the Potskhovi valley. The total area of the municipality is 1 010 km², including agricultural plots of land of 410 km². Akhaltsikhe municipality borders with Kharagauli and Borjomi municipalities to the North, Aspindza to the East and Adigeni Municipality to the West. Its South boarder is Georgian-Turkish border.

Akhaltsikhe Municipality is rich in ores. On the territory of the village Muskhi there are diatomite ore deposits. In the villages - Boga and Giorgitsminda there are agate ore deposits, and in the vicinity of Vale and Naokhrebi there is Akhaltsikhe Brown coal ore.

According to the data of 2014 population census, the majority of the population, 20.9 thousand are ethnic Georgians (61%) and the rest 37% are ethnic Armenians.

Industry is the leading field of economy, there are many small extracting and processing enterprises in Akhaltsikhe. The main fields of agriculture are horticulture, viticulture, vegetable growing, livestock and grain crops.

A) LOCAL FINANCE BENCHMARKING: FINANCIAL RESOURCES.

I. COOPERATION WITH THE NATIONAL TAX AUTHORITY IN TAX POLICY DESIGN

	Akhaltsikhe Score	Average Score
Database of tax payers	4	3.29
Local Tax Policy	4	6.57
Openness of decision on introduction of property tax	7	6.57
Share of local taxes in total local revenues	4	4.29
Cumulative Score	4.75	5.18

1.1 Only information about major taxpayers is available in the municipality. The municipality receives information from the State Treasury according to the types of paid taxes without identification of individual taxpayers.

1.2 The amount of tax provided for by the Tax Code of Georgia is equal for property taxpayers. The following are exempted from the obligation of payment of the property tax:

- a) Plots of land attached to the houses which are located at the territory of Akhaltsikhe municipality (including plots of land owned by natural persons and intended for individual house building) whose total area should not exceed 2,000 square meters.
- b) Plots of land attached to garages, whose total area should not exceed 80 square meters

1.3 The resolution of August 22, 2014 on introducing local (property) tax and determination of tax rates on the territory of Akhaltsikhe City Municipality is available on the webpage of the Legislative Herald of Georgia: www.matsne.gov.ge, though the resolution is not accompanied with explanations/financial justifications as to how the rates are calculated and applied.

1.4 Local taxes for Akhaltsikhe Municipality for the year 2016 are expected to be GEL 2.2 million, which is 29% of total budget revenue.

II. FEES, CHARGES AND MISCELLANEOUS REVENUES

	Akhalsikhe Score	Average Score
Fees and cost of services	7	3.86
Tariffs versus demand for services	4	4.00
Revenues from services/fees and permissions vs service costs	0	0.00
Cumulative score	3.6	2.62

2.1 The fees for permits and services are defined by the resolution of Sakrebulo (city assembly): "Resolution on introducing the cleaning fee, determination of the amount (rate) and payment of the cleaning fee in Akhalsikhe City Municipality"

2.2 Most of direct and indirect costs are envisaged in the cleaning fee. The rate for services is differentiated for natural and legal persons; reliefs apply for socially vulnerable population.

2.3 The revenues received from services are not connected with the costs, expenditures exceed revenues and accordingly the service provision is subsidised by the local self-government budget. The situation is the same in other municipalities as well.

III. CAPITAL BUDGET FINANCING

	Akhalsikhe Score	Average Score
Local Capital Project Management	10	7.86
Capital projects are financed from diverse sources	4	4.86
Practice of receiving and managing loans	7	3.86
Cumulative Score	7	5.44

3.1 Local projects are financed from the local budget and the Regional Development Fund. Capital projects are accounted for separately in the budget and the set timelines and financial resources more or less correspond to the actual ones. The total capital expenditure is reflected under programme budget code (03 00) and most projects under sub-codes are implemented within the set timeframe and the envisaged resources are sufficient.

3.2 Capital projects are financed from the municipal budget or from the loans (Municipal Development Fund).

3.3 Since 2009 Akhalsike Municipality has a loan commitment with the Municipal Development Fund, and in 2014 Akhalsikhe became the legal successor of the commitment. The information on the loan taken, the principal amount and the interest rate is available in the budget and financial statements, there is no loan strategy.

IV. LOCAL PROPERTY MANAGEMENT

	Akhalsikhe Score	Average Score
Recording and registration of municipal property	10	7.86
Assets and Liabilities of LSGs	10	7.43
Property management rules	7	7.43
Management of municipal enterprises and NPEs	7	4.86
Cumulative Score	8.5	6.89

4.1 Municipal property is accounted for by the Finance Service and reflected in the balance sheet. The database of the municipal property is in place and it is updated on a regular basis, the share of the registered property in the total assets is more than 70%.

4.2 All financial and non-financial assets are reflected in the Municipality balance, which is based on the inventory data and is subject to depreciation.

4.3 There are Municipality Property Management Rules according to which property is sold and rented.

4.4 The cost and the procedure for funding of services provided by enterprises and non-entrepreneurial (non-commercial) legal entities is defined.

V. IT TECHNOLOGIES

	Akhaltsikhe Score	Average Score
Using IT in processing and analysing of information, management and financial operations	4	6.57
Cumulative Score	4	6.57

5.1 Financial Service of the local self-government units uses modules of the Treasury Service. Unfortunately, it does not have any other software for the processing, analysis, management and performance of financial operations. Moreover, during the interview the representatives of the municipality pointed to the lack of IT staff and improper operating of the web-site.

VI. CAPACITY BUILDING OF LSGS SERVANTS

	Akhaltsikhe Score	Average Score
Training and improving of qualification	10	7.43
Staff with financial qualification	10	7.86
Ethics and conflict of interests	0	3.29
Cumulative Score	6.7	6.19

6.1 The self-governing city has a staff professional development plan and regular trainings are provided by Vano Khukhunaishvili Centre for Effective Governance System and Territorial Arrangement Reform.

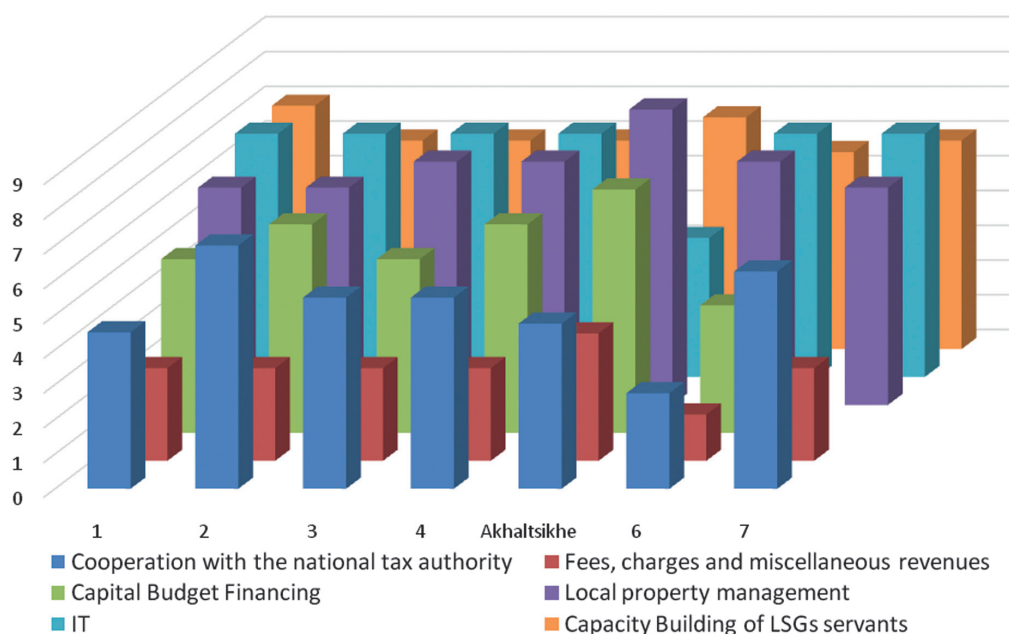
6.2 Employees with financial background work in Finance and Economic Departments, as well as in the Financial Commission of Sakrebulo (city assembly).

6.3 The issues of the code of ethics and the conflict of interests of civil servants are not specified by internal regulations.

The score of the municipality in that field is higher than average.

The chart below represents the position of the city among the pilots in the issues related to the financial recourses. The management of the local property in the municipality is better than in other municipalities, however in terms of using IT services the municipality has the lowest score.

Chart #1: Comparison of LFB pilots in the area of Financial Resources



B) LOCAL FINANCE BENCHMARKING: LOCAL FINANCIAL MANAGEMENT

I. FISCAL POLICY

	Akhalsikhe Score	Average Score
Policy Framework	4	4.86
Medium term planning	10	5.71
Cumulative Score	7	5.29

1.1 The medium term strategy and documents of priorities are in place, however they do not represent a local policy planning tool. The connection between the strategy and the budget is also weak.

1.2 The financial and programming part of the medium-term planning document is updated based on the amendments in annual budget law.

II. BUDGETING METHODS AND CAPACITY

	Akhalsikhe Score	Average Score
Procedure on budget preparation	7	7.43
Budget structure	7	7.43
Expected results and indicators	4	4.43
Reflecting of subordinated organisations in the budget structure	7	5.29
Cumulative Score	6.25	6.14

2.1 All line departments and subordinated entities are involved in the budget preparation process, joint coordination is provided by the Financial Department; subordinated entities submit budget requests.

2.2 The budget is prepared according to functions, economic and administrative classification.

2.3 The policy results and indicators are partially indicated in the budget document.

2.4 The receivables and payables of subordinated entities (Ltd and non-profit legal entities) are consolidated and reflected in the budget.

III. BUDGET POLICY

	Akhalsikhe Score	Average Score
Involvement of the Representative Body	10	7.86
Review of important investment projects	10	7.86
Openness of budget documents publicity	4	5.29
Cumulative Score	8	7.00

3.1 Sakrebulo (city assembly) Commissions review the draft Budget Law and ensure processing of performance reports to reflect in the documents the recommendations expressed with the Executive Government.

3.2 By the initiative/responsibility of the Executive Government jointly with Sakrebulo (city assembly), important investment projects are reviewed during the year, and that is defined by regulations and the statutes of the Commissions.

3.3 The final version of the document is available on the Municipality website and in the social network.

IV. ADMINISTRATIVE POLICY

	Akhaltshikhe Score	Average Score
Strategy for decreasing administration costs	0	4.71
Involvement of NPEs and NGOs in service delivery	4	4.86
Inter-Municipality Cooperation	4	3.71
Cumulative Score	3.7	4.43

4.1 Over the past 3 years, the share of administrative costs of the City Municipality has increased, which is stipulated by receiving the self-governing status.

4.2 New work places were created in the City Hall and Non-entrepreneurial (non-commercial) Legal Entities were established, after moving of the City Hall to the new administrative building utility costs have been added to the administrative costs. The Non-entrepreneurial (non-commercial) Legal Entities established by the local self-government units are involved in service delivery (e.g. pre-school education, cleaning).

4.3 Inter-municipality project is planned to be implemented in the City, namely, "Samtskhe-Javakheti Regional Rugby Club" will be established.

V. BUDGET ADJUSTMENTS AND IMPLEMENTATION

	Akhaltshikhe Score	Average Score
Monitoring over budget implementation and accountability	4	4.86
Adjustments in approved budget	0	3.71
Financial relations between the local government and the organisations established by it.	10	5.71
Cumulative Score	4.7	4.76

5.1 Reporting of the approved budget is performed on a quarterly basis (which is defined by the Budget Law) and submitted to Sakrebulo (city assembly). In addition, the Budgetary Commission of Sakrebulo (city assembly) reviews the budget compliance report on a monthly basis. The compliance report contains financial information as well as reports on implemented activities.

5.2 During the fiscal year approximately 10 amendments are made to the approved budget.

5.3 Organisations established by the Municipality have funds and property. The Resolution on transfer and management of the property regulates the issues of the transfer of property, and regular monitoring is provided for in the statute of Non-entrepreneurial (non-commercial) Legal Entities.

VI. CONTROL AND ACCOUNTABILITY

	Akhaltshikhe Score	Average Score
Internal Audit	10	7.86
Usage of external consultants	4	4.43
Reporting to the population	4	7.00
Cumulative score	6	6.43

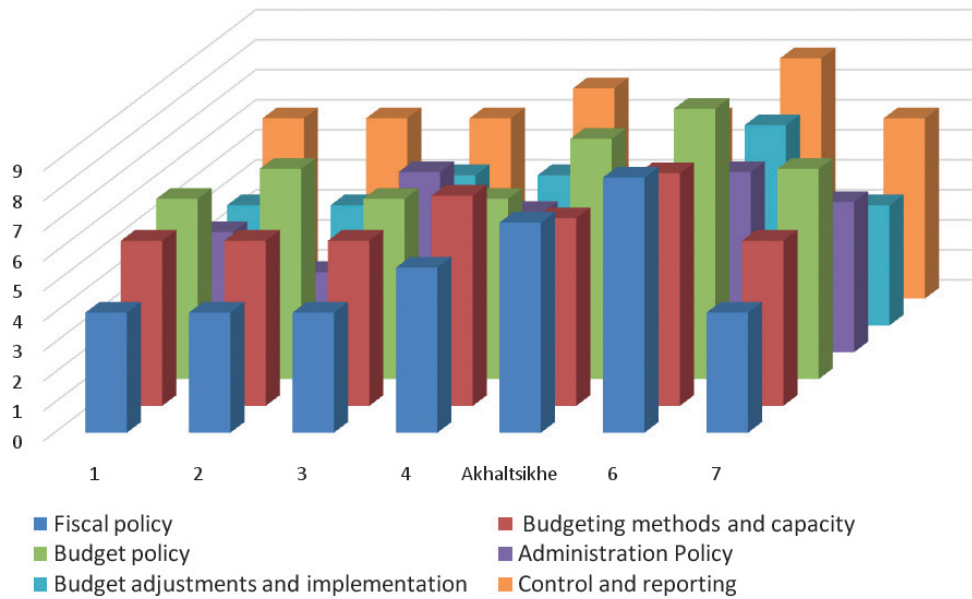
6.1 The Internal Audit Department has an annual working plan and the 3-year Strategic Plan. Audit of line departments is done regularly. The division applies international standards of internal audit and the methodology of the Ministry of Finance. The recommendations of the Internal Audit Department are reviewed and implemented.

6.2 External consultants are invited for infrastructure projects to prepare infrastructure project proposals.

6.3 Regular meetings are held with the population and their needs are recorded, public meetings are organised.

The chart below represents the position of the city in comparison with other pilots in the financial management area. The scores of the budget policy are relatively high but not the highest among municipalities. The level of the control and reporting seems to be relatively low.

Chart #2: Comparison of LFB pilots in the area of Financial Management



RECOMMENDATIONS

- For better planning and effective subsidy assistance, the costs of direct or indirect services should be calculated and this data should be considered in annual planning of service costs.
- It is recommended to ensure the detailed reflection of subordinated entities, as well as their receivables and payables in the budget.
- The website of the local self-government needs to be improved; it should reflect the budget, decisions of local authorities and ensure the feedback of the population.
- Since there are no regulations regarding employee ethics and conflict of interests, it is recommended to elaborate these documents. Examples of other municipalities can be referred to.
- Local self-government should actively work to attract other sources of funding (private investments, grants and loans) for capital projects besides the budget.
- The software needs to be improved (except for the integrated module of the Treasury).
- The tendency of increased administrative costs should reflect the new services added and their efficiency.

BOLNISI MUNICIPALITY

GENERAL INFORMATION ABOUT MUNICIPALITY

Bolnisi is a local self government in East Georgia; its total area is 804.2 km². Bolnisi is a rural municipality rich in mineral resources (Gold). There are favourable conditions for agriculture as well. In terms of local budget revenues, Bolnisi is one of the “richest” municipalities, which does not receive equalisation transfer from the State.

13 administrative-territorial units are united in municipality:

- City of Bolnisi.
- Settlement of Kazreti and village Balichi
- Village Lower Bolnisi
- Villages: Nakhiduri, Khudiskuri, Mukhrani, Balakhauri, Chapali and Mtskneti
- Villages: Mamkhuti, upper Arqevani and Khataveti
- Villages: Akaurta, Dzedzvnariani, Photskveriani, Itsria, Dzveli Qveshi, Geta, Bertari and Senebi
- Villages: Talaveri and Savaneti
- Villages: Darbazi, Tsipori, Khakhalajvari and Chreshi
- Village Tandzia.
- Villages: Ratevani and Zvareti.
- Villages: Qveshi, Javshaniani, Kianeti, Mushevani and Sabereti.
- Villages: rachisubani, Samtredo, Vanati and Khatishopeli
- Villages: Bolnisi, upper Bolnisi, Samtservisi and Poladauri.
- Settlement of Tamarisi, villages: Tsurtavi and Parizi.
- Village Disveli.

As of 2015, 54 thousand inhabitants are registered in Bolnisi municipality. Population density is 98 person/km² that is higher than the country average (67 persons/km²).

A road of national importance (Tbilisi-Marneuli-Guguti highway) crosses the municipality; its total length is 96.4 kilometers. Regional roads are the following: Settlement Tamarisi-Darejan Palace (1.1 km), Bolnisi-Monastery-Tsurugasheni (11.7 km), village Qveshi-Dzedzvnariani-Tanzia (7.8 km). The total length of intra-state roads is 20 km.

Total length of municipal roads is 287.1 km. 140.8 km are of municipal importance and 146.3 km intra-district roads.

There are three irrigation canals and one city canal in Bolnisi municipality. The total length of city canal is 32.9 km. Irrigation infrastructure is servicing the agricultural land with the total area of 2089 hectares. Kazreti, the main irrigation line (15 km. length) is servicing 1045 hectares of agricultural land. The irrigation system is servicing total of 6568 hectares of agricultural land which is 38.7% of arable land.

Forest and shrubs occupy 50% of the municipal territory. Total area of forests is 43,524 hectares.

659 families (4.7 % of the total) in the municipality receive social assistance from the state. There are 493 war veterans in the municipality. 1,199 persons with disabilities are registered in the municipality. 11,258 receive state pensions.

18,265 individual and 53 tenement houses are registered in the municipality. 80% of houses are privatised.

11 kindergartens, 32 public and 2 private schools operate in Bolnisi.

There are 3 sports halls in Bolnisi.

A) LOCAL FINANCE BENCHMARKING: FINANCIAL RESOURCES

I. COOPERATION WITH THE NATIONAL TAX AUTHORITY IN TAX POLICY DESIGN

	Bolnisi score	Average score
1.1 Database of local (income and property) tax payers	0	3.29
1.2 Local tax policy	7	6.57
1.3 Openness of decision on introduction of property tax	7	6.57
1.4 Share of local taxes in total local revenues	4	4.29
Cumulative score	4,5	5.18

1.1 All taxes are collected by the Revenue Service of the Ministry of Finance of Georgia. Municipalities do not have a direct access to the database of tax authorities. Hence, local self-governments do not know the amount declared by taxpayers. During the interview, municipal representatives noted that the information about actual payments per legal and individual person (paying Property tax and Personal Income tax) is not available to the municipality. The finance department receives cumulative data from the Central Treasury without identification of individual taxpayers.

1.2 According to the Tax Code of Georgia, the only local tax is a property tax levied on property and land. Property tax is introduced within limits. The Maximum rate 1% applies to companies but for groups of population it is differentiated.

1.3 The resolution #27 of March 21, 2016 of Sakrebulo (city assembly) on establishment of property tax rates is available on the webpage of the Legislative Herald of Georgia: www.matsne.gov.ge, though the resolution is not accompanied with explanations/financial justifications as to how the rates are calculated and applied.

During the interview, municipal authorities noted that property tax rates are designed to promote local economic activities and minimise burden for socially vulnerable groups.

1.4 Local taxes for Bolnisi municipality for the year 2016 are expected to be GEL 2.8 million, which is 18% of the total budget revenues. It is worth noting that environmental fee for using natural resources amounts to GEL12.5 million, which is 77% of local revenues. Even though the tax revenues of Bolnisi municipality are the lowest among the pilots, due to high income from non-tax revenues Bolnisi municipality is one of the strongest local self-governments in terms of financial independence.

The score for the local tax policy is below the average. Compared to other LFBs, Bolnisi collects limited information on taxpayers.

Recommendations:

- Improve cooperation with the Revenue Service in order to create taxpayer database
- Better utilise the State Treasury electronic modules that provide limited, but useful information on individual taxpayers

II. FEES, CHARGES AND MISCELLANEOUS REVENUES

	Bolnisi score	Average score
2.1 Fees and cost of services	4	3.86
2.2 Tariffs vs demand for services	4	4.00
2.3 Revenues from services, fees and permissions vs service costs	0	0.00
Cumulative score	2.66	2.62

2.1 The fees for permits and services are defined by the following resolutions of Sakrebulo:

- On defining the rates and reliefs for passenger tickets on local buses (M3 category) falling within the regulated spheres of economy of Bolnisi Municipality administrative borders

- On approval of introducing and issuance of a permit for placement of advertisement banners
- On introducing and determination of the rate of fees for gambling business at the territory of Bolnisi municipality

2.2 The methodology for calculating service fees does not exist. According to the explanation of a representative of the Department for Infrastructure and Economy, the amount of fee reflects only part of direct service costs.

2.3 According to local regulations, transport tickets are free for schoolchildren, war veterans and IDPs (internally displayed persons).

2.3 Representatives of Finance and Economy departments state that revenues from service fees are not enough to finance even direct costs.

For example, the cost of street cleaning service is GEL 700 thousand for Bolnisi budget, while revenues from service provision (levied only on companies) are less than GEL100 thousand. The companies providing services (commercial and non-commercial entities established by the municipality) receive subsidies from the municipal budget in order to cover the gap between the revenues and expenditures.

The cumulative score for fees and services is close to the average score for pilots.

Recommendations:

- Revise tariffs in order to reflect at least direct costs
- Improve the rate of the fee for garbage collection from households

III. CAPITAL BUDGET FINANCING

	Bolnisi score	Average score
3.1 Local capital projects' management	7	7.86
3.2 Capital projects are financed from diverse sources	4	4.86
3.3 Practice of receiving and management of loans	4	3.86
Cumulative score	5	5.44

3.1 Bolnisi is making use of various sources for financing local capital investment projects, including from the local budget. Other source for funding is mainly the State government fund (Regional Development Fund, a budget line in the state budget).

3.2 The total value of capital projects is given in the annual budget of Bolnisi municipality that is approved by Sakrebulo. Capital expenditures are being included in the local budget only by sources of financing. The list of projects (with detailed costing) to be implemented during the fiscal year is available only in the finance department. Most of the projects are implemented within predefined timeline. 5-10% of planned projects are changed/modified during the implementation phase.

3.3 Bolnisi municipality takes loans for capital projects from Municipal Development Fund (entity under the Ministry for Regional Development and Infrastructure). During the year of 2016 GEL 269.7 thousand is budgeted for loan repayment. However, the budget data does not indicate details, such as the total amount of loan, interest rate, grace period, etc.

The cumulative score of capital budget financing is 5.0 that is slightly lower than the average score of pilots.

Recommendations:

- Include the list of capital projects into the annual budget
- Indicate the information regarding municipal loans taken from Municipal Development Fund (list of loans, source, grace period, purpose of the loan, anticipated results after capital project implementation) in the annual budget and on the website

IV. LOCAL PROPERTY MANAGEMENT

	Bolnisi score	Average score
4.1 Recording and registration of municipal property	7	7.86
4.2 Assets and Liabilities of LSGs	7	7.43
4.3 rules of property management	7	7.43
4.4 Management of municipal enterprises and NPEs	4	4.86
Cumulative score	6.25	6.89

4.1 Municipal property is accounted for by the Finance Department. Municipal property includes buildings, local infrastructure facilities (roads, parks, irrigation canals), non-agricultural land.

4.2 The value of total property is also reflected in the annual financial statements. Special registration numbers are assigned to the property items and they are subject to periodic inventory-taking.

4.3 Rules for municipal property management are defined by the regulation of Sakrebulo:

- On determination of the initial rate of rent when transferring property owned by Bolnisi Municipality with the right of use
- On determination of normative price of owned by local state and self-government unit of Bolnisi

Contracts are concluded between the municipality and municipality founded companies. There are two types of companies: commercial and non-commercial entities. Sport schools, kindergartens, musical schools, museums, libraries and theatres are established as non-commercial organisations. Cleaning, street lighting, public health, funeral services are provided by commercial organisations.

Contracts concluded between municipality and subordinated companies determine only the amount to be allocated to the municipal company from the budget. The statutes of companies define the list and type of services to be provided.

4.4 Property used by municipal entities (land, buildings, infrastructure) is managed by the Department of Economy. Subsidiary organisations do not have financial capacity to purchase or upgrade capital assets they use. Capital infrastructure is rehabilitated from the municipal budget.

Recommendations:

- Introduce performance measures to subsidiary organisations and manage their performance
- Delegate property and finances for their maintenance

V. IT TECHNOLOGIES

	Bolnisi score	Average score
5.1 Using IT in processing and analysing of information, management and financial operations	7	6.57
Cumulative score	7	6.57

Bolnisi municipality uses IT programmes (for budget planning and execution, e-treasury) developed by the State Treasury. E-programme for property accounting was purchased from a private IT developer. The valuation of property is done manually and entered into the system later on.

Bolnisi municipality has a website www.bolnisi.gov.ge that is regularly updated and maintained. In 2015 the municipality joined the initiative on open data and approved the resolution of "proactive publication of public information". There is a section on the website devoted to public information where the minutes of meetings of different Committees are published. On the website, the budget for the year of 2016 is also available; however, this is the only available document. Budgets for previous years or compliance reports are not available online.

The cumulative score for this section is 7.0 that is higher than the average score of other pilots.

Recommendations:

- Upload budget related data (draft budget, priorities document, budget compliance reports) on the website

VI. CAPACITY BUILDING OF LSGS SERVANTS

	Bolnisi score	Average score
6.1 Training and improving of qualification	7	7.43
6.2 Staff with financial qualification	7	7.86
6.3 Ethics and conflict of interests	7	3.29
Cumulative score	7	6.19

6.1 Municipal staff participates in various trainings financed through international donor organisations. In 2015-2016 the employees of the financial department participated in seminars devoted to strategic planning, programme budgeting. Finance Academy of MoF organised training on how to use electronic modules for budget planning and execution, treasury.

In addition, 1% of the municipal budget is allocated for capacity building activities.

6.2 Employees with financial background work in Finance and Economic Departments. Other departments do not require staff with financial background. Financial specialist also works in the office of Sakrebulo (Budget Commission).

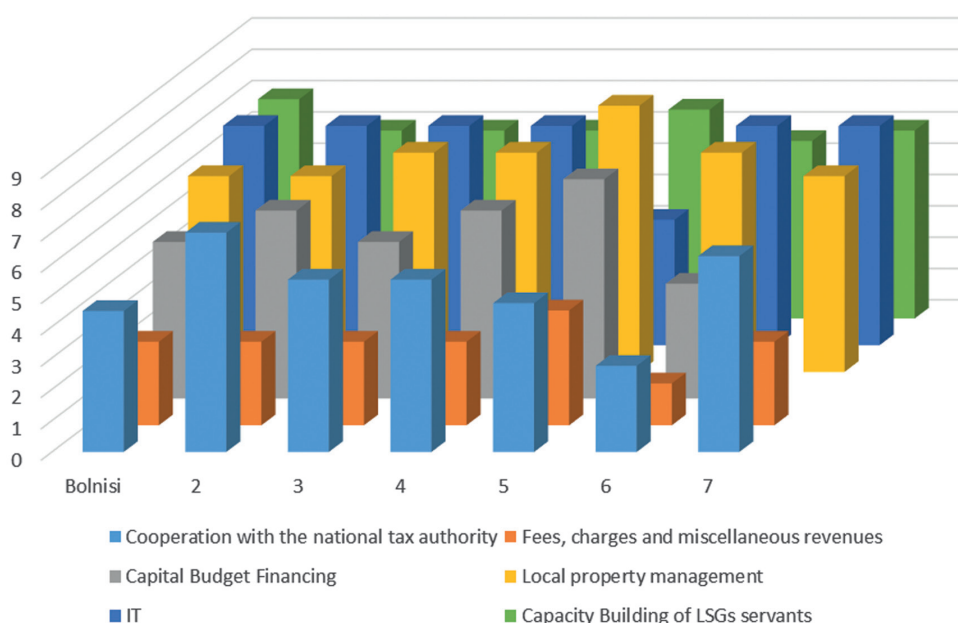
6.3 The draft Code of Conduct has been elaborated by the audit department. It is planned to have the Code approved by Sakrebulo.

The cumulative score for this section is 7 which is higher than the average score of pilot municipalities.

Recommendations:

- Approve the Code of Conduct

Chart #1: Comparison of LFB pilots in the area of Financial Resources



B) LOCAL FINANCE BENCHMARKING: LOCAL FINANCIAL MANAGEMENT

I. FISCAL POLICY

	Bolnisi score	Average score
1.1 Policy framework	4	4.86
1.2 Medium term planning	4	5.71
Cumulative score	4	5.29

1.1 The medium term strategy and documents of priorities are in place, however they do not represent a local policy planning tool. The strategic documents are not available on the website. During the interviews, municipal representatives noted that the connection between the strategy and the budget is also weak. Strategy/priorities document is not fully developed. Apart from the municipal strategy, there is regional (Kvemo Kartli) development strategy and State (central) strategy for regional development. Bolnisi tries to align more to State strategy for regional development because this is one of the preconditions for receipt of financing from Regional Development fund.

1.2 Medium term revenue planning is done based on the data coming from the MoF. During the interviews, finance department staff noted that fiscal parameters are difficult to forecast in the period of economic fragility. As an example, total amount of revenues from Personal Income Tax, which is projected based on the MoF recommendation does not seem to be accurate and will not be collected in full.

The cumulative score for this section is 4 which is below the average score of pilot local self-government units.

Recommendations:

- Publish Strategy/priorities document at the website
- Evaluate all the actions envisaged by the Strategic Development Plan that shall be financed from the municipal budget

II BUDGETING METHODS AND CAPACITY

	Bolnisi score	Average score
2.1 Procedure on budget preparation	7	7.43
2.2 Budget structure	7	7.43
2.3 Expected results and indicators	4	4.43
2.4 Reflecting of subordinated organisations in the budget structure	4	5.29
Cumulative score	5.5	6.14

2.1 The Finance department plays a leading role in the budgetary process. All line departments and subordinated entities are involved in the budget preparation process. The budget parameters are discussed with the MoF too. Governor (Head of executive unit) is in charge of submitting budget documents to Sakrebulo.

2.2 The annual budget is prepared according to organisational, functional classification and by economic categories. The Finance department uses budget classification forms that are approved by the Ministry of Finance.

2.3 The budget document contains a part related to priorities and programmes. Municipal programmes are united under five priorities (public order, rehabilitation of infrastructure, education, culture and health-care). Each programme contains a description of activities, however expected results and measurement indicators are not indicated.

2.4 The own revenues and expenditures of commercial and non-commercial entities are not reflected in the budget. The budget shows only the amount allocated to each municipal organisation in the form of a subsidy.

The cumulative score for this section is 5.5 which is lower than the average score for LFB pilots.

Recommendations

- Issue a decree that will formalise the roles and responsibilities of finance department and line departments during the budget preparation process
- Improve the format of the programme budget and indicate expected results and measurement indicators for each of it.

III. BUDGET POLICY

	Bolnisi score	Average score
3.1 Involvement of elected body	7	7.86
3.2 Consideration of major investment projects	7	7.86
3.3 Openness of budget documents	4	5.29
Cumulative score	6	7.00

3.1 Sakrebulo commissions and fractions are involved in the budgeting processes. There are five committees:

- Committee for spatial planning and infrastructure
- Committee for social issues
- Committee for procedural issues and ethics
- Committee for economy and property management
- Finance Committee

Committees are involved in the discussions of the budget after the executive presents the draft annual budget. It is worth noting that certain members of Sakrebulo do not speak Georgian well (communicate in Azeri or in Russian, while documents are drawn up only in the national language) and their contribution in the discussions is limited.

3.2 Capital and investment projects are discussed at the committee for spatial planning and infrastructure. The minutes of the meetings and the decision of the Committee are uploaded (not regularly) on the webpage of Bolnisi municipality.

3.3 The budget of Bolnisi municipality for the year 2016 is available on the local self-government webpage: www.bolnisi.gov.ge. Unfortunately, the budget of previous years, as well as compliance reports are not available to the public.

Cumulative score for this section is 6 which is lower than the average score for LFB pilots.

Recommendations:

Make budget documents, in-year amendments and budget compliance reports available to the public (through the website).

IV ADMINISTRATIVE POLICY

	Bolnisi score	Average score
4.1 Strategy of decreasing administration costs	4	4.71
4.2 Involvement of NPEs and NGOs in service delivery	4	4.86
4.3 IMC	4	3.71
Cumulative score	4	4.43

4.1 Over the past three years, the share of administrative expenses in the total budget has increased. It is worth noting that new services (kindergartens) have been added, which is one of the reasons of increase.

4.2 Non-commercial entities established by the municipality provide social and cultural services. There is no practice of involvement of NGOs.

4.3 Inter-municipal cooperation is planned with Marneuli municipality in the area of solid waste management.

The cumulative score for this section is 4 which is lower than the average score of LFB pilots.

Recommendations:

- Invite NGOs during the budget preparation process for consultation
- Involve NGOs in the monitoring of the service delivery process

V. BUDGET ADJUSTMENTS AND IMPLEMENTATION

	Bolnisi score	Average score
5.1 Monitoring over budget implementation	4	4.86
5.2 Adjustments in approved budget	4	3.71
5.3 Financial relations between the local government and its subsidiary organisations	4	5.71
Cumulative score	4	4.76

5.1 Reporting of the approved budget is done on a quarterly basis and submitted to Sakrebulo. The compliance report contains financial information as well as reports on implemented activities.

5.2 Amendments to the approved budget are made periodically. The reason for amendments is an ad hoc financing coming from the state budget. Another reason for amendments to the budget is saving financial appropriations as a result of conducted tenders..

5.3 Municipal organisations do not own any property. All property is owned by municipality and given to subordinated entities on the basis of (non-cost) lease agreements. Renovation and investment of property is done in a centralised way. Financial relations between municipality and subordinated entities are based only on financing in the form of subsidies.

The cumulative score for this section is 4 which is lower than the average score for LFB pilots.

Recommendations:

- Transfer property and funding for maintenance to municipal organisations
- Revise service fee rates which are the major source of “own” revenues for subordinated entities

VI CONTROL AND ACCOUNTABILITY

	Bolnisi score	Average score
Internal Audit	7	7.86
Usage of external consultants	4	4.43
Reporting to the population	7	7.00
Cumulative score	6	6.43

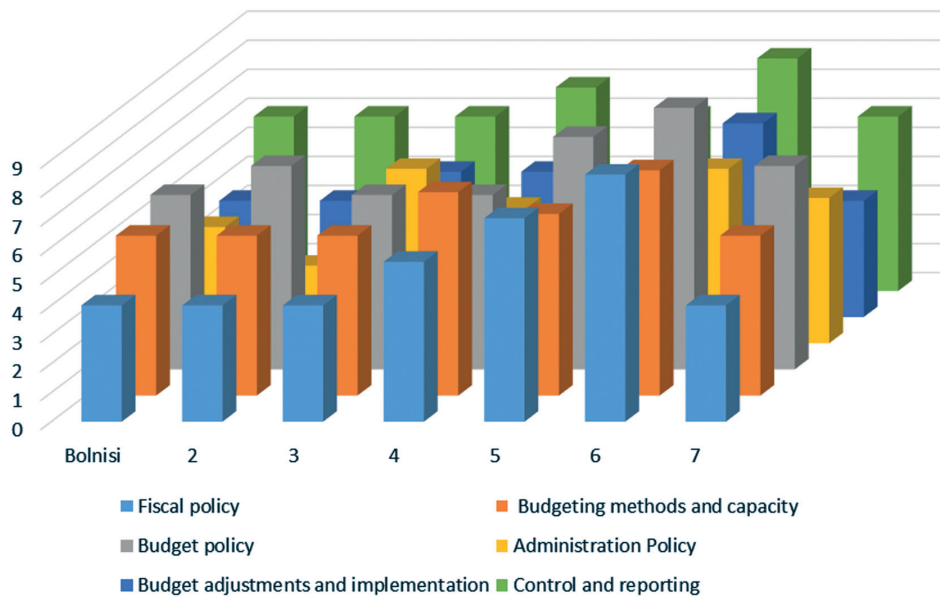
6.1 The Internal Audit department was established in 2015. The department has an annual working plan approved by the Governor. Audit of line departments is carried out on a regular basis.

6.2 External consultants are invited for infrastructure projects to prepare infrastructure project proposals.

6.3 Meetings with population are held regularly and their requests and feedback are recorded. The Governor has open hours to meet citizens once per week.

The cumulative score for this section is 6 which is lower than the average score of LFB pilots.

Chart #2: Comparison of LFB pilots in the area of Financial Management



SUMMARY OF RECOMMENDATIONS

- Local tax and fee rates should be revised. After studying local socio-economic situation, rates should be calculated based on local policy needs. Service tariffs should be linked to service (direct and indirect) costs.
- Rates for service charges and fees should be revised in order to reflect at least direct costs. The rate of fee collection from households should be improved.
- The revenues and expenditures of municipality established enterprises and non-commercial entities should be reflected in the budget.
- Performance measures to subsidiary organisations should be introduced and their performance managed. Property and finances should be delegated for their maintenance.
- Municipal budget, budget amendments, statutes of Sakrebulo should be uploaded at the website of the municipality. Explanatory notes should also be attached to each legal act.
- Information on municipal loans taken from Municipal Development Fund, as well as the debt repayment timeline should be uploaded to the municipal webpage (can be part of the annual budget)
- Finance department staff should be trained in State Treasury IT programmes. The staff should be able to extract information on Property and Personal Income taxpayers and seek to identify those legal or individual persons who avoid payment of taxes.
- The programme budget format should be improved, expected results and measurement indicators given for each of them.

GORI MUNICIPALITY

GENERAL INFORMATION ABOUT MUNICIPALITY

Gori is a self-governing city and an administrative centre of Georgia; it is located at the confluence of the rivers Mtkvari and Liakhvi. The city is situated on a hollow spot, at the edge of the southern part of the Gori Plain, within 585-600 meters above the sea level.

The total area of the City of Gori Municipality is 20.8 sq.km and it is 75 kilometres away from Tbilisi, the capital of Georgia.

The total area of the city of Gori is 20.8 sq.km and 9.5 square kilometres cover the urban territory;

The city is divided into 11 administrative units:

- 1st District of the central settlement;
- 2nd District of the central settlement;
- 1st District of the Kombinati Settlement
- 2nd District of the Kombinati Settlement
- Settlement of Chala- Tskarosubani;
- Settlement of Sadguri - Electrification
- 1st District of Tsmindatskali
- 2nd District of Tsmindatskali (Vologda)
- Settlement of Verkhvebi
- Settlement of Kvernaqi
- IDP Settlement

The population of the Municipality is 49 522, out of which 44 962 are representatives of the local population and 4 560 are internally displaced persons (IDPs). The main sectors of employment are: trade, provision of services and public service.

Gori is located at the intersection of several important highways. The road of International Importance S -1, Tbilisi-Senaki-Leselidze crosses it 3 km away from the city centre.

The road of international importance S-10, Gori (interchange) -Tskhinvali-Gupta-Java-Roki starts from Gori. The road of national importance Sh-29: "Zahesi Kavtiskhevi Mtskheta –Gori –Skra -Kareli-Osiauri "and Sh-24, Gori- Tskhinvali-Varian" Highways passes across the territory of Gori (1.5 km within the city boundaries). City of Gori represents one of the key cities of Transcaucasian railway, from which the railway leading towards the direction of Tskhinvali starts. The road system of the city covers 199 streets. The total length of the road network is 120.2 km.

Natural gas supply is provided to the city by Ltd Socar Georgia Gas-Kartli", 85,5% of the population receives gas supply. Water supply and sewage drainage system of the City are managed by Ltd "United Water Supply Company". 100% of the City urban area is covered by water supply network. Supply of electricity of the city is provided by JSC "Energo Pro Georgia". 100% of the population - 19190 families receive power supply.

To the South – East of the city across 700 meters there is a dump, which occupies an area of 6 hectares, and at present serves both the city and the municipalities of Gori and Kareli.

58% of the urban population lives in multi-story, multi apartment residential houses, with the total number of 318 buildings. Part of the city population - 42% lives in individual (private) houses.

LOCAL FINANCE BENCHMARKING: FINANCIAL RESOURCES

I. COOPERATION WITH THE NATIONAL TAX AUTHORITY IN TAX POLICY DESIGN

	Gori score	Average score
1.1 Database of local (income and property) tax payers	0	3.29
1.2 Local tax policy	7	6.57
1.3 Openness of decision on introduction of property tax	4	6.57
1.4 Share of local taxes in total local revenues	0	4.29
Cumulative score	5.5	5.18

1.1 The information about local (property and income tax) tax payers is not available to the municipality. The finance department receives cumulative data from the State Treasury without identification of individual taxpayers. Gori municipality has limited access to the tax payers' database in general and compared to other municipalities and its access is average across the pilots. Some municipalities have better access to the database. The level of accessibility of the database to municipalities depends on the professional links between the municipality and employees of the Revenue Service.

1.2 The property tax is introduced within the limits defined by the Tax Code of Georgia. The property tax is differentiated according to the income of natural persons and according to non-agricultural land – zones. Taxes on 1 ha of arable and pasture land are also differentiated.

1.3 The resolution of Gori Sakrebulo (city assembly) #50 of July 3, 2016 on establishment of property tax rates is available on the webpage of the Legislative Herald of Georgia: www.matsne.gov.ge and the information is public. Though the resolution is not accompanied with explanations/financial justifications as to how the rates are calculated and applied and it is not placed on the Municipality website.

1.4 Local taxes for the year of 2016 are expected to be GEL 3.4 million, which is only 23% of the total revenues, which is lower compared to the average across the pilot municipalities.

II. FEES, CHARGES AND MISCELLANEOUS REVENUES

	Gori score	Average score
Fees and cost of services	0	3.86
Tariffs vs demand for services	4	4.00
Revenues from services, fees and permissions vs service costs	0	0.00
Cumulative score	1.3	2.62

2.1 The resolution of Gori Sakrebulo of February 27, 2015 and amendments made to the same resolution regulate the rule of introduction and payment of local fees at the territory of Gori municipality, though as employees of Finance and Economy departments stated the service revenues are not calculated. That is why the municipality received the minimum score.

2.2 Special groups of people are exempt from the cleaning fee, these are: persons with disabilities; the families of those missing and killed in military actions for territorial integrity; the families registered in the unified database of socially vulnerable people who received 35 000 points or less: large families (four or more children); homeless, elderly and children's shelters. Although there is an exemption of the vulnerable groups of population, it is difficult to say that the economic policy of local authorities is reflected in the fees for services.

2.3 As the revenues received from services are not connected to the service costs, and the value of the service is not calculated, consequently the provision of services is subsidised by the local self-government budget. This is the case for all the pilot municipalities.

III. CAPITAL BUDGETING

	Gori score	Average score
Local capital projects' management	7	7.86
Capital projects are financed from diverse sources	4	4.86
Practice of receiving and management of loans	0	3.86
Cumulative score	3.7	5.44

3.1 Capital projects are accounted for separately in the budget and the set timelines and financial resources more or less correspond to the actual ones. The total capital costs are reflected under programming budget 3.1

3.2 Local projects are financed from 2 sources: the local budget and the Regional Development Fund, representing the spending line in the State budget.

Projects under the code (03 00) and most projects under the sub-codes are implemented within the set timeframe and the envisaged resources are sufficient.

3.3 The city currently does not have any loans¹, therefore its assessment is impossible.

IV. LOCAL PROPERTY MANAGEMENT

	Gori Score	Average score
Recording and registration of municipal property	4	7.86
Assets and Liabilities of LSGs	7	7.43
Rules of property management	10	7.43
Management of municipal enterprises and NPEs	7	4.86
Cumulative score	7	6.89

4.1 In Gori Municipality information about property is in place to some extent. There is no database of the municipal property.

4.2 All financial and non-financial assets are reflected in the Municipality balance, which is based on the inventory-taking data and is subject to depreciation. The real value of the assets cannot be assessed as the evaluation of assets is not done; however, this is more an accounting problem.

4.3 The Property Management Rule is established by the resolution of the city council – Sakrebulo and the property is fully managed according to this rule.

4.4 Contracts concluded with municipality enterprises, which determine conditions for property maintenance, are based on a subsidy allocated during the year from the budget. The list of services to be delivered is defined in the statutes of enterprises and Non-entrepreneurial (non-commercial) Legal Entities; an acceptance act is issued after verification of quality, though separate quality control regulatory procedures are not set out.

V. IT TECHNOLOGIES

	Gori Score	Average score
Using IT in processing and analyzing of information, management and financial operations	7	6.57
Cumulative score	7	6.57

5.1 The Financial Department of the municipality uses programmes of the Treasury Service. Own electronic programmes are used for accounting, but the data and feedback from the web site are not available.

¹ The city has not taken any loans, therefore the assessment of the practice of receiving and managing loans is impossible.

VI. CAPACITY BUILDING OF LSGS SERVANTS

	Gori Score	Average score
Training and improving of qualification	7	7.43
Staff with financial qualification	10	7.86
Ethics and conflict of interests	0	3.29
Cumulative score	5.6	6.19

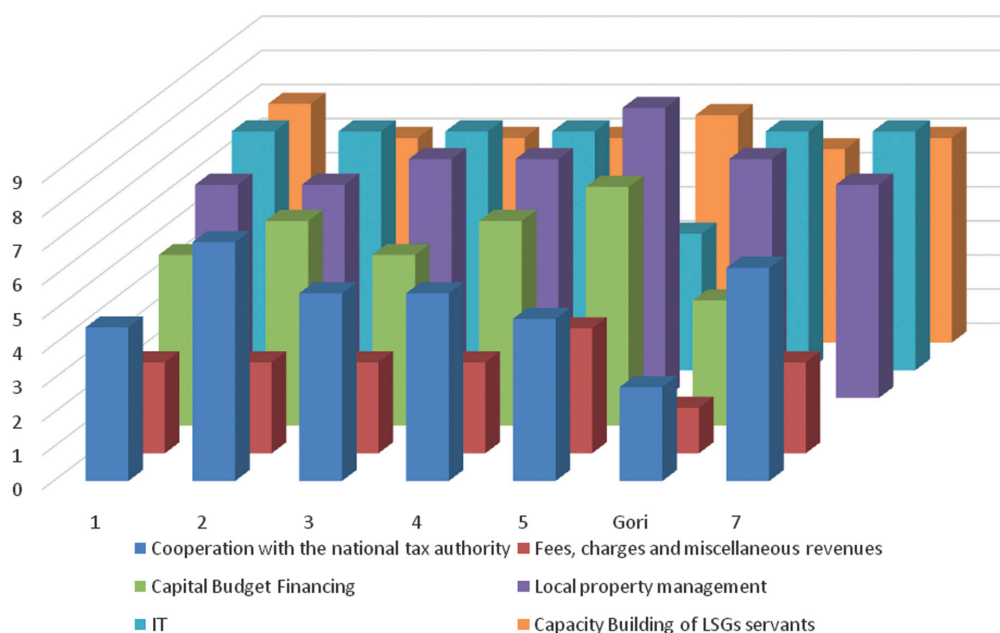
6.1 Municipal staff participates in various training programmes financed through international donor organisations. 1% from the municipality budget salary fund is also allocated for training of civil servants.

6.2 Staff with financial background/qualification occupies executive positions in Finance and Economic Departments, also in the financial commission of Sakrebulo.

6.3 The code of ethics and the issues of the conflict of interests of civil servants are not defined by internal regulations.

The chart below illustrates the place which Gori occupies among the pilot municipalities in the area of financial resources. The city has the highest position in local property management and IT, and at the same time one of the lowest scores in fees, charges and miscellaneous revenues, since there is no sound approach to their evaluation and application.

Chart #1: Comparison of LFB pilots in the area of Financial Resources



B) LOCAL FINANCE BENCHMARKING: LOCAL FINANCIAL MANAGEMENT

I. FISCAL POLICY

	Gori Score	Average Score
Policy framework	7	4.86
Medium term planning	10	5.71
Cumulative score	8.5	5.29

1.1 The medium term strategy and documents of priorities are in place, however they do not represent a local policy planning tool. The connection between the strategy and the budget is also weak.

1.2 The financial and programming part of the medium-term planning document is updated based on the amendments in annual budget law .

II. BUDGETING PRACTICE

	Gori Score	Average Score
Procedure on budget preparation	10	7.43
Budget structure	10	7.43
Expected results and indicators	4	4.43
Reflecting of subordinated organisations in the budget structure	7	5.29
Cumulative score	7.8	6.14

2.1 All line departments and subordinated entities are involved in the budget preparation process, joint coordination is provided by the Financial Department; subordinated entities submit budget requests.

2.2 The budget is prepared according to organisational, functional classification and according to economic categories. The revenues of subordinated organisations are consolidated and reflected in the budget.

2.3 The policy results and indicators are partially specified for each programmes/service, monitoring and accounting for the planned results are implemented.

2.4 The organisations under the Municipality, all their receivables and payables are consolidated and reflected in the budget.

The budgeting practice seems to be better than average across the pilot municipalities.

III. BUDGETING PROCESS

	Gori score	Average Score
Involvement of elected body	10	7.86
Consideration of major investment projects	10	7.86
Openness of budget documents	7	5.29
Cumulative score	9	7.00

3.1 Sakrebulo commissions review the draft Budget Law and ensure processing of performance reports to reflect in the documents all the recommendations expressed with the Executive Government.

3.2 By the initiative/responsibility of the Executive Government jointly with Sakrebulo, important investment projects are reviewed during the year.

3.3 The budget is considered in the Centre for Civic Involvement, its initial and final versions are published in the newspaper and on the website, but some documents, like budget compliance reports are not public.

The level of the budget process transparency is higher compared to the average level, however all the budget related documents should be accessible for the wide public.

IV. ADMINISTRATIVE POLICY

	Gori score	Average Score
Strategy of decreasing administration costs	7	4.71
Involvement of NPEs and NGOs in service delivery	7	4.86
Inter-Municipality Cooperation	4	3.71
Cumulative score	6	4.43

4.1 Over the past 3 years, the share of administrative costs of the Municipality has decreased and the share of labour remuneration stays the same. No new services have been introduced. The non-entrepreneurial (non-commercial) Legal Entities and NGOs (based on co-financing) are involved in service delivery.

4.2 Negotiations are in progress regarding the inter-municipal project.

V. BUDGET ADJUSTMENTS AND IMPLEMENTATION

	Gori score	Average Score
Monitoring over budget implementation	10	4.86
Adjustments in approved budget	0	3.71
Financial relations between the local government and its subsidiary organisations	10	5.71
Cumulative score	6.7	4.76

5.1 The financial and programming monitoring of the budget compliance is carried out. The Mayor of Gori Municipality assigns monitoring of various programmes to the relevant departments by means of orders.

5.2 During a fiscal year approximately 10 amendments are made to the approved budget, which is a very low rate among the pilot municipalities and indicates to the fact that there are some problems in the budget planning.

5.3 Property has been handed over for the use to the organisations established by the Municipality. Funding of the subordinated organisations is determined by the budget each year.

VI. CONTROL AND ACCOUNTABILITY

	Gori score	Average Score
Internal Audit	10	7.86
Use of external consultants	4	4.43
Reporting to the population	10	7.00
Cumulative score	8	6.43

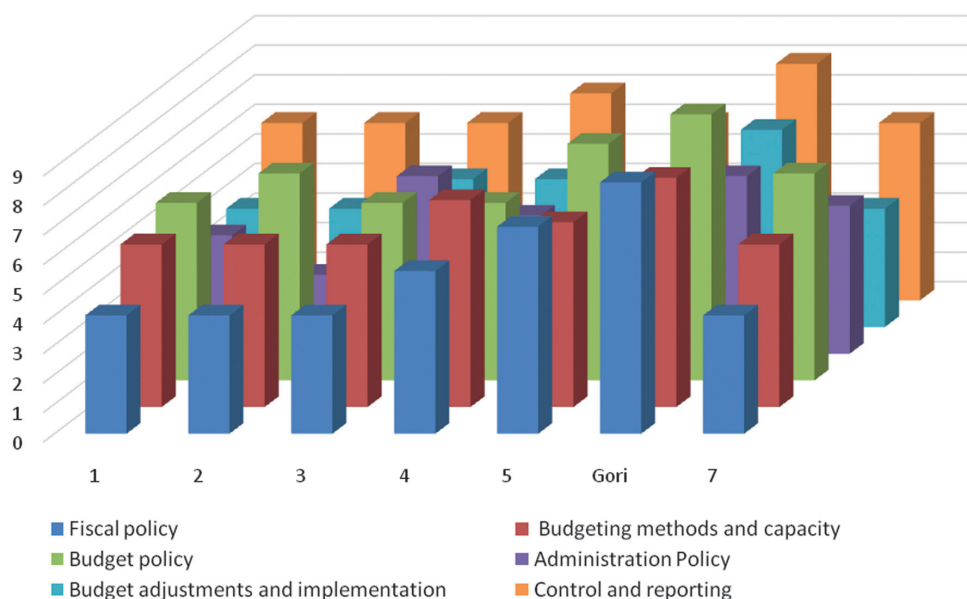
6.1 The Internal Audit Department is in place and it has its own annual plan. The implemented audit recommendations are presented to Municipal Board. For the implementation of recommendations certain activities are undertaken.

6.2 External consultants are invited for infrastructure projects to prepare infrastructure project proposals.

6.3 Municipality officials hold regular meetings (at least one in a quarter) with the population and deliver reports on taking into consideration of the received opinions and feedback.

The chart below represents the place of the self-governing city among the pilot ones. The city holds the highest position in control and reporting, as well as fiscal and budget policies, while administration is the lowest among Gori scores, but not the lowest among other municipalities.

Chart #2: Comparison of LFB pilots in the area of Financial Management



RECOMMENDATIONS

- The municipality should have access to the database of the income taxpayers for improving the budget planning process.
- For better planning and effective subsidy assistance, the costs of direct or indirect services should be counted and this data on service costs be considered during annual planning.
- The subordinated entities, in particular, their revenues and expenditures, should be reflected in the budget
- For more transparency the budget, various resolutions and the feedback of the population should be available at the website of the local self-government unit.
- Since there is no manual for employee ethics and regulation on conflict of interests, development of this documentation is desirable. Examples of other municipalities can be used.
- It is recommended to intensify the work on inter-municipal projects (development of more than one project).
- The local self-government should actively work to attract other sources of funding of capital projects (private investments, grants and loans) besides the budget.

KUTAISI MUNICIPALITY

GENERAL INFORMATION ABOUT MUNICIPALITY

The Parliament of Georgia is located in the City of Kutaisi. Kutaisi is the administrative centre of Imereti Region and it is located in the centre of the Western Georgia.

Currently Kutaisi covers the area of 65 km² within its borders and runs 7.9 km from the north to the south, and 10 km from the east to the west. The perimeter of the city is 64 km and the distance between two farthest spots is 14 km. 55 km² of the city is urbanised. The recreation zone is located on 221 hectares, while parks occupy 12 ha (2 locations), public gardens – 20.4 ha (442 locations), gardens – 4 ha (4 locations), lawns – 94.0 ha (86 locations), the botanic garden (16.0 ha) and plants in dwelling areas and institutions – about 65 ha. The length of the city roads is 231.3 km.

According to the census for the year 2014, there are 147.6 thousand residents in the self-governing city of Kutaisi. The density of population is 2 293 people per km² that is much higher than the average indicator. 99.84 % of the population are connected to water supply system, however only 24 % have 24 hours' water supply. Natural gas is available to 92% of the population.

Kutaisi is located on the cross of several roads: Kutaisi-Tskaltubo-Tsageri-Lentekhi, Kutaisi-Bagdadi-Vani, Kutaisi-Tkibuli-Ambrolauri. The road Zestafoni-Kutaisi-Samtredia is very important for further development of the city.

There is a railway station in Kutaisi with regular railway communication between Tbilisi and Batumi. Kopitnari airport is located 18 km away from Kutaisi. There are 6 operating auto car stations. The road communication between Kutaisi and other large cities of Georgia is provided by at least 1 regular bus per each route.

According to the data for the year 2015 there are 115 health care facilities, multiprofile facilities - 28, oncology facility – 1, primary health care facility -8, blood bank – 1, dental clinics – 70, maternity hospital – 3, early treatment centre – 2.

39 868 persons receive pensions and social allowances beneficiaries, which is 27% of the population. 31 825 are pension beneficiaries, 3 630 families (10 075 persons) receive social allowance. There are 6 343 persons with disabilities and 483 families with many children.

There are 37 public and 26 private pre-school education facilities, also in 2017 two new kindergartens will start operation and some existing kindergartens are being rehabilitated to increase their capacity. Total of 10 445 children attend kindergartens, 9 723 children attend public kindergartens and 640 – private ones. There are two accredited high education facilities: Akaki Tsereteli State University and Kutaisi University.

A) LOCAL FINANCE BENCHMARKING: FINANCIAL RESOURCES.

I. COOPERATION WITH THE NATIONAL TAX AUTHORITY IN TAX POLICY DESIGN

	Kutaisi Score	Average Score
Database of local (income and property) tax payers	4	3.29
Local tax policy	7	6.57
Openness of decision on introduction of property tax	7	6.57
Share of local taxes in total local revenues	4	4.29
Cumulative score	4.4	5.18

1.1 The information regarding local tax payers (property and income taxes) is not available in the municipality office. The office receives this information from the unified treasury account according to taxes paid by categories, where the tax payers can be identified.

1.2 The property tax is introduced within the limit established by the Tax Code. Businesses pay maximum 1%, while for individuals the payment is differentiated according to the groups of population.

1.3 The decision #129 of Kutaisi Sakrebulo city assembly of March 21, 2016 about introduction of property tax and its rates is available on the webpage of the city and the Legislative Herald of Georgia: www.matsne.gov.ge, though the information is publicly open, the decision is not accompanied with explanations/financial justifications as to how the rates are calculated and applied.

1.4 Local taxes for the year 2016 are expected to be GEL 18.2 million, which is 29% of the total budget revenues. The share of the local taxes in the total budget revenues has been increasing during the recent 3 years. The reason for the notable growth of the indicator is the portion of the income tax which is left within the local budget.

II. FEES, CHARGES AND MISCELLANEOUS REVENUES

	Kutaisi score	Average score
Fees and cost of services	4	3.86
Tariffs vs demand for services	4	4.00
Revenues from services, fees and permissions vs service costs	0	0.00
Cumulative score	2.66	2.62

2.1 The fees for permits and services are defined by the following resolutions of Sakrebulo:

- On determination of the regulation of street trading and establishment of the fee for the permission of street trading at the territory of Kutaisi Municipality;
- On introduction of gambling fee in Kutaisi;
- On fee for issuing special (zonal) agreement and instruction of payment of the fee.

The methodology for calculating service fees is not available (for the experts).

2.2 For people with disabilities and vulnerable population the utilities and transport services are free.

2.3 Revenues from service fees are not enough to finance even direct costs. Therefore the service providers receive subsidy assistance from the local budget. The situation is similar in the other pilot municipalities as well.

III. CAPITAL BUDGET FINANCING

	Kutaisi score	Average score
Local capital project management	10	7.86
Capital projects are financed from diverse sources	4	4.86
Practice of receiving and management of loans	4	3.86
Cumulative score	5	5.44

3.1 Capital investment projects are financed from the local budget and the Regional Development Fund (a budget line in the state budget). These two sources are the same for all municipalities.

3.2 However, the capital projects are not funded by any other source. The detailed information is available in the Financial department. The capital investment projects are reflected as consolidated amount in the budget for the year 2016. The majority of the projects are implemented within a defined timeframe.

3.3 Kutaisi municipality uses loan instrument of the Municipal Development Fund. In 2016, GEL 34 thousand was allocated from the budget for loan repayment. The detailed information regarding the received loan amount, the principal amount and the repayment schedule is in place. However, there is no strategy regarding borrowing and repayment.

IV. LOCAL PROPERTY MANAGEMENT

	Kutaisi score	Average score
Recording and registration of municipal property	10	7.86
Assets and Liabilities of LSGs	7	7.43
Rules of property management	7	7.43
Management of municipal enterprises and NPEs	4	4.86
Cumulative score	7	6.89

4.1 The municipal property is accounted for by Land and Property management department of Economy and Infrastructure development service. It is reconciled in the balance sheet by the financial office. The property items are assigned special registration numbers and are subject to periodic registration (inventories).

4.2 Almost 80% of property in the municipal ownership is registered in the State Register. Rules for municipal property management are defined by the decisions of Sakrebulo:

- Rules of registration (inventories) of companies established by the local self-government authorities and municipality of Kutaisi and writing off of depreciated and/or unused property.
- Regulations on property privatisation, definition of cost of municipal property privatisation and rent.

4.3 Contracts are concluded between the municipality and municipality founded companies. The contracts define the amount of subsidy. The list of services to be delivered is defined by statutes of companies and legal entities of public law (LEPLs).

V. IT TECHNOLOGIES

	Kutaisi score	Average score
Using IT in processing and analysing of information, management and financial operations	7	6.57
Cumulative score	7	6.57

5.1 The municipality uses IT programmes (for budget planning and execution, e-treasury) developed by the State Treasury, as well as electronic system for documentation processing and its own software for property records.

VI. CAPACITY BUILDING OF LSGS SERVANTS

	Kutaisi score	Average score
Training and improving qualification	7	7.43
Staff with financial qualification	7	7.86
Ethics and conflict of interests	4	3.29
Cumulative score	6	6.19

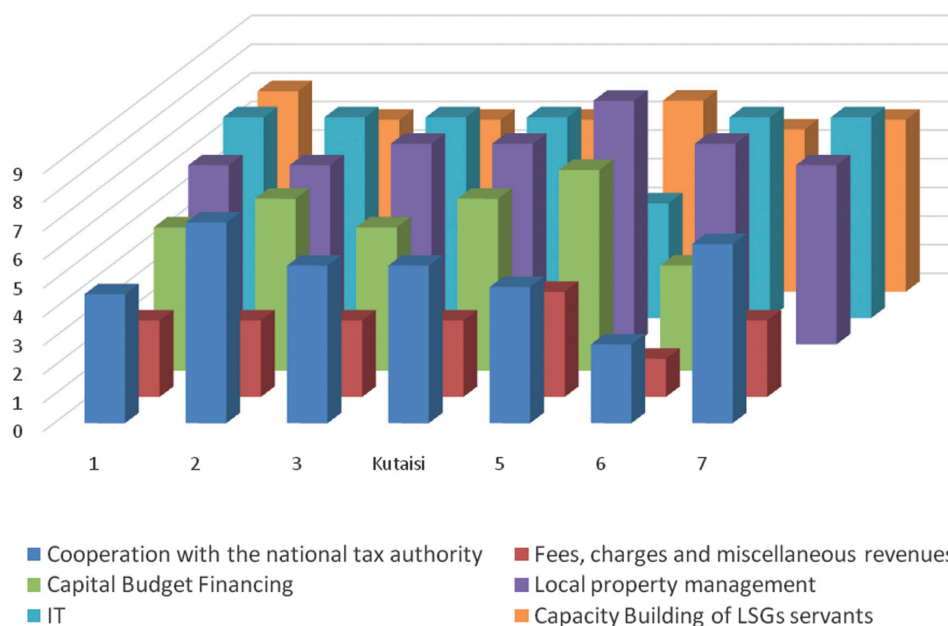
6.1 The assessment of the staff training needs is regularly carried out in the municipality. Sakrebulo has adopted capacity building plan for staff of Sakrebulo and the City Hall. The municipal staff participates in various trainings supported by international donor organisations and NGOs. 1% of the salary fund is allocated for capacity building of the staff members.

6.2 Personnel with financial background/qualification works in Finance and Economic Departments of the City Hall and Sakrebulo.

6.3 The issues of public servants' ethics and conflict of interests are mentioned in the internal regulations (the statute of the City Hall, the statute of Sakrebulo). Generally those issues are regulated according to the Law on Public Service.

The chart below represents the place of Kutaisi among other pilots in the area of financial resources. The relatively high but not the highest is the indicator of cooperation with tax authorities. In general, Kutaisi scores are close to the average across the pilots.

Chart #1: Comparison of LFB pilots in the area of Financial Resources



B) LOCAL FINANCE BENCHMARKING: LOCAL FINANCIAL MANAGEMENT

I. FISCAL POLICY

	Kutaisi score	Average score
Policy framework	7	4.86
Medium term planning	4	5.71
Cumulative score	5.5	5.29

1.1 On August 31, 2016 Sakrebulo approved Medium Term Strategy of the City “Kutaisi – 2021” and the priority document; however the connection between the document and the budget is weak.

1.2 Once in a year the medium term planning document is updated.

II BUDGETING METHODS AND CAPACITY

	Kutaisi score	Average score
Procedure on budget preparation	7	7.43
Budget structure	7	7.43
Expected results and indicators	7	4.43
Reflecting of subordinated organisations in the budget structure	7	5.29
Cumulative score	7	6.14

2.1 All line departments and subordinated entities of the City Hall are involved in the local budget preparation process. The Finance department plays a coordinating role in the budgetary process.

2.2 The annual budget is prepared according to organisational, functional classification and according to economic categories.

2.3 The programmes of the local budget are prepared, however expected results and measurement indicators are not indicated.

2.4 The revenues and expenses of subordinated agencies are reflected in the budget.

III. BUDGET POLICY

	Kutaisi score	Average score
Involvement of elected body	7	7.86
Consideration of major investment projects	7	7.86
Openness of budget documents	4	5.29
Cumulative score	6	7.00

3.1 The commissions and fractions of Sakrebulo are involved in the budgeting processes. During the same period the investment projects are discussed.

3.2 The minutes of meetings and agendas are available on the web-site; however minutes of committee meetings are not available there.

3.3 The final approved version of the budget of Kutaisi for the year 2016 and the annual plan of procurements are available on the web-site.

IV ADMINISTRATIVE POLICY

	Kutaisi score	Average score
Strategy of decreasing administration costs	7	4.71
Involvement of NPEs and NGOs in service delivery	7	4.86
IMC	0	3.71
Cumulative score	4.7	4.43

4.1 The administrative expenses of the city have changed during the recent 3 years. In 2015, its volume dropped by GEL 721 thousand, while in 2016 the share increased and exceeded the level of the year 2014. The share of salaries in the administrative costs has been increasing slightly during recent 3 years.

According to the legislation, Kutaisi as well as other self-government bodies were authorised to provide the additional services (e.g. preschool education is totally funded by the municipalities).

4.3 Non-commercial entities established by municipality deliver social and cultural services to population.

4.4 There have not been any patterns of intermunicipal cooperation yet.

V. BUDGET ADJUSTMENTS AND IMPLEMENTATION

	Kutaisi score	Average score
Monitoring over budget implementation	4	4.86
Adjustments in approved budget	7	3.71
Financial relations between the local government and its subsidiary organisations	4	5.71
Cumulative score	5	4.76

5.1 Reports of the approved budget are produced on a quarterly basis; they are submitted by the City Hall to Sakrebulo. The compliance report contains financial information as well as report on implemented activities.

5.2 The reason for amendments are ad hoc funds coming from the state budget. Another reason for budget changes is saving financial appropriations as a result of conducted tenders.

5.3 Municipal organisations do not own any property. All property is owned by municipality and is given to subordinated entities for (free) lease. Financial allocations from municipal budget to subordinated entities are done only in the form of subsidies.

VI. CONTROL AND ACCOUNTABILITY

	Kutaisi score	Average score
Internal Audit	7	7.86
Usage of external consultants	7	4.43
Reporting to the population	7	7.00
Cumulative score	7	6.43

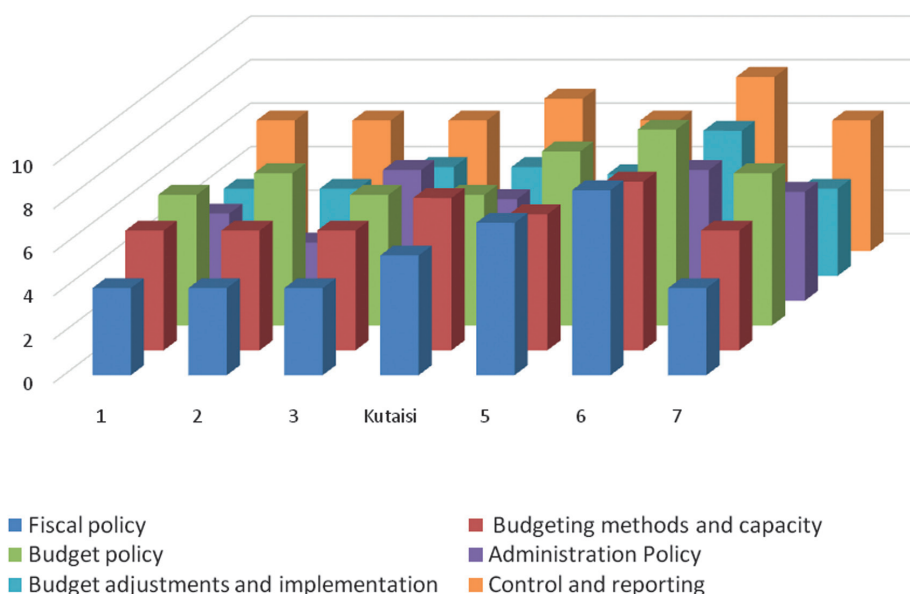
6.1 Internal Audit department was established in 2015. The department has its annual working plan. Audit of line departments is done regularly.

6.2 External consultants are invited for infrastructure projects to prepare infrastructure project proposals.

6.3 Meetings with population are conducted regularly and their needs and feedback are recorded. The Mayor meets citizens once a week.

The chart below represents the position of the city according to the scores in the financial resources area. The administrative policy has relatively low, but not the lowest scores.

Chart #1: Comparison of LFB pilots in the area of Financial Resources



RECOMMENDATIONS

- Local tax and fee rates should be revised. After the study of the local socio-economic situation, rates should be calculated based on local policy needs. Service tariffs should be based on the service fees and include direct and indirect costs.
- The subordinated agencies, in particular, their revenues and expenditures, should be reflected in the budget in more detail.
- The budget and current amendments, as well as orders of Sakrebulo should be available on the web-site of the municipality. They should be accompanied with explanatory notes and financial calculations. The web-site should be updated on a regular basis.
- Local budget loans and repayment schedule should be available on the web-site and can be part of the budget.
- For the municipality to be able to increase the potential taxpayer database and income basis, it should have wider access to property and income taxpayer database of the Ministry of Finance.

MARNEULI MUNICIPALITY

GENERAL INFORMATION ABOUT MUNICIPALITY

Marneuli municipality represents the local self-government unit and is located in the south part of eastern Georgia in Kvemo-Kartli region. The number of population in 2015 was 104 900, 27.1 % of which was represented by population up to 18 years old, 64 % - from 19 to 65 years old, and 8.5% - older than 65 year old. 19.3% of the population (25022 people) lives in towns and settlements while 80.7% (104 578) – in villages.

The main sectors of the local economy are represented by agriculture (more than 50%), trade (25%), processing industry (15%) and construction and service 10%.

There are two international roads and a railway on the territory of the municipality.

The distance between Marneuli administrative centre and Tbilisi is 29 km, between the centre of the region and Marneuli administrative centre and the regional centre (City of Rustavi) – 48 km, to Azerbaijan and Armenian borders – 30-33 km.

The bus depot consists of 18 busses.

45 % of the population is connected to the water supply system, while 95% - is connected to the gas pipe. The electricity is supplied to the whole population.

There are basalt and marble deposits, as well as pebble and white stones deposits.

There are Mtkvari, Algeti and Khrami rivers on the territory of the municipality.

The forest land is 14 583 hectares and it is used by the population for woods preparation.

There are 13 preschool education facilities and 57 schools. There are 2 hospitals with 127 beds and 2 primary health care facilities with 187 patient/shift capacity.

There were 15 touristic places and 7 libraries according to the information for the year 2011.

A) LOCAL FINANCE BENCHMARKING: FINANCIAL RESOURCES

I. COOPERATION WITH THE NATIONAL TAX AUTHORITY IN TAX POLICY DESIGN

	Marneuli score	Average score
Database of local (income and property) tax payers	4	3.29
Local tax policy	7	6.57
Openness of decision on introduction of property tax	7	6.57
Share of local taxes in total local revenues	10	4.29
Cumulative score	7	5.18

1.1 The municipality receives information on property and income tax payers from the State Treasury. The information includes the names of the tax payers.

1.2 The property tax is defined within the rates stipulated by the Tax Code. The maximum rate 1% is applied for companies but for groups of population it is differentiated.

1.3 The decision #9 of March 9, 2016 of Sakrebulo on establishment of property tax rates (representative organ of municipality) is available on the webpage of the Legislative Herald of Georgia: www.matsne.gov.ge and is open for the public. The decision is not accompanied with explanations/financial justifications as to how the rates are calculated and applied.

1.4 The share of local taxes for the year 2016 is expected to be GEL 8.6 million, which is 53% of the local budget revenues and it is the largest one among the pilots.

II. FEES, CHARGES AND MISCELLANEOUS REVENUES

	Marneuli score	Average score
Fees and cost of services	4	3.86
Tariffs versus demand for services	4	4.00
Revenues from services, fees and permissions versus service costs	0	0.00
Cumulative score	2.66	2.62

2.1 The fees for permits and services are defined by the following decisions of Sakrebulo:

- Regulation for getting permission and placing advertisement banners
- Regulation for introduction of construction, cleaning and gambling fee and its rates

According to local regulations, transport and utilities are free for vulnerable people and people with disabilities.

2.2 According to the information submitted by the representative of the Department for Infrastructure and Economy, the fee amount reflects only part of direct service costs while the methodology for calculating service fees does not exist.

2.3 The revenues from service fees are not enough to cover the expenses, thus the service provision companies (commercial and non-commercial entities established by the municipality) receive subsidies from the municipal budget to cover the gap between the revenues and expenditures. The situation is similar in all the pilots.

III. CAPITAL BUDGET FINANCING

	Marneuli score	Average score
Local capital projects management	7	7.86
Capital projects are financed from diverse sources	7	4.86
Practice of receiving and management of loans	4	3.86
Cumulative score	5.75	5.44

3.1 Capital projects are managed by the finance department. It maintains detailed information for each project.

3.2 Capital investment projects are financed from the local budget and the Regional Development Fund (a budget line in the state budget) and donor organisations. The capital investment projects are reflected as consolidated amount in the budget for the year 2016. The detail information about the projects is available in the Financial and Infrastructure department.

3.3 The municipality uses loan instrument of the Municipal development fund. In 2016, GEL 158.8 thousand was allocated from the budget for loan repayment. The detailed information regarding the received loan amount, the principal amount and the repayment schedule is not available.

IV. LOCAL PROPERTY MANAGEMENT

	Marneuli score	Average score
Recording and registration of municipal property	7	7.86
Assets and Liabilities of LSGs	7	7.43
Rules of property management	7	7.43
Management of municipal enterprises and NPEs	4	4.86
Cumulative score	6.25	6.89

4.1 Municipal property is accounted for by the Finance Department and it reflected in the balance sheet.

4.2 The part of the property is evaluated in order to reflect it in the balance sheet in its fair value.

4.3 Rules for municipal property management are defined by the decisions of Sakrebulo:

- Regulations on property privatisation, defining the cost of municipal property privatisation and rent.

- Defining the normative value/price for agricultural and non-agricultural land

4.4 Contracts are concluded between the municipality and municipality founded companies. The contracts define the amount of the subsidy. The list of services to be delivered is defined by statutes of companies and legal entities of public law (LEPLs). There are no regulations regarding quality of services.

V. IT TECHNOLOGIES

	Marneuli score	Average score
Using IT in processing and analysing of information, management and financial operations	7	6.57
Cumulative score	7	6.57

5.1 The financial office of the municipality is using IT programmes developed by the State Treasury, its software is used for property records.

VI. CAPACITY BUILDING OF LSGS SERVANTS

	Marneuli score	Average score
Training and improving qualification	7	7.43
Staff with financial background	7	7.86
Ethics and conflict of interests	4	3.29
Cumulative score	6	6.19

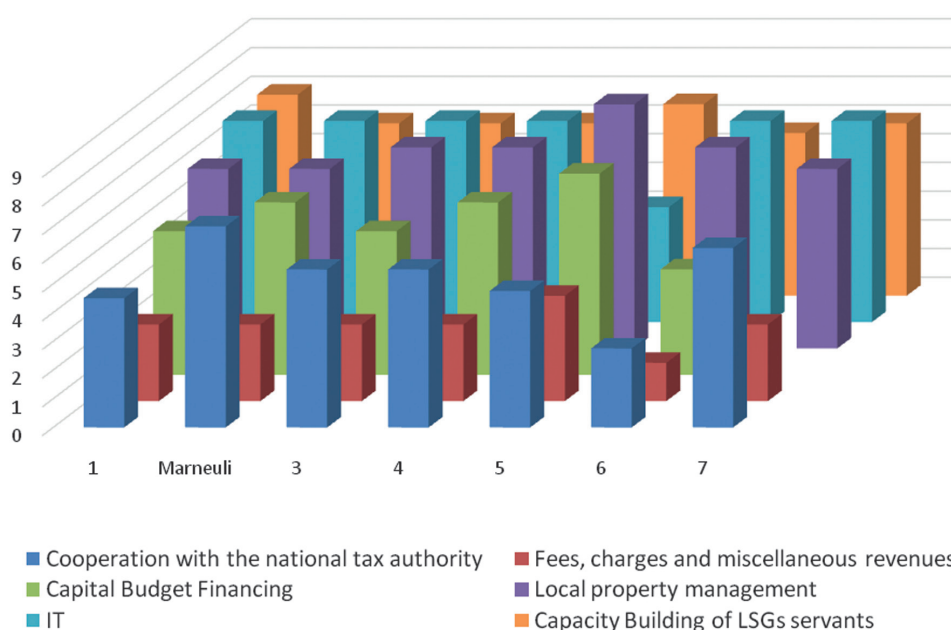
6.1 The assessment of the staff training needs is regularly carried out in the municipality. Sakrebulo has adopted capacity building plan for staff of Sakrebulo and the City Hall. The municipal staff participates in various trainings supported by international donor organisations and NGOs. 1% of the salary fund is allocated for capacity building of the staff members.

6.2 Staff with financial background/qualification works in Finance and Economic Departments of the City Hall and Sakrebulo.

6.3 The code of ethics has been drafted by the Internal Audit department but it is not finalised yet.

The chart below shows that according to the scores in financial resources area Marneuli is among the highest. The exception are fees, charges and various revenues, however the picture is similar for the rest of the pilots.

Chart #1: Comparison of LFB pilots in the area of Financial Resources



B) LOCAL FINANCE BENCHMARKING: LOCAL FINANCIAL MANAGEMENT

I. FISCAL POLICY

	Marneuli score	Average score
Policy framework	4	4.86
Medium term planning	4	5.71
Cumulative score	4	5.29

1.1 Medium term strategy and priorities documents are in place, however the link between the document and the budget is weak and the strategy does not serve as the policy planning tool.

1.2 The strategy document is updated once a year, during the budget submission, in October.

II BUDGETING METHODS AND CAPACITY

	Marneuli score	Average score
Procedure on budget preparation	7	7.43
Budget structure	7	7.43
Expected results and indicators	4	4.43
Reflecting of subordinated organisations in the budget structure	4	5.29
Cumulative score	5.5	6.14

2.1 All line departments and subordinated entities are involved in the local budget preparation process. The Finance department plays a coordinating role in the budgetary process.

2.2 The annual budget is prepared according to organisational, functional classification and economic categories.

2.3 The revenues and expenses of subordinated agencies are not fully reflected in the budget.

III. BUDGET POLICY

	Marneuli score	Average score
Involvement of elected body	7	7.86
Consideration of major investment projects	7	7.86
Openness of budget documents	7	5.29
Cumulative score	7	7.00

3.1 Sakrebulo commissions and fractions are involved in the budgeting processes.

3.2 During the same period the investment projects are considered.

3.3 The budget for the year 2016 is available on the municipal web-site: www.marneuli.gov.ge. The web-site also includes citizen budget planning module and information is provided in plain language.

IV. ADMINISTRATIVE POLICY

	Marneuli score	Average score
Strategy of decreasing administration costs	4	4.71
Involvement of NPEs and NGOs in service delivery	4	4.86
IMC	0	3.71
Cumulative score	2.6	4.43

4.1 Over the past 3 years the administrative expenses have been increasing and their share in the total expenses is 25% while new municipal services were introduced (e.g. early preschool education services).

4.2 Non-commercial entities established by municipality deliver social and cultural services to population.

4.3 Inter-municipal cooperation does not exist

V. BUDGET ADJUSTMENTS AND IMPLEMENTATION

	Marneuli score	Average score
Monitoring over budget implementation	4	4.86
Adjustments in approved budget	4	3.71
Financial relations between the local government and its subsidiary organisations	4	5.71
Cumulative score	4	4.76

5.1 Reporting of the approved budget is done on a quarterly basis; it is submitted by the City Hall to Sakrebulo. The compliance report contains financial information as well as a report on implemented activities.

5.2 The reason for amendments is ad hoc financing coming from the state budget. Another reason for budget changes is saving financial appropriations as a result of conducted tenders.

5.3 All property is owned by municipality and is given to subordinated entities for (non-cost) lease. The funds to be allocated to the subordinated agencies are defined by the municipal budget.

VI. CONTROL AND ACCOUNTABILITY

	Marneuli score	Average score
Internal Audit	7	7.86
Usage of external consultants.	4	4.43
Reporting to the population	7	7.00
Cumulative score	6	6.43

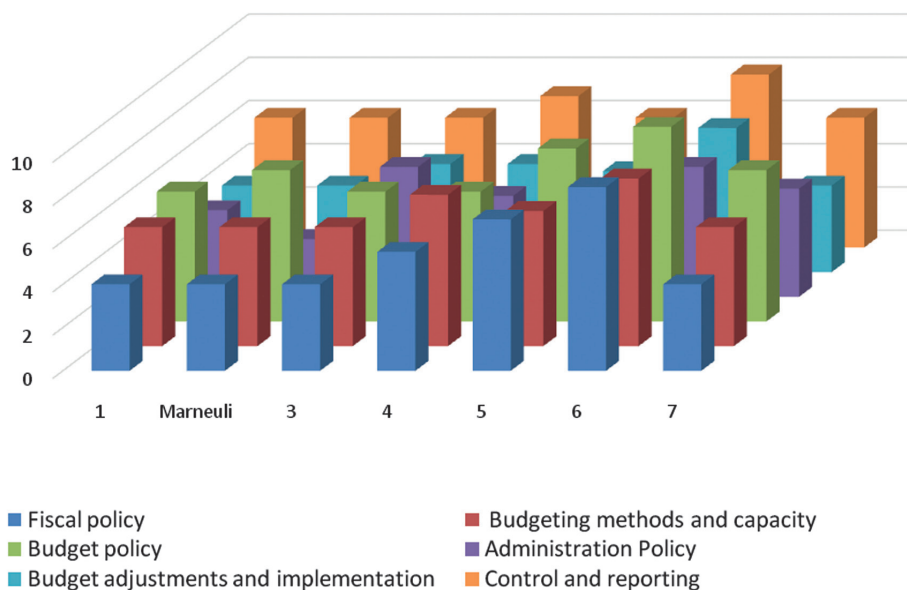
6.1 The Internal Audit Department was established in 2015. The department has an annual working plan. Audit of line departments is done regularly.

6.2 External consultants are invited for developing infrastructure project design and cost calculation.

6.3 Meetings with population are conducted on a regular basis and their requests and feedback is recorded. The municipality offers open hours to meet citizens once per week.

The chart below represents the place of the self-governing city among the pilot ones. The city is on the lowest position in the administrative policy, since the share of administrative expenses has been increasing permanently and there is no cooperation between Marneuli and other municipalities.

Chart #2: Comparison of LFB pilots in the area of Financial Management



RECOMMENDATIONS

- Local tax and fee rates should be revised. After studying local socio-economic situation, rates should be calculated based on local policy needs. Service tariffs should be based on the service costing and include direct and indirect costs.
- The subordinated agencies, in particular, their revenues and expenditures, should be reflected in the budget in more detail.
- The budget and current amendments, as well as orders of Sakrebulo should be available on the web-site of the municipality. They should be accompanied by the explanatory notes and financial calculations. The web-site should be updated on a regular basis.
- Local budget loans and repayment schedule should be available on the web-site and can be part of the budget.

RUSTAVI MUNICIPALITY

GENERAL INFORMATION ABOUT THE MUNICIPALITY

Rustavi is an administrative center of Kvemo Kartli region. It is the third largest city by the population size in Georgia. Rustavi is situated 27 km away from the center of the capital city Tbilisi and 20 km from Tbilisi International Airport.

Rustavi is ethnically diverse city. The majority of the population is Georgian. According to the statistical data for the year 2015, the population of Rustavi totals 125 000.

Processing industry occupies a leading position in the economy of Rustavi, with its share of 89.9%, 2.7% comes to construction sector, while the share of the remaining sectors is rather small.

There are 60 large and medium size enterprises in Rustavi, whose products are supplied to various countries. Leather processing factory and chemical fertilizer plant Rustavi AZOT operate in the city.

In the vicinity of the City there is a regional communication corridor – TRACECA.

The road of international importance S4 – Tbilisi-Red Bridge runs through the city.

In fact, population of Rustavi is fully provided with central water supply (126 hours per week) and sewage system.

The types of local transport that move in Rustavi are as follows: municipal transport (buses), private mini-buses and taxis. Traffic movement signs and traffic lights are organised in the city.

On inner municipal, suburban and inter-city routes transfer of passengers is organised by municipal buses and private minibuses.

In 1967 was opened Rustavi Drama Theatre, which is designed for 500 spectators. The building of the Theatre has been rehabilitated.

In 1968 the Song and Dance State Academic Ensemble, Rustavi was established. Historical Museum of Rustavi was founded in 1950.

According to the data for the year 2014, there are 21 kindergartens in Rustavi, while the number of enrolled children is 5300. 26 public and 16 private schools with 20231 pupils operate in the city of Rustavi.

Currently, there is one central stadium, one rugby stadium, 6 small football stadiums, tennis courts, 2 swimming complexes, basketball hall and a number of small halls in the city.

In Rustavi there is a shelter for elderly people, 5 multifunctional inpatient hospitals, several ambulatory clinics and a maternity home.

A) LOCAL FINANCE BENCHMARKING: FINANCIAL RESOURCES.

I. COOPERATION WITH THE NATIONAL TAX AUTHORITY IN TAX POLICY DESIGN

	Rustavi Score	Average score
Database of tax payers	7	3.29
Local tax policy	7	6.57
Openness of decision on introduction of property tax	7	6.57
Share of local taxes in total local revenues	4	4.29
Cumulative score	6.25	5.18

1.1 Information on local taxpayers (property and income tax) is available for Rustavi. The city receives this information by the type of taxes from the Treasury by indication individual tax payers. The situation with

the database availability is better in Rustavi compared to other pilots; its due to professional links between municipality employees and their colleagues in the Revenue Services. The legislation itself does not foresee the availability of the detailed taxpayers' database for the use by the third parties, which creates problems with the defining of potential tax payers and further budget revenue planning in municipalities.

1.2 The property tax is introduced within the limits established by the Tax Code of Georgia. For enterprises, the maximum possible rate (1%) is applied; however it is differentiated by population categories.

1.3 The resolution #190 of April 18, 2013 of Sakrebulo (city assembly) on establishment of property tax rates is public and it is available on the webpage of the Legislative Herald of Georgia: www.matsne.gov.ge. However, the Resolution is not accompanied with explanations/financial justifications as to how the rates are calculated and applied.

1.4 Gel 13,5 million of local taxes are expected for the year 2016, which represents 27% of the total revenues.

II. FEES, CHARGES AND MISCELLANEOUS REVENUES

	Rustavi Score	Average Score
Cost of Fees and services	4	3.86
Tariffs and demand for services	4	4.00
Revenues from services, fees and permissions vs service costs	0	0.00
Cumulative score	2.66	2.62

2.1 The cost of fees and services is defined by the resolution of Sakrebulo:

- On approval of the fees on permits and their payment instructions for construction (except construction of extremely important, radiation or nuclear facilities) on the territory of Rustavi municipality.
- On approval of the cleaning fee and its payment instructions on the populated territories in the municipality of Rustavi.

2.2 The calculation of the cost of services is not available; however, as explained by the representatives of Finance Service, the fee covers only the part of the direct costs. In 2016 care for stray dogs and greenery has been added to the Cleaning Service.

2.3 The service fee is not enough for funding most municipal services, for this reason the entities responsible for delivering services are subsidised from the self-government budget. It must be noted that the municipality does not have enough equipment and auto depot to deliver the services in line with modern standards.

III. CAPITAL BUDGETING

	Rustavi Score	Average Score
Local Capital Project Management	7	7.86
Capital projects are financed from diverse sources	7	4.86
Practice of receiving and managing of loans	4	3.86
Cumulative score	5.75	5.44

3.1 Detailed information on capital projects is available in the finance department. Department maintains financial data, implementation timeline for each project.

3.2 Capital projects are financed from the local budget, from the Regional Development Fund of the State Budget and donor organisations. Information on capital projects is available in the budget for the year 2016 cumulatively. The detailed information on projects is available in Finance Service.

3.3 Rustavi City municipality uses the loan instrument within the funding of the Municipal Development Fund. In 2016 repayment of GEL 663.6 thousand is foreseen, however more detailed information about the loan taken, on the principal amount and the repayment schedule is not indicated.

IV. LOCAL PROPERTY MANAGEMENT

	Rustavi Score	Average Score
Recording and registration of municipal property	7	7.86
Assets and Liabilities of LSGs	7	7.43
Property management rules	7	7.43
Management of municipal enterprises and NPEs	4	4.86
Cumulative Score	6.25	6.89

4.1 Municipal property is accounted for by the Finance Service and it is reflected in the balance sheet. Part of the property needs to be assessed for recording in the balance correctly.

4.2 In 2017 it is planned to hire a company that will carry out the inventory-taking of the municipal property.

4.3 Rules for municipal property management are defined by the resolution of Sakrebulo:

- On approval of the rule to write off from the balance the property under the ownership of Rustavi municipality, basic facilities on the balance of Private Law Entities established by Rustavi Municipality and created with a share participation of 50%, property inventory and depreciated property and/or unused assets.
- On approval of the rule on sale of the extended and re-auction property of the city Rustavi municipality
- On defining the normative price of the non-agricultural land under the ownership of Rustavi city municipality, on approval of the territory zoning and determining the initial annual rent for transferring to use of the non-agricultural lands under the ownership of Rustavi city municipality

4.4 Contracts are concluded with municipal enterprises, which determine the annual allocated subsidy in the budget law. The list of services to deliver is defined by the statute of enterprises and Non-entrepreneurial (non-commercial) Legal Entities; however, any separate regulation on the service quality is not formulated.

V. IT TECHNOLOGIES

	Rustavi Score	Average Score
Using IT in processing and analysing of information, management and financial operations	7	6.57
Cumulative score	7	6.57

5.1 Finance Service uses IT programmes developed by the State Treasury. Its own electronic programme is used for accounting.

VI. CAPACITY BUILDING OF LSGS SERVANTS

	Rustavi Score	Average Score
Training and improving qualification	7	7.43
Staff resources with financial qualification	7	7.86
Ethics and conflict of interests	4	3.29
Cumulative score	6	6.19

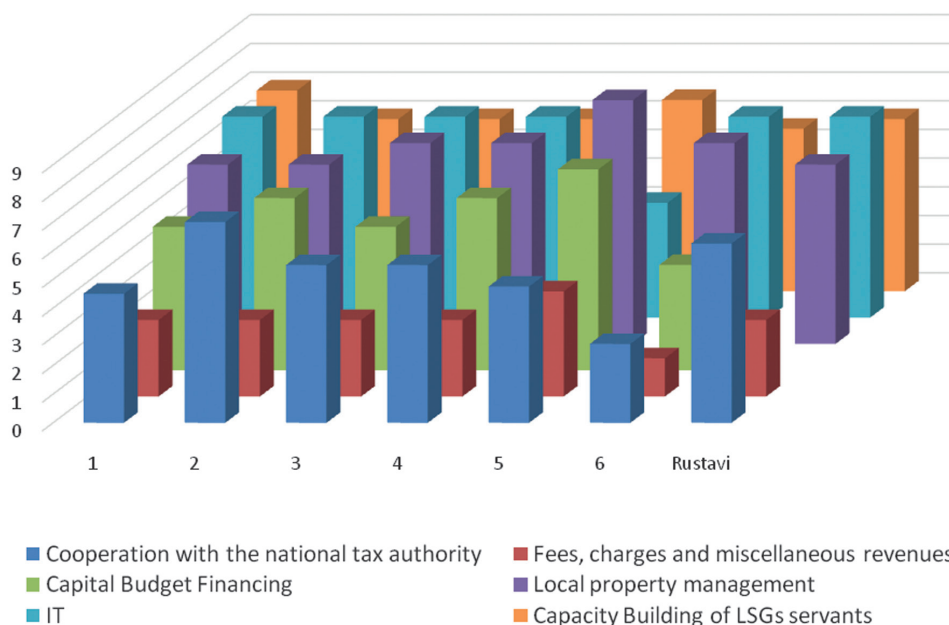
6.1 Municipal staff participates in various trainings financed through international donor organisations. In addition, 1% of the municipal budget salary fund is allocated for capacity building activities.

6.2 Staff with financial background/qualification works in Finance and Economic Departments, as well as in the commissions of Sakrebulo.

6.3 Code of conduct for the staff of the local self-government units is drafted but not yet approved by the Mayor.

The chart below indicates the position of the city among other pilots in the area of the financial resources. Rustavi represents the highest level in the cooperation with the tax authorities as the municipality has access to the taxpayer’s database.

Chart #1: Comparison of LFB pilots in the area of Financial Resources



B) LOCAL FINANCE BENCHMARKING: LOCAL FINANCIAL MANAGEMENT

I. FISCAL POLICY

	Rustavi Score	Average Score
Policy Framework	4	4.86
Medium term planning	4	5.71
Cumulative Score	4	5.29

1.1 Medium term strategy and priorities documents are in place, however they do not serve as the policy planning tool. Also, the linkage between the strategy and the budget is weak.

II. BUDGETING PRACTICE

	Rustavi Score	Average Score
Procedure on budget preparation	7	7.43
Budget structure	7	7.43
Expected results and indicators	4	4.43
Reflecting of subordinated organisations in the budget structure	4	5.29
Cumulative Score	5.5	6.14

2.1 All line departments and subordinated entities are involved in the budget preparation process; joint coordination is provided by the Financial Department. Separate regulation on budget preparation works has not been issued yet.

2.2 The annual budget is prepared according to the organisational, functional classification and economic categories.

2.3 Expected results and indicators are given for some of the programmes but they are not precise and baseline data is not indicated.

2.4 The own revenues and payables of subordinated entities (Limited Liability Companies and Non-profit Non-commercial Entities) are not reflected in the budget.

III. BUDGETING PROCESS

	Rustavi Score	Average Score
Involvement of elected body	7	7.86
Review of important investment projects	7	7.86
Budget documents publicity	7	5.29
Cumulative Score	7	7.00

3.1 Sakrebulo commissions and fractions are involved in the budgeting processes, as well as in making amendments in the budget law and in the current budget.

3.2 During the budget submission period investment and capital projects are also reviewed.

3.3 The budget for the year 2016 is available on the municipality website www.rustavi.gov.ge, also short presentation of 2016 local budget and 2015 budget compliance report.

IV. ADMINISTRATIVE POLICY

	Rustavi Score	Average Score
Strategy of decreasing administration costs	4	4.71
Involvement of NPEs and NGOs in service delivery	4	4.86
Inter-Municipality Cooperation	7	3.71
Cumulative score	5	4.43

4.1 Over the past three years, the administrative costs increased at the expense of new services supplied to the local authorities (e.g. early preschool education).

4.2 The Non-entrepreneurial (non-commercial) Legal Entities established by the local government deliver social and cultural services to local population, they have the property transferred by usufruct.

4.3 Waste Management Project was implemented together with Gardabani municipality (neighbouring municipality) with share financing of 80/20. The European Bank for Reconstruction and Development was the donor organisation.

V. BUDGET ADJUSTMENTS AND IMPLEMENTATION

	Rustavi Score	Average Score
Monitoring over budget implementation	4	4.86
Adjustments in approved budget	4	3.71
Financial relations between the local government and its subsidiary organisations	4	5.71
Cumulative score	4	4.76

5.1 Reporting of the approved budget is done on a quarterly basis and it is submitted to Sakrebulo. The compliance report contains financial information as well as report on implemented activities.

5.2 Amendments to the approved budget are made when additional funds are allocated from the state budget. Another reason for budget changes is saving financial appropriations as a result of conducted tenders.

Amendments to the budget are made frequently, at least 2 amendments per month are made.

5.3 The organisations founded by the municipality have the property transferred with the usage and not ownership right.

VI. CONTROL AND ACCOUNTABILITY

	Rustavi Score	Average Score
Internal Audit	7	7.86
Usage of external consultants.	4	4.43
Reporting to the population	7	7.00
Cumulative score	6	6.43

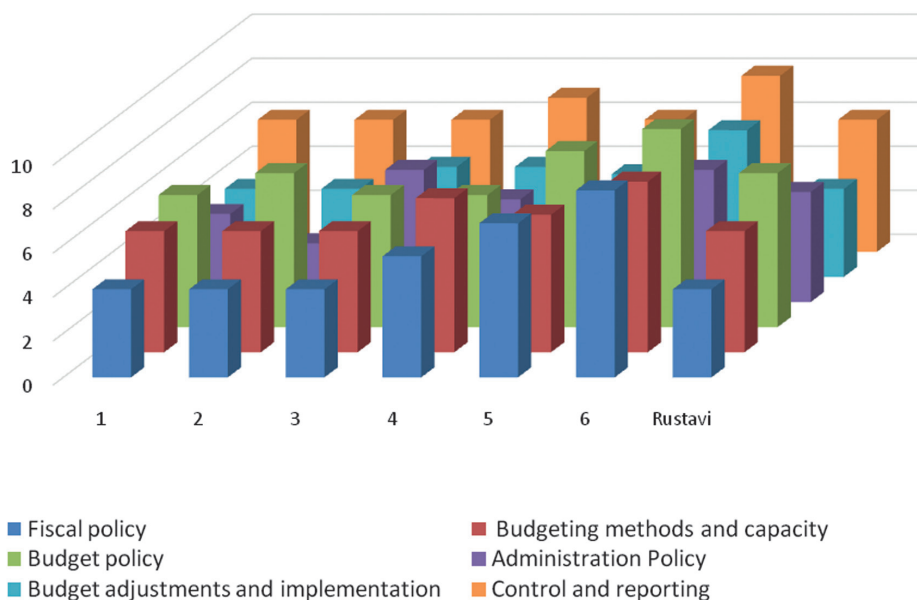
6.1 The Internal Audit department was established in 2015 and it has its annual working plan. Audit of line departments is done regularly.

6.2 External consultants are invited only for developing infrastructure project proposals.

6.3 Meetings with population are held regularly and their requests and feedback is recorded. The Municipality Mayer has open hours to meet citizens once per week.

The chart below represents the position of the city in financial management area. As the chart shows the indicators of the city in budget adjustment and implementation is lower than in the other pilots, as the frequency of changes in the budget is the highest compared to others. There is no indicator in financial management with the highest score across the pilots.

Chart #2: Comparison of LFB pilots in the area of Financial Management



RECOMMENDATIONS

- Local tax and fee rates should be revised. After the study of the local socio-economic situation, rates should be calculated based on local policy needs. Service tariffs should be linked with service (direct and indirect) costs.
- The subordinated entities, in particular, their revenues and expenditures, should be reflected in the budget.
- Municipality should define service quality benchmarks for subordinated enterprises and non-commercial entities.
- Municipal budget, budget amendments, resolutions of Sakrebulo should be available at the website of municipality. Explanatory notes, calculations etc. should be attached to each legal act.
- Information on municipal loans, debt repayment timeline should be available at the municipal webpage (can be part of the annual budget).

ZUGDIDI MUNICIPALITY

GENERAL INFORMATION ABOUT MUNICIPALITY

Zugdidi municipality is an administrative centre of the municipality and Samegrelo-Zemo Svaneti region. The city is located in the centre of Western Georgia and its total area is 22.9 km².

According to the data for the year 2015, 43 thousand citizens are registered in the municipality. 2020 pre-school age children are registered in public and private preschool education facilities in Zugdidi, while the number of school children is 7473. According to the data of Social Service Agency, there are 14 179 recipients of pensions, where 12491 – are elderly pensioners, 1314 – people with disabilities and 374 – those who lost a breadwinner.

There are 450 streets in Zugdidi, with 170 km length of inner roads and streets, of which 91 km is asphalt paved. 46.5% of roads is covered by pebble stone and requires asphalt pavement. As of today, 32 town and 56 suburb route micro-buses are functioning.

98 % of the city population receives natural gas supply. During 2016-2017 (through the project funded by ADB) the water supply and sewage systems will be established at the first stage, while at the second stage the water purification system will be constructed.

There are 21 healthcare facilities on the territory of Zugdidi, of which 5 are hospitals and 10 are primary health-care facilities. On the basis of the republican medical complex St. Lukas Health Centre of Zugdidi was established. The Centre meets modern Euro standards. The blood transfusion centre is functioning in the Centre.

There is one central library, 2 music schools, 1 arts school, 1 youth centre, 1 dramatic theatre, 1 arts gallery, 1 historic and architecture museum. There are 32 sport grounds in Zugdidi.

A) LOCAL FINANCE BENCHMARKING: FINANCIAL RESOURCES.

I. COOPERATION WITH THE NATIONAL TAX AUTHORITY IN TAX POLICY DESIGN

	Zugdidi score	Average score
Database of local (income and property) tax payers	4	3.29
Local tax policy	7	6.57
Openness of decision on introduction of property tax	7	6.57
Share of local taxes in total local revenues	4	4.29
Cumulative score	4.4	5.18

1.1 The information on local tax payers city assembly is not available in the municipality office. The office receives this information from the single treasury account of taxes paid by categories, where the taxpayers can be identified. However, the average score is lower than in Zugdidi.

1.2 The property tax is introduced within the limits established by the Tax Code. Businesses pay maximum 1%, while for individuals the payment is differentiated by the groups of population.

1.3 The resolution #19 of Zugdidi Sakrebulo (representative organ of municipality) of April 7, 2015 about introduction of property tax and its rates is available on the webpage of the Legislative Herald of Georgia: www.matsne.gov.ge. Although the information is publicly open, the resolution is not accompanied with explanations/financial justifications as to how the rates are calculated and applied.

1.4 Local taxes for the year 2016 are expected to be GEL 4.6 million, which is 17% of the total budget revenues.

Thus the cumulative score of the city is lower than average.

II. FEES, CHARGES AND MISCELLANEOUS REVENUES

	Zugdidi score	Average score
Fees and cost of services	4	3.86
Tariffs vs demand for services	4	4.00
Revenues from services, fees and permissions vs service costs	0	0.00
Cumulative score	2.66	2.62

2.1 The fees for permits and services are defined by the following resolutions of Sakrebulo:

- On introduction of a cleaning fee on the territory of Zugdidi municipality
- On fee for issuing special (zonal) agreement and instruction of payment of the fee
- Regulation for receipt of permission and placing advertisement banners
- Regulation for introduction of Gambling fee and its tariffs
- Regulation for receipt of permissions for construction

2.2 The methodology for calculating service fees does not exist. According to the representative of the Department for Infrastructure and Economy, the fee amount reflects only part of direct service costs.

2.3 For people with disabilities and vulnerable population the utilities and transport services are free. This reflects the social policy at some stage, but does not reflect economic policy.

2.4 Revenues from service fees are not enough to finance even direct costs. Therefore the service providers receive subsidy assistance from the local budget.

III. CAPITAL BUDGET FINANCING

	Zugdidi score	Average score
Local capital projects' management	7	7.86
Capital projects are financed from diverse sources	4	4.86
Practice of receiving and management of loans	4	3.86
Cumulative score	5	5.44

3.1 Capital projects are managed by finance and infrastructure departments. Detailed costing and timeline for implementation is maintained in the Excel file.

3.2 Capital investment projects are financed from the local budget and the Regional Development Fund (a budget line in the state budget). The city does not have capital projects funded by a donor or other sources. The capital investment projects are reflected as consolidated amount in the budget for the year 2016. The majority of projects are implemented within established timeframes. There is a practice of changing/cancelling 5-10% of the projects during the calendar year.

3.3 Zugdidi municipality uses loan instrument of the Municipal Development Fund. In 2016, GEL 570.3 thousand was allocated for the repayment of the loan. According to the interviewed employees, the detailed information regarding the received loan amount, the principal amount and the repayment schedule are in place (but that was only verbal confirmation). However, there is no strategy of borrowing and loans management in the municipality. That is why this area received 4 points.

IV. LOCAL PROPERTY MANAGEMENT

	Zugdidi score	Average score
Recording and registration of municipal property	10	7.86
Assets and Liabilities of LSGs	7	7.43
Rules of property management	7	7.43
Management of municipal enterprises and NPEs	4	4.86
Cumulative score	7	6.89

4.1 The municipal property is accounted for by Property Management Department of Economy and Infrastructure Development office. It is reconciled in the balance sheet by the financial office.

4.2 Each property item is given special registration numbers and is subject to periodic registration (inventory-taking).

4.3 Almost 80% of property owned by the municipality is registered in the State Register. Rules for municipal property management are defined by the resolutions of Sakrebulo:

- Rules on registration (inventories) of companies established by the local self-government authorities and municipality of Zugdidi and writing off of depreciated and/or unused property.
- Regulations on property privatisation, definition of cost of municipal property privatisation and rent.
- Defining the normative value/price for agricultural and non-agricultural land

4.4 Contracts are concluded between the municipality and municipality founded companies. The contracts define the amount of subsidy. The list of services to be delivered is defined by statutes of companies and legal entities of public law (LEPLs).

V. IT TECHNOLOGIES

	Zugdidi score	Average score
Using IT in processing and analysing of information, management and financial operations	7	6.57
Cumulative score	7	6.57

5.1 The municipality is using IT programmes (for budget planning and execution, e-treasury) developed by the State Treasury, as well as electronic system for documentation processing and its own software for property records.

VI. CAPACITY BUILDING OF LSGS SERVANTS

	Zugdidi score	Average score
Training and improving of qualification	7	7.43
Staff with financial qualification	7	7.86
Ethics and conflict of interests	4	3.29
Cumulative score	6	6.19

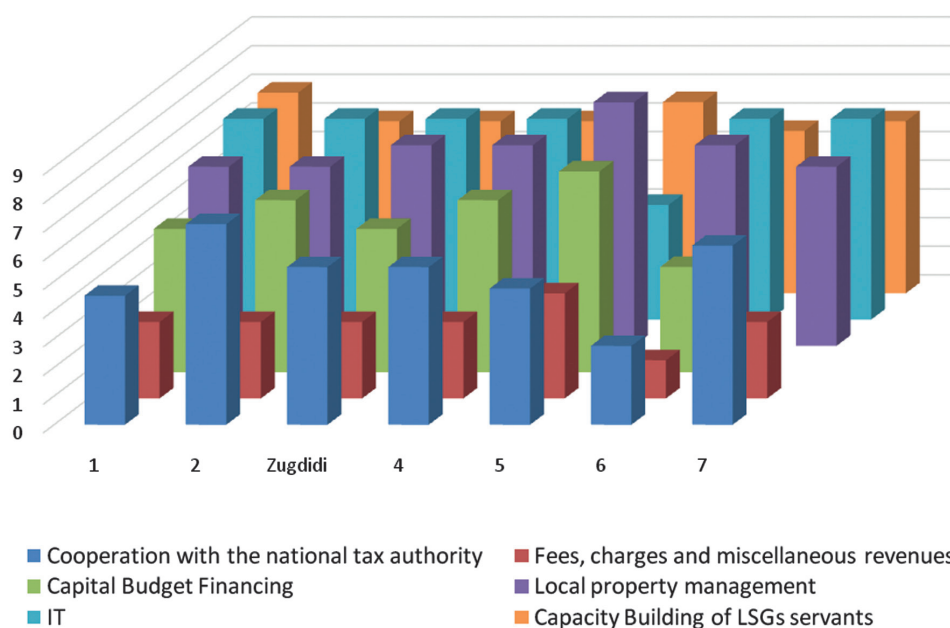
6.1 The staff training needs assessment is carried out in the municipality. Sakrebulo has adopted capacity building plan for staff of Sakrebulo and the City Hall. The municipal staff participates in various trainings supported by international donor organisations and NGOs. 1% of the salary fund is allocated for capacity building of the employees.

6.2 Staff with financial background/qualification works in Finance and Economic Departments of the City Hall and Sakrebulo.

6.3 The issues of public servants' ethics and conflict of interests are mentioned in the internal regulations (the statute of the City Hall, the statute of Sakrebulo). Generally those issues are regulated according to the Law on Public Service.

The figure below represents the position of the city among other pilots in the area of financial resources. The level of the property management (according to the scores) is relatively high compared to other pilots. The link between establishment of fees, charges and various revenues is weak; however it is common for all the pilots.

Chart #1: Comparison of LFB pilots in the area of Financial Resources



B) LOCAL FINANCE BENCHMARKING: LOCAL FINANCIAL MANAGEMENT

I. FISCAL POLICY

	Zugdidi score	Average score
Policy framework	4	4.86
Medium term planning	4	5.71
Cumulative score	4	5.29

1.1 Medium term strategy and priorities documents are in place, however the link between the document and the budget is weak and the budget is not used as the policy planning tool.

1.2 Once per year the medium term planning document is updated.

II BUDGETING METHODS AND CAPACITY

	Zugdidi score	Average score
Procedure on budget preparation	7	7.43
Budget structure	7	7.43
Expected results and indicators	4	4.43
Reflecting of subordinated organisations in the budget structure	4	5.29
Cumulative score	5.5	6.14

2.1 All line departments and subordinated entities are involved in the local budget preparation process. The Finance department plays a coordinating role in the budgetary process.

2.2 The programmes of the local budget are prepared, however expected results and measurement indicators are not given clearly. The annual budget is prepared according to organisational, functional classification and by economic categories.

2.3 The revenues and expenses of subordinated agencies are not fully reflected in the budget.

III. BUDGET POLICY

	Zugdidi score	Average score
Involvement of elected body	7	7.86
Consideration of major investment projects	7	7.86
Openness of budget documents	4	5.29
Cumulative score	6	7.00

3.1 Sakrebulo commissions and fractions are involved in the budgeting processes. During the same period the investment projects are considered.

3.2 The minutes of meetings and agendas of the meetings are available on the web-site; however minutes of committees meetings are not available there.

3.3 The final approved version of the budget of Zugdidi for the year 2016 and an annual plan of procurements are available on the web-site.

IV. ADMINISTRATIVE POLICY

	Zugdidi score	Average score
Strategy of decreasing administration costs	7	4.71
Involvement of NPEs and NGOs in service delivery	4	4.86
IMC	7	3.71
Cumulative score	5	4.43

4.1 Over the past 3 years the administrative expenses have been increasing. In 2015, their share increased by GEL 1.5 million, in comparison with 2014. While the same indicator was smaller by GEL 400 thousand in 2016. The share of salaries in the administrative expenses remained almost unchanged. It should be noted that since the year of 2015 municipalities deliver new services (e.g. preschool education is totally funded by the municipalities).

4.2 Non-commercial entities established by the municipality deliver social and cultural services to population.

4.3 Within the inter municipal cooperation City of Zugdidi and Zugdidi municipalities established joint cleaning company – Zugdiddasuftaveba.

V. BUDGET ADJUSTMENTS AND IMPLEMENTATION

	Zugdidi score	Average score
Monitoring over budget implementation	4	4.86
Adjustments in approved budget	7	3.71
Financial relations between the local government and its subsidiary organisations	4	5.71
Cumulative score	5	4.76

5.1 Reports of the approved budget are produced on a quarterly basis and then submitted by the City Hall to Sakrebulo. The compliance report contains financial information as well as a report on implemented activities.

5.2 The reason for amendments is additional financing coming from the state budget. Another reason for budget changes is saving financial appropriations as a result of conducted tenders.

5.3 Municipal organisations do not own any property. All property is owned by municipality and is let to subordinated entities on lease. Financial allocations from municipal budget to subordinated entities are done only through financing in the form of subsidies.

VI. CONTROL AND ACCOUNTABILITY

	Zugdidi score	Average score
Internal Audit	7	7.86
Usage of external consultants.	4	4.43
Reporting to the population	7	7.00
Cumulative score	6	6.43

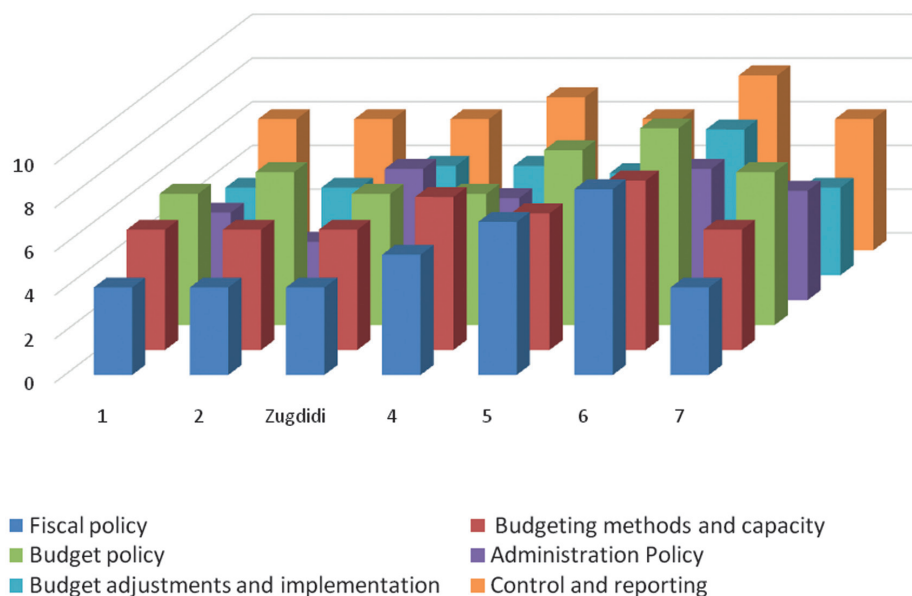
6.1 Internal Audit department was established in 2015. The department has an annual working plan. Audit of line departments is done regularly.

6.2 External consultants are invited for developing infrastructure project design and cost calculation.

6.3 Meetings with population are conducted regularly and their requests and feedback are recorded. The municipality offers open hours to meet citizens once per week.

The figure below shows that control and reporting in Zugdidi city is relatively high than any other indicator, however it is not the highest among other pilots. The rest indicators are close to average, except for the budget adjustment and implementation, since the adjustments are quite usual during the budget year.

Chart #2: Comparison of LFB pilots in the area of Financial Management



RECOMMENDATIONS

- Local tax and fee rates should be revised. After the study of the socio-economic situation, rates should be calculated based on local policy needs. Service rates should be based on the service costing and include direct and indirect costs.
- The subordinated agencies, in particular, their revenues and expenditures, should be reflected in the budget in more detail.
- The budget and current amendments, as well as resolutions of Sakrebulo should be available on the web-site of the municipality. They should be accompanied by the explanatory notes and financial calculations. The web-site should be updated on a regular basis.
- Local budget loans and repayment schedule should be available on the web-site and can be part of the budget.
- In order for the municipality to be able to increase the potential taxpayer database and incomes basis, it is necessary to have a wider access to property and income tax payers database of the Ministry of Finance.

Lessons learned and recommendations

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Final Report on Piloting Local Finance Benchmarking Toolkit in Georgia

BACKGROUND

Thematic programme “Strengthening institutional frameworks for local governance” is part of a regional programme implemented by the Centre of expertise for Local Government Reform, Directorate General of Democracy (DG II), Council of Europe under the CoE/EU Eastern Partnership Programmatic Cooperation Framework (PCF) during 2015 – 2017 in the Eastern Partnership Countries.

On January 8, 2004, the Committee of Ministers of Council of Europe approved the Recommendation Rec(2004)1E¹ to member states on financial and budgetary management at local and regional levels. Later, on January 19, 2005, the Committee of Ministers of Council of Europe approved the Recommendation Rec(2005)1E² to member states on financial resources of local and regional authorities.

Based on these recommendations, Centre for Expertise for Local Government Reform of the Council of Europe developed two instruments for assessing local governments: (i) the toolkit for evaluating financial resources and financial management; (ii) the local fiscal database and indicators. They aim to support local government financing by assisting information exchange between municipalities, on the one hand and to provide impartial, comparable information on local finances in a transparent way, on the other. The two complementary instruments, that is the localised version of the standard LFB toolkit and the Local Finance Database and Indicators will be available to the policy making community and the general public in the target countries.

The Local Finance Database and Indicators (LFD&I) support national and local fiscal policy design in the Ministry of Finance, the sectoral ministries and the advocacy programmes of local non-governmental organisations (e.g. local government associations). At the very local level the disaggregated database aims to improve municipal service management and the decisions on own source revenue policies by providing comparative data on local finances. These datasets and indicators on local government finances improve transparency and increase accountability, as well.

The LFD&I project was implemented in cooperation with the local experts. Data on local receipts, expenditures by functions and by economic categories was collected in Excel tables and analysed for 76 local self governments. The report on “Development of Local Finance Database and Indicators in Georgia” was produced in November, 2016.

The LFB Toolkit identifies an extensive number of activities/indicators regarding best practices, and structures them according to strategic sections and areas. The structure of sections and areas is based on the recommendations Rec(2004)1E and Rec(2005)1E relating to:

1. Benchmarks of financial resources of local authorities.
2. Benchmarks of financial management of local and regional authorities.

During 2016, a group of three local experts has been contracted piloting of LFB Toolkit in Georgia.

The project started in May 2016 and included 7 pilot self-governing cities Gori, Bolnisi, Marneuli, Zugdidi, Akhaltsike, Kutaisi and Rustavi.

1 <https://wcd.coe.int/ViewDoc.jsp?id=103899&Site=CM&BackColorInternet=C3C3C3&BackColorIntranet=EDB021&BackColorLogged=F5D383>

2 <https://wcd.coe.int/ViewDoc.jsp?id=812131&Site=CM&BackColorInternet=C3C3C3&BackColorIntranet=EDB021&BackColorLogged=F5D383>

For each pilot local self-government, the LFB report, including findings and recommendations was developed and submitted to local and national authorities. The reports were finalised in November, 2016.

II. ADAPTATION OF LFB METHODOLOGY INTO GEORGIAN CONTEXT

The first step of the project included the creation of the methodology for the LFB assessment. Its first draft was worked out by Georgian experts. Then, the methodology was shared with and discussed within the Ministry of Regional Development and Infrastructure (MRDI), Centre of Effective Governance and Territorial Arrangements Reform (CEGSTAR), National Association of Local Authorities of Georgia (NALAG) and independent experts. As a result of discussions and additional comments, policy areas, indicators and measurement techniques and the scoring method were agreed.

The standard LFB components were used as a basis, however the set of the components was modified in the cases where the components were not relevant for Georgia.

Specific topics in Georgia:

1. In the field of financial resources

- i) Due to the significance of cooperation with the national tax authority in collecting local taxes the relevant topic was included
- ii) More attention was paid to the property management issue due to its importance
- iii) The capital investment financing activities were decided to be evaluated by the number of projects implementing, donors' participation into the projects and availability of the local funds for the co-financing

2. In the field of financial management

- i) The quality of programme budgeting was assessed by matching with the functional classification
- ii) The share of administrative costs was set up as the indicator of efficiency in service provision
- iii) Relationship with local non-commercial organisations was added since in Georgia a lot of services provided by the LGs were delegated to those organisations
- iv) The number of annual budget amendments was set up as an indication to assess the quality of the budget planning
- v) Georgian LFB includes inter-municipal cooperation (public transportation, solid waste collection, etc.): number, scope, methods – since the level of IMC presented the field of interest

Compared to the standard LFB toolkit the adapted Georgian version was less detailed on local tax policy design, tax administration and local government borrowing.

On July 7, 2016 the draft methodology of LFB was presented at the regional conference in Batumi, Georgia and discussed with the participants, including representatives from MRDI, mayors of self-government cities and municipalities of Georgia, international experts, representatives of CoE and other pilot countries –participants of the LFB project.

After the conference the final version of the benchmarking was created and included 2 directions (local financial resources and financial management) and 11 areas, 36 criteria and 70 indicators. Each criterion was assessed by scores.

The table below represents benchmarking methodology and structure.

Area	# of indicators	# of criteria
Local Financial Resource Benchmarking		
Cooperation with the national tax authority in collecting property taxes	4	6
Fees, charges and miscellaneous revenues	3	5
Capital Budget Financing	3	8

Area	# of indicators	# of criteria
Local property management	4	9
IT	1	5
Capacity Building of local public servants	3	9
Local Financial Management Benchmarking		
Fiscal policy	2	2
Budgeting methods and capacity	4	4
Budget policy	3	5
Administration Policy	3	5
Budget adjustments and implementation	3	6
Control and reporting	3	6
Total	36	70

The adapted benchmarks followed the structure similar to the standard one:

1. Area, component, subcomponent with a serial number in a hierarchical order
2. Activity
3. Scores: 0-10

Each area was assessed by the set of indicators. An indicator was measured along objectively quantifiable criteria.

Indicators assessed by “zero”-minimum score to “ten”-maximum score with 4 and 7 as intermediate ones. If within the indicator all criteria were fully satisfied the maximum score was applied, minimum score was applied if criteria were not met at all, while intermediate scores were applied if criteria were partially satisfied.

Total score of each area represented the arithmetical average of all indicators’ scores of that area.

III. CONDUCTING LFB IN PILOT LOCAL SELF-GOVERNMENTS

In order to receive a realistic assessment, the survey included interviews and desk research. In particular, the local public servants were interviewed at sites during two visits to each of the 7 pilot self-governments. Besides, the documents, data and information in electronic form including the self-government official web-sites were studied by the experts.

A calendar for field trips to municipalities is presented below.

Destination	Date	Expert 1	Expert 2	Expert 3
Bolnisi	11-12 August		X	X
Akhaltzikhe	15-16 August	X		X
Rustavi	17-18 August	X	X	
Marneuli	18-19 August		X	X
Kutaisi	23-24 August	X	X	
Zugdidi	25-26 August	X		X
Gori	29-30 August	X		X
Kutaisi	1-Sep	X	X	X
Zugdidi	2-Sep	X		X
Akhaltzikhe	5-Sep	X		X
Gori	6-Sep	X	X	
Rustavi	7-Sep		X	X
Bolnisi	8-Sep		X	X
Marneuli	9-Sep	X	X	

According to the calendar, the local experts made field trips to the municipalities in a team by two or by one, depending of the locality. One week before starting the field trip, a list of necessary acts to be prepared by the municipalities was delivered.

The group of experts visited all the LSGs and conducted interviews with mayors and/or deputy mayors, heads and representatives of economic, financial, property management, internal audit and human resource management units. The mayors and/or deputies provided organisational support to the experts, while the representatives and heads of the units were interviewed according to the methodological topics.

The fieldwork included meetings and interviews with the partner municipalities, collecting information available on the LGs web-sites and the Legislative Herald and internal documents issued by the LGs and related to the assessment.

It has to be noted that LSGs were open to provide requested information. Finance and administrative departments also granted access to database (municipal revenues and expenditures, decrees of Mayor/Gamgebeli, statutes of Sakrebulo, local media (subsidised from municipal budget)).

Documents used during the study included:

- Minutes of local councils committees' meetings
- Municipal website: content, forum, traffic
- Local media review
- Budget methodology and procedures
- Accounting rules and regulations
- Approved, published, public information on the budget
- Regulations on local taxes, user charges
- Risk assessment/management framework:
 - business plans, reports of subsidiaries
 - procedures of municipal borrowing
- Principles, policies of local audit; audit reports
- Code of conducts
- Procurement regulations
- Conflict of interest regulations
- Local statutes
- Organisational charts
- Information on the municipal staff (HR)
- Statistics on municipal IT
- Municipal fiscal statistics

Based on the analyses, the experts applied the scores for each of the criterion in accordance with the indicators and compiled the analytical reports summarising scores, findings and recommendations. For each LFB pilot a report on findings and recommendations was developed by the experts.

To obtain feedback, the reports were presented to the municipalities. A period of one month has been offered to municipalities to present their feedback.

Only few municipalities presented the feedback and the reports were adjusted accordingly. Based on the feedback received from the self-governments the experts produced the final reports and policy recommendations for local and state governments levels. It has to be noted that feedback was limited. LSGs noted that they broadly agree on the findings. Municipalities promised to provide more detailed feedback during the final conference.

The fieldwork was completed by November, 2016. LFB municipal reports and findings were shared with the new management of the Ministry and CEGSTAR.

IV. PILOTING RESULTS

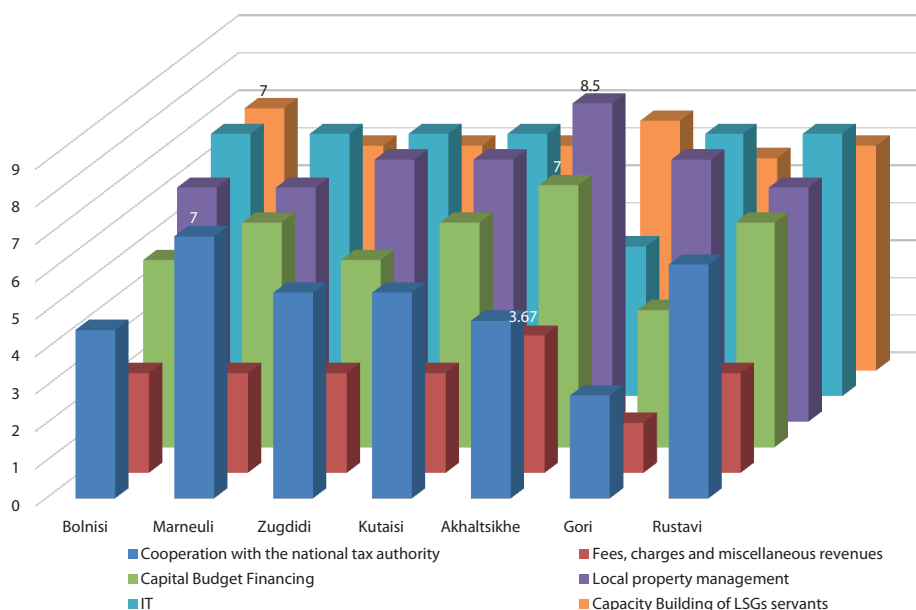
Among those studied most problematic areas affecting local financial resources are:

- Limited access by LSGs to the taxpayers database that is managed by the central authorities
- Limited expertise to establish and administer fees and charges on municipal services, lack of proactive approach, formal or informal capping of local charges and fees
- Practice of receiving and management of loans
- Municipal enterprises and non-commercial entities - functionality, relations between the subordinated entities and local self-government
- Ethics and conflict of interest

Strong aspects of local financial resources are:

- Management of capital and investment projects and diversified sources of funding (Kutaisi and Akhaltsikhe the best performers)
- Proper recording and registration of municipality owned property (land, buildings, parks, etc.) (Zugdidi, Akhaltsikhe and Kutaisi the best performers)
- Set of rules and practice of municipal property management (Gori the best performer)
- Existence of IT tools for financial management (similar practice for almost all)
- Capacity of staff that is enrolled in various trainings and capacity development activities (Akhaltsikhe the best performer)

Table: Benchmarking of LFB pilots in the area of local financial resources



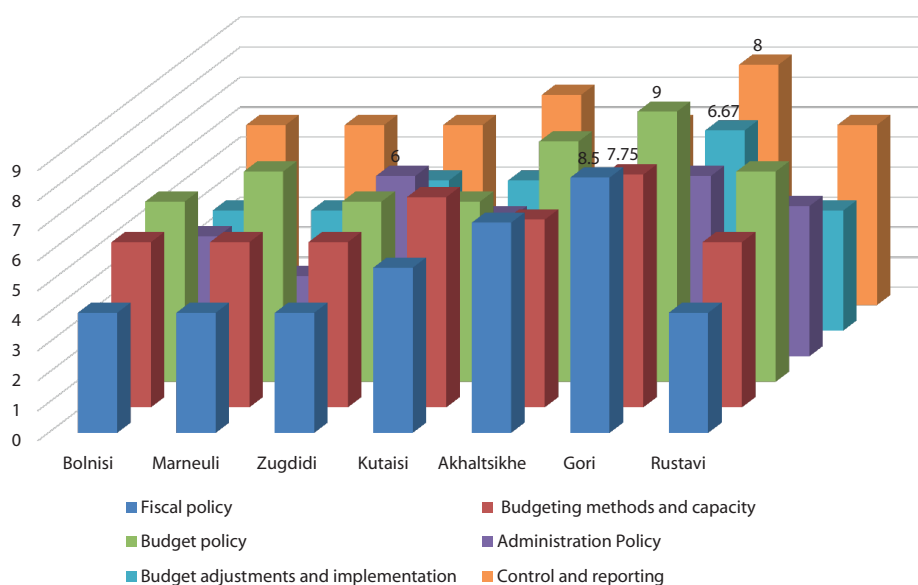
Among those studied most problematic areas related to local financial management are

- Lack of strategic allocation of resources (also due to very limited finances - the fact that downgrades also the public interest in LSGs) and underdeveloped programme budgeting
- Incomplete financial reporting (in relation with municipal entities)
- Concentration of resources (property finances) at the municipal level that limits financial capacity of subordinated entities
- Non decreasing trend of administrative costs
- Openness of the budget documents and fragmented/limited involvement of civil society and engagement with external consultants
- Limited practice of inter-municipal cooperation
- Frequent amendments to the budget

Strong aspects of local financial management are:

- Structure and procedures of the local budget preparation, approval, execution and reporting that are in line with international standards (Gori is the best performer)
- Practices for reporting back to population regarding municipal projects (Gori is the best performer)
- Existence of Internal Audit units that are monitoring that basic financial management and control procedures are in place and followed by line departments (Gori and Akhaltsikhe are the best performers)

Table: Benchmarking of LFB pilots in the area of local financial management



V. RECOMMENDATIONS

Recommendations for local financial resources

Taxpayers database (average score 3.29 out of 10)

- Improve communication with the Revenue and Treasury Services of the MoF. As 2016 year is completed, LSGs could get the information from MoF on paid taxes per companies and individuals (on property and income). Municipalities could compare actual payments with the business activity/property owned and in case of significant difference discuss it with the Revenue Service. The regular information sharing between central and local authorities will ensure that taxpayers fulfil their obligations on time. Thus, LSGs would have more clear understanding on planning next years' revenues.
- Property tax rates do not reach the ceilings established by the legislation. Worthwhile to revise the rates levels. Valuation of property and buildings require particular attention because there are the significant reserves for raising the local tax base. Cooperation between local governments and National Agency of Public Registry (NAPR) responsible for registering of different types of property (land, buildings) should be strengthened towards general availability and opening of full information to LSGs
- Creating incentives for local own revenue raising (currently more own source revenues means less equalisation transfers from the state budget-therefore no incentives). Therefore, the methodology for calculation of the equalisation formula should be changed.

Establishment and administration of service fees and charges (average score 0 in the area of linkage between service fees and service costs)

- Service Fees and charges do not cover the costs of the service. The methodology (good practice) for calculating fee rates does not exist. Also, there is no practice linking charges with inflation, tariffs on energy, gasoline prices, maintenance and amortisation of equipment, etc., that should determine the costs of the service. Informal national and local political preferences are also acknowledged for keeping service charges at minimum level. LSGs, together with the MoF and MRDI should develop a detailed manual/methodology for municipalities that would guide them for designing amounts of tariff for specific services. Apart from the manual, a long term action plan should be elaborated that aims at equalisation of service costs with service charges.
- Municipal companies providing services should be granted autonomy to collect fees and use surplus of revenues for their own development. This would also imply substantial increase of fee rates and enlargement of the coverage (in case of communal services). Creating PPPs is a good solution in cities (currently used in Tbilisi for water provision and local transport).

Practice of receiving and management of loans

- Currently local self-governments have very limited practice in managing loans (average score 3.86). Capital investment is the area, where opportunities for municipal borrowing could be explored (currently only loans from Municipal Development Fund are utilised). Establishment of Public Private Partnerships in transport, communal service provision, organisation of cemeteries is another option.

Management of municipal enterprises and non-commercial entities

- Management of municipal entities (scoring 4.86) in relation with operating results. Regulatory basis/methodology should be developed how LSG can establish performance assessment framework and monitor its implementation for enterprises and non-commercial entities. The system of service level agreements shall be introduced defining the nature and quality of service, service enrolment procedure, terms of financing (if any). Methodology should also define methods and frequency for monitoring and evaluation.
- Local self-governments should also consider transferring property & equipment to municipal entities in full ownership as well as adequate resources for operating and maintenance

Ethics and conflict of interest

- There is a need for establishing basic standards in ethics for employees (average score 3.29). Potential risks for conflict of interest and mismanagement of municipal resources should be identified and mechanism for monitoring and follow-up institutionalised. In all municipalities Internal Audit units are functioning and this function can be attached to them.

Recommendations for local financial management

More strategic allocation of resources (average score 5.29)

Fiscal policy and budgeting:

- There is a need for defining long term policy objectives at municipal level. LSG should choose up to three priorities (e.g. basic infrastructure, economic development, environment) and commit resources in a long term
- Municipal budgets should reflect better medium term priorities. Documents should contain output and outcome indicators that are SMART. Baseline data for each indicator and trend should be given in the financial plans and execution reports.

Decreasing administrative costs (avg score: 4.71):

- Share of administrative costs in the total is quite significant in pilot LSGs. This indicator is quite high in small municipalities. The MoF and MRDI, with the participation of LSGs, should elaborate an operational plan for decreasing admin costs in a medium term period. This should be considered in the decentralisation policy context. Services that require high admin costs at the local level should be

centralised; as an alternative inter-municipal cooperation should be encouraged (that is not widely used nowadays: avg score: 3.71).

Improve financial reporting (in relation with municipal entities; (average score 5.29).

- The own revenues and expenditures of commercial and non-commercial entities should be reflected in the budget. This will give complete picture on the total revenues and expenditures of LSGs (including comparing administrative and service costs). LSGs can follow the practice introduced at state level from 2016. One of the annexes of the state budget contains cumulative and individual financial information of non-budgetary entities.

Open budget (5.29) and engagement with broad stakeholders (average score 4.86).

- The draft budget and quarterly execution reports should be published on a regular basis on the municipal websites.
- A formal mechanism for stakeholders' consultation should be institutionalised in the local budgeting process. At least three meetings can be organised with public and CSOs: i) during April-May-discussion medium term priorities; ii) during August-September- discussing anticipated adjustments in municipal services for the next year, iii) During December-January-after representative body approves a draft budget.
- Practice of involving external consultants in designing municipal programmes should be explored (avg score: 4.43). Consultants can conduct consumer satisfaction surveys, calculate optimal size of taxes and service charges.

Limit amendments to the current budget (average score 3.71).

- The limit for moving funds between budget lines should be increased (currently changes above 5% requires consent of elected body). LSGs depend on tax revenues and transfers mobilised by the state (that is volatile during the year). Also, municipalities poses limited capacity to project expenditures that stimulates frequency of budget amendments (20-30 times per year). In order to save time and resources for amendments, LSGs should have higher margin of maneuver. The limit for moving funds within the budget priorities (education culture, infrastructure etc) should be increase up to 20-25%.

VI. FOLLOW-UP ACTIONS

Suggestions for improvements of the toolkit

After testing the LFB methodology that was adopted to Georgian context number of policy areas and indicators can be modified.

Local financial resources

- As most of the LSGs have very limited practice of borrowing (only from Municipal Development Fund of MRDI) this indicator could be dropped
- Indicator 1.2 on *local tax policy* should be modified. The indicator can be targeting the tax collection rates/arrears (this should be further discussed with MoF and MRDI)
- Indicator 2.3 on *Revenues from services, fees and permissions vs service costs* should be modified. Study revealed that service costs are much higher than revenues. The focus of the new indicator can be number/coverage of beneficiaries/potential beneficiaries, number (share) of fines used for misappropriate use of local service
- Indicator 4.2 on *assets and liabilities* should be modified. The focus should be assets and liabilities per capita and the trend over the years (whether it is increasing/decreasing)
- Indicator 4.3 *rules of property management* should be modified. The accent to be put on actual practice of property selling/renting. The indicator would measure the share of LSG property that is rented or operating.
- Policy area on IT should be modified. The focus should be on using the IT tools for analysis, policy planning, monitoring, communicating with stakeholders, representative bodies.

- Additional criterion to indicator 6.1 *training and improving qualification* could be added-, LSG areas/ functions covered

Local financial management

- Indicator 1.2 *medium term planning* should be modified. More emphasis could be given to the cross year deviation in financial and resource allocations, outputs, among sectors
- Indicator 2.2 *budget structure* could be modified. More emphasis is needed on availability and completeness of information (results and challenges) regarding ongoing budget execution
- Indicator 3.1 *involvement of representative body* can be enriched with qualitative information: number of budget hearings conducted, number of elected council members present/involved, recommendations proposed to the executive
- Indicator 3.2 *consideration of major investment projects* should be enriched with qualitative criteria: the nature of discussions, use of assessment tools (net present value, cost-benefit analysis), involvement of independent experts

Host organisation, workload and methods of survey implementation

The host organisation for LFB can be Centre of Effective Governance and Territorial Arrangements Reform (CEGSTAR) that is under MRDI. As an alternative, the National Association of Local Authorities of Georgia (NALAG) or local NGO can be considered. The mandate of the host organisation is to run (and update regularly) performance measurement system for Georgian municipalities based on the LFB pilot project.

For further development of the LFB Toolkit and running the system the host organisation has to recruit a group of local experts (2-3 persons). The job description of the experts' team should be: further development of the manual, procedures, options for data and information gathering, frequency of collection. The electronic database is essential for LFB continuation. It is preferable that the database is web based application.

The LFB survey can be combined with the LFD&I exercise. The latter should be done on an annual basis, based on the provided data from MoF/Treasury and published online. The MRDI and national stakeholders can use these fiscal indicators for analysing disparities (in terms of revenue, expenditures categories, provided services to citizens, per capita distribution etc.) and design policy proposals how to better allocate state transfers. Also, the local officials and finance experts can get useful information from the database and compare specific city/municipality to the national average.

In 2017 MRDI should encourage municipalities to participate in LFB survey. Adding fifteen new municipalities to the seven pilot units would allow making comparison between twenty-two units, enough to obtain meaningful results. A group of three experts on a full-time basis will be able to implement the project during the first year. Once the project has attained its full rhythm of implementation, the workload might be moderately increased (recruitment of additional one or two persons may be needed).

The experts' team main tasks are: progressively extend the number of participating municipalities, conduct survey including interviews and desk research, collect and proof-check the data, manage the data base, analyze the data, assess efficiency degree of each municipality and LFB components, determine the improvement potential, disseminate information, and show municipalities how to achieve and establish best practices in local financing.

To assess efficiency in municipal finances, the experts' group should compare the LFB indicators for a particular municipality to the same indicator for the best performing municipality (or an average of best performing municipalities).

Every year, the experts will draw up a report that provides, for the mayor and the service managers, assessment of efficiency components, as well as an estimate of improvement potential. The report will allow for comparison between Georgian municipalities, as well as comparison between Georgian municipalities and international standards.

On the first stage, experts should inform participants of the survey objectives and of the implementation procedure and send LFB toolkit, also ask municipalities to appoint a contact person. Two experts will be able to conduct survey (collecting all necessary materials) in five days. In order to ensure standardised approach towards the scoring at least two experts (with rotate principle) should be involved in the survey for each municipality.

After the completion the field work one week is needed to prepare preliminary draft report for all participant municipalities. Preliminary draft report should be sent to participants of the survey to ensure that information is reported correctly. Next stage is to analyse the scores for each of the criterion in accordance with the indicators and summarise scores, findings and recommendations. A period of one month should be given to municipalities to present their feedback. Based on the feedback received from the self-government, experts will produce the final reports and policy recommendations for local and state governments' levels.

Publicity of the collected information and potential users of LFB scores and reports

The host organisation should update database of local finance indicators. Database should cover at least three years period. It is advisable that LFB reports are uploaded on the website of the organisation at specially designated place. The reports should be written and translated into English for further international comparison.

Publishing LFB reports will create opportunity/incentives for other municipalities to get familiar with the best practice; they will be able to adjust their performance accordingly. To avoid discouragement of other municipalities that showed lower scores their results might not be published.

Potential users of LFB scores and reports are local authorities and central governmental units (MRDI, MOF), as well as researchers and other interested parties.

Final Report on Local Finance Benchmarking in Georgia

ADAPTATION OF THE STANDARD LFB TOOLKIT

The Local Finance Benchmarking programme was started with the strong support of the Ministry of Regional Development and Infrastructure (MRDI). Benchmarking of public service performance and local finances were parts of the decade-long public administration reform programme. MRDI active involvement in the LFB project shaped the adaptation of the standard benchmarks and helped the establishment of the Local Finance Database and Indicators (subject to a separate report). The Vano Khukhunaishvili Centre for Effective Governance System and Territorial Arrangement Reform (CEGSTAR), a semi-independent unit of the ministry was appointed as the partner unit of MRDI. Later it might become the successor organisation of the LFB project. The programme was widely advertised both at the launching workshop and at a regional conference in Batumi in July, 2016.

The three-member-team followed the MRDI goals during the LFB survey adaptation. In the case of *financial resources* the survey items were significantly simplified: only 18 items were used in six areas, compared to 31 standard LFB survey questions. They focused on practical areas of local revenue raising. In the case of local taxation (4 indicators) the cooperation with the national tax authority is critical, so taxpayer information and tax collection were measured, together with the openness of local property tax decision and the actual share of tax revenues were scored. Local fees, charges (3) were also in the focus of LFB. In the case of capital budget financing (3) the planning methods and implementation techniques were the main indicators. After piloting the item of municipal loans were dropped from the list, as local governments primarily borrow from the national government and development funds under favourable conditions and outside the set debt limits. Local property is critical (4 items), because LSGs build their property inventories, registries and develop their property management practices in Georgia in these years. Financing of municipal enterprises is also important for the calculating costs of services. Use IT (1) and local capacity building (3) indicators, including conflict of interest regulations were parts of the piloted toolkit.

Adaptation of the benchmarks on *financial management* was also rather radical: decreased the 43 standard items to 17 in the six areas of assessment. Most of the areas are related to fiscal planning and budgeting. Local policy development and medium term planning (2 items), budgeting methods (4 items on timing, budget structure, performance indicator, comprehensiveness) and decision on the budget (3), such as inclusion of elected bodies, openness of budget documents, coverage of capital expenditures. The questions on budget implementation (3) are related to reporting and monitoring, budget amendments and service management, financing the subsidiary entities. The specific service related items (3) focus on the decreasing the costs of administration, alternative service delivery arrangements and inter-municipal cooperation. The LFB items of audit and control (3) measure the internal audit capacity, the use of consultants and public hearings.

The *scoring methods* of the adapted LFB focused on the actual results of local fiscal policies (e.g. revenues collected) and did not only assess the quality of local policies, administration and management. This way the local efforts could not be compared among local governments. LSGs might operate in diverse environments, so primarily the objective conditions and less the management quality determine their scores. However, this method made the scoring more reliable and minimised the impact of the expert subjectivity.

PILOTING THE TOOLKIT

The LFB survey was implemented in five self-governing cities (Kutaisi, Zugdidi, Akhaltsikhe, Gori, Rustavi) and in two municipalities (Bolnisi, Marneuli). The population size of the cities ranges between 21 thousand to 148 thousands. The actual LFB survey was implemented at the end of the holiday season in late August,

early September. The parliamentary elections were scheduled later in December, so the campaign did not influence the cooperation with the local governments. According to the local experts' report, the leadership in the pilot municipalities were supportive and provided easy access to data and legal documents.

Piloting results by LFB areas are summarised in Table 1. In the field of *financial resources* the highest scores were given to the planning and implementation of capital investment projects (7.9). It might be explained by the fact, that LSGs have rather limited own resources for investments, so they depend on the rules and procedures of the central funds (RDF) and donor agencies (MDF). The new tasks of municipal property registry and valuation were also ranked high. Thirdly, the local staff qualification and training was scored highly, as well. The areas with low scores, where there is a room for improvement are related to code of ethics, own source revenue raising (lacking information on taxpayers, methods of user charge setting and borrowing).

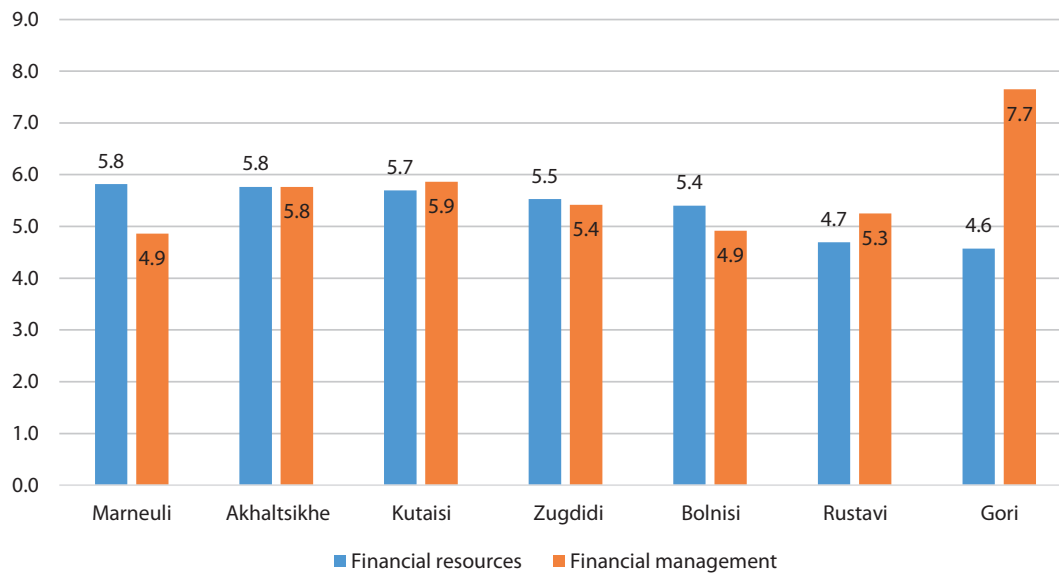
In the field of *financial management* several aspects of budgeting were scored high: involvement of elected bodies in budgeting, budget structure and timing of budget preparation are all properly managed. Capital investment planning was also ranked high, similarly to internal audit practices. There is room for improvement in the fields of budget amendment, inter-municipal cooperation and in using external consultants. The low scores in all these areas indicate the limited local government incentives for improving local financial management practices.

Table 1. LFB average scores in the pilot municipalities

Local Financial Resources Benchmarks		Local Financial Management Benchmarks	
I. Cooperation with the national tax authority in tax policy design	5.18	I. Fiscal policy	5.29
1.1. Database of local (income and property) tax payers	3.29	1.1. Policy framework	4.86
1.2. Local tax policy	6.57	1.2 Medium term planning	5.71
1.3 Openness of decision on introduction of property tax	6.57	II. Budgeting methods and capacity	6.14
1.4 Share of local taxes in total local revenues	4.29	2.1. Procedure on budget preparation	7.43
II. Fees, charges and miscellaneous revenues	2.62	2.1. Budget structure	7.43
2.1 Fees and cost of services	3.86	2.2. Expected results and indicators what is the objective/goal here?	4.43
2.2 Tariffs vs demand for services	4.00	2.4 Reflecting of subordinated organisations in the budget structure	5.29
2.3 Revenues from services, fees and permissions vs service costs	0.00	III Budget policy	7.00
III. Capital Budget Financing	5.44	3.1. Involvement of elected body	7.86
3.1 Local capital projects' managing	7.86	3.1. Consideration of major investment projects	7.86
3.2 Capital projects are financed from diverse sources	4.86	3.2. Openness of budget documents	5.29
3.3 Practice of receiving and management of loans	3.86	IV. Administration Policy	4.43
IV. Local property management	6.89	4.1. Strategy of decreasing administration costs	4.71
4.1 Recording and registration of municipal property	7.86	4.2. Involvement of NPEs and NGOs in service delivery	4.86
4.2 Assets and Liabilities of LSGs	7.43	4.3 IMC	3.71
4.3 Rules of property management	7.43	V. Budget adjustments and implementation	4.76
4.4 Management of municipal enterprises and NPEs	4.86	5.1. Monitoring over budget implementation	4.86
V. IT	6.57	5.2. Adjustments in approved budget	3.71
5.1 Using IT in processing and analysing of information, management and financial operations	6.57	5.3. Financial relations between the local government and its subsidiary organisations	5.71
VI. Capacity Building of LSGs servants	6.19	VI. Control and reporting	6.43
6.1 Training and improving of qualification	7.43	6.1. Internal Audit	7.86
6.2 Staff with financial qualification	7.86	6.2. Usage of external consultants.	4.43
6.3 Ethics and conflict of interests	3.29	6.3. Reporting to the population	7.00

Despite the objective assessment methods, the scores given to the seven pilot municipalities were rather balanced (Chart 1.). In the case of *financial resources* they range between 4.6-5.8 in the ten-point-scale. These good and balanced results indicate that the pilot LSGs are relatively well functioning municipalities in the field of financial resources. In *financial management* only one city was scored exceptionally high, mainly because of its developed fiscal planning and budgeting practices.

Chart 1. Average LFB scores by local self-governments



REPORTING

The pilot municipalities received brief reports from the local team. Each municipal report followed the same structure, starting with some general information on the pilot LSG, evaluating and comparing the actual municipality with the average scores for each indicator. Finally, some key recommendations were formulated in the low scored areas. The local governments were rather passive in reviewing the LFB results and their own reports. Perhaps it might be explained by the fact that MRDI leadership initiating and supporting the LFB programme was changed during the project implementation.

The LFB pilot survey results and the local government fiscal data were used for testing the *web-application* developed by the PCF programme. So all this information is available in a user friendly, searchable format. Once the Georgia host organisation is selected and fully authorised, the web application can be forwarded to them. The software designer will provide support for launching, adjusting and translating the application for a half-year-long period.

Based on the municipal LFB scores various recommendations were formulated by the local experts. They targeted partly the local government decision makers, but there are policy proposals, as well. According to these proposal the following areas of local financial resources and financial management should be improved:

1. *Own source revenue raising*: better information flow from the national tax authorities and support to local property tax administration. Local sure charge setting and connecting tariffs to service cost, support local governments in cost calculation. Authorising municipal companies in collecting user charges.
2. *Local government borrowing*: improve practices and forms of municipal debt.
3. *Local public service management*: assessment of local service providers' (enterprises, non-commercial entities) performance; transfer of property to these municipal entities.

4. *Local regulations on conflict of interest, ethics*: internal audit units should be authorised by setting the standards and assessing the risk in these fields.
5. *Fiscal planning and budgeting*: primarily the long and medium term planning local capacities should be improved. Budget openness, transparency and use of consultants for improving accountability through surveys and analysis.
6. *Financial reporting*: the reports should be comprehensive covering the financial flows at the subsidiary entities.
7. *Budget amendments*: interestingly the proposals are about increasing the local scope of manoeuvre in budget reallocation, capacity to move funds due to frequently changing central priorities.

In addition MRDI might use the LFB survey results in allocating capital investment grants. Presently the local financial management capacities are assessed through self-declaration on the quality of the municipal accounting systems. LFB could provide more reliable information on how well prepared the municipalities are to implement local CIP programmes.

CONTINUATION OF THE LFB PROJECT

CEGSTAR is the proposed host organisation of the LFB toolkit and the complementary Local Finance Database and Indicators. As a semi-independent legal entity under the public law, based within the MRDI it will be capable to coordinate and manage the LFB project in the future. *CEGSTAR* is being supported by several technical assistance programmes in the field of local government training and capacity development. The new director plans to develop a portal with all the services provided by *CEGSTAR*, so the web application might be one of its products made available for LSGs and the wider public.

Following the LFB piloting stage a *pool of experts* should be trained for continuing the LFB survey in other local governments. The LFB survey is an external assessment, so the scoring should be done by pairs of experts. In an ideal case a local finance expert, a legal expert and local government administration and management expert should work on the LFB survey. The minimum inputs required for implementing the survey and for reporting back to a municipality is 10 days. The three consultants who worked in the seven pilot municipalities might be used for training and mentoring the future LFB experts.

