



## **"BUDGETARY PROCEDURES AND BUDGET MANAGEMENT AT LOCAL AUTHORITY LEVEL"**



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MANAGEMENT AT LOCAL AUTHORITY LEVEL"**

Report by the Steering Committee on Local and Regional Democracy  
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## INTRODUCTION

The main aim of this report is to identify good practices and avenues for improving local budgetary procedures. As pointed out in a previous report on "Methods for estimating local authorities' spending needs and methods for estimating revenue",<sup>1</sup> budgeting is not only a technical process but also a highly political one because *"technique and discretionary judgement are intertwined, and different actors have different interests. This makes procedures important."*

The approach adopted consists chiefly of highlighting certain sensitive areas in the budgetary process and identifying practices that seem particularly worthwhile. The report does not set out to provide an exhaustive description of local budgetary procedures in all the countries concerned, nor does it offer a statistical approach to the question. It goes without saying – especially bearing in mind specific national circumstances – that the fact of identifying good practices does not imply they should become standard in every country.

The report is based on a questionnaire specifically covering the issues of information, the independence of those involved in budgeting, their accountability, and the various control mechanisms that are in place. Respondents were also asked to describe specific situations. All national delegations to the CDLR were invited to reply to the questionnaire. Replies and/or case studies were received from: Belgium (Flemish, Walloon and Brussels Capital regions<sup>2</sup>), Croatia, Cyprus, the Czech Republic, Denmark, Finland, France, Greece, Ireland, Malta, Norway, the Netherlands, Poland, Portugal, the Russian Federation,<sup>3</sup> Slovakia, Slovenia, Spain, Sweden, "the former Yugoslav Republic of Macedonia" and the United Kingdom.<sup>4</sup> Switzerland also submitted documents. As some of these countries are federal states, the term "central government" should be understood in such cases to cover the federal government and/or the federated entities, depending on the distribution of powers.

Lastly, it should be noted that this report focuses on the municipal tier of local government without examining municipalities' involvement in external bodies (publicly run businesses, mixed-economy companies, non-profit-making associations, bodies set up under supra-municipal partnerships etc) although, in the case of the last mentioned, the omission may leave a gap in the overall picture conveyed by budget documentation if there is no consolidated overview.

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<sup>1</sup> Council of Europe (2001), *Methods for estimating local authorities' spending needs and methods for estimating revenue*, Local and Regional Authorities in Europe study series, Strasbourg

<sup>2</sup> Legislation on control over local authorities has been devolved to the regions on 1<sup>st</sup> January 1989 and legislation concerning local authorities has been devolved since 1 January 2002.

<sup>3</sup> For the sake of convenience, the term "Russia" will be used when referring to replies from the Russian Federation.

<sup>4</sup> It was pointed out that the replies related specifically to the situation in England. The report will therefore refer to England, rather than the United Kingdom, when discussing information drawn from the questionnaire.

## **1. THE AIMS ASSIGNED TO BUDGETARY PROCEDURES**

On the basis of the European Charter of Local Self-Government, previous Council of Europe reports and other research, this section of the report seeks to identify the aims assigned to budgetary procedures.

### **1.1. The European Charter of Local Self-Government: effectiveness and responsibility**

The preamble to the European Charter of Local Self-Government notes that the Council of Europe member states are "*convinced that the existence of local authorities with real responsibilities can provide an administration which is both effective and close to the citizen*". Under Article 3, §1 of the Charter, local authorities have the right and the ability "*within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population*".

On this basis, it may be said that budgetary procedures are expected to promote two concepts: effectiveness and responsibility.

This broadly reflects the idea of "good governance" as derived from the concept of "corporate governance". Moreover, a definition of corporate governance as being "concerned with the procedures associated with decision-making, performance and control of organisations, with providing structures to give overall direction to the organisation and to satisfy reasonable expectations of accountability to those outside it" may be applied in organisations of all types, both in the public sector and outside it.<sup>5</sup>

### **1.2. An intermediate aim: budget transparency**

Budget transparency has been defined as "*the full disclosure of all relevant fiscal information in a timely and systematic manner*", and the OECD document containing this definition<sup>6</sup> also states: "*Transparency - openness about policy intentions, formulation and implementation - is a key element of good governance. The budget is the single most important policy document of governments, where policy objectives are reconciled and implemented in concrete terms.*" In other words, the budget reconciles policy aims and their practical implementation.

Accordingly, Recommendation R (98) 12 proposed that the Council of Europe member states adopt appropriate measures "*to strengthen the transparency of local authorities' action and to ensure, in general, the public nature of decisions which engender financial costs to be borne by the community, as well as the real possibility for citizens and legal persons concerned to have access to these decisions in conformity with the procedures established according to the law*".

The report on which the recommendation was based<sup>7</sup> noted in its conclusions that: "*the increasing complexity of local authorities' role in the management of public affairs, and the long-standing negative impact that certain decisions may have, make it difficult to be satisfied with elections as the only opportunity for questioning and sanctioning poor management. It would consequently seem appropriate to strengthen transparency and to make more use of*

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<sup>5</sup> CLATWORTHY et al. (2000), in "Corporate Governance under 'New Public Management': an exemplification", *Corporate Governance: An International Review*, 8, 2, pp. 166-176. The definition is quoted from Hodges et al. (1996), "Corporate Governance in the Public Services: Concept and Issues", *Public Money and Management*, 16, 2, pp. 7-13, an article which demonstrated, however, that it is not always possible or necessary to transpose private-sector models of corporate governance.

<sup>6</sup> OECD (2001), *OECD Best Practices for Budget Transparency*

<sup>7</sup> Council of Europe (1999), *Supervision and auditing of local authorities' action*, Local and Regional Authorities in Europe study series, n° 66, Strasbourg

*the instruments of direct democracy as, for example, local consultative or decision-making referendums and popular initiatives at local level.*

*"Transparency is the best guarantee that public powers are used to the benefit of the community; it is an essential condition for effective political control by citizens and consequently allows the reduction of other forms of control."*

Another report, on "The risks arising from local authorities' financial obligations",<sup>8</sup> also emphasised the "preventive" nature of transparency:

*"Democratic debate is also a means of averting financial risk as it gives critics the opportunity to voice their opinion and to ask questions about decisions which may expose local authority finances. That implies that they have access to financial information and that the relevant information has been published. Budgetary documents are now made public in all the countries but, apart from this minimum requirement, the statutory provisions generally seem inadequate."*

### **1.3. Budgetary procedures at the service of effectiveness and responsibility**

This emphasis on transparency is explained by the existence of situations where information imbalance results in resources being allocated ineffectively and hinders the proper exercise of political responsibility.

As noted above, it follows from the preamble to the European Charter of Local Self-Government that local authorities are expected to provide *effective* administration.<sup>9</sup>

Obstacles to the achievement of effectiveness will take various forms because, beyond the general interest which all parties claim to defend, lie many less altruistic, and often conflicting, aims. In effect, the outcome of disputes depends on a few key variables<sup>10</sup> - namely an understanding of information on the social utility and cost of services as well as the choice of financing variables.

A look at the behaviour of political decision-makers, administrators and the public may serve to illustrate this point.

According to the economic theory of representative government,<sup>11</sup> politicians have a marked preference for programmes with immediate and visible impact, rather than those of a less spectacular, longer-term nature, and in the run-up to elections their preoccupation with retaining their seats tends to take priority over other aims. Budgetary procedures must therefore seek to curb this type of behaviour and help to ensure that expenditure reflects public preferences.

According to the economic theory of bureaucracy,<sup>12</sup> those in charge of departments and institutions seek to maximise their budgets (and the variables used for calculating them)

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<sup>8</sup> Council of Europe, *The risks arising from local authorities' financial obligations*, Local and Regional Authorities in Europe study series, Strasbourg

<sup>9</sup> Effectiveness is defined as the extent to which objectives (of an organisation, policy or programme) are achieved, or the relationship between the desired and actual effects of services in terms of achieving objectives. Efficiency (or productive effectiveness) is the relationship between resources used - ie input - and services provided - ie output; an efficient activity maximises output for a given input, or minimises input for a given output (Council of Europe - CDLR, *The use of performance indicators in local public services*, Local and Regional Authorities in Europe study series, n° 63, Strasbourg).

<sup>10</sup> MEUNIER (1992)

<sup>11</sup> MEUNIER (1992) referring to the work of DOWNS and BRETON

<sup>12</sup> MEUNIER (1992), referring to the work of NISKANEN and BELANGER and MIGUE (1977)

because their status and power are budget-dependent. They also aspire to hold discretionary budgets.<sup>13</sup> In a situation of spending cuts, these officials will thus try to maintain their existing budgets. Although, in certain cases, such an attitude on the part of "bureaucrats" can serve as a counterweight to the "politicians" with their tendency to under-provide local goods and services (because, for example, social demand has been misjudged or programmes are insufficiently visible), the main risk is that resources will be allocated for non-optimal expenditure. Budgetary procedures must therefore help the central administration, and especially the political decision-makers, to recognise the real cost function of different departments while being aware of social demand (public preferences and genuine community needs).

The less it costs to participate in political life (by lobbying politicians, joining pressure groups or taking part in social movements, or by making changes at individual level – avoiding tax, undertaking private production or voting with one's feet), the better informed the executive will be about voters' preferences, and the easier it will be to adapt policies accordingly. There remains a risk that certain groups of citizens will be better than others at making themselves heard – and here too budgetary procedures must seek, in so far as possible, to identify the general interest.

The foregoing, condensed as it is, underscores the contribution that budget transparency can make in terms of helping to identify the general interest and avoiding discretionary budgets or expenditure driven by "electioneering". Budgetary procedures can thus:

- strengthen the hand of those whose function is to reflect the general interest rather than particular interests (eg, give the finance department and the head of the local administration – rather than the operational departments – a greater say in preparing budget proposals);
- draw on independent internal or external evaluations and opinions, particularly with regard to the effectiveness of policies pursued (regardless of their visibility);
- promote transparency, from the expression of political choices right through to their subsequent implementation, especially by means of the budget;
- initiate comparison of the local authority's achievements, in financial, qualitative and performance terms, with the achievements of other local authorities;
- help citizens to express their preferences by facilitating access to public documents (eg budgets and briefings) and to elected representatives, committee and council meetings, etc;
- improve the quality and integrity of information by making senior administrators and political office holders personally responsible for it;
- lastly (and specifically with an eye to "politicians"), discourage the tax cuts, additional transfer expenditure, recruitment or investment projects that are justified chiefly by impending elections; likewise, budget procedures must guard against the ill-considered carrying forward of expenses (to the next financial year, next council term, etc).

Similar arguments apply in considering the relationship between a local authority and central government. If a local authority takes advantage of an information imbalance in order to obtain a higher level of funding from central government than it would otherwise receive (for example, by presenting "illegitimate" reasons for financial difficulties as "legitimate" – and thus worthy of central government assistance<sup>14</sup>), it enlists resources that could have been put

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<sup>13</sup> The term "discretionary budget" should be understood here to mean all those resources which a bureaucrat can control by virtue of his or her position and the information at his or her disposal, and which can be allocated to the realisation of the aims he or she is pursuing (which may include excessive quality, or excess production). See GREFFE (1997), p. 558.

<sup>14</sup> See, in this regard, report on "Recovery of local and regional authorities in financial difficulties".

to better use elsewhere and externalises a proportion of its costs towards the inhabitants of other local authority areas, via the taxes they pay to central government.

Moving on to the question of responsibility, the situation here is more obvious and will therefore be discussed in less detail. Under Article 3, §1 of the Charter, local authorities have the right and ability "*within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population*"; they thus become accountable to the citizens – as voters and tax-payers – and to the state.<sup>15</sup>

Budgetary procedures must therefore allow citizens to call elected representatives to account with regard to their management record and the honouring of their commitments. They must also help to clarify the choices and issues at stake. Lastly, they must enable the executive to be supervised, whether through the work of the councillors or through other channels for public participation.

It is useful to conclude by referring to a study<sup>16</sup> which demonstrates that less contingent – and therefore more transparent – rules for the allocation of resources allow citizens to gain more information on politicians, and this improved information may be used to select "better" politicians – ie representatives who are likely to pursue the general interest rather than the interests of particular groups.

## **2. BUDGET CONSTRAINTS**

This chapter deals with multi-annual approaches to budgeting, the content of budget documents, and certain factors that determine a local authority's room for manoeuvre (mandatory and non-mandatory expenditure, mandatory balancing of the budget, expenditure ceilings, macro-budgetary constraints, decisions on investment, etc).

### **2.1. Multi-annual approaches**

The annuality rule means that the council must approve the budget every year and that funding covers only the needs of the year in question. A challenge thus lies in reconciling the democratic control exercised by the council under this rule with the constraints of budget management, given the expected progression of revenue, the recurrent nature of certain expenditure, the lifespan of certain programmes including investment programmes, and the local authority's contractual commitments, particularly to lenders.

A multi-annual approach not only allows certain projects and policies to be implemented consistently in phases (potentially helping to clarify local political priorities), but also enables local authorities to anticipate certain revenue problems (eg a structural reduction in rateable assets) or spending problems (eg when a municipality has to meet new expenditure).

The following sections therefore set out a number of practices in relation to programmes of business and multi-annual budget projections or programming. A final section looks at how local executives and/or councils take account of the budgetary impact of decisions.

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<sup>15</sup> Compare the preamble to Recommendation N° R (98) 12 of the Committee of Ministers to member states on supervision of local authorities' action.

<sup>16</sup> BORDIGNON and MINELLI (2001), "Rules transparency and political accountability", *Journal of Public Economics*, n° 80, pp. 73-98

### 2.1.1. Programmes of business

In Belgium and Portugal, the majority on a local council must formally present a programme of business upon taking office.

In Portugal, the programme of business normally takes the form of an activity plan setting out broad guidelines for the years ahead. A budgetary section must be included in order to permit correlation with the annual budget: each activity or project in the plan must be supported by expenditure and revenue projections. Finally, the annual budget will set out all the expenditure and revenue for a given year.

Belgian legislation on municipalities was amended in 2001 to introduce a requirement that local executives present a "general policy programme" within three months of their election by council. It was made clear during the amendment's passage through parliament that what was required was not a multi-annual plan supported by figures but that the programme should cover the executive's term of office and should include at least its main policy projects. It is thus a schedule of intent and is not binding. Nor were any constraints imposed with regard to the programme's presentation although a number of proposals were made.<sup>17</sup>

In other countries (such as Croatia, France, Slovakia and "the former Yugoslav Republic of Macedonia"), there is no requirement to make this type of presentation but it is increasingly common practice to do so. When the programmes presented include figures, these are often condensed to a few global statistics. In Croatia, for example, mayors will set out their strategy and the executive's work programme for its term of office, with general budgetary and other data.

There is no doubt that presenting a programme of business promotes transparency and identifies the directions that a new executive intends to take. This is particularly useful for determining central budgeting guidelines and assessing the executive's performance against its programme. The budgetary section of the programme document should be comprehensive enough to connect projects and their financing, while recognising that projections made at this stage may subsequently have to be revised (for example, because macro-economic parameters have changed).

### 2.1.2. Multi-annual budget plans

Annual budgets are both a forecast and an authorisation document. In respect of the forecast side, regulations in several countries require the preparation of multi-annual budget plans, which may take various forms with regard to:

- the period they cover, although most span three to five years;<sup>18</sup>
- whether the period in question is "sliding" or fixed;
- whether they are indicative or relatively binding;
- the level of detail they include.

In practice, three tendencies can be identified.

Firstly there are *multi-annual programmes* that resemble fully-fledged multi-annual budgets with funding forecasts over several years and adjustments, as necessary, to reflect levels of utilisation and changes in the socio-economic context; the budgetary framework is thus

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<sup>17</sup> See, in particular, BOLLEN S. (2001), "Le programme de politique générale", *Mouvement communal*, n° 5.

<sup>18</sup> In some cases – such as recovery from a particularly difficult financial situation – long-term plans may also be useful.

determined for a set period (eg 2002-2007), with a reasonable level of detail and certain constraints. There are several examples that resemble this model.

- In Finland, local authorities are required to draw up a multi-annual activity and finance plan (covering at least three years) with a balanced budget over the period covered. The local authority will refer to this plan when adopting its budget for the following period.
- In Malta, local authorities have a business plan, supported by figures, programming their activities over three years and indicating major policy directions.
- In several countries, even where multi-annual programming or projections are not mandatory, local authorities in financial difficulty are required to draw up recovery plans for restoring their situation within a number of years.

In the case of *relatively detailed multi-annual projections*, indications of funding for a given year are accompanied by estimates for (as a rule) the two following years, such estimates being subject to regular revision to reflect changes in various parameters (macro-economic, management or financial, for example). Budgets of this type have a moveable time-frame (eg, the budget for 2002 accompanied by estimates for 2003-2004 will be followed by the budget for 2003 accompanied by estimates for 2004-2005); the estimates for subsequent years are detailed and not merely confined to a few key figures. The projections are, nonetheless, essentially indicative.

- In Norway, a "sliding" finance plan looks ahead over four budget years. In the Netherlands, each budget is accompanied by a pluri-annual estimate for the three years following the budgetary year in question.

The third and last approach involves *global multi-annual projections*, ie the annual budget is accompanied by indications and estimates of how, in broad terms, the budgets for the following years will balance. Here too there will be a moveable time-frame and the projections will, at best, indicate developments on a broad sector-by-sector basis.

- In Denmark, alongside the annual budget, councils adopt what is generally an aggregate estimate of revenue and expenditure over the following three years.
- In Croatia, the budget must include not only data on the current budgetary year but also the corresponding data for the previous year and projections for the following two years.

The value of multi-annual projections or programming is further evident from the fact that they are produced by some local authorities in countries where there is no legal requirement for them: such authorities either publish them along with the budget, or when the budget is being presented, or else use them as internal administrative working documents, which are not made public at all.

Multi-annual budget plans can help to strengthen budget policy through a combination of the following three methods:<sup>19</sup>

- setting overall budget objectives and publishing conditions for their attainment – translated into functional terms;
- indicating the cost of pursuing current activities: in a context of self-imposed discipline this can encourage budget holders to seek funding for new policies by ending or winding down existing policies – a point which also highlights the importance of evaluating how effective current policies are;
- setting out the future budgetary implications of certain decisions, perhaps insufficiently reflected in the current budget (eg the equipment, operating and staff costs that will result from an investment project).

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<sup>19</sup> Paragraph based on OECD (1997), *Budgeting for the future*, pp. 6-7

Explanations of budget projections are also important, both for internal eyes (in the operational departments, the executive and council) and for external (particularly public) consumption.

### 2.1.3. The budgetary impact of decisions taken during a year

Apart from approving the budget, most local executives and/or local councils are informed of the budgetary consequences of items that come before them for approval, as this is a legal requirement in many countries.<sup>20</sup> The information supplied in this context relates to the current year and, quite often, to subsequent years.

In several countries, however, the information in respect of subsequent years will be less detailed (as in Croatia, for example), or indeed optional (as in Portugal).

Budgetary cost is an important factor to be considered in decision making. Ideally, cost will be reflected in terms of either:

- impact in a "normal" year and for the current budgetary period (as this period has usually already begun, any cost – or revenue – will normally be less than in a full year);
- impact for the current budgetary period and the following one (or several subsequent budget periods if the expenditure or income is expected to change).

## **2.2. Budget constraints**

### 2.2.1. The constraint of budget balancing

In the great majority of countries, the law requires that budgets are balanced (in the sense of balancing expenditure and income excluding yields from loans). Nonetheless, we find a range of scenarios:

- recourse to borrowing in order to fund investments,<sup>21</sup> as, for example, in local budgets in Norway and the Belgian regions: operational budgets must balance but the same requirement does not apply to investment budgets (which may rely on yields from loans to achieve equilibrium);
- seeking a balance not for a single budgetary period but over a given timespan: this is the practice, for example, in Finland where budgets have to balance for the period of the multi-annual activity and finance plan. A variation of the same scenario is found in Poland and Belgium, where a credit balance from the previous year may be counted as income or used to balance the current year's budget;<sup>22</sup>
- lastly, specific requirements may be imposed on municipalities in financial difficulties.

The requirement of budget balancing, at least for current expenditure budgets, is entirely consistent with economic theory. It should also serve to prevent excesses, particularly in pre-election periods.

### 2.2.2. Transfer of expenditure with adequate resources

In certain countries, a higher authority that imposes an item of expenditure on a local authority must give it the necessary resources to meet the expense.

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<sup>20</sup> Exceptions are England, the Czech Republic, Norway and Cyprus, where such information normally is supplied although there is no requirement to supply it.

<sup>21</sup> Reflecting the famous "golden rule" of public finance.

<sup>22</sup> While most countries that replied to the questionnaire have provision for credit balances to be carried forward, this is generally not permitted in Cyprus, Denmark, Greece, Slovakia and Sweden.

- In Denmark, if central government assigns new tasks to local authorities, the cost must be covered at an overall level (not necessarily authority by authority). The same principle would apply if tasks were taken away from the local authorities. There are also provisions for compensation to cover increases in expenditure as a result of fluctuations in the national economy (eg unemployment costs). The situation is quite similar in Finland.
- French law lays down the basic principle that any transfer of responsibility from the state to local authorities must be matched by a transfer of tax and/or budgetary resources. A joint body the Consultative committee on evaluation of transferred expenditure, evaluates the costs of transferred tasks; financial means that are transferred must at least match the means the government used in order to fulfill the transferred tasks. It would therefore be possible for municipalities to appeal, if necessary, to the administrative court.
- In Sweden, the so-called Financing Principle stipulates that when central government imposes new tasks on local authorities, the increase in cost should be covered by an equal amount of central government grants. Although approved by parliament, the principle is not enshrined in law. An appeal of municipalities which consider the transfer of resources to be insufficient is therefore difficult.

Intervention by higher authorities will normally take the form of an increase in either overall or specific budgetary transfers.

- In Finland, only the law can impose new tasks on local authorities or remove existing tasks. Transfers to local authorities are also determined by law.
- In Ireland, transfers from central government to local authorities may be made if required.
- In the Netherlands, the authority which transfers competencies must specify how they will be financed, for instance by financial transfer or taxes.

In the other countries, either intervention by higher authorities is restricted to specific cases, or else transfers of tasks must be negotiated, case by case, between the local authority and the relevant higher authority. After negotiation, the higher authority may intervene to cover in full the expenditure transferred to local level, but in some cases the intervention may fall far short of requirements, or there may be no intervention.

- In Malta the Finance Minister can approve additional resources for local authorities after consultation with the Minister responsible for local government.
- In Belgium acrimonious negotiations have taken place between local authorities and the federal government over the cost of police reform.

When local authorities are assigned a new item of expenditure (eg for a new task), the authority behind the decision should give the local authorities – either in the aggregate or individually – the necessary resources to cover the resulting costs, and this will entail proper, well documented co-operation between the authorities concerned. Otherwise, all the local authorities' forecasting efforts will be undermined.

### 2.2.3. Ceilings on expenditure and levels of taxation

The two main justifications for such ceilings are:

- the macro-budgetary integration of local finances into public finances as a whole: an aggregate level of spending, the overall pressure of taxation, etc;<sup>23</sup>

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<sup>23</sup> The European Charter of Local Self-Government also refers to local authorities' entitlement to their own resources "*within national economic policy*". A useful illustration here is the contribution made by local authorities to achieving the conditions imposed by the Maastricht Treaty on countries wishing to join the single currency; see, for example, Husson (2001) in relation to Belgium, and Laferrère (2000), p. 115 in the case of France.

- the need to prevent local executives from sharply increasing spending or cutting local rates of taxation without justification in the run-up to elections.

While few countries explicitly impose ceilings on local authority spending, ceilings may sometimes exist in indirect form.

- In England there are no such ceilings on expenditure. However, central government examines increases in the level of local spending nationwide and can ask certain authorities to revise their original expenditure levels downwards – although this power was not used during the last two budgetary periods. In Ireland, central government can cap one area of local taxation (namely the commercial rate). This has the effect of limiting the local authority's tax revenue and, by extension, its expenditure, given the requirement of a balanced budget. In Belgium, controlling authorities have generally issued precautionary instructions with regard to tax revenue and transfers. Given that current expenditure budgets have to be balanced, this has offered a certain safety margin.
- In "the former Yugoslav Republic of Macedonia" there is a law on public expenditure ceilings.
- In Croatia, in specific situations, certain items of expenditure are subject to this type of rule: salaries, for example, may not exceed those paid by central government. In France, although the state may not impose expenditure ceilings, they can be imposed by law in specific cases: thus, unforeseen expenditure may not exceed 7.5% of a department's projected actual spending (ie 7.5% of total current expenditure or of total investment expenditure).

The constraints on taxation are tougher because many factors have to be reconciled here: the cumulative pressure of taxation by all levels of government; tax competition between local authorities; the impact of taxation on local economic development or on policies in particular sectors (housing and spatial planning, for example); taxation potential and co-operation with the machinery of tax equalisation, where such exists; the impact on certain categories of tax-payer, etc. Ceilings will thus be applied in various ways:

- by fixing maximum rates of tax: in Norway and Russia, local rates of taxation, with minimum and/or maximum rates, are stipulated in national legislation; in Poland, the Finance Ministry publishes maximum rates of local taxation which local councils may not reduce by more than 50%; in the Flemish and Walloon regions of Belgium, ministerial circulars stipulate ceilings for most local taxes;
- by assessing the level of local taxation in the light of expenditure: in Ireland the Minister of Environment and Local Government can cap increases in commercial rates; in England, the decisive factor will be the level of expenditure, and central government can require that this be adjusted;
- by banning tax increases or imposing penalties where they are applied: in Sweden, this type of limit is no longer applied but previously (1991-1993) local authorities were prohibited from increasing taxation, and later (1997-1999) transfers from central government were reduced for those that did so;
- by applying selective ceilings for different types of tax: in Finland only property tax is limited, with maximum and minimum rates of tax fixed for each type of real estate. Local income tax rates are not limited. In France, there are ceilings on the four main types of local tax, and "co-ordination rules" exist to prevent simultaneous increases being applied to the same types of tax, thus penalising the same categories of tax-payer.

The Danish system of budgetary co-operation is worth considering in some detail. Here, central and local government conclude an agreement each year to fix an overall aggregate framework of expenditure and taxation for all the local and county authorities in the country. Under this aggregate approach, certain local authorities may exceed the agreed level of

spending growth if other authorities' spending grows at a lesser rate. The same system applies to local rates of taxation. The central authorities collect local taxes, at rates fixed by the local councils. Central government fixes the total amount of transfers to the municipalities, and the transfers are general and non-earmarked. They are distributed according to a system of equalisation that takes account of both rateable assets and spending needs; in the aggregate it is thus a zero-sum game. Under this approach, overall aggregate levels of local authority revenue and expenditure are agreed in the annual budget co-operation process and are not, therefore, imposed on the local authorities by central government. The local authorities usually honour their commitments, although expenditure and rates of taxation deviate from the agreed progression in certain years. There are, however, no sanctions for failure to observe the agreement. Such sanctions may however be envisaged by the newly appointed Danish government.

#### 2.2.4. Carry-forwards

When a budget has to be used up by the end of the current budgetary period – and will be reduced for the following period if it is not – managers face a strong temptation to make expenditure commitments essentially for the purpose of maintaining the budget at its existing level. Operational departments may be tempted to take such action in order to defend their budgets, and local councils may be similarly tempted with a view to sustaining their funding from higher authorities if the amount of transfers is influenced by the level of local spending (for example, in the case of earmarked transfers or where indicators are used to determine overall transfers).

At local authority level the statutory right to carry forward a credit balance is an incentive to thrift. At the same time there is a risk that sums carried forward may be used to finance recurrent expenditure without any guarantee that the under-utilisation which produced the original surplus will be repeated. The fact is that a one-off credit balance allocated to cover recurrent expenditure can rapidly result in a debit balance. It therefore seems wise that a credit balance should be allocated only to non-recurrent expenditure, particularly to financing investment from own resources, reducing local debt or creating provisions or reserves. If a local authority has a debit balance, it would seem wise to carry this forward so that resources from subsequent budgetary periods can be allocated to mopping up the loss and restoring a healthy balance sheet.

In France, both credit and debit balances may be carried forward from one budgetary period to the next. Annual results are reported by budget section (ie operational and investment). If there is a debit balance it is automatically carried forward in each section of the budget and the local authority must come up with the resources to cover it. If the operational balance is in credit, there is a special procedure called "determination and allocation of result" which dictates how the balance is carried forward: the operational credit balance must be allocated to the investment section of the next year's budget, within the limits of investment requirements. That done, any remaining credit balance will be allocated either for investment or, following deliberation by the council, for operational purposes. Carrying forward the credit balance thus helps the local authority to finance itself from its own resources, and reduces its borrowings for investment.

In Sweden, credit balances are not normally carried forward but a debit balance must be made good within two years.

In the Walloon Region, the requirement to balance the budget applies over an entire budgetary period, which effectively comprises the result of the current year and previous years. The controlling authority may refuse to approve the budget if the current year's result is negative and amounts to more than one-third of the accumulated surplus from previous years; otherwise, a "management plan" may be imposed.

### 2.2.5. Investment decisions

Investment decisions are particularly important in several respects:

- they entail substantial costs spread over a long period, usually well beyond the term of office of the executive making the decision;
- investments are largely financed from borrowing and are thus at the root of local indebtedness; debt, in turn, generates costs which the local authority must be able to meet;
- the project must be financially viable: it must be possible to cover the resulting financial costs from revenue directly linked to the investment (eg any fees levied) or from other resources (ie taxation or self-funding) that may legitimately be used given the project's social usefulness;
- on top of the initial investment there will normally be spin-off costs (eg staff, operational and maintenance costs), which are sometimes overlooked in original estimates, to say nothing of the excess costs incurred on some projects.

Certain more specific risks should also be mentioned.

- According to the economic theory of representative government referred to in Chapter 1, there is a risk that political decision makers will opt for certain types of "visible" investment at the expense of other forms of intervention (for example, they will prefer to build crèches rather than set up home-based childcare schemes; hospitals or nursing homes will take precedence over funding for district nursing; youth centres will be given priority over the recruitment of social workers, etc).
- The timing of investments may be based more on the electoral calendar than on people's needs.<sup>24</sup>
- Information imbalance may result in a less-than-ideal use of funds (particularly when grants are obtained), or may even lead to corruption.<sup>25</sup>

Budgetary procedures must therefore help to ensure that the choices made are effective and that investments are properly managed.

In England, local taxation must be set at a level that will cover current expenditure needs, while investment funding requires authorisation. As of this year, local authorities must set priority criteria. Thus, in Birmingham, objective machinery is in place to help local policy makers assess the relative merits of investment proposals.<sup>26</sup> A points system takes into account the following: consultation (25 points, reflecting public and departmental priorities), performance (30 points for various indicators under a "best value" performance plan), business strategy (30 points, reflecting the priorities of central government, a local strategy partnership and an asset management plan) and the characteristics of the project (15 points, reflecting the beneficiaries of the scheme, the extent to which it is locally financed and its effectiveness).

In Barcelona (Catalonia)<sup>27</sup> the uneven nature of infrastructure development in the city's 10 districts was addressed through a number of initiatives that began with a study of each district's needs and priorities. The next step, alongside budget rationalisation, was to consider each district as a distinct budgetary unit managing its own expenditure (on waste collection, street cleaning etc). Ratios were also worked out for the distribution of investment

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<sup>24</sup> See, for example, the progression of local investment in Belgium, in Dexia (2001), *Les finances des pouvoirs locaux en 2000*, Brussels: Dexia Banque, pp. 67-68.

<sup>25</sup> See, for example, BESFAMILLE M. (2000), *Fiscal federalism, local public works and corruption*, Liège: Université de Liège-CREPP.

<sup>26</sup> See case studies for further details.

<sup>27</sup> See case studies for further details.

funding on the basis of indicators such as income level, population, area, shortfall in urban facilities and unmet social need. The scope of this approach thus went beyond the single issue of investment.

In Sabadell (Catalonia)<sup>28</sup> the University of Barcelona was involved in developing methodology for a process of participation on investment priorities at neighbourhood, district and municipal levels. The process involved, in particular, the establishment of a supervisory committee, individual interviews, the organisation of various discussion groups and the holding of a "municipal workshop" followed by workshops at district level. The local authority departments used the results of the workshops in drawing up their investment budgets for 2001. It is estimated that 80% of investments included in the budget represent a complete or partial response to a demand raised in the course of the process. This was a case of citizens being consulted about a local authority's entire investment policy.

In another type of participation, funding packages (normally modest) are allocated to particular districts and residents are given a major say in how they are spent (examples of this practice in France include the small-scale funding managed by residents' committees in the Nord Pas de Calais region and the neighbourhood funding packages in La Roche-sur-Yon).

Lastly, effective property management – identifying, in the case of each investment, its expected lifespan, any major items of maintenance and the costs of day-to-day maintenance – constitutes a valuable planning tool.

### **3. BUDGET INFORMATION**

In virtually all the countries,<sup>29</sup> budgets have to be drawn up according to uniform rules; apart from differences in the presentation of statistics, this means that inter-authority comparisons can be made if required. In most cases such rules are officially laid down.

#### **3.1. Structure of the budget**<sup>30</sup>

Some countries require a single budget, possibly divided into two sections (for operations and investment), while local authorities in other countries present two distinct budgets, one operational and the other for investment. Presenting either two sections or separate budgets permits the clear identification of expenditure that alters the local authority's assets through investment.

Care must be taken here:

- to indicate clearly the links between investment expenditure and current expenditure, recognising, where relevant, how the cost of an investment becomes an annual charge on the operational budget (in Belgium, for example, the total cost of an investment and the proceeds of the borrowing that finances it will appear in the investment budget as expenditure and income respectively, while the loan charges for the year will be entered as expenditure in the operational budget; in Cyprus, the cost of an investment is spread evenly over the lifespan of the project);
- to prevent expenditure slipping from the operational to the investment budget to avoid the constraint of budget balancing (without recourse to borrowing) which applies to the former; it should also be ensured that expenditure on minor, relatively inexpensive

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<sup>28</sup> Idem.

<sup>29</sup> Cyprus is an exception.

<sup>30</sup> Not including specific budgets also submitted to the Council, such as "appended budgets" in France, budgets for publicly run businesses and mixed-economy companies, etc.

items of equipment with a limited lifespan is entered on the investment budget rather than the operational budget.

### **3.2. Presentation of expenditure**

In some countries a legal distinction is made between "mandatory" and "optional" expenditure (in Greece, Russia and Belgium, local authorities legislation lists mandatory expenditure; in Poland and Slovenia, mandatory expenditure means spending on tasks assigned to the local authorities by law; in Ireland, mandatory expenditure is that which is unavoidable – wages and pensions etc – whereas the local authority decides on the level of optional expenditure which is, in effect, discretionary). The existence of mandatory expenditure can have various consequences: for example, it will be implemented automatically if a budget is not adopted in time, it is difficult to prune (eg in the context of zero-base budgeting) and, logically, there is little scope for contesting its legality.

Most budget documentation categorises expenditure and income from an economic perspective (ie according to the nature of the expenditure – staff, operational or transfers) and in operational terms (ie according to the local authority's different areas of activity: education, policing, roads, etc). In some countries the breakdown is either purely functional (as in England, Russia and Malta), or purely economic (as in Croatia and Slovakia). In Sweden the choice is left to the local authority and this is also the case in France, where there is a range of possibilities depending on the size of the population.

Presenting expenditure by function or by department allows the cost of the local authority's policies to be identified more clearly. Presentation according to the nature of the expense gives an insight into the resources deployed in policy implementation. A combination of the two approaches makes it possible to assess how resources are distributed between areas of activity and to identify the type of resources allocated.

### **3.3. Level of detail in budget documents and appendices**

Most countries have regulations requiring a fairly detailed presentation. Others, however, require a more summary breakdown (eg under chapter headings or by major departments) or make no regulatory provision in this respect.

The information contained in a budget is expected to provide two things :

- on the one hand, a clear and comprehensible overview of the budget, indicating broad balances, major objectives and priorities, key data etc, and ideally this summary will also cover extra-budgetary factors such as debt;
- on the other hand, sufficient detail to enable the allocation of budget resources to be checked, the adequacy of resources to be assessed in terms of objectives, and the existence of any hidden margins or discretionary budgets (see Chapter 1) to be uncovered.

The level of detail can thus affect the readability of the budget: if the elected representatives are confronted by a deluge of budget items, without any attempt at summary, they may find it hard to analyse what is before them. Such a scenario is encapsulated by T.S. Eliot's question: "*Where is the knowledge we've lost in information?*" To avoid this type of situation, municipal legislation in Belgium provides that the draft budget submitted to the elected representatives must be accompanied by a draft report setting out the local authority's general and financial policy and summarising the current administrative and business situation in the municipality as well as all useful information.

Ensuring that budget documents are readable is also important for effective press coverage of budget debates and for promoting public participation – incomprehensible documentation being a deterrent in this respect.

Level of detail can also influence flexibility in the use of the budget. If budgets are drawn up on the basis of "management by objectives", funding packages can then be allocated to the various local authority departments, which will have a degree of latitude in using the finance to pursue their given objectives.

At the same time, a distinction should be made between the level of detail supplied and the level of detail at which the budget is adopted. In France, for example, it is mandatory to present budget information item by item and the presentation is thus very detailed, couched in officially prescribed terminology that is frequently reviewed, however the budget may be adopted by chapter or by item. In the latter case, funds may not be transferred between items without submitting a budget amendment to the council. In the Czech Republic, the municipal council may decide on the detail level: in some cases, budget presentation is confined to a breakdown by main departments and more detail is supplied once the budget is approved; in other cases, the council may want more details before approval.

The level of detail may reflect the dual breakdown of expenditure along both economic and operational lines (this is the practice in Denmark, for example and in Belgium); in such cases the budget items will at least reflect the economic breakdown of resources allocated to each function (with a further breakdown into sub-functions).

While they may not be part of the budget as such, appendices and extra-budgetary documents can also provide valuable information.

In many countries, information about **staff** is supplied, often with a breakdown by function or department. Particulars according to grade or seniority are also included in some countries. In at least two cases (the Flemish region and England), replies to the questionnaire indicated that it was not, or was no longer, compulsory to supply this information.

With regard to **loans**, the budgets in most countries include a summary table and details of current borrowings as well as those scheduled during the budgetary period. This information is usually broken down by function or department. Multi-annual projections, on the other hand, are less common. In Poland, the regional audit office delivers an opinion – which is appended to the budget documentation – on the debt forecasts for the current and future years.

**Works** are normally presented in a summary table, accompanied by a multi-annual projection or programme with details of each project. In some cases, financial interventions by higher authorities (eg in the form of transfers) are also mentioned.

Information about **taxation** obviously varies according to the methods used to collect local authority tax revenue and these differ greatly from one country to another. Budget documentation may thus include information about rateable assets (details provided by national or regional tax authorities, statistics on the evolution of the property tax base, statistics on the trend in personal income) and/or details of changes in local taxation and their expected impact, and of changes in national or regional tax regulations likely to affect local revenue. In France, as well as documents on tax potential (a measurement of a municipality's wealth for tax purposes), the tax authorities supply the local authority with a document depicting the various tax bases as an aid in the adoption of tax rates. While this document may not be appended to the budget, it is available for consultation by the local councillors as it is they who fix the rates. In Ireland, the budget includes details of how tax rates are calculated.

In France – to take one example – the following information must be appended to the municipal budget:

- a summary of the local authority's financial position;
- a list of assistance, financial or in kind, provided by the local authority to associations ;
- the consolidated results of the last known budgetary period;
- summary tables of the accounts, for the last known budgetary period, of inter-municipal co-operation bodies of which the local authority is a member;
- the certified balance sheets, for the last known budgetary period, of bodies in which the local authority has a shareholding, or which have benefited from a loan guarantee or grant from the local authority in excess of FRF 500 000 or representing more than 50% of the body's budget;
- a table detailing the amount of outstanding loans guaranteed by the local authority and their repayment dates;
- the accounts and appendices produced by appropriately empowered agents of the public service.

Budgetary information must thus combine an overview of objectives and priorities as well as key figures (and meaningful ratios) with a level of detail that permits proper analysis of the budget content and pertinent comparison with other authorities.

With new information and communication technologies a great mass of information can be provided in formats that facilitate its use, for example on a local authority website, through an intranet or by presenting an entire set of documents on CD-ROM.

Ensuring that documents are readable must also be a priority and requires ongoing vigilance. In Ireland, for example, regular efforts are made, in consultation with the local authorities, to improve the presentation of spending forecasts.

Seeking to educate elected representatives (particularly those newly elected) and other information users (such as local administrators, members of the public and the press) is also desirable: examples of educational tools include explanatory brochures and on-line explanations on a municipal website or via links to other relevant sites.

### **3.4. Comparing forecasts with transactions**

Budget forecasts are normally compared with the transactions of the last budgetary period for which figures are available (as a rule, the budget for year t is compared with year t -2), while the previous year's budgetary forecasts (in the case of the budget for year t, these are normally the forecasts for year t -1, ie the year during which the year t budget is drawn up), are compared with budget changes made to date.

The value of analysing transactions (and therefore accounts) is sometimes under-estimated. Yet, provided the necessary information is available within a reasonable time-frame, it can be worthwhile in two respects:

- firstly, because the analysis focuses on transactions, it constitutes – along with the latest information on the utilisation of specific budget allocations in the current year – the most up-to-date indication available of actual spending, for example on a particular programme;
- furthermore, comparison between the forecasts for a given budgetary period and the transactions in that period permits discrepancies to be identified and their causes sought; this can show whether or not spending on certain items is being contained, or can highlight specific management practices (eg whether or not staff on long-term leave are replaced).

In some countries, the local authority's own budget forecasts are compared with forecasts from other sources, although this practice is relatively rare and tends to be quite specific (as, for example, in relation to taxation, when a local authority produces its own estimates, which differ from those of the Ministry of Finance).

### **3.5. Inter-authority comparisons ("benchmarking")**

Comparison with other municipalities enables a local authority to gauge its own budget performance. Such information can be particularly useful even though budget comparisons are normally only possible once the budgets have been adopted.

Comparisons can only be made if budgets, as well as statistical data, are presented in a sufficiently uniform way in the first place.<sup>31</sup>

Local authorities that make this type of comparison normally do so for information purposes where similar data is not available from other sources. Local budgets are not required to include such comparisons but in Denmark, Finland and Norway a significant number of local authorities choose to make comparative information available.

In most cases, then, it is ministry (eg Ministry of Finance, the Interior or Local Government) which will collect and publish the relevant data, permitting comparisons to be made where they are not already included in the budget presentation.

In some cases, the comparisons will be made by an association of local authorities, whereas in Belgium it is the bank serving the majority of local authorities which prepares numerous statistics, publishes various studies and reports, and regularly supplies local executives with an "individual financial profile" of their municipality, positioning it with reference to other comparable local authorities.

In certain cases (as in Ireland, Finland, France and Denmark), the public can access this type of data, either in the form of printed reports or via on-line databases. In France, the central administrative authorities (Ministry of the Interior) carry out comparisons for statistical purposes. Comparisons are not made between particular authorities but the data from each authority is compared against average figures for authorities with the same-sized population. The information is transmitted to the local authorities in the form of briefs which are not part of the budget documentation; these are also available on the websites of the Ministry of Economy, Finance and Industry and, in the case of the largest local authorities, the Ministry of the Interior. Not only elected representatives but also members of the public can thus consult them easily (see case study).

A related problem is that of ensuring that information supplied is properly understood (explaining the data and the indicators used etc). In France, for example, explanations of the various indicators can be consulted on-line.

In other cases, background information is less widely distributed. In Belgium, for example, the "individual financial profiles" supplied by the bank have so far been communicated to local councils only rarely. Similarly, in France the comparisons drawn up by bodies such as banks and credit rating agencies are confidential.

Comparisons may be based on a municipal average (in countries where this is meaningful) or on an average of comparable municipalities, using a system of classification by population band, in some cases refined by reference to socio-economic data. In Spain, the department

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<sup>31</sup> This is the practice in virtually all the countries that replied to the questionnaire.

of the state administration whose task it is to study and analyse local authority budgets carries out studies of single municipalities or groups of municipality (categorised by province, Autonomous Community, population band or type of authority). In Greece, Croatia, Denmark, Finland, France, Norway, Poland,<sup>32</sup> Russia and the Belgian regions, data is available for groups of comparable local authorities.

The most basic comparisons are often those of per capita spending or personal income, considered against an average for the country or region or for comparable local authorities. In some cases, comparisons are also based on accounting or financial ratios or data relating to local authority staff (eg the number of local authority staff per head of population). In Ireland (where such comparisons are obtainable although they are not appended to local budgets), the Department of Environment and Local Government collates all the data from local authorities annual estimates of expenses into a single document, from which it then extracts certain information for its own use, namely: total expenditure; total receipts; amount to be levied in commercial rates; and amount received from central government. The annual estimates of expenses publication also contains a comprehensive comparison of income/expenditure in the various local authority areas of activity.

Thus, while it is possible to approach the exercise from a purely financial point of view, the inclusion of qualitative information permits more meaningful comparisons. In Denmark, as well as the comparative data produced by certain local authorities themselves, the Ministry of the Interior publishes an annual comparison of key figures covering all local authorities and using numerous indicators that are not only quantitative but also qualitative (see case study). Performance indicators are also used in Croatia, Finland, Norway and Poland.

### **3.6 Statistic needs**

Reliable statistics, especially within the framework of the national accounting system, are needed for comparison between countries but especially for sharing macro-economic targets between different levels of government, in particular for the European Union members of candidates.

## **4. THE BUDGETARY CYCLE**

In the majority of countries, budgetary procedures are laid down in advance by law or other forms of regulation. Elsewhere, national regulations only partially determine the procedures, leaving scope for provision in the statutes or internal regulations that municipalities or councils may themselves adopt. This explains the fact that methods of preparing the budget can differ significantly from one local authority to another within the same country.

This section of the report sets out to explore certain aspects of budget procedure by looking at the "traditional" pattern of budget preparation and adoption.

### **4.1. Preparing the budget within the local administration**

As a rule, co-ordination of work on the budget (planning, central collation of information, the supervision of compromises etc) is the task of the local finance department, acting alone or in co-operation with the local executive member responsible for finance. In most cases this is the same department that will co-ordinate supervision of how the budget is implemented; in some countries, however, where the administration co-ordinates budget preparation, it is a political body (as in Norway) or a specific internal body (as in Croatia) that supervises implementation.

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<sup>32</sup> The Polish reply noted that it was hard to establish meaningful groups for purposes of comparison, given the very different characteristics of the country's 2500 local authorities.

The structure of the local finance department is generally left to the discretion of the local authority<sup>33</sup> and its tasks will include preparing budget forecasts (for both income and expenditure), collecting revenue, committing and allocating expenditure, and managing cash resources and borrowings. Local finance departments in certain countries also have a role in internal auditing (particularly in countries where there is no specific internal audit service). In England, staff expenditure is handled by separate forecasts. In practice, local finance department structures also differ according to the size of the local authorities, and some may be divided into separate offices (a reflection not only of workload but also of available human and physical resources). In cases where separate offices exist, the co-ordinating role of the local executive was frequently emphasised.

In Belgium's Brussels Capital region and in Cyprus, Finland, England, Poland, Russia and Portugal, all local authorities have a budget office, even if a small one. This is not the case in the other countries, where size is a key factor (in Croatia, for example, local authorities with a population of less than 3000 have just one administrative department). In local authorities without a budget office, responsibility for preparing the budget is generally assumed by the public servant who heads the local administration.<sup>34</sup> In France, the task is assumed in such cases by the members of the local executive, while in "the former Yugoslav Republic of Macedonia" the responsibility lies with the regional office of the Finance Ministry.

In preparing the budget, local finance departments may, if necessary, call on the controlling administration (as in the Belgian regions, "the former Yugoslav Republic of Macedonia", Norway, Croatia, Denmark, France, Portugal, Slovakia and England), on public audit or consultancy offices (in the Belgian regions, Norway, Ireland, Croatia, Denmark, France, Portugal, Poland,<sup>35</sup> England and Slovenia), on private consultants (in the Belgian regions, Norway, Ireland, Croatia, Denmark, France, England, Poland, Portugal and Slovakia) or, more rarely, on the local authority's bank (in the Belgian regions, Norway, France, England and Slovakia).

In most cases the starting point for preparing budget proposals will be the previous budgetary year's transactions or forecasts, adjusted to reflect cost projections, new policies etc (this is the practice in the Belgian regions, "the former Yugoslav Republic of Macedonia", Norway, Cyprus, Ireland, Croatia, Finland, Greece, England, Poland, Portugal, Slovakia and Slovenia). Only the Czech Republic<sup>36</sup> and Russia<sup>37</sup> reported that the starting point was a zero base and that each policy was assessed without automatic reference to the funding previously allocated to it. In Denmark, the approach taken depends on how the local authority is organised and what budgeting methods it uses (see case study).

The local finance department plays a central role: it has to provide the most accurate possible estimate of the local authority's expenses in the given budgetary year and of the revenue it will receive. In some cases it will have to project trends in certain types of expenditure (staff costs and loan charges etc). In the case of zero-base budgeting it must be able to supply indicators of the effectiveness and cost function of different policies – and even where this is not the practice, it is essential that the operational departments' cost functions and budget utilisation be recognised in order to prevent the allocation of excess

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<sup>33</sup> Article 6, §1 of the European Charter of Local Self-Government states that: "*local authorities shall be able to determine their own internal administrative structures in order to adapt them to local needs and ensure effective management*".

<sup>34</sup> In certain Belgian municipalities this may be the local authority tax collector, while in Ireland it may be the head of the finance office.

<sup>35</sup> In practice here it is the regional audit office that is normally involved.

<sup>36</sup> For the current expenditure budget only.

<sup>37</sup> The reply from the Brussels Capital region indicated that this approach had also been requested by the controlling authority.

resources and avoid margins for discretionary spending. Likewise, the local finance department's overall perspective should allow the executive to be presented with options – for example, in relation to achieving a balanced budget, releasing resources for new policies, etc.

In the Brussels Capital region, Ireland, Finland, England, Russia, Slovakia and Slovenia, the operational departments of the local administration (eg roads department, education department etc) prepare budget forecasts which they submit to the local finance department. In certain other cases ("the former Yugoslav Republic of Macedonia", the Czech Republic, Cyprus, Croatia and Greece), the initiative rests with the local finance department which acts in co-operation with the operational departments concerned. In a third set of countries, practice may vary depending on the local authority concerned, the type of expenditure, etc.

Whether the initiative in forecasting expenditure is taken by the local finance department or by the operational departments, the managers and staff of the latter are heavily involved in preparing their departmental budget proposals:<sup>38</sup> in the Brussels Capital region and in Cyprus it is they who draw up the proposals; in the Czech Republic, proposals are drawn up by a specialist member of staff with relevant experience and then submitted to a manager for approval.

In Croatia, the role of operational department staff is sometimes limited to the submission of expenditure forecasts but in other cases staff are involved in the entire process of preparing budget proposals. The operational departments and specific bodies determine their financial requirements in the light of the local council's decisions on activity programmes for particular sectors (eg cultural establishments).

An initial round of compromise generally takes place essentially within the administration (this is the practice in Norway, Finland, Cyprus, Ireland, Slovakia, the Czech Republic in certain circumstances, and the Walloon region). Where it occurs, this process will be conducted jointly by the head of the local administration and the local finance department (as in the Czech Republic, Cyprus and Ireland) or else a member of the executive – in some cases the mayor – will be more directly involved (in Finland, for example, practice varies: most often the mayor will seek to achieve a balanced budget through a series of compromises by persuading the departments to stay within certain budget limits).

In Ireland, the local finance department asks the other offices or departments (roads, water, taxation etc) to submit budget estimates and borrowing requirements in advance of any financial decision. Each department will be responsible for collecting its own revenue (the housing department will collect rents; the waste management department will levy waste collection charges, etc). The head of each department will involve senior staff in drawing up the budget proposals. As a rule, each operational department will submit its own budget to the local finance department. These separate budgets will then be consolidated and reviewed in the light of available income (in the form of transfers, taxation etc). The final version of the budget will be agreed with the operational departments.

The main round of compromise, however, will often be left to the local executive.

#### **4.2. Finalising the local executive's proposals**

Before the proposals are submitted to the local executive, they are often the subject of further discussion involving the mayor and/or the local executive member responsible for finance. Any initial compromises reached within the local administration may be detailed in a

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<sup>38</sup> Norway appears to be an exception in this respect.

written report to the executive (as in Ireland, the Czech Republic, England, Croatia and Finland) and informal contacts may also take place.

The administration's proposals will have to be accepted by the executive, which has political responsibility for the budget. Discussions may take place within the executive because, apart from the question of its collective responsibility:

- most local majorities consist of coalitions, and compromises have to be reached between the coalition partners (as in the Flemish and Walloon regions, "the former Yugoslav Republic of Macedonia", Norway, the Czech Republic, Cyprus, Ireland, Finland, Denmark, Slovakia and Slovenia);
- each executive member will be particularly concerned to defend the budget of the services for which he or she is responsible<sup>39</sup> (as in the Flemish and Walloon regions, the Czech Republic<sup>40</sup>, Cyprus, Croatia, England, Poland, Russia and Slovakia).

In certain countries (such as France and Greece), on the other hand, local majorities are rarely coalitions, and party discipline comes into play with the result that there is little discussion in the executive.

Where discussions and compromises do take place within the executive, they are reflected only in the budget document as adopted; none of the replies to the questionnaire made mention of specific reports.

#### **4.3. Budget debates in the council and its committees**

In the final stage of the process, after the budget has been approved by the executive, it will be discussed and then adopted by the council. A number of factors – the work done by committees, consultations, reports etc – can help to improve the quality of the budget debate at council level.

##### **4.3.1. Preliminary debates**

In France, local authorities with a population of more than 3500 are required by law to hold an exploratory debate on the budget. This is an opportunity for initial discussions on the subject (as opposed to formal deliberation, and there is therefore no vote). The exploratory debate must take place two months before the council votes on the draft budget, and is thus the first date in the budgetary calendar.

The debate concerns the main directions to be taken during the budgetary period and possibly subsequent periods. It informs the public, enables the elected representatives to express their views on an overall budget policy and allows the executive to signal its most important budget choices and any likely changes from the previous year's budget.

The comment has been made that if the documents tabled for this debate are sufficiently detailed to show the financial constraints the local authority faces – given its existing commitments and previous financial policy – and to include assessments of proposed activities, the debate can effectively inform elected representatives and members of the public about the shape the next budget will take. If, on the other hand, this level of detail is lacking, the debate will be confined to a series of statements of principle, which are of limited value.<sup>41</sup>

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<sup>39</sup> With differences according to the size of the municipality and the number of members of the local executif body.

<sup>40</sup> This is only a general practice in the city of Prague.

<sup>41</sup> DOSIERE R. and HOORENS D. (2001), *La commune et ses finances*, Paris: Dexia/Imprimerie nationale, pp. 173-174

### 4.3.2. Work in the council committees

In some countries (Belgium, Switzerland, Denmark and Ireland<sup>42</sup>), the law specifically provides for finance committees – ie, such committees must exist. This is by no means the case, however, in all the countries: finance committees are optional in France and Croatia, while in Finland arrangements for them are quite informal and they are, in fact, uncommon.<sup>43</sup> In England the newly established structure for local government does not include finance committees: financial matters are handled directly by the executive, which has to consult local socio-economic representatives although it does not have to seek a formal opinion from them.

The members of the finance committee are members of the council (except in the case of the Irish corporate policy groups) and the committee is normally chaired by a councillor (although this role is assumed by the mayor in France and by the local authority chairperson in Ireland). Except in the case of Denmark (see below), the committee's role is to deliver opinions and prepare debates on the budget or accounts. The most common scenarios are those where the budget is discussed solely by the finance committee or where the finance committee's debate is preceded by discussion in the specialised committees (committee of works, education committee etc). In the few remaining cases, either the budget is debated only in the specialised committees or the local authority has discretion to select which approach it will follow. As a rule,<sup>44</sup> the committee's work will conclude with a formal vote. This decision constitutes, however, an opinion, motion or recommendation for submission to the local council – and it is, of course, the council that will take the final decision on the budget.

What follows is a closer exploration of three approaches.

#### *Management by committees*

The situation in Denmark is particular: local affairs<sup>45</sup> are managed by committees and the mayor heads the local administration. Each local council is required by law to set up a finance committee (chaired by the mayor) and at least one other standing committee. The finance committee's tasks are stipulated by law. It is responsible for the local authority's finances, and for co-ordinating planning and administration within the municipality. It must also be consulted on all economic and administrative matters before they are considered by the council. The finance committee's main task is to draw up the local authority's budget proposals, with input from the other committee or committees (the structure of which varies greatly from one local authority to another, although most have a social services committee, a technical and environmental services committee and a committee for education and culture).

#### *Debates in the specialised committees and the finance committee*

Debating budget proposals in the specialised committees (for works, education etc) allows them to be discussed alongside the projects ordinarily considered by these committees; it also means that the proposals come before councillors with a certain amount of experience in a given field, even if their knowledge of budgeting is limited.

Debate in the finance committee offers an opportunity to obtain an overview and allows the proposals to be put to councillors who have tended to specialise in budgeting. On the other hand, they will rarely have the time or the necessary technical expertise to review the entire budget if it is relatively detailed and lengthy.

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<sup>42</sup> The reference in the case of Ireland is to corporate policy groups – a recent statutory innovation.

<sup>43</sup> Informal meetings may, however, be held to answer councillors' questions.

<sup>44</sup> The Belgian regions, Cyprus and Ireland (with its corporate policy groups) are exceptions.

<sup>45</sup> This applies to both municipalities and counties.

It would therefore seem particularly useful that budget proposals should be submitted to the various operational committees and that they, in turn, should forward a report to the finance committee, which can then address issues of overall balance, general revenue and borrowings as well as problems raised by the operational committees (for example, seeking ways to offset the cost of certain projects).

This is the approach followed in the Netherlands, Norway, Croatia and Poland. In Poland, the first real compromises are reached in the specialised committees (eg the education committee), on the basis of proposals by the heads of the operational departments; it is here, for example, that reallocations of resources can be suggested and debated. These committees forward their conclusions to the finance committee, which supports or rejects their motions. The chair of the finance committee then forwards to the council the committee's conclusions on the budget content presented by the local executive.

#### *Input from external consultants*

In Ireland the Local Government Act, 2001 replaced local finance committees with "corporate policy groups" (CPGs), which local authorities must consult in preparing their draft budgets. The CPG consists of the chair of the local council and the chairs of the specialised committees (housing, roads, water etc). In delivering its opinion on the draft budget, the CPG may avail of the assistance of not more than three additional persons outside the local authority, who should have financial, organisational or other relevant skills likely to assist the CPG in its consideration of the draft.

In Croatia, a team of independent experts may also be set up and consulted as part of the budget preparation process. Such teams will include, for example, academics or experienced public servants not part of the local authority.

Whatever form the work of preparing the council debates may take, three aspects are important: providing information for the councillors who are members of the committee; the public nature of the committee's work; and the existence of reports.

#### *Providing information for councillors*

The draft budget is presented either by a member of the executive (or indeed the mayor) or by the local administration. Even in the former case, the administration is almost always represented on the finance committee, usually at a senior level – and questions can thus be put to it. In most cases, hearings may be held (the Belgian regions, Cyprus and "the former Yugoslav Republic of Macedonia" are exceptions in this respect). Finally, in some countries (Croatia, Poland, Slovakia, Slovenia and Switzerland), a compulsory minimum waiting period is observed (varying from one week to 20 days) so that the councillors on the committee can familiarise themselves with the budget documents.

#### *Public meetings*

With exceptions such as the Belgian regions, France, the Czech Republic and Switzerland, finance committee meetings are open: members of the public, the press and associations can thus attend.

#### *Reports*

Except in the Belgian regions, the committee's deliberations result in a report which is either simply forwarded to the local council (as in Croatia, Greece, Slovenia and the Czech Republic), or published (which may include posting it on the municipal website<sup>46</sup>).

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<sup>46</sup> As in the City of Amsterdam (Netherlands), for example.

### 4.3.3. Debate in the council

There are few differences here between the various countries: with certain minor distinctions (notably concerning the consequences if a budget is rejected), the council's role in every case is to consider, discuss and ultimately adopt the executive's budget proposals.

The draft budget may, however, arrive before the council either:

- having been previously debated in the operational committees and/or the finance committee;
- having simply been presented to the councillors so that they can familiarise themselves with it.
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The quality of the information on which councillors have to base their decision thus varies widely.

Likewise, councillors have between 5-7 days and a month (up to two months if the French system of exploratory debates is included) to analyse the budget documents, obtain any information they seek, etc. In Ireland, for example, the budget must be adopted within 21 days of the first council meeting held to discuss expenditure forecasts. In Denmark, the finance committee is required to submit a draft budget to the council by 15 September at the latest; the draft is given two readings with a three week interval, and the council has to adopt the budget no later than 15 October.

Given the importance of budgetary discussions, it is highly desirable to avoid extreme situations where the budget comes before the finance committee (but is not thoroughly debated there) and the local councillors have a matter of days to dissect it all, before the budget debate is finally "expedited" in a couple of hours.

More often than not, budget debates provide an opportunity for questioning the administration; likewise, in the great majority of the countries there is provision for the debates to include hearings (even though in some of the countries that have such provision it is rarely used).

Council debates are open and some countries (notably "the former Yugoslav Republic of Macedonia", the Netherlands, Portugal, Slovenia, Slovakia and the Czech Republic) allow members of the public to speak or put questions when the budget is being discussed.<sup>47</sup>

While budgets are normally presented by a member of the executive, or indeed the mayor, a number of particular situations are worth noting:

- in Poland a member of the executive presents the budget proposals and this is followed by presentations from the head of accounts and the chair of the finance committee, each of whom delivers an opinion;
- in Denmark, the budget is presented by the mayor, who also chairs the finance committee;
- in certain countries (Cyprus, Greece and Norway) it is the chair of the local finance committee who presents the budget.

In some cases the council can draw on external opinions. In Poland it can seek the opinion of the regional audit office, which will have checked the income projections and verified that all commitments for the relevant budgetary period (particularly fixed items of expenditure and commitments undertaken during previous budgetary periods) have been duly included. In Greece an opinion from the controlling authority will be available, as in Slovakia where the

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<sup>47</sup> In some cases, where the law prohibits this type of public participation, a pragmatic solution can be reached by suspending the sitting for the duration of the public interventions.

council can also draw on the chief auditor's opinion. In Croatia, the opinion of the State Audit Office will be appended to the draft budget.

If the budget is rejected, the proposals have to be reviewed (either reworked in their entirety or adjusted to make them acceptable to the council). At the same time, by rejecting the budget the council sends out a powerful signal which may result, for example, in the resignation or dismissal of the executive, the dissolution of the council or the appointment of a commissioner.

If the budget is not adopted within the stipulated time-frame, temporary solutions must be found to ensure continuity of public services: in Slovakia and Greece the previous year's budget is followed; in Poland the regional audit office will be required to fix the local budget; councils in the Belgian regions will vote to allocate provisional funding for ordinary mandatory expenditure if the balance was in credit the previous year; in Cyprus the Council of Ministers can authorise certain essential spending for a period of up to a month if it deems this necessary for continuity of service provision; in France, if there is no budget by 31 March, the prefect [chief county administrative officer] will ask the regional audit office to draw up budget proposals and will then settle the budget and put it into effect (the proposals of the regional audit office need not be followed if clear reasons for departing from them are given). In some cases, the previous year's levels of taxation are deemed to apply again although in England, by contrast, the absence of a budget means there is no basis for tax collection during the year in question.

Finally, once the council has adopted the budget, it can be appealed before an administrative court and/or the controlling administration. As a rule, appeals may be based solely on points of law, only the Belgian regions allowing appeal on grounds of the public interest.

#### **4.4. Approval of the budget**

There are three classic scenarios here: prior assent is required by regulation; assent is required but does not stop the budget being put into effect; there is no requirement for prior assent but corrective measures may be taken later.

*Prior assent is required:* in certain cases (Walloon Region, Cyprus and Greece and for local authorities in financial difficulty in Ireland and Norway) a controlling authority's prior assent is required before the capital budget and borrowing can be put into effect.

- In Ireland, if the Minister responsible considers, after an inquiry, that the local rate of taxation is insufficient to meet the municipality's expenditure, he or she may make an order requiring the local authority to adjust the rate within 14 days.

*Prior assent is required but the budget is not suspended awaiting it:* in these cases an opinion must be delivered within a certain timespan. Meanwhile, the budget may be put into effect.

- Local authorities in Poland are not required to await approval from the regional audit office and can put their budgets into effect once they have been adopted by the council; if, however, the regional audit office rules within 30 days that the budget is not lawful, the council's decision is rescinded; the council may appeal to an administrative court.

*Prior assent is not required but subsequent reactions are possible:* formal approval of the budget adopted by the council is not necessary and the budget can be put into effect but the controlling authority may take action at a later stage.

- In Denmark no formal prior approval is required but a "supervision board" may rescind the budget or decisions in relation to the budget if they are not lawful (this step is very rarely taken, however).

- In France, transmission of the budget to the state's representative (the prefect), has the effect of putting it into operation. If anomalies are detected the prefect may refer the matter to the regional audit office and this can result in a situation where the prefect becomes officially responsible for settling the budget and putting it into effect – although examples of this procedure are very rare (in 1998, 490 out of a total of 371,994 budgets transmitted to prefects were officially settled in this way).
- In England, central government is empowered to require that a local authority revise its taxation rate downwards if the rate originally fixed is deemed excessive.

In most cases the higher authority that rules on local budgets is the central or regional government Department of Local Government and/or the central government Minister responsible. Infringement of the law is an obvious ground for automatically suspending, rescinding or altering a budget. If a local budget decision is lawful but contrary to the public interest it may be suspended, rescinded or altered in the Belgian regions and in Ireland. In Greece, Croatia, Denmark, Norway and Poland no intervention is possible. Similarly, if a decision is deemed inappropriate while neither infringing local law nor harming the public interest, no steps may be taken to challenge the budget (unless one counts the provision in Ireland and England for reviewing tax levels).

In most cases there are avenues of appeal – to either an administrative authority (ie the controlling authority) or an administrative court – against a decision to modify or rescind a budget.

In some countries, the controlling authority must rule on a local budget within a stipulated timespan (45 to 50 days in the Belgian regions, 30 days in Poland). Where approval of the budget is delayed (or the controlling authority rescinds or rejects it), transitional measures exist to enable the local authority to conduct its business (see 4.3. above). By contrast, in other countries (notably Cyprus, Norway and Ireland) there is no time limit.

## **4.5. Execution and supervision of the budget**

### **4.5.1. Channels for putting the budget into effect**

The proper collection of tax revenue poses no real problems in several countries, as tax revenue is transferred – separately from other transfers – by the national or regional tax authorities.

In other countries the official or officials responsible for the proper collection of local tax revenue are personally accountable in this regard. The same is true of the official or officials responsible for committing local authority expenditure. This accountability can take different forms:

- In the Belgian regions, local authority tax collectors have sole and full responsibility for collecting local revenue and discharging allocated expenditure on the basis of regular instructions. In France, it is not the local authorities but the offices of the Treasury (controlled by central government) which collect most types of tax revenue, and Treasury accounting staff are personally and financially accountable with respect to both revenue and expenditure.
- In England, professional accountability and internal disciplinary supervision go hand in hand. In Ireland, accountability is a condition of employment in this type of post. In Denmark, general civil service responsibility applies.
- Accountability lies in some cases with the local authority staff and in others with the elected representatives. In Finland, for example, elected representatives do not have an operational role; it is the public employees in charge of departments and other administrative units who are personally accountable and may, if necessary, be held to account under both criminal and civil law. By contrast, in Croatia and "the former

Yugoslav Republic of Macedonia", the mayor is personally accountable to the council for the execution of the budget. Similarly, mayors in France are accountable for the allocation of expenditure, and local authority staff thus have no personal accountability in this respect.

Some countries (the Flemish region, "the former Yugoslav Republic of Macedonia", Cyprus, Ireland, Croatia and Malta) have procedures for prior scrutiny of all expenditure or of certain expenditure items (eg where there is a discrepancy with the budget, or in the case of investments). Where there is no system of prior scrutiny there may be retrospective controls, as in France where there is provision for the regional audit office to supervise budget management, and for Treasury accountants to carry out checks (on the regularity of payments and availability of funds) prior to the disbursement of expenditure.

#### 4.5.2. Supervising execution

The regularity with which the local executive is informed about the monitoring of income and expenditure transactions can range from daily briefings (in "the former Yugoslav Republic of Macedonia") to weekly or monthly reports (as in, respectively, the Brussels Capital region or the Flemish region, Finland, Cyprus and England). General budget monitoring is mostly carried out on a monthly basis (as in the Flemish region, Norway, Russia, Slovakia and Slovenia) or at longer intervals (three times a year in Finland).

In several countries (Norway, Poland, Malta, Croatia, Finland, the Czech Republic, Russia, Slovakia and Slovenia) the council is notified about monitoring two to four times a year. More frequent notification is rare (it is monthly in Ireland and Cyprus) but in some cases this information is supplied to the council at the closure of accounts (the Brussels Capital region and "the former Yugoslav Republic of Macedonia"). If there is no planned release of information, councillors may always request it.

Controlling authorities may be supplied with information every three months (as in Poland, Russia and Slovakia), twice a year (as in Croatia) or only once a year (as in Ireland and "the former Yugoslav Republic of Macedonia"). Where external auditing takes place, the timetable for providing information will reflect that of the audits. Except in certain specific cases, internal auditors (where such exist) will have access to information when they need it, rather than on a planned basis.

Transaction monitoring in some countries ("the former Yugoslav Republic of Macedonia", England, Norway and Russia) is based on global data, while elsewhere (the Flemish region, Ireland, Poland and Finland, for example) detailed tables are produced. Practice may vary from local authority to local authority within the same country.

In Poland the regional audit office delivers an opinion on the execution of the budget not just at the end of the year but also after six months.

It would seem essential for budget monitoring that councils receive information regularly (eg every three or four months). A more detailed briefing mid-year could also offer an opportunity to put budget changes in perspective and receive an update on the changing overall context (economic, budgetary, social, etc). This type of information is indispensable for monitoring the implementation of policies, identifying any slippage and preparing an analysis of the next budget.

#### 4.5.3. Budgetary changes

Although local rates of taxation may not be changed in the course of a year, revenue may be revised upwards or downwards if transactions exceed or fall short of projections (in effect, tax

revenue depends not only on the rate of taxation but also on rateable assets), for example because transfers received or charges levied are greater than forecast. Similarly, expenditure may be adjusted if mandatory expenses are heavier than forecast, if a project assigned resources in the budget is not implemented, if fuel prices rise, or in an exceptional situation (such as a natural disaster). Lastly, if revenue is reduced it may be necessary to reduce expenditure to keep the budget balanced.

Changes of this type are generally made as required in the course of the budgetary year. By contrast, some countries stipulate that there can be only one change ("the former Yugoslav Republic of Macedonia" and Cyprus) or two (Norway) during the budgetary period. Although, on the one hand, this practice may reduce flexibility, it can also provide an opportunity for debating utilisation of the budget to date.

In certain countries (the Flemish region, Norway, Denmark and Finland) local councils must approve budgetary changes on a vote, whatever their content. In other countries transfers within the budget need not come before the council provided only limited sums are involved (as in Cyprus, Ireland, Portugal, Slovenia, Croatia and Slovakia) or the funds are being moved within a single budget chapter or a single department (as in Greece, "the former Yugoslav Republic of Macedonia", Russia and France<sup>48</sup>). Finally, in some cases, transfers can be made but the changes must subsequently be submitted to the local council (as in Greece, Russia, Slovenia, Cyprus, the Czech Republic, the Belgian regions, Poland and Denmark – in Denmark this procedure will have to be followed where a legal duty is involved or where it was indicated that an exact amount could not be entered for a particular item when the budget was adopted).

In France the procedure followed will depend on the detail in which the budget was adopted: if it was approved chapter by chapter, a change affecting budget items within the same chapter can be made by the mayor, but a transfer from one chapter to another will have to come before the council. In any event, the opening of any new item of expenditure or revenue must be discussed by the local authority's deliberative body. Lastly, if the local council has decided to earmark a particular budget item, it will have to discuss any change in that item.

While in most cases the procedure followed for formal amendment of the budget is the same as that for its initial adoption, in some countries it is less onerous. In Denmark, for example, although the council must give its approval, the two readings given to the initial budget are not required for an amendment. In England, practice will depend on procedures adopted at local level. In Norway no "public inspection" of budgetary amendments is required.

#### **4.6. Closure of the budget and discharge**

The aim here is not to consider the administrative aspect of closure but to explore specifically issues of information about closure, and transparency in relation to discharge.

##### **4.6.1. Closure of accounts for the period**

As indicated under 3.4. above, the interesting aspect of closure is that it permits transactions and forecasts to be compared and any significant discrepancies to be identified and explained.

Because work on the budget begins, in many cases, in the middle of the year preceding the budgetary year in question (ie in the middle of year t -1 for the year t budget), it is helpful to

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<sup>48</sup> If the budget was adopted chapter by chapter, transfers between items are permissible. If it was adopted item by item – which is seldom the case – the allocations for each item may not be changed.

have access within a reasonable timespan to the latest available record of transactions (ie for year t -2) and of how the current budget (for year t -1) is being utilised. The opinion of, for example, an external auditor, can also be very useful if the local councillors formally consider the accounts: apart from its potentially educational function it can pinpoint aspects that merit closer attention. Lastly, closing the accounts can constitute the mathematical aspect of a wider evaluation exercise conducted by the local authority mid-way through the year. By contrast, the value of a purely accounts-based assessment, with little or no accompanying explanation, delivered several months after the end of the relevant budgetary period and divorced from consideration of programmes or projects, will be limited.

It would seem that provisional closure of accounts is rare, while the timetable for closure differs greatly from country to country, depending on the length of time after 31 December during which transactions may still be carried out (in Denmark, for example, revenue can be entered in the accounts up to the end of February). Thus, final closure will be submitted to executives between 15 February (the deadline in Norway) and 30 April (the corresponding date in Cyprus) and will normally come before councils in March or April – the deadlines for council approval ranging from 31 March (in the Flemish and Walloon regions, "the former Yugoslav Republic of Macedonia", Slovenia and Finland, for example) to 1 July (in Norway) and 15 July (Netherlands). The rules on when accounts must be forwarded to the controlling authority vary greatly: in some cases, this must precede their submission to the council, elsewhere the controlling authority must receive the accounts within a certain period after the council approves them, and in other cases the two procedures take place at the same time. There is a similar range of practice with regard to external auditing.

The order in which the various bodies are involved is normally as follows: the executive adopts the accounts; they are submitted to, and ultimately adopted by, the local finance committee;<sup>49</sup> the local council discusses them and takes a vote; the accounts then go to the external auditors and finally to the controlling authority. As a rule, the controlling authority reviews their legality, while the external auditors review both legality and accuracy and, in some cases (eg Denmark), also assess performance.

As when the budget is being drawn up, committees may prepare the debate in council. In Poland, an audit committee examines the accounts and tables a motion to the council to grant discharge to the local executive. In Denmark the finance committee must submit the accounts to the council in time for them to be forwarded for external audit no later than 1 June. The external auditors must deliver a report on the accounts to the council by 15 August. By the end of September, the annual report, the external auditors' report and the council's comments must be submitted to the controlling authority.

As well as the opinion of the local finance (or audit) committee, the council may be able to draw on opinions from a number of external bodies (ie external auditors, controlling authority, judicial body) before taking its own decision on the accounts. In Norway, for example, the executive obtains closure at a relatively early date (15 February), the accounts then go for external auditing and the council must approve them by 1 July at the latest. In Slovakia and Slovenia, accounts are submitted to the external auditors and the controlling authority before being tabled for approval by the local council. In Finland, after consideration by the executive they are submitted to external auditors and then to the council's auditing committee (which delivers a report to the council assessing how objectives have been met, with a proposal to grant discharge) before coming before the council itself. In the Czech Republic, local authority accounts must be published at least two weeks before the council discusses them, so that members of the public can comment (either in writing or through statements or

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<sup>49</sup> This stage is included only in those countries where the finance committee delivers an opinion on the draft budget.

questions at the council meeting), and the closure documents submitted to the municipal bodies must include a report by an external auditor.

Apart from the figures themselves, accounts may be accompanied by other information that contributes significantly to their analysis. In Malta, the local authority executive secretary is required to prepare a detailed annual administrative report at the end of each financial year. This report accounts to the council for its finances during the previous year; reviews the operating and financial results achieved against the council's stated objectives, plans and budget; and includes a statement of the council's income and expenditure for the year ended as well as any funds retained at the year-end. The council has to approve the annual administrative report by the end of July each year.

As well as providing information, the closure of accounts may lead to other procedures. In France, if the accounts are rejected, the government's representative (the prefect) will refer them to the regional audit office. Likewise, if the accounts show a deficit equivalent to or greater than 10% of the operational income of a local authority with fewer than 20,000 inhabitants (the figure is 5% for authorities with more than 20,000 inhabitants), the government representative will ask the regional audit office to propose corrective measures.

#### 4.6.2. Discharge and return to starting point

When an executive takes office its capacity for action in the short term depends, on the one hand, on the information it receives from the outgoing executive and the local administration and, on the other, on the overall financial situation in which the outgoing executive leaves the local authority. A situation that an executive describes as healthy during an election campaign may subsequently prove less sound than it was portrayed, possibly because the information proffered was incomplete (eg costs may have been carried forward).

There is, however, no regulatory provision for audits in such circumstances – except in Malta. Here, when the employment of an executive secretary terminates, the council conducts an interim audit to ascertain that the outgoing post-holder is leaving the local authority in good order financially and administratively. Moreover, local council elections are held in March which is also when the annual audit takes place.

France is one of the countries with no provision for this type of audit but it increasingly common practice for incoming local executives to commission an audit of the previous administration's management, and some also request a management review by the regional audit office.<sup>50</sup> Other countries have arrangements for information to be passed between outgoing and incoming executive teams, but these are not statutory (in Poland, for example, the outgoing executive makes a report to its successor on the local authority's situation; if such a report is not delivered, the new executive will present an inventory of the situation as it finds it).

## **5. OTHER FACTORS AND AGENCIES**

This chapter deals with the issues of training and personal accountability before considering the role of other agencies – internal and external audit services, regional and state audit offices, and other bodies – as well as the function of public participation.

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<sup>50</sup> Article L.211-8 of the Rules for Courts Exercising Jurisdiction in Financial Matters (*Code de Juridictions Financiers*).

## **5.1. Training for those involved in budgeting**

### **5.1.1. Administration**

Article 6, §2 of the European Charter of Local Self-Government states: *"The conditions of service of local government employees shall be such as to permit the recruitment of high-quality staff on the basis of merit and competence; to this end adequate training opportunities, remuneration and career prospects shall be provided."*

Depending both on the tasks assigned to local authorities and on the channels through which they are funded, the job of local finance services may be more or less onerous. In several countries, local authorities are deemed to have sufficient numbers of staff with third-level qualifications. In other countries, the numbers of such staff are limited or the situation is described as uneven. Staff with higher qualifications are thus distributed unevenly not only from country to country but also within countries, or even regions - and larger municipalities are more likely to possess employees who have had third-level education.

Moreover, whatever qualifications staff may possess when recruited, in-service training is important, as emphasised in Article 6 of the Charter, cited above. This type of training is organised on a regular or occasional basis in most countries. Typically, training will be organised at a local authority's own initiative or through an association of local authorities. Controlling administrations (or national and/or regional authorities) also play an important role here. External training providers may also be used, on a competitive-tendering basis.

Training in Poland is organised by regional audit offices, local government associations and the controlling administration. In a further example, a "Chief Accountants' Convention" was set up in the voivodeship [province] of Mazowieckie to certify chief accountants' qualifications and run training courses.

In France, the Centre National de la Fonction Publique Territoriale (CNFPT) is a state institution (with local branches) which exists chiefly to train local government staff in a manner that meets local authorities' needs.

### **5.1.2. Local elected representatives (executive members and other councillors)**

Article 7, §1 of the European Charter of Local Self-Government stipulates that: *"The conditions of office of local elected representatives shall provide for free exercise of their functions."* While access to training provision is not explicitly mentioned, it is clearly implied. Article 7, §2 refers to *"appropriate financial compensation for expenses incurred in the exercise of [their] office"*.

Local executive members may not have had initial training or possess any personal experience in local budgeting and finance<sup>51</sup> but, in many cases, they can take more or less comprehensive training courses organised at the instigation of associations of local authorities and/or elected representatives, on the one hand, or controlling authorities and/or central administrative bodies, on the other.

Similarly, on the local council as a whole, newly elected representatives may find themselves somewhat at a loss when facing their first budget, whether the problem is understanding budgetary rules or interpreting the budget document with its appendices. This is why local

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<sup>51</sup> By contrast, there is the example of the municipal head of finance who is a member of another municipality's local executive with financial responsibility.

councillors in virtually all the countries<sup>52</sup> are offered specific training. Training arrangements vary from country to country and the training may be more or less elaborate. Such training may be organised at the initiative of, for instance, a local authority itself, a controlling authority, an association of local authorities or local councillors, a municipal bank (as in Belgium and Norway) or a public service college. In Poland, for example, regional audit offices run training courses for new municipal executives taking office.

In France, local elected representatives (whether councillors or members of the local executive) are entitled to in-service training. In practice the entitlement means that an elected representative may spend six days a year on training (in budgetary, legal or economic affairs, management or urban development, for example). His or her expenses (travel, accommodation and training costs) will be reimbursed and the local authority will also offset loss of earnings. The training costs that councillors incur in exercising this entitlement constitute mandatory items of expenditure for the local authority.

## **5.2. Personal accountability**<sup>53</sup>

In the case of certain persons involved in budgeting, personal accountability – guaranteed through "statements of responsibility"<sup>54</sup> – is seen as a practice likely to promote budget transparency<sup>55</sup> along the lines of the New Zealand Fiscal Responsibility Act,<sup>56</sup> which introduced machinery to ensure the credibility and integrity of financial information. Briefly, the Act requires the preparation of certain reports ["updates"] which have to include a statement of responsibility by the Minister of Finance and a similar statement by the Secretary to the Treasury (a civil servant). The Minister must certify that all government decisions with fiscal or economic implications have been communicated to the Secretary to the Treasury, and the latter must certify that, on the basis of the economic and fiscal information available, the Treasury has used its best professional judgement in supplying the Minister with the economic and fiscal update. The roles of the politicians and civil servants responsible are thus clearly defined, and the system also prevents the Minister exercising pressure to put a more positive spin on the reports (in the past, successive governments had been accused of doctoring the budgetary situation, particularly in the run-up to elections).

In Ireland, local authorities' annual budgets are signed by the county manager<sup>57</sup> and by the chairperson of the authority. Following adoption of the estimates of expenses, the tables outlining overall revenue and expenditure are also signed by the county manager and chairperson. The annual audit of accounts is a further safeguard against misrepresentation (which is very rare): should it be detected, the penalties range from surcharges to dismissal.

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<sup>52</sup> The exceptions are few ("the former Yugoslav Republic of Macedonia", Cyprus, Ireland, Croatia and Slovenia).

<sup>53</sup> This is separate from the question of personal accountability for committing expenditure or collecting revenue, which is dealt with under 4.5.1. above.

<sup>54</sup> OECD (2001), *OECD Best Practices for Budget Transparency*, p. 8

<sup>55</sup> "Corporate governance" also emphasises the importance of "quality" and "integrity" with regard to the provision of information. See, for example, OECD (1999), *OECD Principles of Corporate Governance*, Paris, doc. SG/CG(99)5.

<sup>56</sup> The act was promulgated in 1994 and amended in 1998. For a detailed description, see OECD (1997), *Budgeting for the Future*, Paris, doc. OCDE/GD(97)178, pp. 19 ff, and the website of the New Zealand Treasury (<http://www.treasury.govt.nz/legislation/fra/explanation>).

<sup>57</sup> The county manager is the senior full-time administrator. A public servant employed by a county or city council, as the case may be, he or she also manages all the urban authorities within the county. Along with the elected members, who comprise the local council, he or she forms the executive body. The chairperson chairs the council and is thus the senior political figure; chairpersons do not have executive powers (according to the report on Ireland in the Structure and Operation of Local and Regional Democracy in the Member States of the Council of Europe study series, Strasbourg, Council of Europe).

Forms of personal accountability for local government employees exist in several countries and are often linked to the degree of independence or autonomy that the employees enjoy. In England, finance officers have a statutory responsibility to inform the council if decisions are unlawful or if reserves are insufficient to meet projected expenditure; they also have a professional duty to give the council independent financial advice. In Slovakia, the local controller in chief – whose main task is to supervise the municipality's financial management and accounting – also delivers an expert opinion on the budget proposals and on the municipal accounts before they are submitted to the local council.

The executive member responsible for the budget may be personally held to account in Slovenia, Croatia, Ireland, Malta and Slovakia, while in Greece, Finland, Malta and Portugal the entire executive can be held accountable. In France, there is no personal accountability but the mayor bears political responsibility as he or she is responsible for drawing up the budget. The concept of integrity is one of the principles of local budgetary law in France: if a budget lacks integrity the state representative in the *département* [county] may refer it to the regional audit office (see 5.5.). Likewise, if information that is legally required and important for a proper understanding of the budget is missing or incorrect, the budget may be referred to an administrative court, which can rescind it on grounds of a procedural defect.

As these various examples show, personal accountability in its different forms – along with elected representatives' political accountability and other procedures (particularly internal and/or external auditing) – can help to ensure the quality and integrity of information transmitted.

### **5.3. Internal auditing**

Some countries have specific regulations for local auditing. These may prescribe a code of ethics, the conditions under which audits are carried out, conditions of access to documents and individuals, the nature of follow-up, whether reports are published, audit services' relations with other bodies, whether departments may respond to auditing, etc. In some cases the regulations are accompanied by recommendations on the use of particular auditing and internal control methods.

Certain countries' regulations<sup>58</sup> require that internal audit services exist. In some cases the provision concerns only municipalities of a given size (for example, it is those with more than 20,000 inhabitants in Slovenia or those with more than 15,000 inhabitants in the Czech Republic), and sometimes the audit body is a committee rather than a service. Where no internal audit service exists, auditing may be a subsidiary function of the local finance department. Finnish law stipulates that internal auditing must be properly organised, which leaves the local authorities a degree of latitude, and the largest authorities tend to have an *ad hoc* audit service.

Various approaches are taken: in some countries, internal auditing covers the pursuit of effectiveness and efficiency, while in others it concentrates on the accounting aspect.

- In Ireland,<sup>59</sup> local authorities are required by law to undertake an internal audit of their administration. They are assisted by the auditing that is carried out by the Value for Money (VFM) Unit, part of the Local Government Audit Service (LGAS). The VFM unit has published more than 20 reports to date, one of which deals specifically with local authorities' internal auditing and is intended as a guide to the development and

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<sup>58</sup> The Belgian regions, Denmark, Slovakia, Greece, Norway and Russia also reported that they had no such services.

<sup>59</sup> See case study for more details.

improvement of the authorities' internal audit function.<sup>60</sup> Local authorities are required to implement recommendations made in their internal audit reports, with a view to providing a more effective and efficient service.

- In Malta, the local authority executive secretary is directly responsible for maintaining an internal control and monitoring system to ascertain that the accounting, recording and other financial operations of the council are being properly conducted in accordance with regulations.

As a rule, audit services may act on their own initiative or at the request of the local executive or local council. On the other hand, only in certain countries ("the former Yugoslav Republic of Macedonia" and in France at the local authorities' discretion) may an internal audit service act at the request of a local councillor or councillors. In Finland, heads of department may also ask for an internal audit. By contrast, the internal audit services may not act at the request of a controlling authority, a judicial authority or an external audit service (the English reply notes, however, that the two audit services normally co-operate). In Poland, the regional audit office may *suggest* but not order an internal audit.

In all the countries that have internal audit services,<sup>61</sup> their role includes monitoring the proper charging of expenditure and due collection of receipts. In most cases (except in Croatia and Poland) they also analyse the effectiveness and/or efficiency of policies pursued. Lastly, in Ireland and "the former Yugoslav Republic of Macedonia" audit services have the further role of delivering opinions on proposed policies.

Internal audit services are directly answerable either to the head of the local finance service or to the town clerk (the local authority's most senior public servant). An internal audit service report will be submitted to the local executive and, in certain cases, to the council, the controlling administration and/or the external audit service (as in Finland, England and Ireland). Sometimes there is a degree of latitude: in Poland internal audit service reports are submitted to local executives but councils can also obtain them.

There are also other factors that contribute to the effectiveness of an internal audit service, as illustrated in the following examples.

- In Finland, specific training is offered by two companies, *Auditor Ltd* and *Municipal Training Institute Ltd*, which belong to the Finnish association of local authorities and to private organisations.
- Regulations in England give internal audit services access to all members of staff and all the documentation that they need to do their job. Their independence is underpinned by their professional principles, the role of the external auditor and the fact that they have job security. In the Czech Republic, internal auditors are appointed by the mayor, must pass a special certificate exam. They are in this case independent on the local political executive, they act on their own initiative.
- In Croatia, a decree on internal control regulates the problem of action to be taken on internal audit reports.

#### **5.4. External auditing**<sup>62</sup>

External auditing is a legal or regulatory requirement<sup>63</sup> in many countries.

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<sup>60</sup> These reports and an *Internal Audit Guidance Handbook* for local authorities may be consulted online at: <http://www.enviro.ie>.

<sup>61</sup> Except "the former Yugoslav Republic of Macedonia"

<sup>62</sup> The Polish and French regional audit offices and the Portuguese and Greek State Audit Offices are mentioned below.

<sup>63</sup> The relevant laws or regulations may concern either local authorities or the control of public finance.

The external audit may be carried out:

- by the private sector, ie auditing firms, as in Denmark, Finland, the Netherlands and Slovakia;
- by the public sector, through an audit service, as in Cyprus, Croatia, Greece, Ireland, "the former Yugoslav Republic of Macedonia", Norway and Slovenia;
- by either the private or the public sector, at the local authority's discretion. This is the practice in France and in the Czech Republic (where the Municipalities Act stipulates that a local authority must submit its financial management to review by the district audit office – a public body – or by a private auditor, otherwise it will be penalised);
- with joint public and private sector involvement, as in England (where all external auditors are appointed by the public Audit Commission and 70% of the work is carried out by Audit Commission staff, while private firms do the remaining 30%) and Malta (where the National Audit Office commissions private firms); similarly in the Walloon region, private sector auditors work with the Regional Centre for Local Authorities Support (a regional body) under a recovery plan for local authorities in financial difficulty.

In all the countries whose legislation provides for external auditing, it has two functions:

- certifying the end-of-year accounts (as noted above, this is done in some cases before and in others after the local council debates the accounts); it may also involve reviewing the basis on which certain transfers were obtained (as in Ireland);
- monitoring compliance with the law, whether in terms of ensuring that legal provisions are observed or, more specifically, combating fraud and corruption.

Thus, in Croatia, for example, the State Audit Office is an independent institution responsible exclusively to the House of Representatives. It is responsible for auditing the national budget, local authority budgets and the budgets of extra-budgetary funds, state and public corporations and companies financed in whole or in part from the budget. In the "the former Yugoslav Republic of Macedonia", the State Audit Office is legally empowered to carry out annual auditing of local government accounts.

A third area of external audit activity is the analysis of local authorities' performance, as in England and in Ireland, where this is the specific task of the Value for Money Unit, mentioned above. This unit's role is:

- to check how effectively and efficiently a local authority's resources have been used and, where the local authority has disposed of assets, to check that the best possible terms were obtained;
- to study the adequacy of local authorities' systems, procedures and practices, as a means of helping local authority managers to assess operational effectiveness;
- to confirm the extent to which managers have implemented, or are implementing, recommendations made in Value for Money reports.<sup>64</sup>

External auditors have this third area of responsibility not only in England and Ireland but also in Denmark (where the external audit covers financial and legal aspects as well as performance and includes checking that the activities shown in municipal accounts are in accordance with local authority decisions and with regulations etc) and in the Czech Republic (where external auditors scrutinise the previous year's management and accounting and transmit their comments in a report).

Lastly, an external audit is sometimes conducted for purposes of stock-taking at the beginning or end of a municipal government term of office (see 4.6.2. above).<sup>65</sup>

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<sup>64</sup> As indicated above, these reports can be consulted online at <http://www.environ.ie>.

<sup>65</sup> See, for example, the external audit conducted in Paris when the municipal government majority changed: <http://www.paris.fr>

As with internal auditing, the question of the auditors' independence arises.

The first guarantee of independence relies on a clear distinction between the role of decision making and that of external auditing. Such a distinction exists in the situations reported: external auditors can have no part in decision making at either municipal or central government level. It is important that this principle be strictly observed with regard to private sector auditors who may offer additional services, such as management consultancy, that could indirectly influence decision making. Danish law includes the additional provision that auditors may not take part in any decision liable to compromise their independence.

A second guarantee depends on auditors' administrative and hierarchical independence from local authorities. Various situations exist in this regard.

*Local authorities have no influence on the choice of external auditor*

In the various countries that have state audit offices, these bodies are, as a rule, answerable only to the national parliament; in theory, their independence from both local authorities and central government is thus ensured. A similar degree of independence is enjoyed by the Audit Commission in England, which, moreover, appoints external auditors from the private sector. The same applies in Malta, where National Audit Office reports go to the Chamber of Representatives. In Cyprus, a local authority may not select its external auditor (controller general); the appointment is made by the Public Service Commission.

Other means of reinforcing external audit bodies' independence are through open competitive entrance exams (as in Croatia) and the recognised independence of the national corps of auditors (as in Greece). Similarly, in Ireland, local authority auditors are appointed by the Local Appointments Commission (LAP) following an open competitive recruitment procedure. The LAP is a Government agency which is also responsible for the recruitment and appointment of certain classes of local authority staff.

*Local authorities have a limited choice in appointing external auditors*

Local authorities in Denmark appoint a firm of auditors for a limited or unlimited period but their choice is subject to the controlling authority's approval. Under the Walloon region's recovery plan for local authorities in financial difficulty,<sup>66</sup> the municipalities could express preferences among the auditors included on a list compiled by the regional government, which had the final say.

*Local authorities are largely free to choose their auditor*

In other countries, local authorities may select their auditor on a contractual basis (as in the Czech Republic). In Finland a council chooses an auditor on the basis of a proposal from its "evaluation committee"; the auditor is liable to pay compensation for any damages resulting from misleading or inaccurate reports. In Norway, the council appoints the external auditor but there is only a formal guarantee of his or her independence vis-à-vis the local authority.

In some countries, external auditor's reports – whether specific as in Malta or annual as in Croatia – are transmitted to parliament. Parliament may then debate them publicly (as in Slovenia and "the former Yugoslav Republic of Macedonia"). In such cases, there is access both to the reports and to the accounts of proceedings in the debating chamber, which are parliamentary documents. In Cyprus, Finland, Ireland and Norway, reports are also published although they do not come before parliament. By law, in England, annual audit reports must be published; formal reports on specific problems must be discussed in the council and the council's response must be published in the press. In Denmark, while publication is not mandatory, reports must be made available to interested parties.

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<sup>66</sup> The "Tonus 2" plan initiated in 2001

With regard to action on external audit reports, in Denmark the local finance department and authorities concerned must respond to the auditor's comments, and their response forms a basis on which the local council can decide how to comply with the audit findings. The annual budget, the auditor's report and the local council's resolution on it must be forwarded to the controlling authorities. In Cyprus, local authorities generally adopt most of the recommendations in audit reports. In Croatia, Slovenia, "the former Yugoslav Republic of Macedonia" and Greece, they have the opportunity to respond to, and indeed contest, audit findings. In Malta, the mayor must produce a report indicating what action he or she intends to take in response to the external auditor's comments.

Lastly, external auditors in most countries can inform the judicial authorities if any infringement of the law is detected.

### **5.5. Regional and state audit offices**

Only a few countries – France, Poland, Greece and Portugal – have specific bodies of this type. Although their names are similar their roles differ somewhat and, in certain cases, their function is, in fact, that of an external audit.

In France, regional audit offices (CRCs) are judicial bodies whose task is to scrutinise the budgets of local authorities and the public bodies attached to them. They have the status of courts and are independent of local government controlling authorities. The members of CRCs are judges: they are thus independent and enjoy security of office.

In principle the CRCs' role is that of retrospective verification at the request of prefects. In exceptional cases, where a local authority is working to a recovery plan, they may carry out prior scrutiny.

Their main function is to verify that accounts are in order but they may conduct a management audit if they receive a reasoned request from a prefect to do so.

All transactions – including agreements with associations, mixed-economy companies and contracted accountants – may be subject to CRC verification. CRCs may scrutinise documents and carry out on-site checks.

The CRC will deliver a report on its findings to the local executive and to the controlling authority, and the local executive is required to respond. In the case of a management audit, the executive will submit a letter of comment – to which the mayor is invited to reply – to the local authority deliberative body. Third parties may see such letters on request.

Should CRC scrutiny uncover any infringement of the law, the CRC judges are required to inform the criminal courts. If an audit reveals bad management (without any infringement of the law) the CRC will propose a series of recovery measures as a guide for the local authority to follow. If the CRC audit was conducted at the request of a prefect, measures will be proposed to restore a balanced budget situation, although the prefect is not obliged to take the measures suggested, provided clear reasons are given for not doing so.

Regional audit offices in Poland<sup>67</sup> are responsible for monitoring and auditing the financial situation of local authorities and local-authority bodies, as well as federations and

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<sup>67</sup> The structure and tasks of regional audit offices are described in the report on Poland in the Structure and Operation of Local and Regional Democracy in the Member States of the Council of Europe study series, Strasbourg, Council of Europe.

associations of local authorities. Each office covers the local authorities within a voivodeship [province]. Their main task is to deliver opinions on:

- draft budgets (within 30 days of receiving them);
- the execution of budgets, after six months and twelve months;
- audit committee motions to grant discharge to local executives;
- the lawful nature of council decisions to grant discharge to local executives.

The offices' role is confined to ensuring that budgetary transactions are lawful. They may scrutinise documents and carry out on-site checks. Three types of scrutiny are practised:

- overall checks every four years;
- checks for verification purposes;
- checks in relation to particular problems.

If a local council's budget deliberations are under scrutiny, the findings will be notified in a resolution of the regional audit office board.

In the case of a check carried out by a regional audit office inspector, a final report will be drawn up, with recommendations. If the check reveals a failure to observe financial discipline, a three-member panel will deliver a ruling, against which the local authority may appeal to the audit office board.

Regional audit offices also report annually to parliament.

In Portugal the State Audit Office has the following tasks:

- verifying the lawful nature of closure documents (annual accounts), which it receives after their approval by the local council;
- issuing prior authorisation for certain items of expenditure, eg those in excess of a given amount, borrowings etc;
- carrying out management audits where it deems them necessary.

It will submit a report to the local executive and to the controlling authority. The local executive is required to respond. In cases of mismanagement, the State Audit Office report will indicate where corrective measures are needed in the financial management, structure and/or functioning of the local administration.

In Greece, the State Audit Office scrutinises local authority spending to ensure compliance with the law; local authorities are required to submit their accounts and any requisite documentation to it. It has no role in the preparation of budgets.

## **5.6. Other institutional bodies involved**

Associations of local authorities appear to play a very important role. Their most frequently mentioned functions are the provision of training (for local authority staff and elected representatives) and advice on the formulation of policies affecting local government. Mention is also made of "technical" assistance for smaller local authorities and the establishment of inter-authority budgeting and performance comparisons. Finally, some associations provide "impartial" expertise on controversial matters and draw up statistical or budgetary profiles of local authorities.

Emphasis is placed on the role that associations of local authorities play as a point of contact with central government. In Denmark for example, the national association of local authorities has an important policy-making profile and is regularly consulted on matters of potential interest to its members.

The role of associations of local authorities can also supplement that of central government: in Finland, the association of municipalities makes recommendations to local authorities on aspects of budget structure and budgetary procedures not provided for in regulations.

Only the Belgian regions, France and Norway reported local authorities' banks assisting with budgetary matters.<sup>68</sup> Such assistance can entail drawing up a statistical or financial profile of a local authority, possibly accompanied by budgetary or performance comparisons with other authorities. Mention was also made of banks organising training (for local authority staff and elected representatives), providing technical support for smaller local authorities and advising on the formulation of policies affecting local government. It is thus impossible to generalise about the support that a local authority's bank may provide.

## **5.7. Citizen participation**

Article 3, §2 of the Charter highlights the importance of local councils with executive organs responsible to them and also mentions "*recourse to assemblies of citizens, referendums or any other form of direct citizen participation where it is permitted by statute*".

### **5.7.1. Information prior to adoption of the budget**

Prior information can give members of the public, associations, etc an opportunity to react and put questions to their elected representatives. Where this is possible it may help councillors in the work of analysing the budget.

Prior information can take two forms:

- either the draft budget is published before it is debated and ultimately adopted by the council, ie the local authority *proactively* makes the information available;
- or members of the public may consult the draft budget on their own initiative, in which case the local authority's role is more a *reactive* one.

In most countries where prior information is provided<sup>69</sup> both approaches are used but sometimes all that is offered is access to the draft budget documentation.<sup>70</sup>

The following cases are worth highlighting.

- In Finland, the draft budget drawn up by the local executive is a public document, which is widely circulated and commented on, notably in the press. Indeed, some local authorities publish the draft that the mayor submits to the executive (ie an earlier version), and this document may even be discussed at information meetings.
- In Ireland, public notice is given that the draft budget has been prepared and that copies have been placed in the municipality's main public buildings. Anyone who wishes to do so may consult the draft during office hours (and copies can be purchased).
- In Norway, too, public consultation is a legal requirement.
- In the Netherlands, all the budget documents submitted to the council (draft budget, supporting documentation and long-term estimates) can be consulted, and public notice of their availability is given. In Poland, the budget can be consulted once it has

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<sup>68</sup> The Czech Republic's reply to the questionnaire mentioned the possibility of co-operation within the framework of a service contract.

<sup>69</sup> Denmark, Finland, Ireland, Malta (at annual general meetings), Norway, the Netherlands, Poland, Russia, Slovakia and the Czech Republic. By contrast there is no provision for the public to receive prior information in Belgium, Cyprus, Greece and Portugal.

<sup>70</sup> In Russia, for example, members of the public may consult the draft budget but in most cases they are not notified in advance that it is available. In "the former Yugoslav Republic of Macedonia" access to the draft budget is not generally organised, although nothing in the regulations prohibits it.

been adopted by the "administrative board"<sup>71</sup> and forwarded to the council and the regional audit office.

- In Slovakia the draft budget can be consulted in the mayor's office or the office of a member of the local authority staff in the town hall.

### 5.7.2. Information after the local council has adopted the budget

In most countries, once the council of the local authority has adopted the budget, members of the public who wish to consult it may do so. In these cases it is the entire budget, with appendices, that is available for consultation.<sup>72</sup>

There are also examples of various other requirements and (although not necessarily linked to the requirements) other possibilities with regard to the dissemination of information. In France, for instance, access to the adopted budget and all its appendices is a general public entitlement but there is no legal requirement that the adopted budget be brought to public attention.<sup>73</sup>

In some countries certain forms of communication are **mandatory**.

In England, the budget must be presented in outline in leaflets that are mailed with council tax bills.<sup>74</sup>

In Ireland, Greece, Malta and the Czech Republic, the budget must be outlined in a notice. In "the former Yugoslav Republic of Macedonia" and Poland, budget information must be published in the local authority bulletin. Local government legislation in Belgium requires that notices be posted informing the public that any person who so wishes may consult budgets and accounts on the premises of the municipality (the notices must be displayed for at least 10 days). In the Netherlands, local authorities also give widespread notification that budget documents are available for consultation.

In Poland it became a legal requirement in 2001 that such notification be published in the official bulletin of the voivodeship; in "the former Yugoslav Republic of Macedonia" it must be published in the municipal bulletin.

In Ireland – as with the draft budget – copies of the adopted budget may be consulted (or purchased) in the main buildings of the local authority; notification in the press is also compulsory. In Denmark, too, copies of the budget may be obtained.

The **optional** use of other communication tools is quite widespread and, importantly, **is left to each local authority's discretion**. Such tools, which take very different forms, may thus include the municipal bulletin, press releases and even (although relatively rarely) public meetings.

The means of communication most frequently mentioned, however (although its use is not mandatory), is the municipal website. Despite the number of respondent countries that listed it, it would appear to be an under-used tool. While there are several interesting websites, it was clear from consulting a number of local authority sites in various countries that – if, indeed, budget information is included – the following problems exist:

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<sup>71</sup> In effect the local executive

<sup>72</sup> In Russia, however, only the budget without appendices – or a summary of it – is available.

<sup>73</sup> The same applies in Cyprus, where the public are not made aware of the budget, and in Portugal where there is no legal requirement in this respect.

<sup>74</sup> Governments in several other countries (notably France and Belgium) also inform taxpayers in this way.

- it is hard to access the budget from the home page (a search is necessary);
- information is not updated (in early 2002 some sites were showing information dating from 1999 or 2000);
- the information is highly condensed, making it impossible to form a proper opinion on policies pursued (unless the budget information is read in conjunction with information from other pages on the site);
- it is hard to obtain explanations of technical and administrative terms used; there are few or no links to other relevant sites (legal sites or those of regional or national authorities or Finance Ministries, for example);
- in many cases, local tax regulations are not included.

By contrast, and to mention just two sites, those of the cities of Birmingham<sup>75</sup> and Amsterdam<sup>76</sup> offer particularly comprehensive information, and it is possible to download the entire annual budget as well as committee reports, etc.

### 5.7.3. Referendums

Legal provision for referendums or other forms of local consultation is very uneven. While referendums are authorised in certain countries, this is by no means the case everywhere, and some countries that permit them expressly restrict their scope, excluding budgetary, financial or tax-related matters.

The conditions for holding referendums also vary widely, for instance with regard to:

- who initiates the procedure (it may be the local council, for example, or a certain number of voters may be required);
- whether the referendum result constitutes a decision or merely part of a consultation process.

The respondent countries did not mention specific rules as to what information the public should receive in the event of referendums or consultation exercises, whether on budgetary, financial or tax matters, or on non-budgetary matters that nonetheless have financial implications for the local authority (eg questions of investment, infrastructure etc).

The cases of Poland and "the former Yugoslav Republic of Macedonia" offer examples of the latter type of referendum. Referendums may be held in Poland but there are no specific rules for them: for example, the municipality of Józefów called a referendum about residents' participation in the cost of purchasing waste containers. In "the former Yugoslav Republic of Macedonia" local referendums can be held on budget-related matters such as project financing (eg if new building is proposed).

Without entering into the wide-ranging debate about recourse to referendums and direct democracy, it is fair to say that, if the public is to be consulted, they must be able to express a properly informed opinion - and this is a further argument for a high level of transparency in relation to budgetary information. Where public consultation exercises are not organised, there is also an argument for greater transparency, as citizens and associations have to find other avenues – such as those described elsewhere in this report – through which to express their views.

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<sup>75</sup> <http://www.birmingham.gov.uk>: in the A-Z index, go to B and click on "budget". It was also possible at one time to access the page directly via a council tax icon.

<sup>76</sup> <http://www.amsterdam.nl>: go to the "zoek" [search] box and type in "begroting". The city of Ghent, in Belgium, also formerly permitted downloading of its entire budget but this is no longer possible.

#### 5.7.4. Other channels for information and participation

The report has mentioned various channels through which members of the public can obtain information and express themselves: they may be able to put questions during budget debates in the local council; certain meetings are open to the public; information may be provided before and after the local council adopts the budget; investment projects may be the subject of consultation, etc.

The examples below constitute a brief look at other forms of participation, ranging well beyond the confines of budgetary procedures and discussions.

The Czech Municipalities Act offers an overview of the various approaches mentioned. Under the Act, citizens of a municipality who are aged 18 or over are entitled to:

- express their opinion on the municipal budget and the closure of the previous year's accounts, either in writing in advance, or personally during a municipal council meeting;
- consult the municipal budget and the previous year's accounts, the resolutions and reports from municipal council meetings, and the resolutions of the local executive and local committees or commissions;
- request that an item be entered on the agenda for a municipal council meeting; if the request is supported by at least 0.5 % of the inhabitants of the municipality, it has to be discussed within 60 days at the latest;
- submit suggestions, proposals, remarks and comments to municipal bodies.

In addition, under the Freedom of Access to Information Act, citizens have the right to request further information concerning the municipality and its management, and the municipality has a duty to provide it.

In other countries too, some of these avenues are available at local level, and there is a range of further possibilities, as summarised below:<sup>77</sup>

- the compilation of detailed comparable user information on day-care institutions, primary schools, high schools and institutions that care for the elderly (as in Denmark);
- citizens' assemblies on matters of local interest (as in Croatia and Malta);
- petitions;
- the right to request that an item be entered on the agenda for a municipal council meeting and/or request that a motion be debated (as in Croatia and Finland);
- hearings (as in Finland);
- quality charters, neighbourhood councils and citizens' panels (as in the Netherlands);
- audio-visual consultation exercises or telephone polls, as organised in Poland when new legislation on the administrative structure of the city of Warsaw was unveiled;
- setting aside time in municipal council meetings for members of the public to speak or put questions (as in Portugal and Slovenia).

### **CONCLUSIONS AND SUGGESTED GOOD PRACTICES**

Chapter 1 highlighted the potential role of budgetary procedures in reducing various types of information imbalance and helping local authorities to deliver services more effectively. Transparency in relation to budgetary matters is of key importance here. The report has therefore sought to identify budgetary "good practices" likely to enhance transparency. As

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<sup>77</sup> The countries mentioned are those that referred to these methods in their replies to the questionnaire; they are cited by way of example only, as similar practices also exist in other countries.

these practices have been described throughout the report, the conclusion will focus on just three main issues.

### ***Strengthening the role of agencies whose concern is the public interest***

There is no doubt that an explicitly open approach to budgetary procedures – beginning, for example, with an exploratory debate followed by deliberations in operational committees and then in the finance committee before the budget is discussed in council – can promote budget transparency. Such an approach might also usefully include:

- the prior step of reinforcing the local finance department's role in supervision, analysis and the pursuit of compromise, in order to reduce information imbalances that might be exploited by operational departments;
- the structured intervention, at various stages, of agencies such as internal and external auditors, groups of consultants and representatives of the local social and business community, combined with greater citizen participation, to ensure that resources are deployed effectively and efficiently;
- ensuring throughout the process that budgetary documents (the budget itself, appendices and committee reports, etc) are widely accessible; new information and communication technologies can contribute significantly here, although they are not a panacea.

### ***High-quality information***

The budgetary cost of decisions taken or pending – whether they concern new policies, investments or borrowings – must be clearly shown. Indicating the cost of policies (programmes or projects) alongside performance indicators facilitates regular evaluation and allows any margins for manoeuvre to be identified.

It is thus important at all levels (in the administration, executive, council, etc), that adequate and timely budgetary and extra budgetary information (especially qualitative information) should be available. Budgetary documents must therefore provide both a summary overview of the situation and sufficient detail to enable the council to analyse and monitor the budget. It is especially important that documents are easily readable.

Comparisons with other municipalities, thorough dissection of the information yielded by the accounts and regular updates on the execution of the budget are all essential to good budgetary analysis.

Lastly, training opportunities for administrative staff and elected representatives (for whom training should be an entitlement) can help them to make better use of information, while personal accountability (not just the political accountability of elected representatives) can, in combination with other mechanisms, help to ensure the quality and integrity of the information supplied.

### ***The multi-annual approach***

Presenting a programme of business is a way of outlining a new local executive's policies, and the resulting priorities may then be translated into a system of multi-annual plans, each comprising the budgets for year  $t$  and, at least, years  $t + 1$  and  $t + 2$ . This type of planning also allows cost and revenue progression to be anticipated.

A collaborative system (like the Danish model of budgetary co-operation) offers a means of seeking consensus in order to reconcile central government's economic policy aims with local authorities' legitimate interests.

### **Good practice guidelines**

The following “good practices” may be singled out:

## **General principles**

- the overall regime should allow local authorities to **cover of costs of policies transferred** by other levels of government by financial transfers, new fiscal sources or other financial sources.
- observing the necessity for a **balanced budget** (i.e. balancing expenditure and receipts, excluding borrowing), at least for the current budget;
- presentation of a **local programme**, setting out the local executive's priorities, in general for its term of office and including a section substantiating their budgetary "feasibility";
- drawing up **medium-term budgets** (for two-four years ahead) combining general budgetary targets, an indication of the cost of continuing with current activities and an illustration of the future budgetary consequences of certain decisions;
- hearing "**expert**" **opinions** in committee or council debates, whether these are "internal" opinions (certain local officers: tax officer, treasurer) or external ones (outside experts, specialists in socio-economics, supervisory bodies, etc.);
- **opening committee meetings on the budget to the public;**

## **Local staff members**

- organising sufficient **training**, both initial and in-service, for staff and instituting a right to training for local elected representatives (whether councillors or members of the local executive);
- defining and putting into general application a mode of operation for **internal audit** (code of ethics, independence, right of initiative, operating conditions, reporting to the council, follow-up, publication of reports, etc) and the organisation of support (methodological recommendation, external technical back-up);
- instituting forms of **personal accountability** (eg in the form of a « declaration of accountability » by a member of the executive and a local government officer) as a means of helping to guarantee the quality and accuracy of the information supplied;
- instituting a form of **personal accountability** for officials in charge of the collection of local revenue and/or the engagement of expenditure and who carry out their duties with a certain degree of independence;

## **Information**

- **readable content of budget documents** offering both a clear and easily understood general view<sup>78</sup> of the budget (overall balances, objectives and priorities, key information, etc.) and sufficient detail for analysis of budget content and relevant comparison with other municipalities; supplementary or explanatory information (investment projects, fiscal expenditure, glossaries, etc.) can be supplied either "on paper" or in electronic form (website, intranet, CD-ROM, etc.);
- **presentation of expenditure and revenue** by type and by purpose, identifying as closely as possible the departments and operators of the local administration involved, and allowing evaluation of the kinds of funds used and their distribution among different spheres of activity;
- detailing the **financial cost**, for both current and future financial years, whenever a decision is made by the executive or the local council;
- organising objective information on the financial aspects of subjects submitted to consultation under various forms of **citizens' participation**.

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<sup>78</sup> This raises the question of the extent of the consolidation : external bodies, public owned companies...

- increasing **information for the public** by affording them the possibility of consulting a paper or electronic version of the draft budget as soon as it is presented to local councillors and, after adoption of the budget, by publicising it by means of a leaflet accompanying demands for local taxes, posters, the municipal bulletin, the possibility of consulting and/or purchasing budget papers, and better use of Internet facilities.

### **Controll**

- establishing a procedure for **monitoring overall trends in expenditure and local taxation** through negotiation between local authorities and central government;
- use of approval processes that allow municipalities to proceed without prior approval, but where the higher tier **supervising authority** may take retrospective action to block spending if it does not approve; otherwise, where its prior approval is required, the supervisory authority should be set a deadline for giving its opinion;
- making general use of **external audit** (whatever its form) to certify the accounts and compliance with the law (including combating fraud and corruption) and an audit when there is a power change-over (at least in countries where there is no annual audit)<sup>79</sup>;

### **Budget preparation**

- giving the **local finance department** a more important role in drawing up the budget, so that it can acquire an appreciation of the costs and budget consumption of operational departments and propose alternative options to the executive, and conduct internal deliberations on funding distribution prior to the decisions being taken;
- a discussion of budget proposals in **specialised committees** reporting to the **finance committee**, which then deals with overall balances, income, borrowing and the problems brought to light by the specialised committees;
- objective comparison of **potential investments** through a “scoring” system taking account of various criteria, or through a public consultation process; the latter must crucially follow a methodology guaranteeing that the process will proceed satisfactorily; subsequent recurring expenditure (on staff, operating costs, etc.) must not be left out when such an investment is costed, and should be included logically in a medium-term budget;

### **Budget adoption**

- organising a **budget planning debate** at the start of the budget process, allowing an initial discussion of the broad outline for the financial year and, perhaps, for following years; some guarantee of the accuracy of the particulars provided is nonetheless necessary;
- **budget and performance comparison** between municipalities of comparable size or socio-economic character; these should be made widely accessible (through publication or by posting them on a website) and accompanied by explanatory notes (the meanings of the indicators they use, etc.);
- in the execution of the budget, removing the requirement for **prior approval** when other methods (subsequent approval, comparison between different municipalities, etc.) can be used to keep expenditure or expenditure growth in check;
- allowing administrative departments to be interviewed or holding **hearings**, either in committee meetings or at plenary sessions;

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<sup>79</sup> Another external audit could be focused on performance analysis

- allowing **sufficient time** for councillors to take in and analyse the documents sent to them: allowing a few days before a committee debate may seem reasonable, but documents should be distributed a minimum of 15 to 20 days before a vote is taken in the council;

### ***Budget execution***

- holding a **mid-year debate on the execution of the budget**, placing alterations to the budget in perspective and taking stock of developments in the environment (economic, budgetary and social context);
- providing **regular budget-monitoring information of the council** (eg every three or four months) ;
- a possible alternative is to **group budget alterations together** once per quarter or once or twice a year, accompanied by a brief overview or discussion on the utilisation of budgetary funds ;
- allocation of **budget surpluses** to pay for non-recurring expenditure (financing investment, reducing local debt, constituting provisions and reserves, etc.), and carrying over **budget deficits** as a matter of good housekeeping, covering them with funds for subsequent financial years;

### ***Budget accounts***

- presenting the **accounts** within a reasonable time<sup>80</sup>;
- holding genuine debates to approve them, in committee, then in plenary council, with expert opinion from outside (eg external audit) ;
- making council and committee **reports** on the budget available to the public (by putting them on-line or allowing the public to consult the documents);

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<sup>80</sup> i.e. in time for, as appropriate, the debate on the budget implementation of the year which followed the year concerned and for preparing the next year budget.

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## **APPENDIX**

### **CASE STUDIES**

These case studies are split into five sections: timetable and budgetary procedure, comparisons between municipalities, decision-making criteria with regard to investment, citizen participation (which is not unrelated to investment decisions) and, finally, local government audit.

Apart from a few minor adjustments and comments made in the form of footnotes, the case studies are, to a large extent, the texts submitted by the national delegations to the CDLR.

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## **TIMETABLE AND BUDGETARY PROCEDURE**

This first set of examples describes the budgetary process in several countries and in different types of local authority.

### **BELGIUM – WALLOON REGION**

The following paragraphs summarise how budgets are prepared in large, medium-sized and smaller municipalities in the Walloon Region.

#### **CHARLEROI<sup>81</sup>**

##### *Organisational structure for municipal budget preparation*

When the municipalities merged in 1977, a separate body was set up within the municipal finance department and placed under the charge of the Alderman<sup>82</sup> responsible for finance and information technology. This body was given responsibility for preparing the budget, a function it continues to perform in addition to a growing supervisory role vis-à-vis para-municipal bodies. The Mayor has political responsibility for this body, ensuring that it enjoys a certain degree of independence in relation to other public representatives.

The municipal clerk, tax officer and finance director play an active role as financial advisors to the local authorities.

##### *Preparation of the municipal budget*

Generated by a computer program developed by the city council, the budget conforms strictly with statutory and regulatory provisions, making it easier to understand both for councillors and for the bodies required to approve it. It is presented with all the general appendices necessary to explain the various budgetary entries, as well as the reports required by law.

In virtually the same way every year, in mid-August, the budgeting office sends a series of tables by internal mail to the financial and administrative heads of the 11 administrative departments (posts occupied by A1 level employees). These tables enable them to collate any funding requirements that have been proposed by each sector (residential districts, highways or parks) and discussed by the department with the appropriate Aldermen, in order that the sums required for their internal management and the revenue generated by their own activities may be accurately determined.

These pre-printed tables list, by department and by item, the net assets or liabilities of the previous year's accounts and the appropriations adjusted for the current financial year. The final two empty columns are reserved for new appropriations and a brief explanation of any variations. In this respect, the Mayor issues a circular stipulating the limits or overall budgets which municipal departments must abide by, both in terms of current expenditure and investments, and noting the rules governing possible increases, often with reference to the provisions of the ministerial circular, which is appended.

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<sup>81</sup> Charleroi, along with Liège, is one of the two largest cities in the Walloon Region, with a population of around 200,000 inhabitants.

<sup>82</sup> In Belgium, the local executive is known as the Corporation of Mayor and Aldermen.

Municipal departments are not directly responsible for forecasts relating to staff, debt repayments and certain operational costs that are dealt with centrally (insurance, purchasing and procurement, management of buildings, power supply, transport).

The personnel department calculates the wage bill, whereas the loans department, in co-operation with the budgeting office, draws up the list of borrowing on the basis of repayment charts submitted regularly by DEXIA<sup>83</sup>, new loans planned for the next financial year and appended tables showing how the overall debt has developed over time.

Similarly, municipal tax revenue is estimated by the tax department, although additional income remains the responsibility of the budgeting office, whose figures are based on the forecasts communicated by the Central Contributions Office (Federal Ministry of Finance). For the last few years, the municipality's actual share in the Municipal Fund<sup>84</sup> has depended on the size of the (draft) regional budget, although the circular states that this system should only be used for 2002.

At the same time, a letter is sent to all municipal satellite bodies, asking them to provide data relating to non-municipal activities, in particular the budgets of para-municipal non-profit organisations<sup>85</sup>, publicly run businesses and the CPAS<sup>86</sup>. It also asks for an extrapolation of the annual results of the intermunicipal associations (deficits and dividends), concerning which the association directors make detailed observations. At the same meeting, the municipal authority is required to take a view on the agenda for the General Assembly, when the following year's budget and strategic plan are adopted.

By this stage, the municipality should have received most of the church fabric budgets<sup>87</sup>, which are analysed by the same office. Following talks with the fabric officers, the number of requests for municipal funding has been suitably reduced.

Citizens are encouraged to participate in the process by attending district meetings chaired by the Mayor and the Alderman responsible for public highways. The most valuable suggestions and opinions are, of course, taken into consideration when the departmental budgets are prepared.

Then, at the end of September, the real work of preparing budgetary documents begins. Proposals are closely scrutinised by the head of department, budgeting office staff input the figures into the special computer application and charts are produced, showing the different levels of expenditure and income.

These charts are then compared to the extrapolations carried out by the budgeting office, with particular reference to previous management plans, and discrepancies are analysed so that the senior municipal officials can take decisions with full knowledge of the facts.

When all the forecasts are added up, the draft budget often shows an overall deficit. Based on a report by the financial advisors, the Mayor makes an initial adjustment of the figures in consultation with the Aldermen and various departmental heads.

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<sup>83</sup> The Dexia bank was the result of the merger between *Crédit Communal de Belgique* (in which local authorities were shareholders) and *Crédit Local de France*.

<sup>84</sup> This is the general system for transferring funds to the municipalities in the Belgian Regions.

<sup>85</sup> Municipalities sometimes adopt this legal status so that they can form partnerships or operate with greater flexibility. Monitoring regulations are therefore less strict than for projects run directly by the municipality.

<sup>86</sup> *Centre Public d'Aide Sociale* (Public social security office).

<sup>87</sup> Municipalities are obliged to cover the operational and activity-related deficits of Catholic, Protestant, Anglican and Jewish parishes. Orthodox and Islamic religions are funded at provincial level.

At a meeting held specifically to examine the budget, the senior municipal officials (Mayor, Aldermen, CPAS President and their assistants) are made aware, by means of a "Powerpoint" presentation, of all the accounting and budgetary elements that make up the aforementioned draft budget and the political direction that it provides.

Apart from in the 2001 budgetary year, when the deficit proved insurmountable without major tax-raising or harmful structural measures, the balanced budget required by the management plan and official decrees can only be achieved through a whole series of decisions designed to increase revenue (charges, taxes and subsidies) or cut expenditure.

Once this balance is reached, the final adjustments that result from the aforementioned decisions are entered into the computer. Following final checks and inspection, the various budgets are reproduced and bound by the city council printing service.

#### *Presentation of the municipal budget*

Eight clear days before the municipal council meeting usually held at the end of December, the documents are sent simultaneously to the Aldermen and municipal councillors, to the *Centre Régional d'Aide aux Communes* (Regional Centre for Support of Municipalities)<sup>88</sup> and to the finance managers of all the departments, so that they can prepare for the information sessions held before the public meeting.

Prior to this public meeting, the Corporation and councillors from the majority and opposition parties meet to discuss any technical questions relating to the presentation of the various items of revenue and expenditure, both current and investment-related, and the overall results. Queries are answered by members of the executive and their close colleagues.

Since 2001, the local policing budget has been prepared separately to the municipal budget, although it is subject to the same procedures and must adhere to the relevant provisions.

At the public meeting, the Mayor reads out a report written by the administrative departments and his political advisors. This report deals with both the financial side, including all the budgetary figures, and the political aspects connected with use of the funds set aside for the pursuit of the Corporation's objectives. The conclusion often tends to call for higher levels of general funding from other tiers of authority, which provide most of the municipality's annual budget.

The CPAS President also explains his own budget<sup>89</sup>. The head of each political group then analyses, criticises or requests amendments to specific municipal budget appropriations. A general response is given by the Mayor and individual responses by each member of the Corporation, who answer questions relating to their particular areas of responsibility.

Although some proposals are adopted unanimously, the majority party usually votes against the opposition (although the latter may abstain). Apart from those brought to the Corporation meeting dealing specifically with the budget, the various adjustments made during the year are subject to the same preparation and presentation methods as the budget itself.

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<sup>88</sup> The *Centre Régional d'Aide aux Communes* (Regional Centre for the Support of Municipalities - CRAC) is a para-regional body whose main task is to monitor municipalities' implementation of management plans.

<sup>89</sup> A separate meeting may be held to discuss the CPAS budget.

The public debates are reported in the local press and the monthly municipal bulletin. At the same time, the budget is posted for public viewing in accordance with municipal law and at the end of this period, the official deliberations are submitted to the supervisory body.

## **WAVRE**

The process begins on receipt of the budgetary circular issued every July by the Ministry of Internal Affairs of the Walloon Region. The tax officer and his colleagues study the document in detail before summarising it for the attention of the Corporation and sending different parts to the appropriate departments: personnel, civil engineering work, tax, IT, etc.

This circular can be used to calculate the main items of revenue (general funding and additional taxes on private estate) that are submitted to the Corporation. A departmental order is sent to each department, fixing the deadline by which they must submit their budgetary forecasts. The heads of the main departments explain their requirements and forecasts to the finance departments. The following principle is applied: a department which does not use its full appropriation in one particular year shall not be penalised the following year through a cut in its budget. Conversely, additional funding granted on request for one financial year shall not necessarily be repeated in subsequent years.

Bodies that are dependent on the municipality, such as church fabric committees, non-profit organisations and subsidiary associations, submit their forecasts or applications, which are examined by the supervisory department before the Corporation makes its decision. CPAS forecasts are discussed by the consultation committee.

Forecasts are prepared by each department which, with the agreement of the Alderman concerned, submits them to the Corporation and then to the finance departments, where they are collated and filed once the items have been verified and any duplications or omissions corrected.

All this data is entered into the computer in order to produce an initial overview. The balance of revenue and expenditure shows whether the forecasts are plausible and adjustments may be made accordingly.

These figures and the table of revenue from the previous investments budget are used to draw up a summary chart. This in turn is used to calculate the starting-point of the new budget, ie the results of previous years.

At this point, methods of funding investments are calculated: anticipated grants, own funds and the balance, which will have an impact on current expenditure. The latter bears the investment spending deficit, either through the transfer of funds from overall current profits or by using the charges on new loans to be contracted. Several options may be available and the Corporation decides which one is best.

This version, which is almost final, is known as the preliminary draft budget and is submitted with an interim study to the Corporation for approval.

The report summarising the draft budget (provided for in Article 96 of the New Municipal Act) is prepared by the Alderman responsible for finance and the tax officer, who deal with the municipality's general and financial policies, and by the heads of department, who summarise the administrative situation, municipal affairs and any useful items of information.

This method of work has not been questioned in recent years.

## **MESSANCY**

The budget is prepared as follows.

2nd half of September:

- examination of the budgetary circular;
- collection of data and information submitted by various bodies (Union of Walloon Towns and Municipalities, Dexia, Walloon Water Distribution Company, Province, Forestry Commission, Ministry of Finance, etc).

1st half of October:

- reminder sent to bodies which have not submitted data;
- carrying forward of budgetary appropriations as recorded in the previous balance, verification and possible adjustment depending on how funds were actually used;
- various heads of department and Aldermen's offices asked to list their specific needs for the following year.

2nd half of October:

- main strategies adopted by the Corporation and budget committee with regard to investment and staff policies, etc; priorities laid down;
- integration of all data, depending on real information and decisions taken.

1st half of November:

- examination by the Corporation and pre-budget committee; choice of methods to balance investment and current expenditure; depending on the expected result, review of the objectives laid down;
- new request for debt forecast, depending on the above.

2nd half of November:

- final adjustments to appropriations and preparation of summary chart;
- verification of the outcome in order to check that it meets the requirements of the circular;
- final adoption of draft budget by the Corporation and committee and preparation of appendices;
- draft submitted to the CRAC for an opinion.

Mid-December:

- Approval by the municipal council with any amendments proposed by the CRAC, publication and submission for approval to the government and permanent delegation.

## **CROATIE**

### **ZAGREB**

The City of Zagreb is the capital of the Republic of Croatia and the hub of the country's political, cultural, economic and financial life. The importance and role of the City is additionally determined by its status as both a city and a county in which no smaller legal territorial units exist, only forms of local self-government.

The organization of the City of Zagreb is characterized by the exceptional size of its administrative systems. These are the Zagreb City Assembly as a representative body, the Mayor as the administrator of executive authority, the City Executive Council as a consolidated executive body, the working bodies and agencies of the City Assembly and the City Executive Council, eighteen administrative units and city institutions.

Local self-government has also been established. It operates through seventeen neighborhood councils, while the formation of local committees is under way.

The City Budget for each fiscal year is the fundamental document that brings together all planned revenues and income, expenditures and outlays necessary to implement established objectives and programs of verified tasks.

#### **Current Practice in the City of Zagreb**

By the end of July every year, the Finance Ministry sends the City Finance Office a set of instructions and guidelines on expenditures and outlays which must be implemented during the preparation of the city budget for the following year. These guidelines and instructions are issued in the form of a "budgetary circular" to all central budget beneficiaries and local self-government and administration units, and they represent an instrument that insures the application of consistent and cautious fiscal measures throughout the entire economy. Since 2000, the "budgetary circular" has contained economic information for each of the subsequent three years. This enables the City to forecast the operating revenues and outlays that will contribute to the process of longer-term planning.

These Finance Ministry guidelines are then incorporated into local instructions drafted by the City Finance Office and these are in turn submitted to other city offices, departments and agencies which then begin to formulate their own budgetary needs.

The City applies the preceding-year budgeting technique (the base is the preceding year), although there have been attempts at budgeting with a zero base.

The 2002 budget has been drafted in accordance with the Directive on Economic and Functional Classification of Expenditures, Outlays, Revenues and Income, which is something new in relation to previous accounting practices. The application of new accounting practices is essential to the standardization of budget planning and accounting methods at all levels, alignment with international reporting requirements, the transparent disclosure of public spending and the comprehensive monitoring of budget beneficiaries.

In most city offices, there are operating plans that determine priorities for necessary activities, and these form the basis for requests for necessary funds.

Requests from the various executive offices are forwarded to the City Finance Office, which then examines and compares them with actual forecasted revenues. The requests must cite the legal basis obligating the City of Zagreb to finance individual planned budgetary outlays.

Such requests must also be accompanied by justifications for the programs and activities for which the City is not obliged to secure funds, but does so regardless given the importance and priority of these activities and their function in improving the quality of life and raising living standards—but within the framework of actual forecasted revenues.

During the preparation of the budget, the City Finance Office, as the body charged with this task, holds meetings and conferences with the members of the city executive offices, departments and agencies, and then compiles the first draft budget which is submitted to the administrator of executive authority, i.e. the Mayor.

The Mayor in turn submits the draft budget to the City Executive Council, which holds deliberations and then confirms the draft budget and submits it to the City Assembly for adoption.

Together with the budget, public need programs are adopted for individual areas, as well as other programs in line with existing valid legislation, as follows: the City of Zagreb Program of Needs in Preschool Education and Instruction and Preschool Childcare, the City of Zagreb Elementary Schooling Program, the City of Zagreb Secondary Schooling Program, the Program of Needs in Student Living Standards and Funds to Support Children of Wartime Slain and Missing Soldiers from Zagreb, the City of Zagreb Program of Public Needs in Technical Culture, the Juvenile Delinquency Prevention Program, the Addiction Prevention Program (tobacco, alcohol and psychoactive drugs), the Building Construction and Completion Program (construction of other capital facilities – non-commercial investments), the City of Zagreb Water Management, Transit and Utilities Program, the City of Zagreb Sporting Facilities Program and the City of Zagreb Environmental Improvement Measures Program.

The budget for the next year is passed no later than December 15 of the current year. Before the adoption of the budget by the Assembly, the draft budget is reviewed by the Assembly's working bodies, the committees.

The City has recently shown its growing awareness of **the importance of long-term planning**.

The longer-term planning strategy, which can be amended and carried over from year to year, has been conceived of so as to offer a stable framework in which political and social change can be taken into account. Annual budgeting procedures become a process in which numerical data are brought into compliance with future-period forecasts, which contributes to greater levels of security in the preparation of programs and the establishment of deadlines for the completion of specific activities.

The City is legally obliged to balance its revenues, income, expenditures and outlays on an annual basis, although it may draw up budgetary plans to increase borrowings to cover the financing needs of projects encompassing capital outlays (in which case approval by the Finance Ministry is required). If there are deviations in the revenue stream or amendments to legislation which may have an impact on budgetary revenues and expenditures, the budget is then amended.

### **Budget Execution**

Budgetary funds are remitted to the budget beneficiaries which have been designated as the administrators of funds in accordance with specific line-items in a Special Section of the budget.

Although the City has not instituted a treasury as a technique for executing budgetary outlays, it nonetheless has a very well-developed and functional budgetary execution, monitoring and analysis mechanism. Budgetary revenue and expenditure reports are drafted once monthly, while the inflow and disbursement of funds is monitored daily.

In addition, the earning of earmarked revenues is monitored on a daily basis. These funds are collected on the basis of special legislation and spent for precisely determined purposes as stipulated by law.

Based on monthly plans and programs, the city executive offices, departments and agencies responsible for the overall operations of these cost centers request funds from the central city budget, which is managed by the City Finance Office. The pace of budgetary revenue earning determines the framework for spending budgetary funds. In principle, funds are remitted to beneficiaries in monthly twelfths based on their requests. If spending for an individual cost deviates from the norm considerably, additional explanations are sought.

Current reserve funds are spent exclusively pursuant to the conclusions of the Mayor and the City Executive Council, based on the Budget Execution Decision.

In addition to the Budget Department, the City Finance Office has a Central Accounting Department and Planning and Analysis Unit. These agencies carry out accounting tasks for all direct beneficiaries. They also conduct analyses and prepare reports available to all directors and accountable officers in each individual office.

## **DISTRICT D'OSJEČKO-BARANJSKA**

The budget adoption procedure and budget management is based on the Budget Act.

In August the Minister of Finance sends to the counties and the City of Zagreb guidelines for budget preparation and formulation which, in addition to the basic budget principles, also contain basic macroeconomic policy indicators (% of nominal and real GDP growth, % of inflation) for the following three-year period at central government level since GDP data for individual counties are non-existent.

Based on the afore mentioned guidelines, the county council issues budget formulation guidelines for the local self-government units in their respective region which, in addition to the basic budget principles, also include recommendations for budget formulation that take into account the current tax policy and the economic situation.

Concurrently, the competent county administrative body in charge of the budget and finances designs a budget formulation circular for the subsequent three year period, taking the guidelines of the county council as a starting point, which it then sends to all of the budget beneficiaries. The circular states all the elements i.e. limitations which the budget beneficiaries have to respect when submitting the request for the provision of budget funds for the forthcoming period, since the volume of available funds imposes the tolerable amount of public spending. With a view to obtaining a more realistic revenue forecast, the Public Finance Department (hereinafter: Department) addresses each year a written inquiry to the Tax Administration (body responsible for the registration, calculation, collection and supervision of shared taxes) in order to obtain data on the prepayment of profit tax, income tax from self-employment and local taxes.

All the beneficiaries are obliged to primarily declare the need to earmark funds for financing obligations that ensue from special laws. If certain expenditures are financed from a higher level, funds for satisfying a certain public need on a higher standard are earmarked in the county budget only when funds for the financing of top-priority obligations (contractual,

legal...) have been provided for. Until the end of September beneficiaries are obliged to submit requests with the planned expenditures for the following year and projections for a three-year period together with explanations for the proposed expenditures and investments.

The administrative body in charge of the budget provides assistance to the beneficiaries in the formulation of requests since beneficiaries employ professional staff from their field of activity while all the other finance-related operations for all budget beneficiaries, except external budget beneficiaries, are carried out in the department responsible for the budget and finances. The department collects and analyses all the requests. The department holds negotiations with the beneficiaries who have stated greater needs that exceed the availability of budget funds in order to reconcile requests and reports to the chairman of the county council on the results of the negotiations.

Following the completion of the reconciliation process, the Department prepares a draft budget and a decision on budget execution that it then submits to the executive body for consideration. The explanation of the draft budget contains all the beneficiaries' requests, which enables insight into the amount of requested funds and the amount of finally proposed funds for the following year. In this manner, the transparency of submitted financing requests is guaranteed. The draft budget and the decision on budget execution account for the usage of excess revenue as well as deficit coverage. The local government units can make up for insufficient budget funds for capital investments by borrowing with regard to which the Assembly based on the proposal of the county council passes a decision.

Prior to the budget debate in the county council, the Finance Commission (county council working body) reviews the draft budget and the Commission for legal issues (county council working body) reviews the budget execution decision. At the session of the county council, the head of the department reports to the members of the council on the draft budget and the chairmen of the commissions' report on the standpoints of working bodies. The funds earmarked for certain expenditures can be changed at the session of the county council but the proposed changes have to range within the framework of the projected revenues. The department has to incorporate all the changes in the budget, after which the county council proposes that the Assembly adopt the budget. County council sessions are open to the public, which enables reporting on the draft budget via the media to a wider public.

Prior to the Assembly session the budget proposal together with the county council conclusion is sent to the Assembly working bodies: the Commission for finances and proprietary and legal issues and the Committee for legislative activities, statutory and legal issues. Before the start of the budget debate the chairman of the Assembly reports to the councilors on the conclusions of the working bodies. During the course of the debate the councilors ask questions and propose amendments with regard to certain budget items. The head of the Finance Department and heads of administrative bodies, for whose programs funds are earmarked in the budget, answer the questions asked by the councilors. Following the debate, the budget is put to a vote. The budget is adopted by a two-thirds majority of votes.

The budget is published in the county's official journal and submitted to the Ministry of Finance and the State Audit Office.

Before the beginning of the fiscal year, the Department informs each budget beneficiary of the amount of earmarked (approved) funds.

The budget is executed based on quarterly plans that take into account the dynamics of the spending of funds as agreed with each beneficiary. The beneficiaries submit to the Department written requests for the utilization of approved funds. The Department reviews the documentation for each request and issues a payment order.

A person authorized on the basis of the prefect's resolution conducts an internal audit of the spending of budgetary funds. Each month the person authorized to conduct audits reports to the prefect in written form.

Urgent and unforeseen expenses that arise during the year are settled from the contingency fund. Each month the Department prepares a report for the county council on the usage of contingency funds and the county council reports to the Assembly every three months.

In July, the Department reports to the county council on semi-annual budget execution and the county council reports to the Assembly at the first session in fall.

If necessary, the budget can be amended in the course of the year in line with the procedures prescribed by law, which are identical to the budget adoption procedures.

Funds allocated in the budget cannot be re-allocated in principle unless this is permitted by the budget execution decision and only up to the amount established by law (5%). The county council, having obtained consent from the Department, decides on the reallocation of funds. The reallocations are included in the budget amendments if the amendments are prepared in the course of the fiscal year but they are obligatorily included in the semi-annual report and the annual budget report.

During the course of the fiscal year the Department in charge of the budget and finances reports to the budget beneficiaries at least every three months on the amount of funds spent and the amount of funds available. Reports are also submitted to the chairman of the county council who is responsible for budget execution for local government units.

If in the course of the year significant deviations occur in the amount of revenue generated in relation to planned revenues due to the changes in the tax policy, the Department is obliged to report to the chairman of the county council and the beneficiaries immediately following the analysis of revenues with a view to reviewing the expenditures in respect of their need for adjustment.

As order-issuing authorities for budget execution heads of administrative bodies are responsible for a lawful usage of allocated funds earmarked in the budget and allocated to beneficiaries in budget items within the limitation of funds that they are entitled to as beneficiaries.

At the end of the fiscal year, which coincides with the calendar year, the Department prepares a budget execution report along with an annual budget report. After the Finance Commission reviews the report it is then submitted to the county council that proposes that the Assembly adopt it. Prior to the debate on the report, the chairman of the Assembly is obliged to inform the councilors on the standpoints of the Commission for finances and proprietary and legal issues.

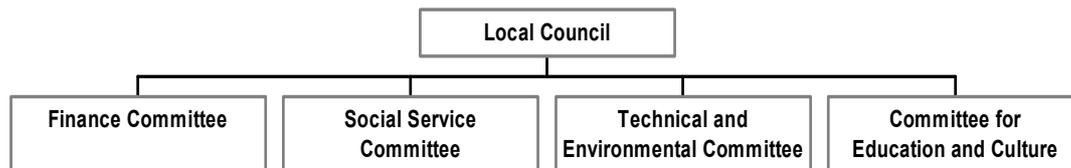
During the preparation of the annual budget report, the State Audit Office conducts the audit of the county budget. It submits a report on the performed audit to the chairman of the county council and the chairman of the Assembly. The chairman of the county council is obliged to inform the members of the county council of the contents of the report of the State Audit Office. The county council passes a conclusion on the acceptance of the report and proposes that the Assembly adopt the same. Prior to reviewing the report at the county council session and the Assembly session, the Finance Commission and the Commission for finances and proprietary and legal issues state their remarks and observations.

By adopting the annual budget report and the report of the State Audit Office at the session of the county Assembly, the Department concludes all the budget-related operations for the preceding fiscal year.

## DENMARK

The ordinary government system laid down by the Local Government Act is a committees structure, see figure 1. The Local Government Act states that the council must set up a finance committee and at least one other permanent or "standing" committee. The finance committee is responsible for the finances of the local authority, for co-ordinating planning and administration. Moreover, the finance committee is to be consulted in all matters pertaining to economic and administrative affairs before they are put before the council.

Figure 1. A representative organisation of committee authorities



The local budgeting procedure and methods reflects the extensive autonomy of Danish local authorities. Local authorities in general choose estimating methods of their own without governmental interference.

However there are certain rules and procedures which must be observed when making up the budget:

- Budget proposals of the finance committee shall be read at least twice. The budget proposal for the next year must be adopted no later than October 15<sup>th</sup>. At the same time a 3-year estimate of expenditures and receipts is adopted.
- Perennial budget shall cover all revenues and expenditures, balance every year (incl. financial shifts) and correspond the so called "gross amount bookkeeping principle" (all expenditure and income are shown separate)

Budget and Accounting System regulate the specific rules and procedures for Municipalities and Counties. The regulation ensures that local budgets comprise at least three main constituents:

- The authorized budget (and accounting) plan, where expenses and income are endowed with fixed/clear objectives
- Standardised overviews of the budget figures
- Elaborated observations, where assumptions and content of the budget are reviewed. General observations are for example key numbers describing the service level and price- and wage assumptions. Specific observations are related to grant permissions.

### **Budgeting methods**

Typical budgeting methods applied by the local authorities are (a mixture of) marginal-, frame-, norm- and block budgeting.

A general description of the principles of these methods is the following:

- The *marginal budgeting* method concentrate on activity changes in proportion to current year's budget. The administration has the initiative and stipulates total economic frames for the individual expenditure sectors. Often the budget frames are allocated to specific institutions of the municipality – normally the institutions have a rather high degree of freedom to fill out their own budget frames. The finance committee then receives these in order to work out the entire budget.
- The central point of the *frame budgeting* method is that already in the budget introduction phase, the finance committee makes up the economic frames for the

budget proposals of the sector administrations. Following this the individual sector administration makes up the detailed budget preparation.

- The *norm budgeting* method is conducted on basis of certain norm figures. For the school sector a norm figure could be estimated average educational cost per pupil (the norm value is then simply multiplied by the number of pupils). The norm value compound for example average expenditures on maintenance, education and cleaning.
- The characteristics of the *block budgeting* method are that individual areas or sectors are divided in to blocks of basis or minimum activities. Further, blocks of higher activity or service level supplement the basis blocks. The basic idea is that politicians choose service level with corresponding expenditures – the expenditure reflects the service level of the chosen block.

## **Budgeting procedures**

The budget of local authorities is in general derived from two conditions. On one hand the estimated development in demographic, economic and other variables that influence spending and revenue. These estimates are usually produced by the municipal or county administration. On the other hand the policy objectives, the service level, e.g. maximum waiting time for surgery in hospitals or a place for child in kindergarten are of course the responsibility of the politicians.

In the following an example on how a Danish municipality *may* arrange the budget process is given. Contemporaneously examples on methods used by Alleroed (23,079 inhabitants, sited in northern part of Copenhagen metropolitan area) and Langeskov (6,213 inhabitants, sited at the island Funen) municipalities are described too.

### **January**

Population prognosis is made. The close correlation between population and spending/revenue makes it an essential prognosis – especially changes in the number of the elderly and the youngest has much attention. The main source is Statistics Denmark, which supply demographic data on a municipality level. But the administration may find it necessary to adjust Statistics Denmark's estimate: If for example the municipality's residence plan operate with an increasing residential development it will generally influence the local demographic composition and development. Both Alleroed and Langeskov in this way adjust the central prognosis to local conditions.

### **February**

Central government as well as local authority organisations publish estimates on price-wage- and income development. Further examples are growth rates of central economic variables as the employment, the Gross National Product and the public consumption. The "fiscal impact" informs the municipalities about the expected effect of fiscal policy on the general economic activity. These estimates give local administration an opportunity to work out an interim economic frame for the municipality. Politicians and administration then have a first hand overview of the affordable service level in the next budget period given the existing tax level.

All municipal institutions in Alleroed Municipality make up so called "business plans". These plans describe among others the results and performance of the individual institutions, according to the engaged contracts with the local authorities (cf. below), and the institution's objectives and wishes for the coming budget year. Hence the business plans provide in dept information when building up an impression of the economic frames and evaluating the performance of the institutions.

All municipal institutions in Alleroed Municipality have engaged a contract with the local authorities. *Contract management* is based on agreements between the local authorities and institutions or divisions on the output/performance of the institution. The agreements are formalised in contracts describing the conditions of the agreement. Contract management implies a wide scope for the institution on how to organise and plane the work within the economic frame and agreed output as stipulated in the contract. On the other hand the contract management strengthen the local authorities capability for prioritising the service level according to the terms described in the contract. Contract management also provides the foundation of an evaluation on performance of the institutions.

Alleroed Municipality applies *dialog budgeting* and the business plans and contract management are some of the tools in the dialog budgeting process – in the paragraph "May" below the particulars of the dialog budgeting procedure are described.

Because of the weight in the budget – approximately 60 per cent – the wage formation is one of the most important budget assumptions. Municipalities use detailed estimates of the wage development in different groups of public employees. Changes in the labour market rules regarding number of holidays, pension schemes, etc. derived from the labour market collective bargaining are a part of the estimates. The expected price formation involves for instance estimations of the price development in fuel, contractors and other services.

Whereas general energy- and wage price indexes can often be used without further considerations it is more common for local authority to adjust income estimates to specific local conditions.

The income basis for the levying of taxes is significant estimates. Consequently, municipalities use estimations of the development in the different items that makes up incomes. As regard the company taxes local authority organisation supply dis-aggregated estimates of different line of business and trade. This is necessary due to the variation in the composition of business and industry between municipalities. Besides using these estimates Langeskov Municipality involves special estimates of chosen local business and industry too. The reason is that Langeskov Municipality is characterised by a few dominant firms. Accordingly the economic decisions of these firms have a significant impact on the budget. The dialog with the local business does also provide important information to the estimations of the number of unemployed persons on welfare cash assistance.

## **March**

The finance committee make up the economic frames for all the political committees of the municipalities. This is done in the light of a general priority debate – often the council holds a prolonged budget seminar for this purpose.

The frames take into account the economic consequences of the council's previous decisions, e.g. the construction of a new road or a care-taking guarantee for the youngest.

## **May**

The individual committees make up their individual budget proposals. These are collected and a budget proposal is composed. New estimates of the development in price- wage and income development are incorporated.

As mentioned above Alleroed Municipality uses *dialog budgeting*. The method is reflected in the whole process of budget formation. In the light of the business plans and the contract evaluations the municipality council and administration holds dialog meetings in May and June, where stakeholders – the users and representatives – of the individual sectors are

invited. At the dialog meeting the local users and managers have a genuine opportunity to discuss problems and opportunities for their respective institutions with the responsible politicians. Thus the dialog budget provides the individual representatives a direct influence on the budget. This is thought to improve the "budget ownership" and through this the observance of the budget frames.

Alleroed Municipality has adopted dialog budgeting due to both internal and external factors. During the recent years legislative initiatives has prescribed decentralisation and user influence on specific institutions, e.g. school board and senior citizen councils. Contemporaneously Alleroed Municipality has been facing entrenchment demands. In order to carry through the entrenchment with a higher degree of accepts and to satisfy the legislative decentralisation demands the council had chosen the dialog budgeting method. Consequently one can say that the shift to dialog budgeting has to do with "democratic" demands rather than "wrong budget estimates".

As regard the detailed estimates Alleroed uses a mixture of norm-, block- and frame budgeting. However the municipality are now switching away from norm budgeting because this method is conceived difficult to manage.

Every year the council of Langeskov chooses a special "budget theme" to be elaborated. Each area is described according to:

- Objectives of the functions
- State of affairs and the development in years to come
- Matters of the legislation
- Matters of the population development.

Earlier Langeskov applied block budgeting but politicians and administration felt that the method after a couple of years was not promising. Another reason to abandon this method was that the method often has been applied in connection with retrenchment, and hence the employees felt unsafe. The pedagogues' trade union and the committee for children and cultural affairs therefore recommended a switch to norm budgeting.

## **June**

Budget proposal is read in the finance committee. The different committees are asked to adjust their respective budget proposals.

## **August**

The committees make up revised budget proposals. Final spending and revenue estimates are composed in accordance with the agreement of the budget co-operating system between central government and municipality's organisations (usually the result of the negotiations is published in June). If the budget for example have operated with a tax rate increase, and the agreement imply no general tax rate increase the revenue estimate will have to be adjusted. The agreement does not legally bind the authorities, a fact that allows space to make adjustment both in terms of spending/revenue and priority to the local conditions. However the council of Alleroed feel committed to follow the line of the result of negotiations. In the budget schedule this commitment is reflected in the point "Budget areas are adjusted on the budget conference according to the result of the budget and co-operation system".

The priorities between sectors may also be affected by the budget co-operating system. If the central negotiators have stressed a stronger priority on other subjects than the municipality it is an occasion for having a new priority debate in the municipal council.

## **September**

The council read the budget proposal for the first time.

As a part of Alleroed's dialog budget the individual institutions submit remarks to the budget. Furthermore the council holds a common dialog meeting covering all stakeholders.

## **October**

The budget is given its second and final reading before the 15<sup>th</sup> of October.

## **IRELAND : Limerick County Council**

Process commences July / August each year with requests to Directors of Services for submission on next year's Budgets.

This request would outline broadly issues to be considered or included e.g. :

- Known payroll increases for following year;
- Known energy cost increases;
- New activity areas / projects commenced since last submission;
- Statement on current year's budget and likely variations with report on reasons for variations;
- Draw attention to Corporate Plan objectives.

While submissions are awaited, the Central Finance Unit would be reviewing income sources having regard to any local or national directives. Projections for the coming year would result from this exercise, particularly for larger collection accounts, i.e. rates, water rents, etc., and some indication of National Funding.

Informal consultation with Elected Members either through the Corporate Policy Group, Party Leaders or Parties, also held usually at this time so that Members' views / concerns can, where possible, be addressed in the Budget process. (Now provided within Local Government Act, 2001)

Mid-October, anticipated income is compared to demands from Directors of Services and normally results in demands far exceeding income.

All areas examined, with a particular emphasis on areas of discretionary expenditure and locally determined income. This process usually involves all Members of the Management Team so that expenditure reductions or increased income from existing or new sources are agreed at senior level.

The above review is quite intensive and incorporates the following -

- Expenditure Proposals, particularly new projects vs. aims and objectives of Council's Corporate Plan,
- Proposals vs. Estimated Out-turn,
- Value for Money;
- Income Targets - do they meet Action Plan Targets and can more be achieved?
- Members' Views and Public Expectations, etc.

The above process must be concluded in time to allow for the statutory estimates process to commence, i.e. public notice, service of Book of Estimates on Members etc. It is important to ensure that the Estimate produced is balanced and sufficient to meet the liabilities of the Council for the coming year.

An important feature of the Estimates Process is the formulation of a report by the County Manager, which accompanies the Estimate. This report should make reference to :

- Background to Estimate.
- Current year's out-turn.
- Major issues facing the Local Authority and how these are being addressed, either in the Budget or through the Capital Works Programme.
- The impact of Capital Works Programme on the Revenue Account.
- Proposed increased charges and reasons for the increases.
- Any new initiatives and innovative ideas included.

*“A central issue for a Chief Executive or Head of Finance of a local authority is to be a good listener, particularly when the Elected Members are discussing the proposal. It is important to grasp the issues that concern Members, some of which may be important to the overall Estimate and other small local issues that it may be possible to take on board.”*

## POLAND

### **Municipality of REMBERTÓW (2000 budget)**

The municipality of Rembertów is one of 11 municipalities that form the capital city, Warsaw (the 10th largest in terms of population). The budgeting procedure is based on:

- the provisions of the Public Finances Act of 26 November 1998, particularly section IV, "Local and regional authority budgets"; the replies to the questionnaire included in this report are based on these provisions;
- Rembertów municipal council decision no. 90/XII/99 of the of 30 August 1999, taken in accordance with the aforementioned Act and describing the budget adoption procedure and the type and level of detail that should be appended to the budget; the provisions of this decision are presented below.

The draft municipal budget was prepared by the administrative council (see Art. 119 of the Act of 26 November 1998). In accordance with the 1999 decision, the administrative council should prepare the draft budget on the basis of:

- the municipal council's instructions concerning the draft budget;
- the projected execution of the budget during the year preceding the relevant budgetary year;
- the rates of taxes, fees and prices applicable during the year preceding the relevant budgetary year, taking into account any changes due to take effect on 1 January of the budgetary year;
- the rate of inflation forecast for the budgetary year;
- the projected increase in prices and salaries for the budgetary year.

The municipal council's draft budgetary decision sets out the following:

- the overall sum of projected revenue, broken down firstly into the main sources of revenue and secondly into different budgetary categories;
- total expenditure, broken down into sections and items, distinguishing on the one hand between own expenditure and that relating to delegated responsibilities, and on the other between current and proprietary expenditure;
- current expenditure is divided into:
  - remuneration and related spending,
  - subsidies,
  - servicing of debts and payment of securities and guarantees;
- a table showing revenue broken down into different sources and budgetary categories;
- a table showing expenditure, broken down into sections and items;
- provisions to cover the deficit or the destination of any budgetary surplus;
- revenue and expenditure plans relating to budgetary, special and targeted funds;
- the level and amounts of objective subsidies and other types of subsidy;
- the plan for revenue, expenditure and the completion of tasks delegated by the government administration or performed in accordance with contracts and agreements;
- revenue from licences to sell alcoholic beverages and expenditure on the prevention of alcohol-related diseases and resolution of associated problems.

The following documents are appended to the budgetary decision:

- an explanatory report;
- a report on municipal property.

The explanatory report relating to the draft budget contains:

- details and an explanation of revenue and expenditure,

- details of investments, indicating:
  - the overall cost of the investment;
  - the commencement and finishing dates of the work;
  - sources of funding.

On the basis of the decision of 30 August 1999, the Rembertów municipality adopted the following timetable.

Deadline	Persons responsible	Reason for the work
15 September	Departmental heads of the municipal administration	Local councillors and municipal department representatives submit motions for the draft budget to the municipal council bureau
20 September	Appropriate member of the administrative council	Administrative units and municipal departments submit to the head of municipal accounts the objective plans and draft financial plans approved by the appropriate member of the administrative council
15 October	Head of municipal accounts	The head of municipal accounts submits the draft budgetary chart to the municipal administrative council
31 October	Municipal administrative council	The municipal administrative council submits to the municipal council chairman the draft budget and the report on municipal property, to be forwarded to the various municipal council committees for discussion.
10 November	Municipal council	Opinions, comments and proposals relating to the draft budget are presented to the administrative council.
15 November	Municipal administrative council	Municipal administrative council submits the draft municipal budget and report on municipal property to the regional audit office and local council.
December	Municipal council	- budgetary debate - budgetary session

The draft budget for the Rembertów municipality was prepared in accordance with the above rules and timetable.

The requirements of the municipal departments and administrative units formed the basis of the expenditure levels set out in the draft budget. However, these sums were significantly greater than the funds available to the municipal authority. It was therefore impossible to meet all these requests, even though some of them were fully justified. Therefore, expenditure forecasts were based on how money had been spent in 1999, taking into account the effects of inflation and adjusting the figures in some cases.

The Rembertów municipal council adopted its budgetary decision on 29 December 1999, setting revenue for 2000 at PLN 28,213,710, expenditure at PLN 31,713,710 and the budgetary deficit at PLN 3,500,000; it was decided that the deficit should be covered by borrowing, in accordance with the provisions of Art. 112 of the Public Finances Act of 26 November 1998.

In the municipal budgetary decision, expenditure was broken down as follows (in %):

*Distinction between current and investment expenditure:*

Current expenditure	79%
Investment expenditure	20%
General and earmarked reserve	1%

*Budgetary categories:*

- municipal administration	36%
- education	34%

- municipal economy	11%
- social welfare	8%
- miscellaneous (to be verified)	4%
- transport	3%
- culture and art	2%
- housing and intangible municipal services	1%
- reserve	1%

Municipal revenue was divided up as follows:

- share in taxes levied by the state	41%
- revenue from taxes and fees	29%
- grants	18%
- subsidies	6%
- income from municipal property	5%
- other income	1%

The municipal administrative council was given responsibility for implementing the budgetary decision.

During the budgetary year, the municipal council made several budgetary adjustments to revenue and expenditure. As a result, revenue increased from PLN 28,213,710 to PLN 33,893,241 and expenditure from PLN 31,713,710 to PLN 37,955,112. It was decided that the deficit should be covered by borrowing.

With regard to the budgetary adjustments, the municipal council adopted the corresponding decisions, which were then submitted to the regional audit office within the seven-day period prescribed by law.

On 25 August 2000, the municipal administrative council took a decision concerning the adoption of the report on the execution of the budget for the first half of 2000 and its submission to the regional audit office.

On 28 August 2000, the municipal administrative council submitted its decision of 25 August 2000 and related information to the regional audit office.

On 7 September 2000, the decision-making body of the regional audit office issued a positive opinion concerning the report on the execution of the Rembertów municipal budget for the first half of 2000.

The report on the execution of the 2000 municipal budget shows that 97.7% of projected revenue and 94.2% of forecast expenditure were actually achieved. Current expenditure represented 69.5% and investment expenditure 30.5% of this amount. The deficit of PLN 2,635,679 was financed through bank loans, borrowing from the voivodeship fund for the protection of the environment and water conservation, the budgetary surplus from previous years and "other means".

On 22 March 2001, the decision-making body of the board of the regional audit office noted the absence of observations in the motion submitted on 20 March 2001 by the Rembertów municipal council's review committee concerning the discharging of the municipal administrative council from its responsibility to execute the 2000 budget.

On 6 April 2001, the municipal council agreed to discharge the municipal administrative council on the basis of the report on the execution of the 2000 budget and the positive opinion of the regional audit office. The opinions of the municipal council's review committee and the regional audit office form an integral part of this decision.

## SPAIN

### REGULATORY FRAMEWORK

National regulations governing local budget management in Spain are as follows:

- Act no. 39/1988;
- Royal Decree no. 500/1990, which supplements the Act with regard to budgets;
- Ministerial Order of the Economy and Finance Ministry of 20 September 1989, which sets out the structure of local authority budgets.

Spain is made up of regions known as Autonomous Communities, which in turn are divided into municipalities and provinces. Provinces are groups of municipalities and local government comprises these two types of body. There are therefore three different levels of power: local, Autonomous Community and State.

As far as the local level is concerned, the Spanish Constitution stipulates that:

- local authorities enjoy autonomy for the management of their respective interests (principle of autonomy);
- the State guarantees the effective realisation of the principle of solidarity, ensuring the establishment of a proper and just economic balance among the various parts of Spanish territory;
- the local treasuries must have the means necessary for carrying out the functions which the law attributes (principle of financial capacity) and shall be supported basically by their own taxes and by sharing those of the State and the Autonomous Communities.

The system for local authority funding and management thereof is set out in Act no. 39/1988. It applies throughout the national territory, whether in terms of **essential rules** inherent in the Spanish Constitution (Art. 149.1.18: The State holds exclusive competence over the following matters: "the **bases** of the legal system of the public administrations...") or rules relating to **matters under the exclusive competence of the State**, such as the local fiscal system and local authorities' share of State taxes. Local authorities **may** establish and levy new taxes in accordance with the Constitution and the law, as long as this is provided for in an Act approved by the Spanish Parliament (bearing in mind the implicit restrictions of special or "foral" financial systems, as well as international treaties and conventions).

Act no. 39/1988 establishes a funding system under which local authorities may practise the Constitutional principles of autonomy and financial capacity; local authorities share this responsibility with the State and their respective Autonomous Communities.

In short, Act no. 39/1988 lays down the framework for local authorities' budgetary and public expenditure system. Their budgets must therefore be based on the Act and on Royal Decree no. 500/1990, which contains more detailed regulations on the whole procedure of budget approval and execution. Furthermore, a 1989 Ministerial Order (of the Economy and Finance Ministry) sets out the structure, standards and codes to which local authority budgets must conform. Budgetary procedure is therefore governed by national rules; there are no specific regulations on this subject at other levels of authority, although further organisational rules are in place.

### BUDGET PREPARATION AND EXECUTION

Act no. 39/88 sets out the following standard procedure, to which all local authorities must adhere when preparing their budgets.

## **Budget preparation**

The President of the local authority prepares the budget, appending the following documents:

- report explaining the content of the budget and the main adjustments compared to the current budget;
- closure of the previous year's budget and forecast of the current budget after at least the first six months;
- list of local authority staff;
- list of investments to be made during the financial year;
- economic and financial report describing the basis on which anticipated revenue and borrowing were evaluated, showing that current funds are sufficient to meet the obligations due and departmental operating costs and, therefore, demonstrating that the budget balances.

The following must also be appended to the local budget:

- the budget of each autonomous body subordinate to the local authority, together with the same documentation as indicated above;
- expenditure and revenue forecasts of commercial businesses in which the local authority is a shareholder, as well as their annual activity, investment and funding programmes for the following financial year.

These various elements constitute the local authority's general budget, which the President sends to the Corporation Plenary Assembly for approval, amendment or correction. This general budget must be examined by the financial controller.

## **Approval by the local authority assembly**

Once it has been debated by the assembly and approved, the general budget is made available for public viewing so that interested parties may study it and address any complaints to the assembly.

The budget is considered approved if no complaint is made within the two-week public scrutiny period. If necessary, the assembly is allowed a certain amount of time in which to address any complaints.

The general budget must then be approved by the Corporation assembly by 31 December in the year preceding the financial year to which it applies.

Once approved, the general budget is published in the Corporation's official bulletin (if there is one) and a summary appears in the official bulletin of the province.

A copy of the approved general budget is sent to the administrative bodies of the state and the appropriate Autonomous Community.

It is possible to take direct legal/administrative proceedings against the definitive approval of the budget. Such proceedings do not, in themselves, suspend the application of a budget that has been approved by the Corporation.

## **Entry into force of the general budget**

The budget enters into force during the relevant financial year as soon as it has been published in accordance with the rules. If, at the beginning of the financial year, the relevant budget has not entered into force, the previous year's budget remains valid until the new budget enters into force.

## **STRUCTURE OF THE BUDGET**

Budgets are structured in accordance with the economic nature of revenue and expenditure and with the aims and goals pursued by those items. Costs and expenditure may also be categorised according to their own structure, in conformity with the relevant organisational rules and decrees.

Appropriations are classified according to the following criteria:

- by function;
- by economic category;
- possibly, by organisational unit.

The forecasts included in the revenue statement within the local authority budget are categorised into chapters, articles, items and sub-items.

The budget preparation procedure is regulated. All local authority budgets are therefore subject to the same structure and conditions. Adjustments may be made during the first phase of budget preparation.

In this context, two examples of budget preparation are provided: the first, from Barcelona city council, refers to the preparation of a decentralised budget by individual districts, one of the main purposes of devolution being to combat inequalities and imbalances; the other example is from Sabadell city council (province of Barcelona), which is trying to increase and consolidate public participation in municipal politics. These examples are described in the section dealing with citizen participation and consultation.

### **Closure of the budget**

The budget for each fiscal year is closed, ie debts called in and obligations paid, on 31 December of the year concerned.

Local authorities must close their budget by 1 March of the following financial year.

Closure of the budget must be approved by the President of the local authority after a preliminary report has been compiled by the controlling authority.

At the end of the budgetary year, local authorities prepare their annual accounts, which explain how the various economic, financial, proprietary and budgetary elements have been managed.

Municipalities with more than 50,000 inhabitants and higher tier local authorities append the following to their annual accounts:

- a report explaining the cost and efficiency of public services.
- a report on how targets are being met, indicating newly planned and completed projects, together with their cost.

The annual accounts, verified by the controlling authority, are presented to the public for a two-week period so that interested parties may make any claims, objections or observations.

A special committee drafts a report which, along with the annual accounts and any claims and objections, is submitted to the Corporation assembly so that, if need be, the accounts may be approved before 1 October.

The local authorities submit their duly approved annual accounts to the State Audit Office.

## **COMPARABILITY OF DATA**

Local authorities must send a copy of their approved general budget to the state administration and to the corresponding Autonomous Community.

The Act also stipulates that local authorities should submit a copy of the closure of their budgets to the state administration and to the Autonomous Community before the end of March of the financial year following that to which it applies.

If the closure is not submitted by the deadline, the state administration may use any data it already possesses concerning the authority in question as if it were current and for any purpose.

The information contained in the local authority budgets is used to compile a database, which is monitored and updated whenever budgetary adjustments are made.

The information contained in the local authority budgets ensures that the state administration and the different departments of the Autonomous Communities are aware of the municipalities' financial situation.

The state administration includes a department with responsibility for examining and analysing municipal budgets. It does not have supervisory powers, but studies municipal budgets individually and by category (province, Autonomous Community, population band and type of authority).

Similarly, this data is used to prepare consolidated accounts for the public sector and national treasury, in accordance with ESA 95.

## COMPARISONS BETWEEN MUNICIPALITIES

In France, plenty of information is available concerning municipalities with more than 10,000 inhabitants, as illustrated by the first example below. The second example describes all the quantitative and qualitative criteria used in Denmark.

### FRANCE: data available on the Internet

Example, for a randomly selected *département* administrative town, of data available on the site of the French Ministry of the Interior<sup>90</sup> for municipalities with over 10,000 inhabitants. In January 2002, the figures relating to 1998 (presented here) and 1999 were accessible, in addition to the fiscal data for 1998, 1999 and 2000. The question marks in the right-hand column provide a link to an explanation of the figures concerned.

**Albi** (49,106 inhabitants)

**INSEE (French national institute of economic and statistical information) Code:** 81 004

**Département :** Tarn

**Population band:** Between 20,000 and 50,000 inhabitants

### Figures taken from 1998 administrative accounts

**Name used :** M14

**Membership of intermunicipal association in 1998 :** Not a member of an intermunicipal tax association

	Albi Turnover 1998	Average* for the population band ( M14 )	Average* for municipalities with over 10,000 inhabitants. ( M14 )
? Operating expenditure, excluding work by publicly run businesses/pop. (F/inhabitant)	6,625	6,555	6,568
? Revenue from the 4 taxes/pop. (F/inhabitant)	4,104	3,763	3,748
? Operating revenue/pop. (F/inhabitant)	7,681	7,491	7,567
? Gross expenditure on equipment/pop. (F/inhabitant)	1,281	1,304	1,354
? Debt outstanding on 31/12/98/pop. (F/inhabitant)	8,280	6,806	6,962
? Overall operational grant/pop. (F/inhabitant)	1,419	1,515	1,542
? Staff costs/operating expenditure (%)	55.3	50.5	49.8
? Revenue from the 4 taxes/tax potential (CMPF, in %)	128.8	96.6	94.9
? Revenue from the 4 municipal and intermunicipal taxes/tax potential (extended CMPF, in %)	127.6	109.1	110.5
? Current self-funding margin (%)	96.7	96.2	95.7
? Equipment rate (%)	16.7	17.4	17.9
? Debt outstanding on 31/12/98 /operating income	1.08	0.91	0.92

Sources : DGCL, administrative accounts. Population at the 1998 national census. The "CMPF" (tax potential mobilisation coefficient) is only calculated for municipalities that do not

<sup>90</sup> [http://www.dgcl.interieur.gouv.fr/donneeschiffrees/accueil\\_donnees\\_chiffrees.html](http://www.dgcl.interieur.gouv.fr/donneeschiffrees/accueil_donnees_chiffrees.html)

belong to a TPU (single business tax) association. The "CMPF" and "extended CMPF" are calculated on the basis of fiscal revenue from different sources. The extended CMPF uses the income from the 4 taxes approved by the municipality and the intermunicipal association on municipal territory (source: DGI). On the other hand, the standard CMPF uses the income from the 4 taxes included in the administrative accounts, apart from the TPU group's business tax repayment (source: DGCL). This revenue differs from that which is approved, particularly since it may include a part linked to supplementary tax lists from previous years. This difference explains why the standard CMPF is higher than the extended CMPF in some municipalities, and why the two are not equal even though the municipality does not belong to an intermunicipal tax association.\* The national average and the average for municipalities with over 300,000 inhabitants are calculated across the whole of France, except PARIS.

### Direct local tax rates from 1998 to 2000

Name of intermunicipal tax association in 2000 : C.C. de l'Albigeois

Rate of taxes approved by individual municipalities	Albi			Average rate* for the population band in 2000	Average rate* for municipalities with over 10,000 inhabitants in 2000
	1998	1999	2000		
Rate of business tax	23.22	0.00	n/a	14.88	14.59
Rate of residence tax	13.06	13.19	13.30	14.80	14.89
Rate on developed land	24.56	24.81	25.01	19.00	18.52
Rate on undeveloped land	83.29	84.13	84.82	49.23	45.43

Sources : Reports on tax rates submitted by local authorities as part of the budgetary procedure.

\* The national average and the average for municipalities with over 300,000 inhabitants are calculated across the whole of France, except PARIS.

Cumulative tax rates Municipality + association(s)	Albi			Average rate* for the population band in 2000	Average rate* for municipalities with over 10,000 inhabitants in 2000
	1998	1999	2000		
Rate of business tax	23.22	23.15	23.05	17.09	17.09
Rate of residence tax	13.06	13.19	13.30	16.06	16.39
Rate on developed land	24.56	24.81	25.01	20.36	20.12
Rate on undeveloped land	83.29	84.13	84.82	52.24	48.62
Association tax regime**	-	TPU	TPU		

Sources : Reports on tax rates submitted by local authorities as part of the budgetary procedure.

\* The national average and the average for municipalities with over 300,000 inhabitants are calculated across the whole of France, except PARIS. \*\*4T = 4-tax associations, except groups with zone-based business tax; TPU = associations with single business tax or mixed fiscality; TPZ = associations levying business tax across an economic activity zone.

## **DENMARK : Key data on municipalities**

The indicators below are used in Denmark in order to establish quantitative and qualitative comparisons between municipalities.

Population January 1<sup>st</sup>  
Percentage of 0-6 year-olds  
Percentage of 7-16 year-olds  
Percentage of 17-66 year-olds  
Percentage of 67+ year-olds  
Prog. for pop.-growth 2000-04 (p.c.)  
Prog. for growth, 0-6 y-o 00-04(pc)  
Prog. for growth, 7-16 y-o 00-04(pc)  
Prog. for growth, 17-66 y-o 00-04,pc  
Prog. for growth, 67+ y-o 00-04(pc)  
Area (square kilometres)  
Population density (inhab./sq.km.)  
Urban population (p.c.)  
Owner-occupied housing (p.c.)  
Social tenant housing (p.c.)  
Places of employment per 100 inhab.  
Outgoing commuters (p.c.)  
Incoming commuters (p.c.)  
Gross income per taxpayer (in 1000s)  
Taxpayers < 125.000 in income (p.c.)  
Economically active taxpayers (p.c.)  
25-64 year-old -vocational ed. (p.c.)  
25-64 year-olds w further education (p.c.)  
Unemployed per 100 17-66 year-olds  
Prov. of labour market pol/100 17-66  
Children of single-parent./100 0-15  
Asylum applicants per 10,000 inhab.  
Immigr., Nordic/EU/N.Am, 10,000 inh.  
Immigrants 3. countries/10,000 inhab  
Repor. thefts,burglaries/1,000 inhab  
Repor. crime of violence/1,000 inhab  
Social index (p.c.)  
Expenditure need per inhab.  
Exp. need per inhab., Capital Region  
Poll at the municipal elections  
Municipal income tax rate (p.c.)  
County and municipal tax rates (p.c)  
Land tax (per 1,000)  
Level of municipal taxation (p.c.)  
Guaranteed taxable income per inhab  
Budgeted taxable income per inhab.  
Land value per inhab.  
Total municipal tax base per inhab.  
Municipal tax base aft. equalisation

Gross operating expend. per inhab.  
 Net operating expenditure per inhab.  
 Gross capital expenditure per inhab.  
 Net capital expenditure per inhab.  
 GOE on public utilities per inhab.  
 Income, public utilities per inhab.  
 GOE on services and adm. per inhab.  
 GOE on technical sector per inhab.  
 GOE, primary schools per inhab.  
 GOE, other prim. educ/cultur. activ.  
 GOE on health services per inhab.  
 GOE, child-minding per inhab.  
 GOE, services for elderly per inhab.  
 GOE, other social services per inhab.  
 GOE, administration per inhab.  
 GOE on wage pools per inhab.  
 Subsidies for individuals per inhab.  
 GOE on transfer income per inhab.  
 GOE on housing subsidy per inhab.  
 Total financing per inhab.  
 Revenue, operating income per inhab.  
 Revenue from income tax per inhab.  
 Revenue from land tax per inhab.  
 Revenue, corporate income tax/inhab.  
 Revenue, general grants and equalisation  
 Revenue, government refund per inhab.  
 Contribute, VAT-equa. per inhab.  
 Net borrowing per inhab.  
 Reduction of liquidity per inhab.  
 Revenue, other financing per inhab.  
 Long-term debts per inhab.  
 Liquid assets per inhab.  
 Amount owed by public util./inhab  
 Employees, Munic., per 100 inhab.  
 Percentage private supply  
 Service level (Av.=1.00)  
 Tax/service relation (Av.=1.00)  
 Modif. tax/s. relation 1 (Av.=1.00)  
 GOE on child-minding per 0-10  
 NOE on child-minding per 0-10  
 Exp on subsidies to payment per 0-10  
 Exp, reduction for siblings/free pl.  
 Sub., private child-minding per 0-10  
 Number of child-minding institutions  
 Cap. in child-minding per 100 0-10  
 Part time cap in child-m. per 100 0-10  
 Cap. in private institutions (p.c.)  
 Places in other municipalities inst.  
 Places bought by other municip.  
 ot. personnel, child-mind./100 0-10

Munic. prov. of day-care 0-2 (p.c.)  
 Munic. prov. of day-care 3-5 (p.c.)  
 Munic. prov. of day-care 6-9 (p.c.)  
 Guarantee, child-minding 1/2-5 (Y/N)  
 Guarantee, child-minding 1/2-1 (Y/N)  
 Guarantee, child-minding 1-2 (Y/N)  
 Guarantee, child-minding 3-5 (Y/N)  
 Guarantee, child-minding 6+ (Y/N)  
 Leave subsidy (supplement) (Y/N)  
 Sub., private child-minding (Y/N)  
 Capacity in day care per 100 0-2  
 Part time cap. in day care p 100 0-2  
 Employees per child in day care  
 Empl per child in day care, old def.  
 Charge, day care per month  
 Free choice between child-minders (1-5)  
 Capacity in crèches per 100 0-2  
 Part time cap. in crèches p 100 0-2  
 Employees per child in crèche  
 Empl. per child in crèche, old def.  
 Charge, crèche per month  
 Free choice between crèches (1-5)  
 Capacity in kindergarden per 100 3-5  
 Par time cap. in kinderg. p 100 3-5  
 Employees per child in kinderg.  
 Empl. per child in kinderg., old def  
 Charge, kindergarden per mounth  
 Free choice between kinderg. (1-5)  
 Capacity in day-care inst per 100 0-9  
 Part time cap, day-care inst, 100 3-5  
 Empl. per child in day-care inst.  
 Empl. p child in dayc. inst, old def  
 Charge, daycare inst. (0-2) / month  
 Charge, day-care inst. (3-5) / month  
 Charge, day-care inst. (6-9) / month  
 Free choice betw daycare inst. (1-5)  
 Capacity in center 1 per 100 6-9  
 Part time cap. in center 1 p 100 6-9  
 Employees per child, center 1  
 Empl. per child, center 1, old def.  
 Charge, center 1 per month  
 Free choice between centers 1 (1-5)  
 Capacity in center 2 per 100 6-13  
 Part time cap. in center 2, 100 6-13  
 Employees per child, center 2  
 Empl. per child, center 2, old def.  
 Charge, center 2 (6-9) per mounth  
 Charge, center 2 (10-13) per mounth  
 Free choice between centers 2 (1-5)  
 GOE on primary education per 7-16  
 NOE on primary education per 7-16

Exp. on primary schools per 7-16  
 Exp. on primary schools per pupil  
 Abs. number of primary schools  
 Abs. no. of groups, primary schools  
 Bilingual pupils per 100 pupils  
 Pupils w lessons in native lang./100  
 Average number of pupils per school  
 Average number of pupils per class  
 Materials, school libraries per 7-16  
 Exp. on school libraries per pupil  
 Exp, other schools w prim. education  
 Share of pupils in private schools  
 Exp.,private schools per pupil  
 Exp. on general libraries per inhab.  
 Exp. on books per inhab.  
 Absolute number of general libraries  
 Opening hours per week  
 Lending of books per inhab.  
 Books and other material per inhab.  
 Employees at libraries per inhab.  
 Exp, other cultural activities/inhab  
 Exp on sports and leisure per inhab.  
 GOE for the elderly per 67+ year-old  
 NOE for the elderly per 67+ year-old  
 GOE for the elderly per 75+ year-old  
 NOE for the elderly per 75+ year-old  
 Housing subsidy exp for elderly/pens  
 Recipients of housing subsidy pr 100  
 Exp. for home help schemes per 67+  
 Empl., home help schemes per 100 67+  
 Recipients (67+) of home help pr 100  
 Hours per recipient per week  
 Choose of supplier, home help (1-5)  
 24-hour service, home help/nursing  
 Visiting and/or advisory services  
 Exp., inst./houses for elderly p 67+  
 Empl., inst./houses elderly/100 67+  
 Acc., nursing or rest homes/100 67+  
 Capacity, houses w nursing/100 67+  
 Capacity, houses for elderly/100 67+  
 Capacity, sheltered housing/100 67+  
 Charge of daily meal delivery  
 Charge of food in rest hones  
 Charge of interim measure per 24 h.  
 GOE, social grants, employment/17-66  
 NOE, social grants, employment/17-66  
 GOE on children per 0-18 year-old  
 Exp., sick leave compensat per 17-66  
 Housing subsidy exp to tenants/17-66  
 Housing subsidy recipients per 100

GOE, early retirement pens per 17-66  
Abs., early pens. per 100 17-66  
Exp. on cash benefits per 17-66  
Recipients of cash benefit/100 17-66  
Exp., employment schemes per 17-66  
Recip. of intro progr. per 100 inhab  
Recip. of intro grant per 100 inhab.  
Foreign. taking Danish lessons/10000  
Charge, div. of sewage-water per m3  
Daily disch. of sewage-water/person  
Discharge of organic mat. (kg/pers.)  
Discharge of nitrogen (kg/person)  
Discharge of phosphorus (kg/person)  
Charge, connection to water-supply  
Charge of meter  
Charge on water consumption per m3  
Inspected agricult. holdings (p.c.)  
Inspected factories (p.c.)

## **INVESTMENTS: DECISION-MAKING CRITERIA**

### **UNITED KINGDOM : Local Government Project Budget Procedure (Birmingham)**

The system used in Birmingham is described below. Reference documents are then discussed in the case study.

#### **INTRODUCTION**

This note serves to act as a guide to a potential process for capital bidding. This process was developed to assist and inform elected Member debate in determining Birmingham City Council's capital programme for 2002/03 onwards. The process outlined focuses in particular on performance indicators and consultation with interested parties on bids put forward for capital resources.

#### *Background*

Local authorities in England are constrained in the size of their capital programme. Central Government limits on borrowing together with prohibitive consequences of direct revenue financing limit the extent to which finance is available to fund schemes.

The range of services provided by local authorities is diverse. As a result, projects requiring capital funding are required to compete for resources. It is therefore necessary to have an objective mechanism in place to allow decision-makers to be able to determine the relative merits of competing bids. A capital prioritisation scoring system can assist in providing such an objective mechanism.

The system summarised below and described in further detail in the attached Appendix was developed against the backdrop of the introduction of the Single Capital Pot (SCP) by Central Government from 2002/03 onwards. The SCP places emphasis on a corporate, cross-cutting approach to capital prioritisation and investment and moves away from the previous service based allocations mechanism.

#### *Capital prioritisation scoring system*

A copy of the detailed bidding form is shown hereafter with the scoring matrix which can be used to determine the relative merits of competing capital bids. Table 1 provides a summary of the factors used in assessment and their respective weightings within the scoring system.

*Table 1 – A Breakdown of the Scoring System*

Theme	Component	Points
Consultation	MORI Priorities	15
	Departmental consultation	10
Best Value	Best Value Reviews	5
	Best Value Performance Indicators	5
	Audit Commission Performance Indicators	5
	Local Performance Indicators	5
	Sustainability Indicators	5
	Public Service Agreement Targets	5
Corporate Strategy	Cabinet Statement Capital Priorities	15
	Local Strategic Partnership / Ward Development Plan	10
	Asset Management Plan / Departmental Capital Strategy	5
Scheme Based	Beneficiaries	5
	Financial	5
	Efficiency	5

**BIRMINGHAM CITY COUNCIL**

**BID FOR CAPITAL RESOURCES**

**CAPITAL BUDGET/PLAN**

**2002/03 to 2004/05**

**Advisory Team:**

**Scheme Description:**

**Scheme Reference No:**

**Contact Officer:**

## Scheme Description and Capital Costs

### *Description and Key Outputs:*

Please provide a brief description and key outputs of the proposed scheme. This detailed proforma need only be submitted where the scheme involves the use of corporate resources (in full or partially). However, Advisory Teams will, in future, be required to provide summary details of specific funded schemes e.g. grants, capital receipts on a separate proforma.

### *Amount and Source of Funding:*

Please provide a realistic estimate of the total capital cost, phased over the lifetime of the project by source of funding.

Later				
Total	2002/03	2003/04	2004/05	Yrs

Corporate Resources

Grant

Contributions

Earmarked Capital Receipts

Revenue

### *Risks:*

Any risks that could affect these projections should be detailed and quantified where possible.

### ***VAT Implications:***

**Where relevant, details should be provided below, using the attached Appendix 1 on VAT and Partial Exemption.**

## Scoring System for Capital Bids

Completion of details for the categories set out below will assist the Financial Planning Section to “score” capital schemes. Given the limited resources available, this scoring system is designed to provide a more objective method of deciding between competing priorities.

It should be noted that the system is simply intended to assist Members by providing summarised information on capital schemes, and the final decision on inclusion or otherwise of capital schemes will, of course, rest with Members.

A copy of the scoring matrix is attached for information purposes as Appendix 2, although Advisory Teams should note that they are not expected to complete the matrix as this will be done by the Financial Planning Section.

### **1. CONSULTATION (MAX 25 POINTS)**

#### **(i) MORI Priorities (max 15 points)**

Appendix 3 provides details of the top 10 issues highlighted by the public as areas of concern in the MORI survey and the weighting/points attached. More points have been awarded for issues identified as a priority by a greater percentage of respondents. Please list below which of these priorities the scheme significantly assists in achieving and a 1 line description of why.

**(ii) Departmental Consultation (max 10 points)**

Up to 10 points will be awarded according to the extent to which it can be demonstrated that the scheme has arisen as a result of departmental consultation, providing examples of the groups/users consulted and evidence of support for the scheme.

**2. BEST VALUE (MAX 30 POINTS)**

**Up to 5 points will be awarded according to how well the project addresses each of the following issues which can be identified directly from the 2001/02 Best Value Performance Plan:**

**(i) Best Value Reviews (max 5 points)** – state whether and to what extent the scheme will significantly meet a recommendation arising from a Best Value Review, set out in the BVPP, stating the Review(s) concerned.

**(ii) Best Value Performance Indicators (max 5 points)** - state whether and to what extent the scheme will significantly assist in achieving a BVPI set out in the BVPP and the BVPI(s) concerned.

**(iii) Audit Commission PIs (max 5 points)** - state whether and to what extent the scheme will significantly assist in achieving an Audit Commission PI set out in the BVPP and the Audit Commission PI(s) concerned.

**(iv) Local PI (max 5 points)** - state whether and to what extent the scheme will significantly assist in achieving a Local PI set out in the BVPP and the Local PI(s) concerned.

**(v) Sustainability Indicators (max 5 points)** - state whether and to what extent the scheme will significantly assist in achieving a Sustainability Indicator set out in the BVPP and the Sustainability Indicator(s) concerned.

**(vi) Public Service Agreement Target (max 5 points)** - state whether and to what extent the scheme will significantly assist in achieving a PSA target and the target concerned.

**3. CORPORATE STRATEGY (MAX 30 POINTS)**

**(i) Cabinet Statement Capital Priorities (max 15 points).** Appendix 4 provides examples of capital schemes which are considered to meet priorities set out in the 2001/02 Cabinet Statement. It should be noted that this is not an exhaustive list, but simply provides a guide for Advisory Teams as to the types of schemes that are likely to meet Cabinet Priorities.

The scheme must initially meet one of the six strategic themes to be considered further. For each additional theme significantly addressed, 3 points will be awarded, so that a maximum of 15 points would be awarded if the schemes met all six themes (although this is obviously unlikely). Please list below which of the detailed priorities contained within the Cabinet Statement the scheme relates to and a 1line description of why.

**(ii) Local Strategic Partnership/Ward Development Plan (max 10 points)** – state whether and to what extent the scheme significantly addresses an issue identified as a priority by the LSP or WDP.

**(iii) Asset Management Plan/Departmental Capital Strategy (max 5 points)** – state whether and to what extent the scheme significantly addresses an issue identified as a priority area within the AMP/DCS.

4. SCHEME BASED (MAX 15 PONTs)

**Up to 5 points will be awarded according to how well the project addresses each of:**

**(i) Beneficiaries (max 5 points)** – state the likely number of and types of beneficiaries of the scheme e.g. jobs created, businesses assisted etc.

**(ii) Financial (max 5 points)** – state the extent to which Council resources are required for the scheme and the extent to which whether the scheme draws in additional resources e.g. 25% Council, 75% match funding.

**(iii) Efficiency (max 5 points)** – State whether investment in the scheme will result in increased value/use of the asset.

## **Appendix 1 - VAT Implications**

This element is concerned with "exempt" activities. The Council can reclaim VAT on expenditure incurred on exempt activities, which would otherwise be a direct cost provided the total of exempt VAT in a year does not exceed 5% of the total VAT recovered in that year.

If the 5% is exceeded all the exempt VAT must be repaid, not just that over the 5% threshold. This would increase costs to the City Council by £3 million per year in the year(s) concerned.

1. Identify whether the "supplies" produced, or activities undertaken on completion of the scheme, are exempt supplies, either in full or in part, i.e.
  - (a) licences to occupy land if no election to waive exemption has been made
  - (b) sale or granting lease of land or buildings, excluding dwellings (zero-rated) or new buildings (standard rated) if no election to waive exemption has been made
  - (c) burial and crematorium facilities
  - (d) certain leisure activities
  - (e) further education activities where a charge is made
  - (f) lettings
  - (g) recreation activities where there is training or tuition for a fee
  - (h) day care for children where a charge is made.

If the supply clearly does not fall in any of the categories above, then state "No exempt supply", and ignore the rest of this section. In all other cases, specify that the supply is exempt, and which category the supply falls in.

If in doubt please contact the Finance Department (Leigh Nash in Corporate Accounting on 2691).

2. Identify what proportion of the total costs of the scheme are attributable to exempt supplies. Acceptable bases of apportionment include:
  - (a) floor area
  - (b) income generated
  - (c) time used for exempt activities.

### **Please Note:**

Accuracy in total costs and cash flow is imperative for exempt supplies, as a mis-statement (or slippage) could unintentionally breach the 5% limit in any one year.

The above information may be used to trigger discussions with Customs & Excise about VAT liability.



### Appendix 3 – MORI Priorities

- M1 Improving community safety/reducing crime (3 points)
- M2 Improving schools/education (2 points)
- M3 Cleaner and greener city (2 points)
- M4 Improving city's health (2 points)
- M5 Providing better training for young (1 point)
- M6 Creating successful city/more jobs (1 point)
- M7 Involving local people (1 point)
- M8 Providing choice in Social Services (1 point)
- M9 Tackling poverty and inequality (1 point)
- M10 Better transport services (1 point)

## **Appendix 4 - Examples of Schemes Meeting Cabinet Priorities**

***One strategic theme to be met for the bid to be initially considered.***

***3 points to be awarded for each additional priority met up to a maximum of 15.***

### **1. A LEARNING CITY**

- (i) Developing the role of the virtual college.
- (ii) Developing plans for the creation of a new, city-centre library.
- (iii) Completing school rebuilds and refurbishments.

### **2. A HEALTHY, CARING AND INCLUSIVE CITY**

- (i) Continued regeneration of local shopping centres.
- (ii) Future upgrading of the City's private sector stock.
- (iii) Ensuring that the Council's buildings and services are made accessible to those with physical and sensory disabilities.
- (iv) Improve and re-shape centres for children and adults with disabilities to better meet their needs.

### **3. A MODERN AND SUCCESSFUL CITY**

- (i) Continuing the transformation of the city through the implementation of planned major developments and wider Eastside initiatives.
- (ii) Continuing to promote the city's cultural heritage by working with other funders to refurbish major city buildings.
- (iii) Support improvements and re-development of major public transport terminals.
- (iv) Improving the road infrastructure in the city.

### **4. A SAFER, CLEANER, GREENER CITY**

- (i) Increasing the amount of waste re-cycled or composted.
- (ii) Invest in improvements in the state of roads, pavements and street lighting.
- (iii) Address the recent flooding difficulties.
- (iv) Continuing the programme of improvement of the city's parks.

### **5. AN INFORMED AND INVOLVED CITY**

- (i) Making optimum use of new communication and information technology to make the Council more accessible, adaptable and accountable to local people.

### **6. A MODERN COUNCIL ORGANISATION**

- (i) Implementation of the IT strategy.
- (ii) Increasing the percentage of City Council transactions available electronically.

## **CITIZEN PARTICIPATION AND CONSULTATION**

### **BARCELONA : district budgets**

Territorial devolution has always been a priority for Barcelona city council, which believes it is the ideal way of achieving a dual objective: firstly, to satisfy the public's desire to increase citizen participation in democracy and, secondly, to streamline the administrative machinery and thus increase the efficiency and quality of services by applying the subsidiarity principle within the municipality.

Barcelona, with a population of almost 1.5 million, is divided into ten districts, each with between 90,000 and 280,000 inhabitants and covering an area ranging from 4 km<sup>2</sup> to 20 km<sup>2</sup>. This structure maintains the boundaries of seven former neighbouring municipalities which became part of Barcelona in the late 19th and early 20th centuries and some of which retain a very strong identity.

These districts have a wide range of responsibilities and functions, which they are able to perform efficiently because of their proximity, in areas such as education, culture, sport, assistance for specific social groups (women, young people, etc), public health, environment, service maintenance, security, traffic and transport, etc.

Similarly, for the purposes of appropriate coordination, responsibilities and co-operation mechanisms are shared between municipalities (vertical structure) and districts (horizontal or territorial structure).

With regard to budgeting, several initiatives have been taken in order to increase efficiency in the use of district financial resources, bearing in mind that one of the main aims of devolution is to combat inequalities and imbalances. These include:

- a study of the needs and priorities of each district;
- establishment of a rapid, clear expenditure cycle designed to help districts manage their resources efficiently;
- development of an information system covering all district activities in order to create an evaluation tool that is useful when preparing budget forecasts.

Measures required to rationalise the budget were adopted at the same time. Here, each district was considered as a budgetary sector with responsibility for preparing and administering its own expenditure budget. Investment fund distribution coefficients were also devised in accordance with the revenue levels, population, surface area, urban deficit and level of social deprivation of each district. Other studies helped to produce a clearer picture of the situation of the city, its districts and its needs. The post of financial controller was also created, with responsibility for performing functions delegated to the district presidents concerning the authorisation and earmarking of expenditure. A special computer programme was developed to help the financial controller carry out these tasks directly.

**TABLE 1. Budget allocated to the districts \* (including items I - staff costs, II - current expenditure and services, IV - current transfers, and VI - investments)**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1988	1998
Districts total	10,294	26,154	26,648	25,403	26,771	21,091	23,507	24,860	27,524	8,880	29,583
% growth on previous year	23.23	139.01	1.89	-4.67	5.39	-21.20	11.43	5.76	10.72		7.48
City council total	131,229	152,440	168,685	175,847	215,277	205,839	217,196	221,364	230,516	124,854	240,084
% Districts/ city council	8.34	17.16	15.80	14.45	12.44	10.25	10.82	11.23	11.94	7.11	12.32

\* In millions of pesetas.

There are two main deviations in the development of budgets. The first took place between 1987 and 1998, when the districts took on significant investment capacity, requiring an increase of more than 2,600% (check) over the whole period. The second occurred between 1989 and 1990, when shared management of major maintenance and service contracts (refuse collection, street cleaning, road resurfacing and street lighting) was launched. The cost of these administrative contracts is charged to the districts, who also monitor and supervise the quality of services managed by the private sector.

From 1993 onwards, the district budgets levelled off at around 11-12% of the whole municipal budget (current expenditure and investments).

## **SABADELL : programme for discussion of the investment budget by the districts**

### **ORIGIN OF THE INITIATIVE**

One of the priorities that Sabadell city council has set itself for the current term is to promote citizen participation in municipal affairs. The aim is to increase participation levels in Sabadell, where they have always been relatively high, in order to ensure that the population becomes more involved in municipal politics and that such participation becomes established as an essential characteristic of citizenship in Sabadell.

For this reason, in 2000 the city council launched a programme to encourage citizens to become involved in setting out priorities for the municipal budget in the important and sensitive area of investments.

### **PARTICIPATION PROPOSAL**

In order to carry out this initiative, the local executive commissioned the Autonomous University of Barcelona to draw up a participation model suitable for the city and for this particular project. In co-operation with two teams specialising in such programmes (*Desenvolupament Comunitari* and *GEA 21*), the University devised a strategy based on methods and techniques previously used in other experiments and supported by the post-university study group on participation and sustainable development of the Sociology and Political Sciences Faculty of the Autonomous University of Barcelona.

This strategy relies on the involvement of all the social agencies in the city and on the citizenship debate at both thematic and territorial levels; it gives everyone an equal opportunity to voice their opinion, ensuring that every major theme of city life is considered and that all territorial levels are taken into account, from the municipality as a whole to individual neighbourhoods, with the districts in between. The ultimate aim was to involve the people in putting together a set of proposals on municipal investment priorities at all the aforementioned levels.

A timetable was drawn up, ensuring that the results could be taken into account when the 2001 municipal budget was prepared.

### **METHODOLOGY**

The proposed method involved setting up a monitoring body entrusted by the city council with the task of managing the whole process. The project was divided into three phases.

#### **Monitoring committee**

On the basis of technical criteria of diversity, plurality and position drawn up by the University, the city council appointed a managing body to monitor the whole process, ensuring its accuracy and quality. This body, known as the monitoring committee, comprised around twenty people who were involved in various areas of community life.

#### **Phases of the project**

##### ***Work on the ground***

During February, March and April 2000, thirty individual interviews were held, as well as nine discussion groups involving more than fifty participants. The people interviewed and those who attended the discussion groups were chosen on account of their social characteristics (sex, age, employment situation, mobility), the type of community or professional activity in

which they were active and their area of residence, in order to ensure that the results included the widest possible variety of opinions and viewpoints.

During this phase, a number of individuals with important views on the subject were identified and an initial list of investment priorities was drawn up for the whole city, the various districts and strategic thematic fields.

This first phase also provided an initial wave of citizen participation in the programme.

### **City workshop**

On the weekend of 6 and 7 May 2000, a city workshop was held, following a method approved by the European Union (EASW). Around forty people (selected at the first phase interviews and discussion groups and based on a predetermined profile) met to consider, discuss and choose priorities for city-level investment. Participants included economic, technical and professional experts, representatives of community life, independent citizens and municipal councillors.

The workshop took the following format:

- First session: presentation of five points of view on the city's future: speeches by representatives of the Generalitat of Catalonia, Sabadell city council, the Autonomous University of Barcelona, Banco de Sabadell and the Federation of Sabadell Residents' Associations.
- Second session: group discussion on negative and positive views of the city's future (groups based on area of residence).
- Third session: feedback of conclusions of the second session to all groups.
- Fourth session: work on investment priorities in three groups based on thematic affinity (regional development, town-planning and environment, social welfare and transport and mobility)
- Fifth session: feedback to all groups of the conclusions of the group discussions and vote on priorities.

In a relaxed atmosphere with high participation levels, and using a method that included different group dynamics and ensured that all opinions were represented, six city investment priorities were drawn up and approved by the majority of participants. All of the proposals were linked to quality of urban life and social cohesion, improvement of transport and communications, quality of the environment, the identity of Sabadell and its future, and promotion of public-spiritedness and solidarity.

### **District workshops**

In June 2000, seven further workshops were held, one for each district of the city. These workshops, following methods similar to those used for the city workshop, took place over four weekends and had three main objectives: to strengthen public participation at district and neighbourhood levels, to link the priorities drawn up for the city with their impact on the districts and to establish priorities at district and neighbourhood levels.

All players in district community life attended the district workshops:

- associations represented in the relevant district council, plus any other local associations that wished to participate;
- local economic players;
- technical and professional staff from district public services;
- independent residents;
- district councillors.

A total of 298 people took part, selected on the basis of interviews, discussion groups and district councils, and based on a predetermined profile.

The following format was used:

- First session: conclusions of the city workshop presented to all groups.
- Second session: discussion in randomly formed groups on the relationship between city priorities and their impact at district level.
- Third session: feedback of conclusions of the second session to all groups.
- Fourth session: work on investment priorities for each district in three groups based on thematic affinity (regional development, town-planning and environment, social welfare and transport and mobility).
- Fifth session: feedback to all groups of the conclusions of the previous group discussions and vote on priorities.

The conclusions of the district workshops were similar to those of the city workshop. Proposals were made to improve the quality of life in local neighbourhoods without falling into excessive "localism" and without forgetting the need for social cohesion, assistance for disadvantaged groups and environment protection measures.

### **Final report**

Finally, the University and the technical team in charge of the project prepared a report containing the results and conclusions of the project and a description of the whole procedure.

### **Conclusions**

The conclusions of the various workshops were used by the municipal departments to prepare their 2001 investment budgets.

The district councils were given the task of monitoring the agreements reached during this process.

These budgets were presented to the various councils in December 2000. 80% of the budgeted investments met, either in full or in part, a submitted request. In May 2001, the participants met to see how far the various activities had progressed.

The 2001 budget (currently being drafted) will also follow the rules drawn up at the May 2001 meeting.

### **DISTINCTIVE FEATURES OF THE PROCEDURE**

- The method used encourages citizens to share responsibility for political decision-making, promotes consensus and takes into account the proposals and opinions of all participants.
- It combines the use of institutionalised participative bodies and "traditional" organs (district councils) with new and experimental formats and methods.
- The process provides opportunities for individuals and groups not represented within district councils to participate, particularly persons with reduced mobility, women, young people and the elderly.
- The working method encourages interaction between people involved in community life, economic players, politicians, ordinary citizens and representatives of various professions who do not normally share the same interests or the same opinions on the city's needs.

- By this means, the city council seeks a city-wide agreement on the order of investment priorities, for which a specific participation model is produced, by adapting EASW methods to the discussion of municipal budgets.
- The city council entrusts responsibility for the democratic development of the process to an external, impartial professional body, such as the Autonomous University of Barcelona, and provides for transparent supervision by the monitoring committee, which includes members from outside the municipal administration.

## **PROPOSALS**

### **Most popular proposals – city workshop**

- Establish links between the city and the Rodal.
- Improve transport infrastructures.
- Support public transport by enhancing the network and services.
- Create stable services and programmes on basic political education: democracy, civics and participation.
- Adjust housing policy in order to meet the challenges currently facing the city.
- Launch a neighbourhood plan.

### **Most popular proposals – District 1**

- Rationalise built-up areas and undeveloped land.
- Detailed plan for the management of parks and pedestrian zones.
- Promote and increase opportunities for district residents to be creative.
- Improve pedestrian mobility.
- Provide equipment and assistance for the elderly, children and the disabled.

### **Most popular proposals – District 2**

- More detailed housing policy.
- Public education programme.
- Boost district community centres.
- Improve public transport.
- Development plan for pedestrians in district neighbourhoods.
- Improve health in the district.
- Youth programmes.
- Reduce traffic on the Gran Vía.

### **Most popular proposals – District 3**

- Create two large parks.
- Socio-educational, multicultural development plan.
- Remove architectural barriers.
- Improve social and health services by making them more community-orientated.
- Provide a direct link between the A18 and the Castellar road, avoiding the Gran Vía and the entrance to Can Llong.
- Improve the quality and frequency of public transport.
- Upkeep of parks and infrastructure.

### **Most popular proposals – District 4**

- Give pedestrians priority over vehicles.
- Remove architectural barriers.
- Promote resident participation in urban projects related to their districts, such as the golf course, the Ronda Oeste and new housing in Can Llong.
- Set up participative, self-run programmes to mobilise and motivate young people in partnership with other groups.

- Public health.

#### **Most popular proposals – District 5**

- Improve public transport, with integrated fares, making constant efforts to promote the use of public transport.
- Add parkland to the 5th District.
- Social or community theme park at Can Feu Castle.
- "The 5th District, bringing everyone to life".
- Emergency social housing.
- Pedestrianised roads.
- Build a ring road in order to reduce traffic congestion in Sabadell.
- Fully equipped public hospital.

#### **Most popular proposals – District 6**

- Action to alleviate housing problems.
- Improve the relationship between the district and the natural environment.
- Senior citizens.
- Investment in public transport.
- Promote alternative forms of transport.

#### **Most popular proposals – District 7**

- Urban project for the district.
- Educational strategies designed to bring the district's schools into line with modern society, with a particular focus on multicultural issues and pupil rehabilitation.
- Increase frequency of buses, number of routes and timetable slots, introduce the single fare for interconnecting journeys and adapt services for persons with reduced mobility. Particular focus on setting up a ring road bus service.
- Study and plan general improvements to housing in the district.
- Create an integrated community, cultural and sports centre, with programmes to support social cohesion and neighbourhood integration.
- Remove all architectural barriers on public highways.

### **PARTICIPANTS**

In addition to the 31 members of the monitoring committee, 377 citizens took part in the process, broken down as follows during the different phases:

<b>PARTICIPANTS</b>	<b>MEN</b>	<b>WOMEN</b>	<b>TOTAL</b>
<b>Work on the ground</b>	50	25	75
<b>City workshop</b>	26	8	34
<b>District workshops</b>	188	110	298
<b>Participants in more than one phase</b>	(-18)	(-12)	(-30)
<b>TOTAL</b>	<b>246</b>	<b>131</b>	<b>377</b>

### **DOCUMENTS**

- DPID, Presentació de resultats – juliol 2000
- Presentació de resultats.ppt – juliol 2000
- Concreció de la DPID en el Pressupost Municipal 2001 – desembre 2000
- Projectes i actuacions a la Ciutat. Concreció de la DPID – maig 2001

## **LOCAL GOVERNMENT AUDIT**

### **IRELAND**

#### **Legal framework**

Local government audit had an embryonic start in the 1830s when the idea of public accountability and external audit came significantly into focus in relation to local public bodies concurrently with the practice of levying a rate for the relief of the poor. The landowners and other persons of property from whom the rate was levied had a real interest in knowing how the rates were collected and spent. Local government audit increased in scope and stature in the 1870s. The auditors were generally referred to as “auditors of the poor law unions”. They were officially styled “Local Government Auditors” in 1941 under the Local Government Act of that year.

The present-day Local Government Audit Service in the Republic of Ireland is -for administrative purposes- a division of the Department of the Environment and Local Government (DoELG). It is entirely separate from the office of the Comptroller and Auditor General which is responsible for the audit of the accounts of Government Departments (Ministries). It audits the accounts of all local bodies such as cities, counties, towns and some miscellaneous bodies in the Republic of Ireland in addition to the accounts of some harbour authorities.

In relation to their assigned audits, individual local government auditors are statutorily independent but administratively they are officers of the DoELG. The Inspector of Audits is the organizational head of the service.

Each local government auditor is assigned an audit “district” under warrant of authority from the relevant Minister, principally the Minister for the Environment and Local Government. There are at present twenty-two local government audit districts in the Republic.

An audit “district” comprises a number of audits grouped, as far as possible, in convenient geographical areas, and these are further grouped into three regions, Western, Southern and Eastern. Principal Auditors assist in the regional organization and supervision of audits. In addition they have direct responsibility for the major audits in their region.

The total number of audits in the twenty-two districts, is 208, categorized according to the types of local bodies subject to audit.

#### **Scope of the control activity**

The basic purpose of local government audit in the Republic of Ireland is to overview the stewardship of locally administered funds, and to confirm the fair presentation and accuracy of statements of accounts published by the local statutory bodies responsible for that stewardship.

A break-down of the types of bodies subject to local government audit is as follows:

- County Borough Councils
- County Councils
- Borough Councils
- Urban District Councils
- Town Commissioner

Joint Burial Boards  
Joint Drainage Committees  
Harbour Authorities  
Regional Tourism Organizations  
Corporate and other Bodies  
Motor Taxation Offices  
Regional Assemblies.

Local government audit also extends to the examination and certification of certain claims made by local bodies for state grants and recoupments: for example, civil defence, school meals, and EU expenditure claims.

The scope of the local government auditors remit was extended to include Value for Money audit, in accordance with Section 15 of the Local Government (Financial Provisions) Act, 1997. This Section empowers auditors to:

- ascertain whether and to what extent the resources of the local authority have been used economically and efficiently and, where assets have been disposed of, that the most favourable terms reasonably obtainable were in fact obtained
- examine the adequacy of the systems, procedures and practices employed by the local authority as a means of assisting management in evaluating the effectiveness of its operations
- ascertain to what extent management has implemented or is implementing recommendations contained in Value for Money Reports.

The Value for Money Unit, which is an integral part of the LGAS, has published twenty national studies to date. A listing of those studies is contained in the web site: [www.environ.ie](http://www.environ.ie)

### **Audit procedures**

Local government auditors have at their disposal an official Code of Practice with associated Operational Guidelines. These are based on best current auditing principles and practice applicable in the public sector.

Legal advice on audit matters is provided, when necessary, by the Legal Adviser to the Department of the Environment and Local Government.

To assist them in the proper fulfilment of their audit role, local government auditors are endowed by statute with special powers and responsibilities. Special formalities also attach to the serving of notices of audit, the deposit by bodies subject to audit of their books and annual statements of accounts for public inspection immediately prior to audit, the closing of audits, and the subsequent publication by the bodies audited of notices of audit completions and the availability for purchase of the resulting audit reports.

There are special powers of surcharge and charge. These are reserve powers. They may be exercisable, for example, in relation to matters which have been the subject of a formal "objection" by any interested person during the audit; but they may also be activated by other matters arising from ordinary audit examination. In practice, it has not been found necessary to invoke these powers to any great extent.

The power, and duty, of surcharge applies in the case of illegal (e.g. ultra vires) or unfounded payments. It applies, therefore, whenever a payment is made in respect of a purpose not

authorised either specifically or generally by statute or associated regulations, or where there is wasteful or extravagant application of funds. Obviously, the materiality of the amount in question would be a factor in deciding whether to impose a surcharge or not. The “ultra vires” rule has been considerably modified by the Local Government Act, 1991.

The power, and duty, of charge applies whenever there is a deficiency or loss to the funds of a local body by reason of the negligence or misconduct of an officer or member; for example, if an accountable sum has not been brought to account, or if a sum paid on foot of the certificate of a consultant was not properly due or was due in a lesser amount.

If a surcharge or charge is warranted, the local government auditor must deal with it before the conclusion of the audit. In his certificate of surcharge or charge he must state the reasons for the surcharge or charge.

If a surcharge or charge does not arise, in other words, if the auditor decides to allow the item(s) at issue, an objector may require him to state in writing his reasons for such allowances, and if not satisfied may take the matter to the High Court for determination.

A person surcharged or charged has a right to appeal to the Minister, or to the High Court; if he opts for the High Court and is unsuccessful he may still seek remission from the Minister.

Other special powers attaching to local government audit include the power to secure (with Court assistance, if necessary) the production of documents in so far as these may be necessary for the purposes of an audit, and to administer oaths (or affirmations) during the taking of evidence pertinent to an audit.

During the course of a typical audit a local government auditor would issue a number of audit memoranda to the main functional officers of the body under audit, and towards the end of the audit summarize the main points (together with comments on the replies received) in a Management letter. Direct discussion with top Management would follow.

In addition to entering an audit opinion (normally in the “present fairly” mode) on the statement of accounts of each body audited, local government auditors also provide associated audit reports. There is, currently, a statutory requirement to do so.

Audit reports typically refer to standard matters as: agreement of the accounts with the books, information and explanations obtained, compliance of the accounts with statutory and other requirements, internal audit, residual matters from previous audit(s), and objections (if any) at audit.

Opportunity is also taken, where relevant, to provide brief commentaries on significant trends or outturns disclosed in the accounts, such as: budgetary comparisons, contract final accounts, inter-account and inter-authority transactions; rolled-up interest charges; apportionments, income assessment/collection, assets and liabilities (including revenue debtors and creditors); cost-effectiveness; land usage; accounting and financial systems and controls; major commitments; treasury management/cash flow; and insurance risk management. If adverse results or events have to be highlighted every effort is made to do so in a positive and constructive manner. Comments on policy matters are avoided, but the financial results, especially if unfavourable, of policy decisions are reported on their merits.

If a management letter has been issued during the audit this is also reported.

Local government auditors’ reports enjoy the legal protection of “qualified privilege” – an incorrect or untrue statement therein would not be actionable at law if made in good faith, without malice and in the honest belief it was correct or true.

