

*Centre of Expertise for Local  
Government Reform*



# **LOCAL FINANCE BENCHMARKING TOOLKIT**

*Revised version, 22 July 2013*

## 2. Benchmarks of financial resources of local and regional authorities: local authorities

SECTION and AREA (with reference to the number of the Recommendation)	ACTIVITY, INDICATOR	VERIFICATION STATEMENT, DOCUMENTS	SCORE
<b>I. General principles of local fiscal policies</b>			
<b>1. Local tax policies design</b>			
1.1. Local revenue policies should be approved by elected bodies (R1)	Decisions made by council on <ul style="list-style-type: none"> <li>• local tax rates</li> <li>• delegation of powers to set exemptions, tax relieves</li> <li>• prices of services</li> <li>• authorisation of allocating subsidies for user charges</li> <li>• municipal borrowing</li> <li>• issuing guarantees by the local governments and service organisations</li> </ul>	Act on local governments Budget law Law on local finances Audit reports Local statutes Organizational charts and procedures	0-10
1.2. Impact assessment of local revenue policies should be made public (R3)	<ul style="list-style-type: none"> <li>• Social and economic impact of local decisions on taxes and user charges are regularly assessed</li> <li>• Public access to local budget documents</li> <li>• Public is involved in local budget design</li> <li>• Forms of local budget presentation support easy access to relevant information on revenues</li> <li>• Diversity of methods for disseminating information on local budgets</li> </ul>	Rules and procedures of local government operation Municipal budget document Channels for informing the general public	0-10
1.3. The mix of local revenues from income and property of business enterprises and persons/residents should be balanced.	<ul style="list-style-type: none"> <li>• changes in the composition of locally controlled taxes by type (of tax base) and by groups of taxpayers</li> <li>• use of permitted maximum rates of local taxes types and major groups of taxpayers (businesses; residents)</li> </ul>	Local tax regulations Local reports on tax revenues	0-10
1.4. Tax rate increases imposed on business enterprise are no higher than on private individuals.	<ul style="list-style-type: none"> <li>• changes of tax regulation on the rates of locally controlled taxes by types of tax base and by groups of taxpayers</li> <li>• annual changes in the effective tax rates of locally controlled taxes by type and by groups of taxpayers</li> </ul>	Local tax regulations Local reports on tax revenues	0-10
<b>2. Transparency and involvement of the public</b>			
2.1. Budgetary and financial discussions should be made at open meetings (R2)	<ul style="list-style-type: none"> <li>• Participation at public (committee, council) meetings</li> <li>• Intervention at public meetings</li> <li>• Media reporting on local budgets</li> <li>• Forms of targeting specific groups (e.g. large taxpayers, vulnerable groups)</li> <li>• Channels of communication with the public</li> </ul>	Minutes of meetings Media reviews	0-10

2.2. Local government associations should be involved in drafting local tax regulations (R5)	<ul style="list-style-type: none"> <li>• Timing and stages of legislation allows public involvement</li> <li>• National government invites associations at all stages of developing local tax regulations</li> <li>• Policy design capacity of local government associations</li> </ul>	Regulations on legislative drafting Act on local governments	0-10
<b>3. Timing of fiscal decisions</b>			
3.1 Decisions on revenues should be made parallel to expenditure (R.4.)	<ul style="list-style-type: none"> <li>• National tax laws are known (approved) by the start of local budgeting</li> <li>• Tax sharing and grant allocation rules are announced by the start of local fiscal planning</li> <li>• Local deficit is not allowed by the legislation on public finances</li> <li>• Local budget amendments are made by elected bodies</li> </ul>	Budget law Law on local finances Municipal budget document	0-10
<b>4. Use of IT</b>			
4.1 Managerial efficiency should be improved by IT in (R6): <ul style="list-style-type: none"> <li>• Information processing</li> <li>• Preparing decisions</li> <li>• Following-up to decisions</li> <li>• Connecting with other systems (local or central)</li> <li>• Using electronic payments</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting software is used by the finance department</li> <li>• Service organisations are linked to municipal accounting systems electronically</li> <li>• Local treasury is in operation</li> <li>• Number of electronic datasets available/used by the local administration</li> <li>• Local databases are connected and integrated</li> <li>• Councillors have email address and access to internet</li> <li>• Local government has a website</li> <li>• Draft council documents are put on the website</li> <li>• Traffic on local government website is measured and analysed</li> </ul>	Local IT procedures, equipment	0-10
<b>5. Capacity development of local staff</b>			
5.1. Training in various forms are needed for the local staff (R7)	<ul style="list-style-type: none"> <li>• Number of training courses organised locally for civil servants</li> <li>• Staff days spent at training courses in a year</li> <li>• Number of training courses organised locally for staff of the service organisations</li> <li>• Number of training courses organised locally for elected local officials and councillors</li> <li>• Budget for training in percentage of labour costs</li> <li>• Subjects of training courses (legal, financial, fiscal, management, other skill development)</li> </ul>	Human resource department Local budget	0-10
5.2. Systems should be set up to enhance professionalism in financial and fiscal matters (R8)	<ul style="list-style-type: none"> <li>• Meeting national employment standards of fiscal staff</li> <li>• Meeting internal rules of qualifications for finance departments</li> <li>• Fiscal experts available at line departments</li> </ul>	Municipal employment statistics Organizational charts	0-10

	<ul style="list-style-type: none"> <li>• Access to fiscal information by all units of local administration</li> </ul>		
5.3. Systems should be set up to enhance ethics of staff in financial and fiscal matters (R8)	<ul style="list-style-type: none"> <li>• Code of conduct for councillors on managing conflict of interest</li> <li>• Code and procedures for administrative staff for managing conflict of interest</li> <li>• Local regulations are harmonised with national rules</li> <li>• Cases registered for following/breaking rules of conflict of interest</li> <li>• Internal rules of financial management are in place for setting limits to authorisation of payments</li> <li>• Internal rules of financial management are in place to separate authorization of payments and actual transfers</li> </ul>	Internal regulations Code of conducts Laws and national regulations on public procurement, conflict of interest,	0-10
<b>II. Local taxation</b>			
<b>6. Local tax policy design</b>			
6.1. Local taxes should be based on the principle of fairness (ability to pay) (R9)	<ul style="list-style-type: none"> <li>• local tax regulations interpret exemptions set by law</li> <li>• differences between nominal and actual tax rates</li> <li>• effective tax rates compared to national averages</li> </ul>	Local tax regulation Municipal fiscal statistics	0-10
6.2. Local taxes should produce high yield (R9)	<ul style="list-style-type: none"> <li>• Tax yield compared to total costs of tax administration (for all taxes)</li> <li>• Tax yield compared to total cost of tax administration (by local taxes)</li> <li>• Local tax revenues in percentage of local own source revenues</li> <li>• Local tax revenues in percentage of total/current budget</li> <li>• Total tax administration costs in percentage of local expenditure on administration</li> </ul>	Municipal fiscal statistics Local budgets	0-10
6.3. Real value of property tax yields should be preserved by effective administration and regular rises in tax rates	<ul style="list-style-type: none"> <li>• frequency of tax rate variation</li> <li>• occurrence of amending local tax regulations</li> <li>• trends in property tax collection</li> </ul>	Local tax regulations Local reports on tax revenues	0-10
6.4. Number of local taxes should be kept low (R12)	<ul style="list-style-type: none"> <li>• Number of local taxes</li> <li>• Changes in number of local taxes</li> <li>• Number of local taxes in percentage of total number of potential local taxes</li> </ul>	Local tax regulations	0-10
6.5. Changes in level of local taxation should be adjusted to variation in local preferences and objectives (R11, R13)	<ul style="list-style-type: none"> <li>• Variation in local fiscal policies and budget targets</li> <li>• Amendment of local tax regulations</li> <li>• Comparison of increase in budget appropriations and local tax revenues</li> </ul>	Local budget Local tax regulations	0-10
6.6. Changes in local tax framework should be	<ul style="list-style-type: none"> <li>• Preparation, approval and announcement of major</li> </ul>	Local tax regulations	0-10

made in a timely manner (R14)	amendments of local tax regulations: tax rate, tax base, exemptions		
<b>7. Tax policy</b>			
7.1. Local tax bands should be simple and fair (R18)	<ul style="list-style-type: none"> <li>• Number of tax bands is matched to differences in tax base</li> <li>• Changes in number of tax bands follow the modification of tax base</li> <li>• Progressivity of local taxes are ensured by refinement of tax bands</li> </ul>	Local tax regulations Local tax statistics	0-10
7.2. Local taxes should be based on stable tax base (R20)	<ul style="list-style-type: none"> <li>• Composition of local taxes</li> <li>• Annual changes in local tax base</li> <li>• Number of tax payers by major types of local taxes</li> </ul>	Local tax regulations Local tax statistics	0-10
7.3. Tax avoidance and evasion should be prevented (R18)	<ul style="list-style-type: none"> <li>• Ratio of potential and actual tax base/tax revenues</li> <li>• Total amount of delinquencies in local tax collection</li> <li>• Composition of arrears by time</li> <li>• Number of court cases and litigations stabilised (kept at the same ratio to total number of taxpayers, to total tax revenues)</li> </ul>	Local tax regulations Local tax statistics	0-10
7.4. Quality of tax regulations should be improved (R18)	<ul style="list-style-type: none"> <li>• Local revenue policy goals are translated to tax regulations</li> <li>• Taxes collected through tax audit</li> <li>• Litigation cases won, compared to total number of cases</li> <li>• Litigation cases won, compared to number of tax payments</li> <li>• Litigation cases won, compared to total local tax revenues</li> <li>• Arrears accumulated annually</li> <li>• Internal audit of tax administration</li> </ul>	Local tax regulations Municipal fiscal strategy Statistics on local tax administration	0-10
7.5. Information on tax base should be updated and has to be founded on legally available sources (R19)	<ul style="list-style-type: none"> <li>• Shared information bases by various units of local administration</li> <li>• Local cooperation with horizontal partners on information (e.g. police, utility companies)</li> <li>• Cooperation with higher authorities collecting information, relevant for local tax administration: national tax office, business registry, cadastre, vehicle registration</li> </ul>	National and local IT systems	0-10
7.6. Reserves should be set aside for litigation (R24)	<ul style="list-style-type: none"> <li>• Litigation cases compared to total number of tax payments</li> <li>• Average costs of court cases</li> <li>• Litigation cases won, compared to total number of cases</li> </ul>	Local budget Statistics on local taxes	0-10

<b>8. Information and publicity</b>			
8.1. Local tax policy should be designed in an open, transparent way (R10)	<ul style="list-style-type: none"> <li>• Publishing, posting draft tax policies</li> <li>• Disseminating drafts on local tax policy options</li> <li>• Documents justifying local tax decisions should be transparent</li> </ul>	Local legal procedures Regulation of local budgeting Budget documents	0-10
8.2. Information and explanation on local taxes and tax regulations should be made public (R15, R17)	<ul style="list-style-type: none"> <li>• Diverse means of information sharing (electronic, posters, direct mailing, telephone)</li> <li>• Public hearings and consultation before and after the tax regulations are approved</li> <li>• Citizen charter on local taxes (availability, quality)</li> </ul>	Local channels of communication with the general public	0-10
8.3. Public information on utilisation of local tax revenues should be comprehensive, understandable (R16)	<ul style="list-style-type: none"> <li>• Reporting on the implementation of local budgets</li> <li>• Explanation of general purpose local tax revenues</li> <li>• Reporting on earmarked local taxes</li> <li>• Public information by types of major local taxes</li> </ul>	Budget reports Local channels of communication	0-10
<b>9. Tax administration</b>			
9.1. Tax registration and timely collection should support smooth cash flow (R21)	<ul style="list-style-type: none"> <li>• Taxpayers registry is regularly updated</li> <li>• Inflow of local taxes is equally distributed throughout the budget year</li> <li>• Delays and unpaid taxes are followed by the tax information system</li> <li>• Notification, warning practice on non-payments are in place</li> <li>• Internal legal procedures for non-payment are regulated and publicly known</li> </ul>	Local tax regulation Tax administration Reports on local revenues	0-10
9.2. Tax administration should be simple: few formalities, least administrative efforts by tax payers (R22)	<ul style="list-style-type: none"> <li>• Public information on local tax regulations</li> <li>• Billing: timely call for tax payment</li> <li>• Specific justification of taxes due</li> <li>• Diverse forms of payment</li> <li>• Information on complaint and appeal is publicised</li> </ul>	Local tax regulation Tax administration	0-10
9.3. Payment demands should provide information on tax levies (R23)	<ul style="list-style-type: none"> <li>• Compulsory elements of local tax claims: <ul style="list-style-type: none"> <li>- identification of taxpayer (property owner)</li> <li>- tax base, exemptions</li> <li>- tax rate, amount due</li> <li>- deadline for payments</li> <li>- forms of payment</li> <li>- consequences of delay or non-payment</li> <li>- options for appeal</li> </ul> </li> </ul>	Tax forms	0-10
9.4. Easy payment systems (R23)	Availability and use of various forms for paying local taxes: <ul style="list-style-type: none"> <li>• Personal, through cashier</li> <li>• Bank transfer</li> <li>• Checks</li> </ul>	Local tax regulations Tax administration	0-10

9.5. Complaint procedures should be clear (R23, R24))	<ul style="list-style-type: none"> <li>• Other</li> <li>• Deadlines for lodging a complaint are set reasonably</li> <li>• Methods of complaint: contact point, in writing</li> <li>• Decision/response on complaint are limited in time</li> <li>• Appealing procedures are set</li> </ul>	Local tax regulations	0-10
<b>10. Tax system audit (R25)</b>			
10.1. Comparing collection costs with tax revenues	<ul style="list-style-type: none"> <li>• Tax yield compared to total cost of tax administration (total)</li> <li>• Tax yield compared to total cost of tax administration (by local taxes)</li> </ul>	Local budget Tax administration	0-10
10.2. Tax coverage: identification of tax payers and collection rate	<ul style="list-style-type: none"> <li>• Regular update on tax payer registry</li> <li>• Cross-checking tax registries (tax base, tax payer)</li> <li>• Trends in collection rate</li> <li>• Percentage of complaints</li> <li>• Appeals solved before court procedure was started</li> <li>• Legal cases in percentage of tax payments made</li> </ul>	Tax administration	0-10
<b>III. Fees, charges and miscellaneous revenues</b>			
11.1. User charges should not exceed service costs (no profit on paper) (R26)	<ul style="list-style-type: none"> <li>• Calculation of service costs include total current (direct and indirect) and capital investment costs</li> <li>• Two component user charges are matched with fixed and variable costs</li> <li>• Increase in user charges are calculated by a regulated formula, reflecting major factors of service costs (e.g. capital, labour, energy)</li> <li>• Difference between total revenues from user charges and operational/maintenance costs (surplus) is used for capital investments in the same sector</li> </ul>	Local budget Regulations on pricing Financial reports and business plans of service organisations	0-10
11.2. Charges should not reduce demand for services excessively (R27)	<ul style="list-style-type: none"> <li>• Local policy preferences are reflected in average charges, exemptions and subsidies</li> <li>• Pricing methods follow local policy goals: charges by block of consumption, classification of users</li> <li>• External impact of charge increase: changes in illegal dumping of waste, illegal connections to water system, water unaccounted</li> </ul>	Local budget Regulations on pricing Service performance indicators	0-10
11.3. Choice between charges or local taxes should be made explicit (R28)	<ul style="list-style-type: none"> <li>• Local policy preferences are reflected in defining the proportions between local taxes and user charges</li> <li>• User charges are preferred for services with a <ul style="list-style-type: none"> <li>- measurable output,</li> <li>- visible benefit,</li> <li>- easily identifiable user,</li> </ul> </li> </ul>	Local budget Regulations on pricing	0-10

	<ul style="list-style-type: none"> <li>- alternative service providers,</li> <li>- measurable costs,</li> <li>- manageable collection of charges</li> <li>- significant revenue stream.</li> </ul>		
11.4. Access to essential services by disadvantaged groups should be preserved (R29)	<ul style="list-style-type: none"> <li>• Pricing methods reflects social policy goals (partial costs pricing)</li> <li>• Subsidies for service users financed through charges are in place</li> </ul>	Local budget Regulations on pricing	0-10
11.5. Exceptional revenues should finance capital revenues (R31)	<ul style="list-style-type: none"> <li>• Windfall revenues are separated in local budget</li> <li>• Own source capital revenues are used only for capital expenditure</li> </ul>	Local budget	0-10
<b>IV. Capital Budget Financing</b>			
12.1. Local capital investments are managed effectively	<ul style="list-style-type: none"> <li>• appropriations on capital expenditures are separated in the local budgets</li> <li>• capital investment projects are completed within the forecasted budget</li> <li>• large capital projects, constructions are finished on time</li> </ul>	Local government budget and annual financial reports Capital investment project documents	0-10
12.2. Capital expenditures are funded by diverse sources of local revenues	<ul style="list-style-type: none"> <li>• surplus of general revenue over operational costs is identifiable from the municipal accounts and local financial reports,</li> <li>• non-recurrent revenues, such as sale of assets, proceeds from privatisation are appropriated to investment expenditures, only.</li> <li>• affordable borrowing is confined to funding long term investment</li> <li>• revenues raised through private sector participation for capital investments</li> <li>• intergovernmental transfers intended for capital projects</li> </ul>	Local government budget and annual financial reports Capital investment project documents Loan agreements	0-10
12.3. Debt service costs are covered by estimated surplus of revenue over operational costs	<ul style="list-style-type: none"> <li>• funds available from the general municipal budget</li> <li>• revenues (fees, charges) accruing from the assets created</li> </ul>	Local government annual financial reports Capital investment project documents Financial reports of service organisation managing the completed capital project Local regulation on user charge setting	0-10
12.4. Short term loans finance cash flow deficits within the fiscal year	<ul style="list-style-type: none"> <li>• structure of local government annual borrowing (flow)</li> <li>• changes in the composition of local government debt (stock)</li> <li>• short term loans are eliminated by the close of the budget year</li> </ul>	Local government annual financial reports Loan agreements	0-10
12.5. Borrowing complies with limits imposed by the national legislation	<ul style="list-style-type: none"> <li>• information required by national borrowing regulations is available from the financial reports for several years (on annual borrowing, debt repayment (interest, capital), debt stock)</li> <li>• loan guarantees (contingent liabilities) are incorporated in reports on municipal debt</li> <li>• ratio of utilizing limits on local government borrowing: actual</li> </ul>	Local government budget and annual financial reports Loan applications Capital investment project documents	0-10



	year and medium-term forecasts		
<b>V. Local property</b>			
13.1. Local governments keep records of their own assets and liabilities.	<ul style="list-style-type: none"> <li>• municipal balance sheets are annually prepared</li> <li>• report on local assets is based on inventories, audited information sources</li> <li>• value of local non-financial assets is regularly updated</li> <li>• complete inventories of direct and indirect (contingent) liabilities</li> <li>• consolidated local government balance sheets are publicly available</li> </ul>	Local planning and reporting regulations Local regulations on asset management Local budgets, financial reports Contracts with service organisations and property managers	0-10
13.2. Organisational forms and rules of asset management are transparent	<ul style="list-style-type: none"> <li>• clearly regulated decision making powers on sale, use and charging of municipal assets</li> <li>• effective local government control over the municipal asset management organisation</li> </ul>	Local regulations on asset management Statutes, bylaws, procedures, contracts on municipal property management	0-10
13.3 Local governments keep control of strategic property	<ul style="list-style-type: none"> <li>• infrastructure and networks are clearly separated from the equipment and other operational assets of service provision</li> <li>• service organisations managing natural monopolies are controlled by local governments as owners or through contracts</li> </ul>	Local government balance sheets and property inventories Local company statutes Utility and urban service contracts	0-10
13.4. Regulations on municipal companies ensure their long term financial stability	<ul style="list-style-type: none"> <li>• medium term service management contracts and their annual specifications define the service performance, the level and method of compensation</li> <li>• the municipal compensation covers the operational costs and a reasonable profit, deducting other service related company revenues</li> <li>• excess compensation is returned to the client local government</li> <li>• ownership of assets and related maintenance obligations are set by the contracts</li> <li>• in the public-private partnership arrangements the private partner bears the construction risk and at least either the availability or the demand risk</li> </ul>	Municipal service management contracts Local government expenditures (compensation, subsidies) on services provided by companies PPP agreements	0-10

#### 4. Benchmarks of financial management of local and regional authorities: local authorities

SECTION and AREA (with reference to the number of Recommendation)	ACTIVITY, INDICATOR, IMPACT	VERIFICATION STATEMENT, DOCUMENTS	SCORE 0-10
<b>I. Sound budgeting and fiscal planning</b>			
<b>1. Fiscal strategy design</b>			
1.1. Overall financial framework of multi-year budget (R.45)	Budget is based on central macroeconomic policies and middle term local policies. Clear connections between local policies, strategies and budget items establishes the accountability. The changes of overall budget cap fit into the macroeconomic framework and accepted by the local policy objectives.	Yearly budget document exist. Budget documents include sheets, comparative data. Budget items are transparent and structured, properly classified.	0-10
1.2. Multi-annual budget plans (R.45)	The precondition of balanced annual budget is the multi-annual plan, which aligns the resources and service levels. Multi-annual plan does not play only a formal role it does not have strong managing power. It considers the future consequences of financial decisions on an accrual basis..	Regularly updated multi annual plan Separate long term budget decisions (large projects, investments), which influences the commitments of the actual year.	0-10
1.3. Budget strategy debate (R.73.)	In the budget process the first step is to debate and approve the actual budget objectives and fiscal policy. It prevents <ul style="list-style-type: none"> <li>wasting time to calculate unrealistic budget request,</li> <li>exceed budget needs comparing the manageable level,</li> </ul> It shows the direction how to calculate the details of budget. Supports the quality of service delivering on long term.	Proposal for yearly budget proposal. Predefined components and conditions, which are subject to approve.	0-10
<b>2. Budgeting methods and capacity</b>			
2.1. Technical capacity in budget preparation procedure. (R. 46., 57., 58.)	The number of participating departments, including the nature of their work. Budget preparation is supported by all type of local professional capacity. The budget preparation is the most powerful tool to discuss and select the best solutions of service delivery. Comparisons are used to justify the appropriate changes in figures, comparing the former performances, according to the objectives. Broad involvement of staff and available professional capacity supports autonomy and openness	Local technical rule book, which regulates the duties and cooperation of departments. Rule book includes the pattern of working sheets, with ID numbers. IT system which supports the calculations and documentations, and workflow regulates budget development. Annually issued technical bulletin available to address the extraordinary circumstances and to assign obligations. Schedule with deadlines of key decision.	0-10
2.2. Nature of voting units (R. 47.)	The ceiling and objectives of voting units are clear enough to implement the expected outputs; and their quantity and quality are measured.	Standardized forms to develop voting units. Local criteria and conditions of budget explanations, but only for allocation purpose.	0-10

	Without the appropriate decisions by commitment type changes on voting unit is prohibited. (R. 50.) Clear structure of voting units keeps track of the budget implementation and service performance.	Classification system of voting units exists. Annual packages of voting units, with ID codes for book keeping connections. Cross referenced sheets to analyze the budget priorities and other features of budget.	
2.3. Analytical sheets make the budget transparent (R. 47.)	The system of connected budget sheets supports the understanding of the budget, providing different dimensions of the data. The objectives of using more dimensions and cross-references to serve information for decision making, and with the same figures to set up the obligations for budget implementations, according the implementation rules. A structured set of analytical budget helps to understand better the power of budget planning	Set of budget sheets with explanations.	0-10
2.4. Explanations of performance (R.54)	Budgeting and output data and information on performances explain fiscal objectives. An agreement between elected members and officials on the performance indicators is the starting point to improve service level. Performance monitoring focuses on the public money to deliver the expected outputs	The local rules on performance measurement and presentation.  Rules to maintain a database to monitor and compare performances during the fiscal year.	0-10
2.5. Satellite agencies in the budget proposal. Rules of consolidations of accounts (R. 61.)	The scope of local budgets fits into national framework, and it does not include prohibited items. Based on the central rules, the nature of local bodies is identified and the coding system for classification is exist. The proper classes of bodies are the precondition of proper consolidation of financial data.	Budget documents Registration of satellite agencies with their ID codes. Written local rules for financial consolidation. Accounting rules for consolidation.	0-10
2.6. Financial reserves for risk management (R. 63., 64., 65., 67., 68., 69.)	The framework of sound financial system and risk management exists. It includes: <ul style="list-style-type: none"> <li>the qualifying criteria,</li> <li>rules to sort risks, which subject to predefined financial reserves.</li> <li>rules to sort risks, which, maybe need some insurance.</li> </ul> The structures, figures to present risky items, loans, guarantees, etc, in the budget documents exist. There is a follow-up systems and ongoing control system. Responsibilities of risk management in the organization structure are clearly published and assigned.	Risk management framework. Listed risks, sorted by the level of risks, as a part of budget document. Rules and procedures on the assignment of risk management responsibilities in the organization.	0-10
<b>Budgeting procedures</b>			
3.1. Involvement of elected bodies (R. 49., R.74)	The level of understanding of budget objectives by the elected bodies. Appropriate procedures exist:	Clear and understandable local technical rule book, which explains the importance of different items, the role of different classification.	0-10

	<p>- raising questions, - avoid conflict of interest, carrying out lobbying and anti-corruptions.</p> <p>Local representatives understand the consequences and future impact of their decision, their influence on the service level. Trainings and other workshops are organized to understand the message of budget.</p>	<p>Training material and any other evidences of training Code of ethics exists to avoid the conflict of interests.</p>	
3.2. Independent opinion on proposal	<p>It helps the proper budget debate. Some special considerations need special professional knowledge. Independent opinion helps to make it sure, that the main decision of local authorities are proper balanced and well prioritized. After delivering independent opinion the elected members need more time to consider it.</p>	<p>Memos of independent examination.</p>	0-10
3.3. Separate debate and adoption of complex, major investment projects or other significant programs (R. 50.,59., 71.)	<p>Decision procedure of regular complex programs (IT programs, reforms, changing structure, etc.) which are subject to separate decision. Procedure exists to involve citizens to identify significant investment projects.</p>	<p>Decision procedure exists. Content and other documents of proposals. Evidences on citizen participation.</p>	0-10
3.4. Outsiders' contribution helps accountability (R. 55.)	<p>Occasional and/or regular procedures. Local rule sets up the obligation to consult regularly with the social partners, citizens. An open forum exists to collect citizen contributions. Regular consultancy supports autonomy.</p>	<p>Local rules Evidences on forums</p>	0-10
3.5. The timeframe of budget debate by elected bodies	<p>There is sufficient time to review and understand the budget proposal and to organize the debate.</p>	<p>Actual time schedule Minutes of discussions.</p>	0-10
3.6. Openness of budget documents (R.52, R. 56.)	<p>Openness helps accountability and citizen participation.</p> <ul style="list-style-type: none"> <li>• Information, minutes of meetings, publication on internet</li> <li>• Leaflets, which present the main objectives, figures, graphs.</li> <li>• Public hearing, as part of budget debate.</li> </ul>	<p>Places where budget documents are accessible. Documents on internet in a user friendly way Leaflets Minutes of public hearings</p>	0-10
<b>4. Fiscal policy objectives</b>			
4.1. Cost saving strategies are adopted and sustained	<ul style="list-style-type: none"> <li>• share of current expenditures in total local government budget</li> <li>• changes in operating surplus (operating expenditures minus recurrent revenues)</li> <li>• ratio of payroll and other overhead costs</li> <li>• rises in costs of demographic change</li> </ul>	<p>Local government annual financial reports, budget Local regulations on fiscal planning</p>	0-10
4.2. Cutbacks in payroll expenses should limit redundancies	<ul style="list-style-type: none"> <li>• trends in local employment costs; comparison to national averages</li> </ul>	<p>Local employment statistics Local government decisions on municipal</p>	0-10

	<ul style="list-style-type: none"> <li>• changes in municipal employment (both civil servants and public employees)</li> <li>• number of staff made redundant</li> </ul>	employment	
4.3. Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions	<ul style="list-style-type: none"> <li>• municipal services contracted to community, non-profit organisations</li> <li>• grants and subsidies provided to NGOs for local services</li> <li>• comparison of unit costs of services provided by community organisations</li> </ul>	Local financial reports and budgets on transfers to NGOs Contract and agreements with the third sector	0-10
4.4. Cooperation with other local authorities (R.70)	The level of cooperation and cost sharing to improve the efficiency and effectiveness (both to vertical and horizontal direction.) Separate decision before cooperation. Budget figures and explanations on cost-sharing, advantages, the expected results, and the long term financial consequences in the phase of operation.	The objectives of cooperation Changes of budget items are parts of cooperation agreement. Decisions, contracts on cooperation. Data and explanations of relevant budget items.	0-10
4.5. Adjoining authorities share administrative and professional resources	<ul style="list-style-type: none"> <li>• declared objectives of inter-municipal cooperation</li> <li>• local governments cooperate for providing basic services and improving service quality</li> <li>• scope of technical (utility, communal, transportation) services organized in cooperation</li> <li>• joint purchases of goods and services</li> <li>• use of electronic procurement for buying goods and services</li> </ul>	Cooperation agreements Joint management of municipal service organisations Council decisions on joint service provision Procurement regulations	0-10
<b>II. Special rules of budget adjustments and implementation</b>			
5.1. Regular evaluation keeps track of budget implementation (R.76., 77.)	Mid year evaluations, quarterly monitoring reports make a regular supervision of implementation. They provide opportunities to decide adjustments, when necessary.	Mid year evaluations. Quarterly monitoring reports Regulated warning system, where irregularities are detected.	0-10
5.2. Local framework of supervision, monitoring and reporting system set up to audit budget implementation (R .80., 83.)	The approved budget, the report and statements about implementations together establish the framework of accountability. The final report is made in the same structure as the budget. Appropriate explanation on budget implementation exists, highlighting the causes of differences.	Final report. Financial statement. Documents on internet on a user friendly manner Leaflets Minutes on the debate of budget implementation reports.	0-10
5.3. Independent opinion on final reports and financial statements. (R.83)	Independent opinion (external audit) helps the elected members to trust in the submitted final reports and in the correctness of financial statements. If external auditor fails to certify the statements, it means that serious problems were found, which could mislead the decision makers.	Clear understanding of the role and limitations of the opinion of external auditing Report of external auditing.	0-10
5.4. Budget adjustment during the year is limited. (R. 78)	It is predefined when budget adjustment is necessary. Too frequent adjustments create uncertainty.	Local rule on budget adjustment. Cases and scope of budget adjustment.	0-10

	Too frequent adjustments make too bureaucratic decisions, which could overwrite the original objectives. Too frequent adjustments are against the transparency, because the subject can avoid the proper budget debate.		
5.5. Relations between the local government and its subsidiary organisations are regulated by transparent agreements	<ul style="list-style-type: none"> <li>• local government and service organisations' finances are clearly separated</li> <li>• performance of services rendered are specified in written contracts</li> <li>• sources of funding contracted services are specified annually (user charges, municipal subsidies, loans, etc.)</li> <li>• information on the municipal service contracts is accessible by the general public within the framework of the national legislation</li> </ul>	Local government budgets and financial reports Local government framework agreements and annual contracts with utility, communal and transportation companies Establishing documents of municipal service organisations	0-10
5.6. Local government service contracts cover asset management and social issues	<ul style="list-style-type: none"> <li>• regulations on the use of municipally owned assets by service organisations are covered by the contract</li> <li>• responsibilities for operation, maintenance, repair and reconstruction of transferred assets are specified</li> <li>• local governments receive compensation for their assets used by contractors</li> <li>• low income users of municipal services receive targeted social benefits</li> </ul>	Regulations on local government asset management Local government framework agreements and annual contracts with utility, communal and transportation companies	0-10
5.7. Local service management should be made efficient	<ul style="list-style-type: none"> <li>• service performance measurement system is in place</li> <li>• outputs of municipal service provision are regularly assessed</li> <li>• unit costs of services are evaluated</li> <li>• service efficiency is a key target indicator for the service organisation and its management</li> </ul>		0-10
5.8. Local government financial operations are made transparent	<ul style="list-style-type: none"> <li>• all large and medium scale expenditures are subject to public on-line scrutiny</li> </ul>		0-10
<b>III. Special control, supervision on activities</b>			
6.1. Framework and role of internal audit (R.82., R 84.)	Locally clarified legal power of internal audit. Exact reporting line. Proper audit strategy helps to concentrate resources. The role of internal audit is to support the top managers, to improve the activities inside the local authorities. If internal audit regularly reports to elected bodies, then it creates a climate not to audit sensitive areas and helps to remove a tool of top management. As external audit is destined for helping elected members to exercise their controlling power, it is necessary to limit the	Local, internal principles and policies on audit. Local standing orders Rule book on internal audit.	0-10

	<p>internal audit reporting line to managers.</p> <p>Lack of auditing resources should encourage effective cooperation between the two type of auditing.</p>		
6.2. Special consideration have to guarantee PPP projects (R.72.)	<p>PPP construction is a potential way to finance public service infrastructure, to save resources of current situation. But it needs careful consideration to prevent unconditional risks and extra cost in the future.</p> <p>Proper debate establishes the potential usage of PPP financing and its guarantee.</p> <p>First it is recommended to search for other solutions.</p>	<p>Local, internal principles and policies.</p> <p>Proposals and calculations of future financing needs of PPP projects</p> <p>Contracts of PPP projects</p> <p>Internal audit reports on implementation.</p>	0-10
6.3. Prudent commercial links. (R.60)	<p>General principles and policies set up the framework.</p> <p>Identification the types of links helps to understand the control environment:</p> <p>Special consideration on</p> <ul style="list-style-type: none"> <li>• taxes on business or business property,</li> <li>• scoring criteria on public procurement</li> <li>• out-sourcing</li> <li>• rental fees, etc.</li> </ul>	<p>Local principles and policies.</p> <p>In the lack of them there are room to corruption, non-equity, occasional management.</p>	0-10
6.4. Limits to commercial activities, investments (R.66)	<p>Limits focuses to avoid competitive area, which is able to cover a considering proportion of costs.</p>	<p>Local, internal principles and policies.</p> <p>Local standing orders</p>	0-10
6.5. Criteria of usage external consultants.	<p>The most common usage are the following:</p> <ul style="list-style-type: none"> <li>• internal team work on the project, but some special professional knowledge is needed or it is better, if an independent leads the work,</li> <li>• the topic, the subject of knowledge or efficiency is the reason the outsourcing the activity.</li> </ul> <p>Proper internal debate to make the decision.</p>	<p>Local standing orders</p> <p>Local policies</p> <p>Calculation on the costs of internal or external consultants.</p>	0-10
6.6. Procedure of situation in financial difficulties (R85., 86., 87.)	<p>Procedure specify:</p> <ul style="list-style-type: none"> <li>• The position, whose responsibility the recovering,</li> <li>• or whom to report the noticed signs,</li> <li>• General principles of recovery plans</li> <li>• Rules and responsibilities to devise the situation of problem solving.</li> <li>• Key decisions.</li> </ul>	<p>Local standing orders</p> <p>Local policies</p> <p>Manual for special, high risk situation and frequently faced problems.</p>	0-10

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