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Final Report

**Pilot Implementation of the Local Finance Benchmark (LFB)
for Local Authorities in Hungary**

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The Local Finance Benchmark (LFB) pilot formed part of the project 'Local Government Public Finance Development and Municipal Capacity Building In Hungary', co-funded by the European Commission (DG REFORM) under the Technical Support Instrument 2022 and the Council of Europe.

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Glossary

CAO	Chief Administrative Officer
DG REFORM	Directorate-General for Structural Reform Support of the European Commission
IKIR	Local Public Service Information System
IT	Information Technology
LFB	Local Finance Benchmark
LGDP	Local Government Data Platform, hosted by TÖOSZ
TÖOSZ	Hungarian National Association of Local Authorities
TOP	TÖOSZ Online Platform
VEAB	Veszprém Academic Committee of the Hungarian Academy of Sciences

Executive Summary

The Local Finance Benchmark (LFB)

The Local Finance Benchmark (LFB) offers guidance on the practical application of two recommendations of the Committee of Ministers of the Council of Europe to member states: [CM/Rec\(2004\)1 on financial and budgetary management at local and regional levels](#) and [CM/Rec\(2005\)1 on the financial resources of local and regional authorities](#). The LFB consists of two score cards: One addressed to local authorities and one for central authorities.

With the support of the Centre of Expertise for Good Governance (CEGG) at the Congress of Local and Regional Authorities, the LFB has been implemented in multiple European countries, most recently in Slovakia and Finland.

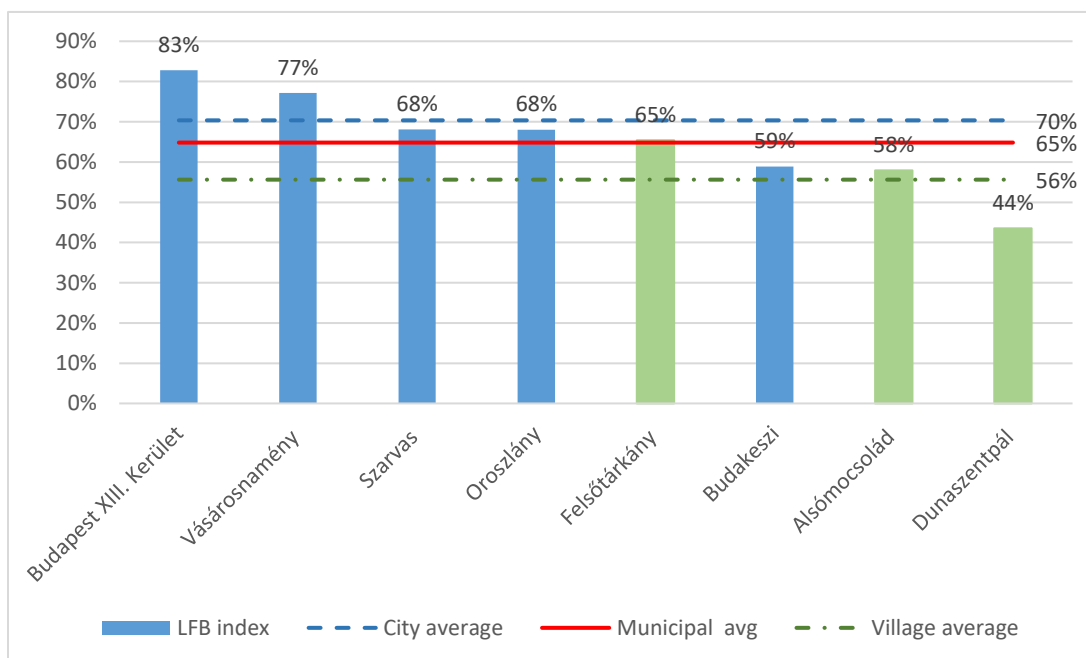
Over the period of March 2023 to March 2024, the CEGG supported the pilot implementation of the LFB for local authorities in Hungary. This activity formed part of a joint EU-Council of Europe project in support of the Hungarian National Association of Local Authorities (TÖOSZ).¹

The purpose of the pilot implementation was to develop and validate relevant local finance benchmarks for the Hungarian context, and to gather lessons for future, expanded benchmarking exercises. The adapted LFB was implemented as an expert-supported self-assessment. It is based on a score card evaluating two overall dimensions of local finance:

- *Financial resources* – covering local practices with regard to taxation; fees, charges and other income; state transfers, grants and subsidies; capital financing; and asset management.
- *Local finance management* – covering fiscal and financial planning; budget amendment and implementation; audit, supervision and capacity building.

Eight municipalities of diverse sizes participated in the LFB pilot: Alsómocsolád, Budapest's XIIIth District, Budakeszi, Dunaszentpál, Felsőtárkány, Oroszlány, Szarvas and Vásárosnamény.

Figure 1. LFB pilot municipalities, overall indices



¹ The project 'Local Government Public Finance Development and Municipal Capacity Building In Hungary' (2022-2024) is co-funded by the European Commission (DG REFORM) under the Technical Support Instrument 2022 and the Council of Europe. More information about the project is available at <https://www.coe.int/en/web/good-governance/hungary>.

Results

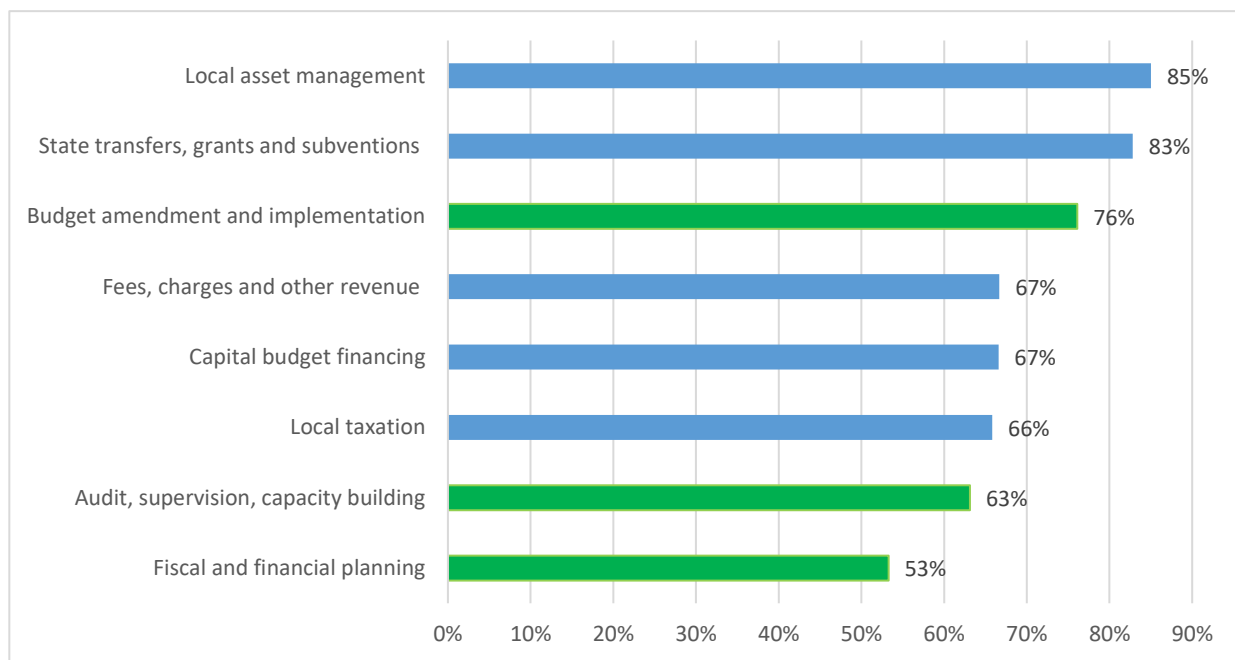
The average LFB index rating was 65% across the pilot municipalities, with a considerable variation by locality (44%-83%). Larger and urban municipalities performed better than smaller and rural (village) municipalities.

In the field of *financial resources*, local asset management (85%), state transfers and grants (83%) were the best ranked areas. Areas with greater local autonomy and more diverse local practices received lower scores: This includes charge setting (67%), investment financing (67%), and local taxation (66%).

With regard to *financial management*, municipalities achieved the highest scores in the area of budget amendment and implementation (76%). Audit, supervision, and capacity development ranked lower (63%), while the complex area of fiscal and financial planning had the lowest scores (53%).

Due to the small sample size, these findings need to be interpreted carefully. However, across the eight dimensions of benchmarking, items with low average scores indicate areas with potential for improvement.

Figure 2. LFB pilot, averages by sub-indices



Recommendations

Relevant improvements could be achieved through a mix of regulatory changes, technical support to municipalities and other forms of capacity-building and knowledge-sharing. The LFB serves primarily as a diagnostic tool. The actual form of intervention will require further stakeholder discussion, design and planning.

In the *financial resources* area, measures to be considered include:

- Introduction of area-based property taxation differentiated by value proxies;
- Regular assessments of local revenue structures;
- Regular update and use of liquidity plans; and
- Increased participation of citizens and social actors throughout the entire budget cycle

In the field of *financial management*, the following improvements could be considered:

- Increased publication of budget and implementation reports;
- Ensuring regular preparation of independent audits;
- Implementation of more detailed conflict of interest regulations for municipal staff;
- Increased use of digital management information systems;
- Support to municipalities in applying fiscal and financial planning methods, e.g. forecasting, and the wider use of impact and risk assessments as well as output indicators; and
- Dissemination and exchange of practices in participatory budgeting methods.

Scaling-up

Feedback from the Hungarian experts and municipal staff involved in the pilot exercise indicates strong potential and interest in expanding on the LFB pilot, including by exploring ways to support peer learning and exchange of good practices among municipalities.

To this purpose, the results and lessons learnt from the pilot should be widely disseminated. The LFB self-assessment questionnaire and automated results generation should be integrated into TÖOSZ' online offering, and made (securely) accessible to a broader local government audience. The LFB questionnaire will have to continue to be updated in line with changing regulations. Other suggestions made by pilot participants, such as the integration of a peer validation mechanism, will require additional development.

A thematic project to support an expanded effort to benchmark and improve local finance practice could help establish the basis for sustained efforts in this important area for good democratic governance.

Introduction

The pilot implementation of the Local Finance Benchmark (LFB) for local authorities was carried out as part of the project 'Local Government Public Finance Development and Municipal Capacity Building in Hungary', co-funded by the European Commission (DG REFORM) under the Technical Support Instrument 2022 and the Council of Europe.²

The purpose of the LFB pilot was to develop national benchmarks for local finances based on the adaptation of the Council of Europe toolkit on Local Finance Benchmarking (LFB) for local authorities and to test its implementation. As part of project output 4 on 'Benchmarks for standard municipal services and local finances', the specific activities covered in this report were the (i) adaptation of the benchmark to the national legal and operative framework, and (ii) the pilot implementation of the LFB toolkit among selected municipalities. The (iii) integration of benchmarks into an online platform of local authorities is planned to be carried out as a separate activity under the project. This report offers a set of recommendations to this effect.

The Local Finance Benchmark

The Local Finance Benchmark (LFB) is a tool of the Centre of Expertise for Good Governance of the Council of Europe. The LFB offers guidance on the practical application of two recommendations of the Committee of Ministers of the Council of Europe to member states: CM/Rec(2004)1 on financial and budgetary management at local and regional levels³ and CM/Rec(2005)1 on the financial resources of local and regional authorities⁴.

The LFB was first co-developed in 2007 by the Centre of Expertise and the Local Government and Public Service Reform Initiative of the Open Society Institute. The benchmarks were revised in 2013 and 2017, based on the implementation results in several CoE member states. So far, LFBs have been implemented in about a dozen of CoE member states, including Bulgaria, Ukraine, Moldova, Georgia, Armenia, the Basque Country region of Spain, and Greece. Most recently, the LFB has been applied in Slovakia (2022) and Finland (2023).⁵

The Local Finance Benchmark (LFB) score cards are structured lists of statements about local finance. There are two score cards: One addressed to local authorities and another one for central authorities. In the context of the LFB pilot described here, the score card for local authorities was implemented, following its adaptation to the Hungarian context.

Based on 58 core questions, the adapted benchmark for local authorities assesses two principal areas:

- *Financial resources* covering local practices with regard to taxation; fees, charges and other income; state transfers, grants and subsidies; capital financing; and asset management.
- *Local finance management* covering fiscal and financial planning; budget amendment and implementation; audit, supervision and capacity building.

² More information about the project is available at <https://www.coe.int/en/web/good-governance/hungary>

³ CM/Rec(2004)1- Recommendation of the Committee of Ministers to member states on financial and budgetary management at local and regional levels
https://search.coe.int/cm/Pages/result_details.aspx?ObjectID=09000016805de0df

⁴ CM/Rec(2005)1 Recommendation of the Committee of Ministers to member states on the financial resources of local and regional authorities https://search.coe.int/cm/Pages/result_details.aspx?ObjectID=09000016805db09e

⁵ See <https://www.coe.int/en/web/good-governance/toolkits> for more detail.

LFB adaptation and piloting in Hungary

Adaptation of the of LFB toolkit began in June 2023 by *(i) translating the standard questionnaire* to be used for external evaluation of financial resources and local financial management. A *(ii) call for local experts* was issued and widely disseminated in local government networks. It was decided to launch the LFB pilot as an (expert-supported) self-assessment with a view to identifying lessons for future, more readily scalable applications in Hungary and other countries.

Developing the self-assessment tool

An adapted version of the standard survey on Local Finance Benchmarks was prepared by October 2023. The *(iii) adjustment to the Hungarian legal and management framework* focused on the following modifications:

- a) Restructuring the questionnaire by moving general principles to the relevant specific sections;
- b) Aligning the items on intergovernmental transfers, grants and subsidies with Hungarian regulations, e.g. placing more emphasis on regular review, performance and cost analysis;
- c) Simplifying the review of municipal asset management;
- d) Supplementing the questions on internal control mechanisms; and
- e) Requesting more specific information on transparency and public access to documents, e.g. by asking about links to websites.

The adapted LFB questionnaire was then transformed into an *(iv) online self-assessment tool*, enabling automatic upload of the responses. These were later re-coded for analysis. The LFB survey is included in Annex 1.

Piloting the Local Finance Benchmark

Following these preparations, a *(v) call for pilot municipalities* was issued. Ten municipalities expressed interest in participating in the LFB pilot. All project related documents were uploaded to a *(vi) dedicated webpage of TÖOSZ⁶*, the main project beneficiary.

A *(vii) launch meeting* was organised on 25 October 2023 for officials and finance experts of the local governments which had expressed their interest in participating in the LFB pilot project. Pilot municipalities were invited to fill in the questionnaire with the support of the two project experts. *(viii) Eight municipalities responded* and filled in the survey, representing the diverse sizes of Hungarian municipalities (see Table 1).

In most cases it was heads of municipal finance departments who completed the LFB questionnaire. During the survey implementation period, two municipalities asked for consultation and raised questions related to the questionnaire.

The survey responses were the basis for drafting individual *(ix) LFB evaluation reports for the participating municipalities*. Municipal indices were calculated by omitting the irrelevant or missing responses, e.g. if there is no municipal borrowing, these questions could not be answered. The index calculation method is included in Annex 2.

⁶ TÖOSZ (2023-2024): HPB projekt <https://töosz.hu/hpb/>

Table 1: Municipalities participating in the LFB pilot

Municipality	County	Residents (2021)
Alsómocsolád	Baranya	276
Budapest XIIIth District	Budapest	120,669
Budakeszi	Pest	15,466
Dunaszentpál	Győr-Sopron	721
Felsőtárkány	Heves	3,618
Oroszlány	Komárom-Esztergom	17,442
Szarvas	Békés	14,930
Vásárosnamény	Szabolcs-Szatmár	8,078

The pilot municipalities received individual draft reports for comment in January 2024. None of the municipalities requested anonymity, and all supported full disclosure of the LFB results.

Most participating municipalities accepted their assessments. The only challenge in the evaluation phase was that due to a lack of managerial-level validation during the original online survey period, some municipalities modified their responses. Two cities requested corrections of their scores *ex-post*. This problem was addressed by analysing the first-round survey data but also indicating the modifications in the corresponding scores and indexes in the final publication for the sake of future comparison. The comments received referred to the legal environment and financial conditions influencing the scores. This can be considered as the start of a process investigating the causes of differences, which is the main objective of benchmarking. The average scores by survey item are included in Annex 3.

Feedback from pilot municipalities

During the pilot process, municipalities repeatedly referred to the legal-regulatory environment enshrined in national laws as determining the local rules and procedures. This focus on statutory compliance dominates municipal behaviour. Consequently, no additional local regulations exist on complex issues such as budgeting, municipal debt management, and managing conflicts of interest.

Participating municipalities indicated that the terms used in the LFB questionnaire, or the practices referenced therein, sometimes require further clarification or hands-on explanation to avoid misinterpretation, e.g. with regard to medium-term budgeting, participatory (community) budgeting, and the localisation of socio-economic forecasts provided by the national government.

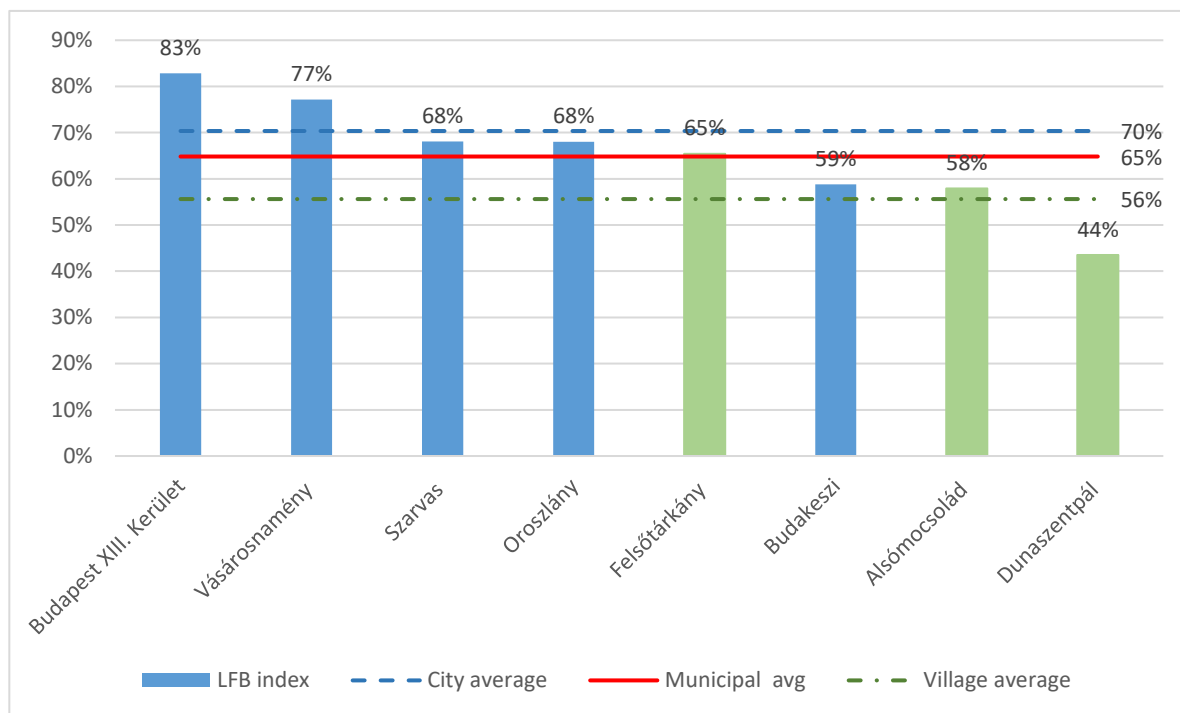
During the *(x) closing workshop* on 28 February 2024, technical staff of the pilot municipalities provided additional feedback on the key financial and budget-related issues covered in the questionnaire, the self-assessment survey method (online questionnaire), as well as the future usage and dissemination of the LFB instrument. These suggestions are included in the final section of this report.

Results and findings

Overall results

The overall LFB results show clear differences between the pilot municipalities (see Figure 1), with considerable variation in the overall results by locality (44%-83%). The average index rating is 65% across the pilot municipalities. Within a relatively small sample, these results indicate significant room for improvement. Organised support for exchange and adaptation of good practice may contribute to stronger local finance practices.

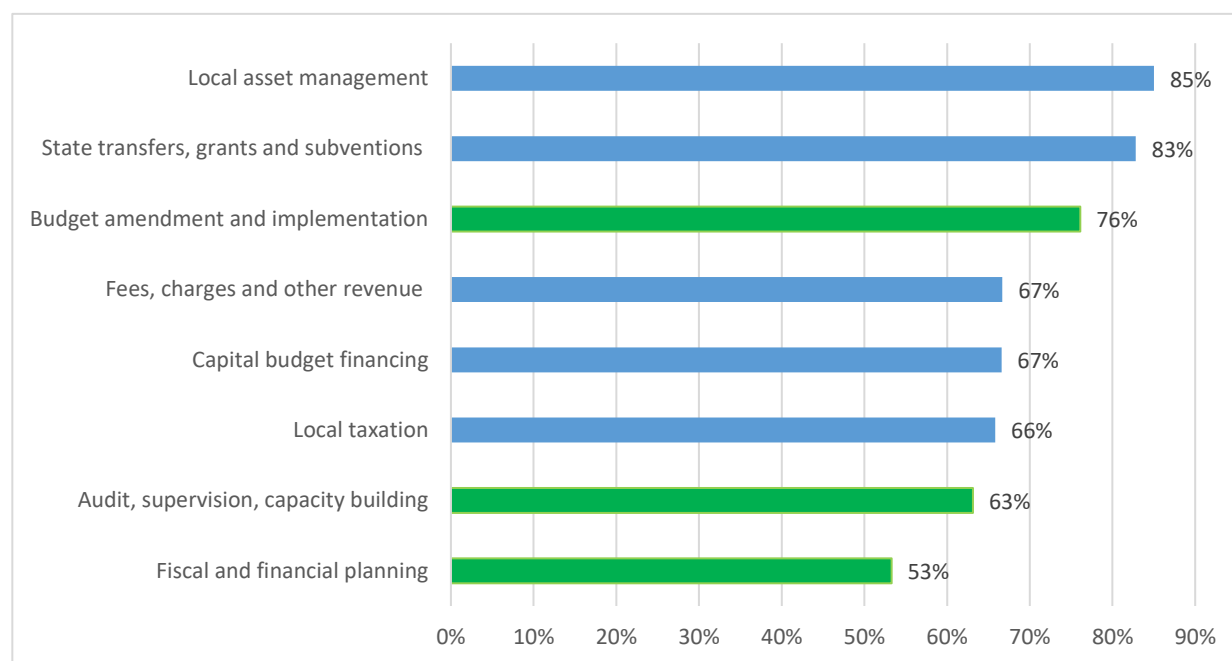
Figure 1. LFB pilot municipalities, overall indices



According to the aggregate LFB results, larger and urban municipalities perform better than smaller and rural (village) municipalities. The main reasons could be that the fiscal strategies and the financial management capacities of these localities vary significantly. To support this conclusion in a robust way, however, first, the LFB survey should cover a significantly larger sample that is also better controlled for municipality types. Second, more in-depth, case-based, qualitative research methods could be applied as a complementary approach to gain better insights into the local government processes. In general, the results of the LFB pilot should be interpreted carefully and only as demonstrative, due to the small sample size and the lack of representativeness.

As shown in Figure 2, the results by types of local financial resources and financial management practice show three relatively well-developed areas: Local asset management, management of national budget transfers, and local budget management. Local taxation (development of local tax policy, quality of tax rules, information to taxpayers, tax administration) and two areas of financial management (audit, supervision, capacity building; fiscal planning) are at the bottom of the overall ranking.

Figure 2. LFB pilot, averages by sub-indices



The detailed benchmarking results point to some insights of relevance to municipalities, local government associations and central government stakeholders. In the short term, improvements can be achieved by boosting the transparency of municipal finances (e.g. publishing documents in machine-readable format and disclosing more public information and data key to the local decision-making process) and by increasing accountability through the pro-active inclusion of citizens and social actors.⁷ Medium to longer-term actions are needed to strengthen the strategic approaches in local decision-making (e.g. mid-term fiscal planning) and developing performance-budgeting methods and techniques.

Financial resources

In the field of *financial resources*, local asset management (85%) state transfers and grants (83%) were the best ranked areas. This is partially explained by the LFB focus on the production of balance sheet information, the relationship with the local service providers, and municipal regulations in the area of local asset management. These are usually in place at the piloted municipalities. The grant system is probably the most regulated area of municipal finances. Given the limited local scope for manoeuvre, reported good compliance with the (centrally designed and enforced) rules resulted in higher scores.

Areas with greater local autonomy and consequently more diverse local practices received lower scores: Figure 3 highlights charge setting (67%), investment financing (67%), and local taxation (66%). Items with lower scores indicate specific areas for improvement, such as introducing area-based property taxation differentiated by value proxies, assessment of local revenue structure, regularly updated liquidity plans, and participation of citizens and social actors throughout the entire budget cycle.

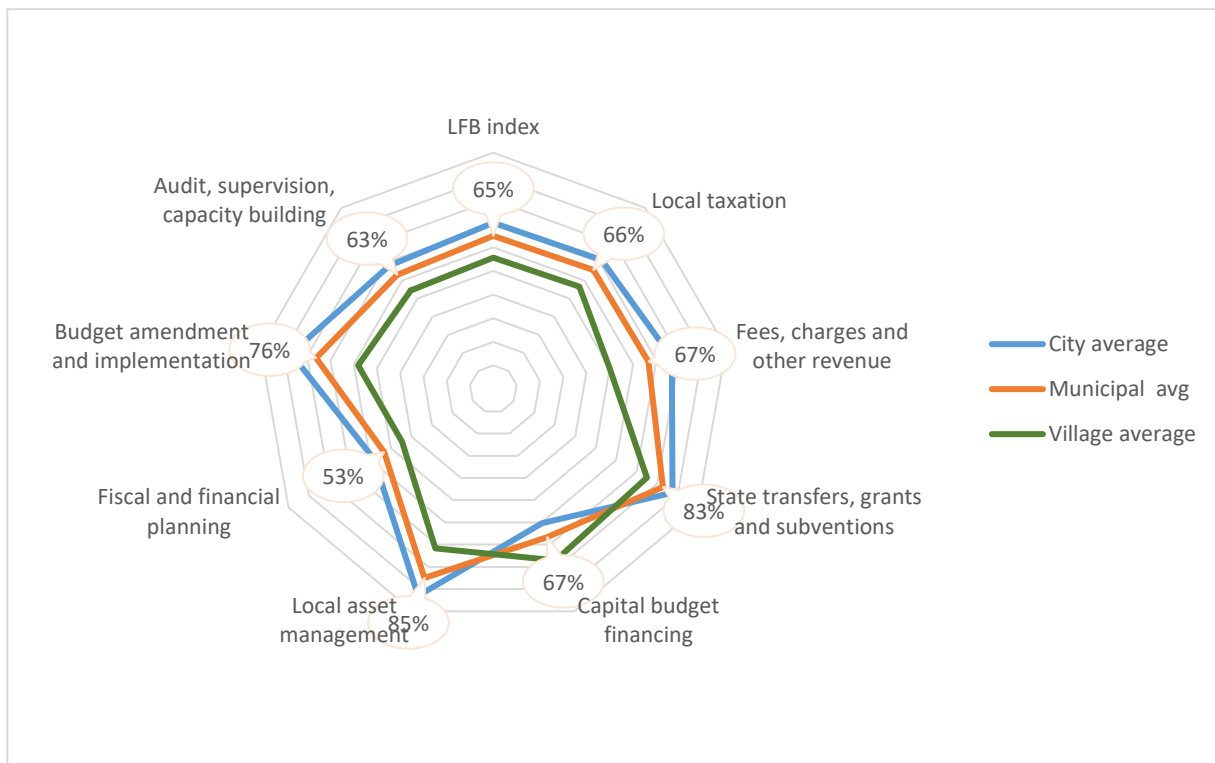
⁷ Cf. CM/ Rec(2004)1 Part II Guidelines for local and regional authorities, paragraphs 51-56
https://search.coe.int/cm/Pages/result_details.aspx?ObjectID=09000016805de0df

Local financial management

With regard to *financial management*, the well-regulated area of budget amendment and implementation received the highest score (76%). Audit, supervision, and capacity development ranked lower (63%), while the complex area of fiscal and financial planning had the lowest scores (53%). Specific areas in need of improvement are balanced budget planning, medium-term forecasts, risk assessments, regulated audit contracts, conflict of interest regulations for municipal staff, and the use of IT supported management information systems.

The LFB result by topic show similar urban-village municipal differences as the overall LFB index: cities achieve higher scores than village municipalities (see Figure 3). One exception is the area of capital budget financing, where villages achieved higher scores. This can partly be explained by the structure of the LFB questionnaire: Most municipalities do not engage in borrowing, so two items related to loans were omitted from the results of these responses. The remaining two questions in this category therefore had a larger weight, resulting in lower scores for those with diverse sources for capital investment and lower grant dependence (which is more likely in the case of cities).

Figure 3. LFB index: differences by municipality type



Recommendations

Based on the LFB pilot results, this report offers a number of suggestions for further policy discussions. Across the eight areas of benchmarking, items with low average scores demonstrate potential for improvements. These could be achieved through a mix of regulatory changes, technical support to municipalities and other forms of capacity-building and knowledge-sharing activities. The LFB serves primarily as a diagnostic tool to help identify areas in need of improvement. The actual form of intervention will require further discussion, design and planning.

In the area of *financial resources*, the following could be considered:

A) *Local taxation:*

- a. Area-based real estate taxation can be improved by introducing *ad valorem* property tax or at least incorporating factors to differentiate property values in the area-based tax (e.g. building age, materials, access to services);
- b. Taxpayers should be better informed, both at the early stages of tax policy design and after the closing of the fiscal year, e.g. by making the reports on the use of tax revenues public.

B) *Fees, charges, and other revenues:* Impact assessments should be carried out before changing local charges, and these should be made public.

C) *State transfers, grants and subsidies:* In light of the high dependence on national budget grants among Hungarian municipalities, the options for alternative funding sources for all municipal functions should be regularly analysed and evaluated.

D) *Capital budget financing:* Due to limitations and strict central regulations on municipal borrowing, loans play a minor role in financing capital investments. Local fiscal autonomy would be increased by reducing heavy dependence on national budget subsidies and giving more room to municipalities to access loan financing for capital investments, with appropriate oversight and risk management.

E) *Local asset management:* If there is a contracted asset manager, audit of this unit should be regulated with a specific local property management regulation.

In the field of *financial management*, the following improvements could be considered:

F) *Fiscal and financial planning:*

- a. Medium term plans are usually missing from the municipal practice. Forecasts are rarely used to inform annual budgeting. Support to planning methods (e.g. use of output indicators) can improve the quality of local budgets.
- b. Concerning budgeting techniques, socio-economic impact assessments should be more widely used, and made publicly available. Financial risk assessments for municipal service organisations should be incorporated in the annual budget. In both cases, municipalities need technical assistance and support in improving their budgeting practices.
- c. The publication of budget and implementation reports can be improved by making council and committee meeting minutes available for analysis. All regulated forms of informing the general public should be used widely.
- d. Participatory (community) budget is only rarely used by Hungarian municipalities. Disseminating lessons of good municipal practices and exchanging information on

experiences in municipalities of similar size could help encourage uptake this approach for good democratic governance at the local level, where appropriate.⁸

G) *Budget amendment and implementation:*

- a. In this well-regulated area of financial management, the monthly updated financing (liquidity) plans should be more widely used by municipalities.
- b. Audit reports on municipal budgets should be prepared regularly by a contracted independent auditor.

H) *Audit, supervision, and capacity building:*

- a. Local model regulations should be widely disseminated on specific internal rules and procedures for local debt management and consolidation;
- b. More detailed conflict of interest regulations for municipal employees and civil servants (going beyond the statutory framework) and their implementation through guidance, training, review, and inclusion in management practices⁹ would contribute to improving transparency and to addressing corruption risks;
- c. More systematic use of digital management information systems would help improve the efficiency of local administration. Relevant service performance and fiscal data are available to municipalities, but they should be more systematically incorporated into local decision-making process, including by using comparable data from key information sources such as IKIR¹⁰, the State Treasury, and the LGDP¹¹.

In sum, the pilot experiences indicate some cross-cutting issues that could provide a useful focus for future *knowledge-sharing and capacity-building activities*.

Firstly, it is rare that municipalities follow a strategic or mid-term-oriented approach in local budgeting or apply performance-budgeting across the various service areas.

Secondly, local capacities seem to be rather limited in running in-depth background analysis, especially in conducting impact assessments.

Thirdly, lack of experience and knowledge in collaborative governance may explain the low occurrence of participatory methods. Effective engagement of local stakeholders in local finance policy and practice is often missing, with the exception of regular consultations with large local business tax payers, due to its dominance among local own-source revenues.

⁸ Participatory budgeting is indicated by different bodies of the Council of Europe as a relevant approach, where appropriate, to support good democratic governance at the local level. Cf. European Committee on Democracy and Governance (CDDG), Explanatory Memorandum to Recommendation CM/Rec(2023)5 of the Committee of Ministers to member States on the principles of good democratic governance, Principle 1 - Democratic participation https://search.coe.int/cm/Pages/result_details.aspx?ObjectId=0900001680ac77e4; Recommendation Rec(2004)1 of the Committee of Ministers to member states on financial and budgetary management at local and regional levels, para 59 https://search.coe.int/cm/Pages/result_details.aspx?ObjectId=09000016805de0df; Congress of Local and Regional Authorities Resolution 357 (2013)1 Local and regional authorities responding to the economic crisis https://search.coe.int/congress/Pages/result_details.aspx?ObjectId=0900001680719ef2; Resolution 332 (2011)1 Education for democratic citizenship: tools for cities https://search.coe.int/congress/Pages/result_details.aspx?ObjectId=0900001680719657; Resolution 326 (2011)1 Citizen participation at local and regional level in Europe https://search.coe.int/congress/Pages/result_details.aspx?ObjectId=0900001680718895 Also see OECD (2022): Guidelines for Citizen Participation Processes, esp. pp.80-81 <https://www.oecd.org/publications/oecd-guidelines-for-citizen-participation-processes-f765caf6-en.htm>

⁹ Cf. CM(2020)27 Guidelines of the Committee of Ministers of the Council of Europe on public ethics, https://search.coe.int/cm/Pages/result_details.aspx?ObjectId=09000016809a59e7

¹⁰ Local Public Service Information System (IKIR) with dedicated portals for citizens and local governments (with registration) <https://lakossagi.ikir.bm.gov.hu/>

¹¹ Local Government Data Platform (LGDP), to be hosted by TÖOSZ and currently being designed with the support of the project 'Local Government Public Finance Development and Municipal Capacity Building In Hungary'.

Finally, public disclosure practices are not yet very user-oriented. In line with evolving open government standards, more ambitious disclosure in general and the release of key data in machine-readable format in particular can support participation, transparency and accountability.

Proposals for scaling-up

Feedback from the Hungarian experts and municipal staff involved in the pilot exercise indicates strong potential and interest in expanding on the LFB pilot, including by exploring ways to support peer learning and exchange of good practices among municipalities.

The piloting of the LFB in eight Hungarian municipalities showed that the adapted questionnaire and the self-assessment method can be used effectively and efficiently to benchmark local authorities' practice against European standards. Experiences of the municipalities responding to the digital questionnaire and municipal reports also delivered important insights into how the implementation of the LFB can be further improved and expanded.

Suggestions from pilot municipalities

Representatives of the pilot municipalities made a number of proposals concerning further adjustment of the LFB survey questions to Hungarian municipal terminology. They also suggested that clusters of municipalities with similar characteristics (e.g. population size, socio-economic characteristics, development level) could be used for future comparison and benchmarking. Further, it was noted that comparison of LFB results over time might be influenced by legislative changes and regulations. Timing of benchmarking was also seen as important, as evaluations may deliver more favourable results by the end of the electoral term.

In the view of the participants, it would be important to develop some form of validation for the self-assessment reports, e.g. peer review by group of local CAOs (Notaries). Further, they suggested that LFB results might be used by finance staff to highlight key fiscal and financial management issues to local decision-makers, and that national budget grant allocation could be partially conditioned on validated LFB survey findings, e.g. by using LFB performance as an additional evaluation criterion. It was also seen as very important to disseminate the future LFB instrument at the regional meetings TÖOSZ plans to organise in Q4 2024/Q1 2025, after the newly elected mayors and councillors take office following the June 2024 local elections.

LFB questionnaire

The questionnaire should be further reviewed and updated in line with future regulatory changes. Additionally, a manual could be developed to provide further explanation and justification for certain survey items and the relevant scoring (see the revised LFB questionnaire in Annex 1).

Online LFB tool

The *results of a future online self-assessment questionnaire* should ideally be generated automatically. A dedicated online application would enable its users to compare scores, municipality-specific indices and to present information on their actual ranking. Survey responses should be comparable in a dashboard and by locating the respondent in municipal clusters. Access to the comparative LFB results would need to ensure consent of participating municipalities, and/or be conditioned on registration.

The online questionnaire should also be supplemented by a glossary (at a minimum). Later, a knowledge base with an inventory of good local practices could be connected to key survey items via hyperlinks.

Responses to open questions would ideally be made public, indicating contact persons to facilitate sharing of good practices.

Users should be able to save their responses during data entry for later completion and submission.

The results of benchmarking (by items, chapters and overall) should be made available for comparing the scores (responses) of the reporting municipality within its own cluster.

The composite LFB index should be incorporated into an integrated set of key national benchmarks/indicators.¹²

All information including the on-line questionnaire should be accessible not only to TÖOSZ members, but ideally as a service for any registered TOP¹³ user.

Dissemination, promotion, facilitation of peer learning

To develop wider impact, Local Finance Benchmarking requires promotion and support.

The LFB could be further advertised and disseminated through the existing networks of TÖOSZ and the TSI project's Local Finance Working Group members. Other relevant multipliers include the Association of CAOs (Notaries) and academic networks (e.g. the Public Administration Committee of VEAB). The municipalities which participated in the pilot project could be invited to be '*ambassadors*' for the LFB, e.g. by engaging them to present the pilot experience to other municipalities.

Future facilitation of a peer learning process and exchange of local practices via a series of workshops would further enhance the impact of Local Finance Benchmarking. This could be implemented by local government associations, through their regular meetings and dedicated capacity building services.

¹² An activity is foreseen as part of the current EU/Council of Europe project to address this.

¹³ TÖOSZ Online Platform <https://top.toosz.hu/>

Annexes

Annex 1 - Local Finance Benchmark survey

Local government public finance development and municipal capacity building in Hungary



Comparative assessment of the financial resources and financial management of municipal governments¹⁴

The Local Financial Benchmark (LFB) questionnaire is a method for assessing the resources and financial management performance of municipalities. The LFB is a tool developed by the Centre of Expertise for Good Governance at the Council of Europe. The tool offers guidance on the practical application of two key standards of the Council of Europe – CM/Rec(2004)1- [Recommendation of the Committee of Ministers to member states on financial and budgetary management at local and regional levels](#) and CM/Rec(2005)1 - [Recommendation of the Committee of Ministers to member states on the financial resources of local and regional authorities](#).

The Local Finance Benchmark Programme aims to improve the financial and fiscal management practices of individual local authorities. The evaluation covers two broad themes:

- 1) local government financial resources (local taxation, charging, state aid, development finance, asset management), and
- 2) financial management (planning, budget modification and implementation, control, professional training).

For the municipalities participating in the self-assessment, the general rating and comparison criteria have been adapted to the national context by highlighting the most important ones and reducing the number of questions for ease of use. In this way, self-evaluation and benchmarking in these areas helps to disseminate and publicise good practice and to identify gaps and methods for improvement.

The LFB's scoring method is a mirror for elected and appointed leadership and can encourage local decision-makers and experts to look for ways to improve. Through comparison, benchmarking helps to ensure efficient and planned local government management and also provides a learning opportunity for participating local governments. It can also be used as an evidence-based mapping tool to help a municipality rank itself in a league table of municipalities.

The Local Financial Benchmarking Programme is in its first pilot phase, where 10 volunteer municipalities are carrying out an assessment of their own financial and budgetary practices. Based on the lessons learned, we will finalise the methodology, which will be made available as a service through the TÖOSZ Online Platform.

It is up to the decision of the municipality participating in the Local Financial Benchmarking Programme whether the results of the survey will be published with the name of the municipality or only with a code number in a non-identifiable way. If a question or topic is not valid for your municipality, all scores will be calculated without them.

¹⁴ Translation of the introduction shared with pilot municipalities. The survey includes revisions following feedback during the pilot implementation.

I. FINANCIAL RESOURCES

SECTION and AREA (with reference to the number of Recommendation)	Self assessment criterion/indicator	VERIFICATION DOCUMENT, REGULATION
<p>A) Local taxation => Go to B) if the municipality does not levy local taxes Local taxes play an important role in the financing of municipalities. The following questions on taxation therefore form a significant part of the self-assessment: 1. the development of local tax policy 2. quality of tax rules 3. information of taxpayers 4. local tax administration The total number of points obtained by answering the questions is 130 and the weighting within the overall benchmarking is 22%.</p>		
<p>1. Local tax policy design</p>		
<p>1. The composition of local revenues from the income and wealth of businesses and individuals/residents should be balanced.</p>	<p>Local tax revenue from businesses as a share of total local tax revenue in 2019-2022: 10: decreased or no change 5: increased by less than 5% 0: increased by more than 5% X- no local business tax or local tax on other businesses</p>	<p>Local tax rules Reports on the evolution of tax revenue</p>
<p>2. Local tax policy should be designed in an open, transparent way (R3, R10)</p>	<p>a. Calculations to justify the amendment of the local tax ordinance have been prepared for the Board for the past three years: Yes: 5 No: 0 X - no changes to the local tax ordinance in the last three years</p>	<p>Organisational and operational rules of the municipality Municipal budget document Channels of communication to the public</p>
	<p>b. In planning the current budget, the calculations used to justify the local tax levy have been made public and posted on the municipality's website: Yes: 3 No: 0</p>	
	<p>c. The format of these documents available online is searchable and can be further processed (e.g. .doc, .xls, .pdf file): Yes: 2 No: 0</p>	
	<p>d. Please provide the link to the document:</p>	
<p>3. Local taxes should be based on the principle of fairness (ability to pay) (R9)</p>	<p>Between building tax and land tax, at least one of them takes into account the value of the property: Value-based property tax: 10 Area-based tax, but differentiated according to the quality of the property: 5 Area-based property tax, without differentiation: 0 X - no building or land tax</p>	<p>Local tax regulations</p>
<p>4. Local taxes should produce high yield (R9)</p>	<p>Local tax revenue as a percentage of budget revenue (average of the past three years) 40+%: 10</p>	<p>Municipal budget accounts, financial statistics</p>

	20-39%: 8 10-19%: 6 1-9%:4 <1%: 0			
5. Changes in local tax framework should be made in a timely manner (R14)	When was the last amendment to the local tax ordinance adopted by the board? 1st to 3rd quarter of the previous year: 10 4th quarter of previous year: 8 year of amendment: 0	Local tax regulations		
2. Tax policy				
1. Tax avoidance and evasion should be prevented (R18)	For the last two years combined, the revenue from building tax, land tax, municipal tax and tourism tax, expressed as a % of the appropriations, amounted to <80%: 0 81-100%: 5 101%<: 10	Local tax regulations Local tax statistics		
2. Information on the tax base should be updated and has to be founded on legally available sources (R19).	If you have levied the following local taxes, you have your own computerised taxpayer register (ASP or own IT system):			
	building tax	It was not levied	levied but no computer records	has been levied and there are computer records
	land tax	It was not levied	levied but no computer records	has been levied and there are computer records
	municipal tax	It was not levied	levied but no computer records	has been levied and there are computer records
	communal tax	It was not levied	levied but no computer records	has been levied and there are computer records
	tourism tax	It was not levied	levied but no computer records	has been levied and there are computer records
	point (per line)	0	0	2
3. Information and local publicity				
1. Information and explanation on local taxes and tax regulations should be made public (R15, R17).	Taxpayers were informed before the local regulation was adopted or amended: not done: 0 at committee/board meeting: 2 through normal local information channels: 2 directly, e.g. by convening large taxpayers: 2	Local ways of communicating with the public		

2. Local tax decree	a. Local tax ordinance available: not found: 0 only in the order book, printed: 2 on the municipality's website: 4	
	b. Please provide the link to the document:	
3. Public information on utilisation of local tax revenues should be comprehensive, understandable (R16).	a. Report on the use of local tax revenues in the previous year available: no: 0 as part of the budget report: 4 also as a separate submission to the body: 8	Budget reports Local communication channels
	b. The prospectus is an online document (e.g. .doc, .xls, .pdf file) that can be searched and further processed: Yes: 2 No:0	
	c. Please provide the link to the document:	
4. Local tax administration		
1. Payment demands should provide information on tax levies (R23)	The mandatory elements of the local tax decision are in place: - identification of the taxpayer, taxable amount, exemptions, tax rate: 2 - amount payable, time limit for payment: 2 - multiple forms of payment: 2 - consequences of late payment, non-payment: 2 - options for appeal: 2	Local tax regulation Tax administration practice Tax forms
2. Tax registration and timely collection should support smooth cash flow (R21)	Notification of late/non-paying taxpayers in the last financial year: not done:0 not done once: 5 several times: 10	Reports on local revenue
3. Electronic taxation	There is an electronic solution (ASP or other online interface) to support on-the-spot taxation (return, payment, follow-up, etc.): Yes: 5 No: 0	Tax administration practice
4. Complaint procedures should be clear (R23, R24))	Local legal procedures for complaints, appeals are regulated: No: 0 Yes: 5	Local tax rules
B) Fees, charges and other revenue		
Local demand for services can be influenced through locally adjustable charges. Charging rules also help to achieve the objectives of municipal social policy. Answering the following questions will score a total of 30 points and will carry a weighting of 5% within the overall comparative assessment.		
1. User charges should not exceed service costs (no profit on paper) (R26)	Is there an assessment for the cost of major service charges (fees, rent, etc.)? yes: 10 no: 0	Local budget Pricing regulations Financial reports and business plans of service providers

2. Charges should not reduce demand for services excessively (R27)	Is an impact assessment carried out before changing the charges? yes: 5 no: 0	Local budgets Pricing regulations Service performance indicators
	Is the impact assessment publicly available in an online document format suitable for searching and further processing (e.g. .doc, .xls, .pdf file): Yes: 5 No: 0	
	Please provide the link to the document:	
3. Access to essential services by disadvantaged groups should be preserved (R29)	Are equity criteria and social situation taken into account when setting public service charges? Yes: 10 no: 0	Local budget Pricing regulations
C) State transfers, grants and subsidies		
State transfers are the most important sources of the municipal budget. In a regulated system of task funding, general and additional grants, the role of the municipality is essential in planning, quantifying needs and managing unexpected changes. Answering the following questions on these issues will score a total of 50 points and carry a weight of 9% in the overall benchmarking exercise.		
1. Justification of the grant application	Are the development of indicators related to public normative and task funding continuously monitored? Yes: 5 No: 0	Budget planning documents Local statistical and performance indicators
	Do you use controlling tools to justify the request for normative funding? Yes: 5 No: 0	
2. Planning of own resources to complement transfers	Do you have a source structure statement to finance the expenditure of the subsidised services? Yes: 5 No: 0	
	Have measures been taken to eliminate underfunding? Yes: 5 No: 0	Budget planning documents
3. Reporting on the transfers	Was the reporting of the normative grants for the past year completed on time? Yes: 10 No: 0	Budgetary reporting HST reports
4. Preparing for short-term (sudden) changes in grant allocation	Does the municipality have a reserve to provide immediate resources for management in the event of force majeure? Yes: 5 No: 0	Budget planning rules, practices
	Is there a designated responsible person or expert group (e.g. finance committee, working group, external expert) that can develop proposals for financial solutions in a local budget crisis? Yes: 5 No: 0	Organisational Rules of Management Rules of Procedure

D) Capital budget financing

One of the most important areas of local government autonomy is the planning and financing of investments and developments. Here too, the role of centrally allocated grants is crucial, but without mobilising own resources, local development policy will not be effective

Answering the following questions on development financing will score a total of 40 points and will carry a weighting of 7% in the overall benchmarking exercise.

1. Local capital investments are managed effectively	Ratio of the actual cost of municipal investments (renovations) completed in the last three-year period to the original/amended appropriations: 125%<: 0 100-125%: 5 <100%: 10 X - no investment completed	Local government budgets and annual financial reports Investment project documents Local government budgets and annual financial reports Investment project documents
2. Capital expenditures are funded by diverse sources of local revenues.	State (EU) aid as % of development expenditure in the last three-year period -50%: 6 51%-75%: 4 76%-90%: 2 91%+: 0 X - no development	
3. Short term loans finance cash flow deficits within the fiscal year	Annual amount of short-term debt over the last three-year period: increased: 0 decreased, no change: 10 => Go to point E) if no borrowing	Debt-creating transactions, loan agreements Annual financial reports of local government Loan agreements
4. Borrowing complies with limits imposed by the national legislation	Borrowing and guarantees by the municipality and its companies are regulated locally: no: 0 yes: 5	Budget and annual financial statements of local government Loan applications
	Budget and accounts include multiannual trends in debt and repayment, interest charges: no: 0 yes: 5 X - no debt repayments	

E) Local asset management

The management of local government assets and the practice of using the many different types of assets is a complex task. An effective and efficient asset management system is based on well-established local regulation and transparent management.

Answering the following questions on these issues will score a total of 40 points and carry a weighting of 7% within the overall benchmarking exercise.

1. Local governments shall keep records of their assets and liabilities.	The following information is available to support the balance sheet: inventory: 2 valuation of fixed assets within at least 10 years: 2 year-end reconciliations of accounts receivable: 2	Local budget planning and reporting rules Local rules on asset management Local budgets, financial statements Contracts with service providers and property managers
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	Is the change in value (increase, loss) of municipal assets calculated? no: 0 yes: 2	
	The balance sheet and the detailed information on which it is based are published in the appropriate format in the previous three years: no: 0 in part: 1 in full: 2	
2. The organisational forms and rules of asset management are transparent and asset management documents are public	The municipality has its own property management regulation: none: 0 have: 4	Local regulations on property management Legislation, regulations, procedures, contracts relating to the management of municipal property
	The local property ordinance includes: forms of property management:2 the control regime of the trusteeship organisation:2 none: 0	
	The main asset management documents are publicly available (online): Yes: 2 No: 0	
	Please provide the contact details of the documents	
3. Regulation of municipal companies ensures their long-term financial stability => no service companies, go to question 4	Service contract with the municipality's service companies: none: 0 most of them have: 2 with each company there are: 4	Municipal service contracts PPP agreements
	The service contracts provide for the use, maintenance, renewal and replacement obligations of the municipal assets: no: 0 partially: 2 fully: 4	
	The list of municipally owned companies and their main strategic documents are public and available through the municipal website: Yes: 2 No: 0	
	Please provide the link to the document:	

4. Municipal service contracts cover asset management and social issues	The public service contracts regulate the conditions of registration and use of the assets transferred for the performance of the public service: yes, all: 10 yes, but not fully: 5 no, no service contract: 0	Regulations on the management of municipal property The municipal framework agreements and annual contracts with utility, municipal and transport companies.
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II. FINANCIAL MANAGEMENT

<p>F) Fiscal and financial planning Planning is a key element of local government budget management. It is based on 1) the formulation of a budget strategy 2) setting budget targets 3) the application of good planning practices and 4) transparent budget planning practices that ensure stakeholder participation and involvement. Answering the following questions on the different elements of financial planning will score a total of 170 points and will carry a weight of 29% in the overall benchmarking exercise.</p>		
<p>1. Fiscal strategy design</p>		
1. Overall financial framework of multi-year budget (R44)	a. The municipality has an adopted multi-annual (2-4) budget plan: no: 0 yes: 6	There is an annual budget document. The budget documents contain tables, comparative data.
	b. The multi-year budget document is public and available on the municipality's website: Yes: 2 No: 0	The budget lines are transparent and structured, properly classified.
	c. The supporting data and budget figures for the multiannual budget are public and available on the municipality's website Yes: 2 No: 0	
	d. Please provide the link to the document:	
2. The multi-annual plan is the basis of the annual budget (R45)	The annual budgets also include multiannual (2-4) forecasts of the main expenditure and revenue appropriations: no: 0 partially: 5 in full: 10	Regularly updated multiannual plan Long-term budget decisions (major projects, investments) are earmarked, which influences the commitments for the year.

2. Fiscal policy objectives		
1. Local fiscal policy aims for balanced budget	a. A local decree regulating the municipality's own budgetary planning, objectives and management rules yes: 6 no, no regulation: 0	Local regulations, working documents
	b. Local rules on budget planning provide for a balanced operating budget yes:4 no, no such regulation: 0	
3. Fiscal planning methods		
1. Budgeting procedures and methods are locally regulated.	The municipality has its own regulation, internal rules and guidelines governing the budget planning process: no: 0 yes: 10	Local planning rulebook, which regulates the tasks, forms of cooperation and procedures of the departments.
2. Municipal fiscal policy design incorporates impact assessment. These analytical reports are public.	a. A social and economic impact assessment was carried out for this year's budget plan: yes: 6 no: 0	Analyses carried out by the municipality Budget background documents published by the municipality website
	b. The related analyses are available in a readable and searchable online format (e.g. .doc, .xls, .pdf) Yes, all documents: 4 Yes, partially: 2 No: 0	
	c. Please provide the link to the document:	
3. Technical and planning capacity in budget preparation is available during budgeting. (R46, 57,58)	Budget planning is done in a unified computer system: yes, fully,: 10 yes, partially: 5 no computer system supporting budget planning in a comprehensive way: 0	The IT system supporting budget calculations and documentation, and the workflows governing budget preparation.
4. Standardised analytical sheets are used for budgeting (R47)	The budget planning tables and calculation materials link in a verifiable way the outputs and operational appropriations: no such calculation material, tables: 0 tables exist but are not suitable to link outputs and financial appropriations: 5 such worksheets exist and are suitable: 10	Standardised forms for the establishment of voting units. Cross-checked planning worksheets for budget analysis
5. Local service output and outcome indicators are identified and their performances are measured (R54)	The annual budget includes service output and result indicators that can be monitored and accounted for in relation to the appropriations: no, only exceptionally: 0 mostly: 5 always: 10	Database and local rules for measuring and monitoring performance.

6. Financial position of local government service institutions and companies, contracted partners are evaluated during budgeting	The financial situation (expenditure, revenue, financing, risk factors) of the bodies providing services to the municipality is included in the budget: overall, in full: 10 partially: 5 none or only in exceptional cases: 0	Annual budget and planning documents
7. Financial reserves for risk management are available (R. 63)	a. The municipality has risk management policies and procedures: no:0 yes:4	Risk management framework. Rules and procedures for risk management responsibilities within the organisation.
	b. The budget plan includes a risk analysis of uncertain items of expenditure (e.g. guarantees) and revenue (e.g. loans, own revenue): no: 0 partially: 3 fully: 6	
4. Transparency and inclusion of local community		
1. Fiscal and financial matters are discussed at open meetings (R2)	a. Meetings of the Finance/Budget Committee to discuss the budget proposal are open to the public: yes: 5 no: 0	Minutes of meetings Media analysis
	b. The minutes of the meeting of the body discussing the budget regulation are available in a format suitable for further processing and searching on the municipality's website: yes: 5 no: 0	
	c. Please provide the link to the document:	
2. Transparency of local budgetary procedure	a. The approved budgets and their annexes for the last three years are available on the municipality's website: yes: 6 partially: 4 no: 0	Rules and procedures of the municipality Budget documents published on the municipal website
	b. The most recent budget and accounts, together with annexes and accounting documents, are available electronically in a format suitable for processing: yes, fully: 4 partially: 2 no: 0	
	c. Availability of the latest accounts (link):	
3. The timeframe of budget debate by elected bodies (R59, 74)	For the last three years, the budget concept and proposal have been prepared in accordance with local rules and on time: yes, both: 10 partly, not in all cases: 5 no, always late: 0	Actual timing Minutes of the meetings.

4. Involvement of elected bodies (R49, 73, 75)	The participation of representatives in the budget planning process is regulated, so that: - the order in which questions are asked and answered by representatives is regulated: 3 - possibility of individual budget presentation given: 3 - rules on budget involvement, conflict of interest are fixed: 4 - none: 0	Clear and understandable local rules, Code of Conduct to avoid conflicts of interest.
5. Separate debate and adoption of complex, major investment projects or other significant programs (R50, 59, 71)	The planning, preparation and implementation of investments are regulated locally: yes, fully: 10 partially: 5 no, different procedure for each investment: 0	Decision-making procedure. Content of proposals and other documents.
6. Openness and transparency of budget documents (R52, 56)	In all cases over the last three years, the publicity of budget planning has been facilitated: - public hearing: 2 - public budget debate: 2 - public minutes of budget preparation: 2 - written public information, budget information material: 4 - none: 0	Budget documents are available. Documents on the internet in a user-friendly way Flyers Minutes of public hearings
7. Community budget appropriation and planning procedures regulating participatory budget exist.	The municipality has a participatory budget: yes and the procedure is regulated: 10 yes, it works in practice but is not regulated: 5 no: 0	Community budget rules, practical arrangements for the implementation of the budget
G) Rules of budget amendment and implementation		
The successful implementation of the budget depends on the accurate and regular monitoring of the use of appropriations and the controlled and controlled implementation of the necessary modifications. An important element of this is the regularisation of the budgetary relations of the companies owned by the municipality.		
Answering the following questions on these issues will score a total of 50 points and will carry a weight of 9% in the overall benchmarking exercise.		
1. Regular evaluation keeps track of budget implementation (R76, 77)	Are regular budget appropriation reviews implemented: no, or once: 1 between 1 and 3 times: 3 more than 3 times: 6	Mid-year evaluations. Quarterly audit reports Prescribed warning system where irregularities are detected.
2. Local framework of supervision, monitoring and reporting system set up to audit budget implementation (R80, 83)	a. Is there a staff member or committee/working group within the municipality that monitors management performance data on an ongoing basis and independently of implementation Yes: 10 No: 0	Progress report. Financial reports. Documents on the Internet in a user-friendly way Minutes of the debate on the reports on the implementation of the budget.
	b. Is a liquidity review carried out monthly and is the liquidity plan updated? Yes: 6 no: 0	

3. Budget adjustment during the year is limited. (R78)	a. Does the mayor have the right to transfer budget appropriations under his own authority, as laid down in the decree? yes: 5 no: 0	Local rule on amending the budget. Cases and scope of budget modification.
	b. Is there an obligation to report to the council on decisions taken by the mayor on his own authority? yes: 5 no: 0	
4. Independent opinion on final reports and financial statements.. (R83)	a. Do you have an audit contract? yes: 6 no: 0	The role of the external audit opinion and a clear understanding of its role and limitations Report on the external audit.
	b. Has the auditor certified the accounts for the previous three years? yes: 0 no: 4 X - no auditor	
5. Relations between the local government and its subsidiary organisations are regulated by transparent agreements.	a. In the last three years, when planning the budget, the majority-owned companies of the municipality have prepared a business plan: yes, always: 6 yes, mostly: 3 no: 0 X - no municipality-owned co.	Local government budgets and financial statements Local government framework agreements and annual contracts with utility, municipal and transport companies Basic documents of municipal service organisations
	b. The annual accounts are publicly available in a format that can be further processed and searched Yes, in an appropriate format : 4 Yes, not in a searchable format : 2 No : 0 X - no municipality-owned co.	
	c. Please provide the link to the document:	
H) Audit, supervision, capacity building		
A well-functioning internal audit system, regular public procurement and the practice of dealing with possible financial difficulties are prerequisites for budget implementation and sound management. The system requires qualified staff, who should be given the opportunity for professional development. Answering the following questions on these points will give a total of 70 points and a weighting of 12% in the overall benchmarking exercise.		
1. Internal audit		
1. Framework and role of internal audit (R82, 84)	a. Internal audit policy, manual are available? yes: 5 no: 0	Local internal audit principles and policies. Local policies Internal audit rule book
	b. Is there an approved internal audit plan for the current year? yes: 5	

	no: 0	
2. Regulation on public procurement.	a. The public procurement plan of the municipality and its institutions is publicly available: yes: 5 no: 0	Procurement rules Authorisation policy
	b. Municipal contracts below the public procurement threshold but above HUF 1 million are publicly available: yes: 5 no: 0 X - no such contracts	
3. Procedure for cases of financial difficulties (R85, 86, 87).	Is the local government's debt settlement procedure regulated locally? yes, by separate local regulation: 10 yes, as part of the management rules: 5 no: 0	Local rules Local policies Manual for special, high-risk situations and frequently encountered problems
2. Employee training		
1. Training in various forms are needed for the local staff (R7).	a. Percentage of civil servants (office staff) who attended training in the previous year: 30%<: 6 10-30%: 4 0-10%: 2 0%: 0	Human Resources (Personnel) Department Local budget
	b. Budgetary allocation for training of civil servants and public employees in local government as a percentage of wage costs in the previous year: 2%<: 4 0-2%: 2 0%: 0	
2. Systems should be set up to enhance ethical behaviour for employees in financial and fiscal matters (R8).	a. Conflict of interest rules for employees of the mayor's office are laid down in a local ordinance: yes: 5 no: 0	Internal rules Code of Conduct Laws and national regulations on public procurement, conflict of interest
	b. The rules on conflicts of interest of municipal representatives and officials are laid down in a local regulation: yes: 5 no: 0	
3. Management efficiency should be improved with IT support (R6).	Local Management Information System is in use	Local IT procedures, equipment
	b. A controlling system is in place in the financial area: yes: 2 no: 0	
	c. Software support is used for financial analysis related to decision preparation yes: 3 no: 0	

Annex 2 - Method of calculating the LFB index

The answers to the LFB survey questions are given different scores depending on their importance. The following formula is used to calculate the index:

$$i_a = \frac{\sum_k (s_{k;\ddot{o}} \cdot 1[\exists s_{k;\ddot{o}}])}{\sum_k (s_{k;max} \cdot 1[\exists s_{k;\ddot{o}}])}$$

where

$s_{k;\ddot{o}}$ score given to question 'k' and municipality 'ö',

$s_{k;max}$ the possible highest score,

$1[\exists s_{k;\ddot{o}}]$ takes a value of 1 if the municipality has answered the question and 0 if it has not.

Missing answers are not part of the index calculation. One reason for a missing answer may be that the question is *not valid* for the municipality (e.g. there was no short-term borrowing). In this case, the maximum score of the missing answers is subtracted from the sum of the scores in the index calculation, so this question will not be taken into account in the index calculation.

Alternatively, a missing answer could be *due to a previous conditional question* having been answered in a way that indicates that the question should be answered with a score of 0 (e.g. if no impact assessment has been carried out, it is of course not available in online format). There were ten such conditional questions in the questionnaire.

Annex 3 - LFB survey score averages and median values

Based on the first round of responses, received by 15 January 2024

	LFB average	LFB median
A) Local taxation sub-index	57%	57%
Local tax policy design		
1. Local tax revenue from businesses as a share of total local tax revenue in 2019-2022: decreased or no change: 10 increased by less than 5%: 5 increased by more than 5%: 0 X- no local business tax or local tax on other businesses	5	5
2a. Calculations to justify the amendment of the local tax ordinance have been prepared for the Board for the past three years: Yes: 5 No: 0 X - no changes to the local tax ordinance in the last three years	5	5
2b. In planning the current budget, the calculations used to justify the local tax levy have been made public and posted on the municipality's website: Yes: 3 No: 0	0	0
2c. The format of these documents available online is searchable and can be further processed (e.g. .doc, .xls, .pdf file): Yes: 2 No: 0	2	2
3. Between building tax and land tax, at least one of them takes into account the value of the property: Value-based property tax: 10 Area-based tax, but differentiated according to the quality of the property: 5 Area-based property tax, without differentiation: 0 X - no building or land tax	0	1
4. Local tax revenue as a percentage of budget revenue (average of the past three years) 40+%: 10 20-39%: 8 10-19%: 6 1-9%:4 <1%: 0	10	9
5. When was the last amendment to the local tax ordinance adopted by the board? 1st to 3rd quarter of the previous year: 10 4th quarter of previous year: 8 year of amendment: 0	8	6
Tax policy		
1. For the last two years combined, the revenue from building tax, land tax, municipal tax and tourism tax, expressed as a % of the appropriations, amounted to <80%: 0 81-100%: 5 101%<: 10	8	8
2. If you have levied the following local taxes, do you have your own computerised taxpayer register: It was not levied: -999 levied but no computer records: 0 has been levied and there are computer records: 2 building tax	2	2
land tax	2	2
municipal tax	0	0
communal tax	1	1
tourism tax	2	2

Information and local publicity		
1. Taxpayers were informed before the local regulation was adopted or amended: not done: 0 at committee/board meeting: 2	0	1
through normal local information channels: 2	1	1
directly, e.g. by convening large taxpayers: 2	0	0
2a. Local tax ordinance available: not found: 0 only in the order book, printed: 2 on the municipality's website: 4	4	4
3a. Report on the use of local tax revenues in the previous year available: no: 0 as part of the budget report: 4 also as a separate submission to the body: 8	2	2
3b. The prospectus is an online document (e.g. .doc, .xls, .pdf file) that can be searched and further processed: Yes: 2 No: 0	0	1
Local tax administration		
1. The mandatory elements of the local tax decision are in place: - identification of the taxpayer, taxable amount, exemptions, tax rate: 2	2	2
- amount payable, time limit for payment: 2	2	2
- multiple forms of payment: 2	2	1
- consequences of late payment, non-payment: 2	2	2
- options for appeal: 2	2	1
2. Notification of late/non-paying taxpayers in the last financial year: not done: 0 not done once: 5 several times: 10	2	2
3. There is an electronic solution to support on-the-spot taxation (return, payment, follow-up, etc.): Yes: 5 No: 0	5	4
4. Local legal procedures for complaints, appeals are regulated: No: 0 Yes:5	5	4
B) Charges, fees and other revenues sub-index	67%	63%
1. Is there an assessment for the cost of major service charges (fees, rent, etc.)? yes: 10 no: 0	10	9
2.a Is an impact assessment carried out before changing the charges? yes: 5 no: 0	0	2
2.b Is the impact assessment publicly available in an online document format suitable for searching and further processing (e.g. .doc, .xls, .pdf file): Yes: 5 No: 0	0	1
3. Are equity criteria and social situation taken into account when setting public service charges? Yes: 10 no: 0	10	8
C) State transfers, grants and subventions sub-index	81%	83%
1.a Are the development of indicators related to public normative and task funding continuously monitored? Yes: 5	5	5

No: 0		
1.b Do you use controlling tools to justify the request for normative funding? Yes: 5 No: 0	3	3
2.a Do you have a source structure statement to finance the expenditure of the subsidised services? Yes: 5 No: 0	3	3
2.b Have measures been taken to eliminate underfunding? Yes: 5 No: 0	5	4
3. Was the reporting of the normative grants for the past year completed on time? Yes: 10 No: 0	10	10
4.a Does the municipality have a reserve to provide immediate resources for management in the event of force majeure? Yes: 5 No: 0	5	4
4.b Is there a designated responsible person or expert group (e.g. finance committee, working group, external expert) that can develop proposals for financial solutions in a local budget crisis? Yes: 5 No: 0	5	4
D) Capital budget financing sub-index	88%	67%
1. Ratio of the actual cost of municipal investments (renovations) completed in the last three-year period to the original/amended appropriations: 125%<: 0 100-125%: 5 <100%: 10 X - no investment completed	10	7
2. State (EU) aid as % of development expenditure in the last three-year period -50%: 6 51%-75%: 4 76%-90%,: 2 91%:- 0 X - no development	4	4
3. Annual amount of short-term debt over the last three-year period: increased: 0 decreased, no change: 10	0	0
4.a Borrowing and guarantees by the municipality and its companies are regulated locally: no: 0 yes: 5	0	0
4.b Budget and accounts include multiannual trends in debt and repayment, interest charges: no:0 yes:5 X - no debt repayments	5	5
E) Local asset management sub-index	80%	83%
1a. The following information is available to support the balance sheet: inventory: 2	2	2
The following information is available to support the balance sheet: valuation of fixed assets within at least 10 years: 2	0	1
The following information is available to support the balance sheet: year-end reconciliations of accounts receivable: 2	2	2
1.b Is the change in value (increase, loss) of municipal assets calculated? no: 0 yes: 2	2	2
1.c The balance sheet and the detailed information on which it is based are published in the appropriate format in the previous three years:	2	2

no: 0 in part: 1 in full: 2		
2.a The municipality has its own property management regulation: none: 0 have:4	4	4
2.b The local property ordinance includes: forms of property management: 2	2	2
the control regime of the trusteeship organisation: 2	0	1
2.c The main asset management documents are publicly available (online): Yes: 2 No: 0	2	2
3.a Service contract with the municipality's service companies: none: 0 most of them have: 2 with each company there are: 4	4	4
3.b The service contracts provide for the use, maintenance, renewal and replacement obligations of the municipal assets: no: 0 partially: 2 fully: 4	4	3
3.c The list of municipally owned companies and their main strategic documents are public and available through the municipal website: Yes: 2 No: 0	2	2
4. The public service contracts regulate the conditions of registration and use of the assets transferred for the performance of the public service: yes, all: 10 yes, but not fully: 5 no, no service contract: 0	10	7
F) Fiscal and financial planning sub-index	52%	52%
Fiscal strategy design		
1.a The municipality has an adopted multi-annual (2-4) budget plan: no: 0 yes: 6	0	2
1.b The multi-year budget document is public and available on the municipality's website: Yes: 2 No: 0	0	1
1.c The supporting data and budget figures for the multiannual budget are public and available on the municipality's website Yes: 2 No: 0	0	0
2. The annual budgets also include multiannual (2-4) forecasts of the main expenditure and revenue appropriations: no: 0 partially: 5 in full: 10	8	8
Fiscal policy objectives		
1.a A local decree regulating the municipality's own budgetary planning, objectives and management rules yes: 6 no, no regulation: 0	6	4
1.b Local rules on budget planning provide for a balanced operating budget yes: 4 no, no such regulation:0	4	3
Fiscal planning methods		
1. The municipality has its own regulation, internal rules and guidelines governing the budget	10	8

planning process: no: 0 yes: 10		
2.a A social and economic impact assessment was carried out for this year's budget plan: yes: 6 no: 0	0	2
2.b The related analyses are available in a readable and searchable online format (e.g. .doc, .xls, .pdf) Yes, all documents: 4 Yes, partially: 2 No: 0	0	1
3. Budget planning is done in a unified computer system: yes, fully,: 10 yes, partially: 5 no computer system supporting budget planning in a comprehensive way: 0	3	4
4. The budget planning tables and calculation materials link in a verifiable way the outputs and operational appropriations: no such calculation material, tables: 0 tables exist but are not suitable to link outputs and financial appropriations: 5 such worksheets exist and are suitable: 10	5	6
5. The annual budget includes service output and result indicators that can be monitored and accounted for in relation to the appropriations: no, only exceptionally: 0 mostly: 5 always: 10	0	1
6. The financial situation (expenditure, revenue, financing, risk factors) of the bodies providing services to the municipality is included in the budget: overall, in full: 10 partially: 5 none or only in exceptional cases: 0	5	6
7.a The municipality has risk management policies and procedures: no: 0 yes: 4	4	4
7.b The budget plan includes a risk analysis of uncertain items of expenditure (e.g. guarantees) and revenue (e.g. loans, own revenue): no:0 partially: 3 fully: 6	2	2
Transparency and inclusion of local community		
1.a Meetings of the Finance/Budget Committee to discuss the budget proposal are open to the public: yes: 5 no: 0	5	4
1.b The minutes of the meeting of the body discussing the budget regulation are available in a format suitable for further processing and searching on the municipality's website: yes: 5 no: 0	5	3
2.a The approved budgets and their annexes for the last three years are available on the municipality's website: yes: 6 partially: 4 no: 0	6	6
2.b The most recent budget and accounts, together with annexes and accounting documents, are available electronically in a format suitable for processing: yes, fully: 4 partially: 2 no: 0	3	3
3. For the last three years, the budget concept and proposal have been prepared in	10	9

accordance with local rules and on time: yes, both: 10 partly, not in all cases: 5 no, always late: 0		
4. The participation of representatives in the budget planning process is regulated, so that:		
- the order in which questions are asked and answered by representatives is regulated: 3	3	3
- possibility of individual budget presentation given: 3	3	2
- rules on budget involvement, conflict of interest are fixed: 4	2	2
5. The planning, preparation and implementation of investments are regulated locally: yes, fully: 10 partially: 5 no, different procedure for each investment: 0	5	5
6. In all cases over the last three years, the publicity of budget planning has been facilitated through:		
- public hearing: 2	2	1
- public budget debate: 2	1	1
- public minutes of budget preparation: 2	1	1
- written public information, budget information material: 4 none - 0	0	1
7. The municipality has a participatory budget: yes and the procedure is regulated: 10 yes, it works in practice but is not regulated: 5 no: 0	0	2
G) Rules of budget amendment and implementation sub-index	75%	76%
1.a Are regular budget appropriation reviews implemented: no, or once: 1 between 1 and 3 times: 3 more than 3 times: 6	6	5
2.a Is there a staff member or committee/working group within the municipality that monitors management performance data on an ongoing basis and independently of implementation Yes: 10 No: 0	10	10
2.b Is a liquidity review carried out monthly and is the liquidity plan updated? Yes: 6 no: 0	0	2
3.a Does the mayor have the right to transfer budget appropriations under his own authority, as laid down in the decree? yes: 5 no: 0	5	3
3.b Is there an obligation to report to the council on decisions taken by the mayor on his own authority? yes: 5 no: 0	5	5
4.a Do you have an audit contract? yes: 6 no: 0	3	3
4.b Has the auditor certified the accounts for the previous three years? yes: 0 no: 4 X - no auditor	2	2
5.a In the last three years, when planning the budget, the majority-owned companies of the municipality have prepared a business plan: yes, always: 6 yes, mostly: 3 no: 0 X - no municipality-owned co.	6	5
5.b The annual accounts are publicly available in a format that can be further processed and searched	4	4

Yes, in an appropriate format : 4 Yes, not in a searchable format : 2 No : 0 X - no municipality-owned co.		
H) Audit, supervision, capacity building sub-index	63%	61%
Internal audit		
1.a Internal audit policy, manual are available? yes: 5 no: 0	5	5
1.b Is there an approved internal audit plan for the current year? yes: 5 no: 0	5	5
2.a The public procurement plan of the municipality and its institutions is publicly available: yes: 5 no: 0	5	4
2.b Municipal contracts below the public procurement threshold but above HUF 1 million are publicly available: yes: 5 no: 0 X - no such contracts	4	3
3. Is the local government's debt settlement procedure regulated locally? yes, by separate local regulation: 10 yes, as part of the management rules: 5 no: 0	0	1
Employee training		
1.a Percentage of civil servants (office staff) who attended training in the previous year: 30%<: 6 10-30%: 4 0-10%: 2 0%: 0	6	6
1.b Budgetary allocation for training of civil servants and public employees in local government as a percentage of wage costs in the previous year: 2%<: 4 0-2%: 2 0%: 0	2	3
2.a Conflict of interest rules for employees of the mayor's office are laid down in a local ordinance: yes: 5 no: 0	3	3
2.b The rules on conflicts of interest of municipal representatives and officials are laid down in a local regulation: yes: 5 no: 0	5	4
3.a Management Information System is used	0	1
3.b A controlling system is in place in the financial area: yes: 2 no: 0	1	1
3.c Software support is used for financial analysis related to decision preparation yes: 3 no: 0	0	0