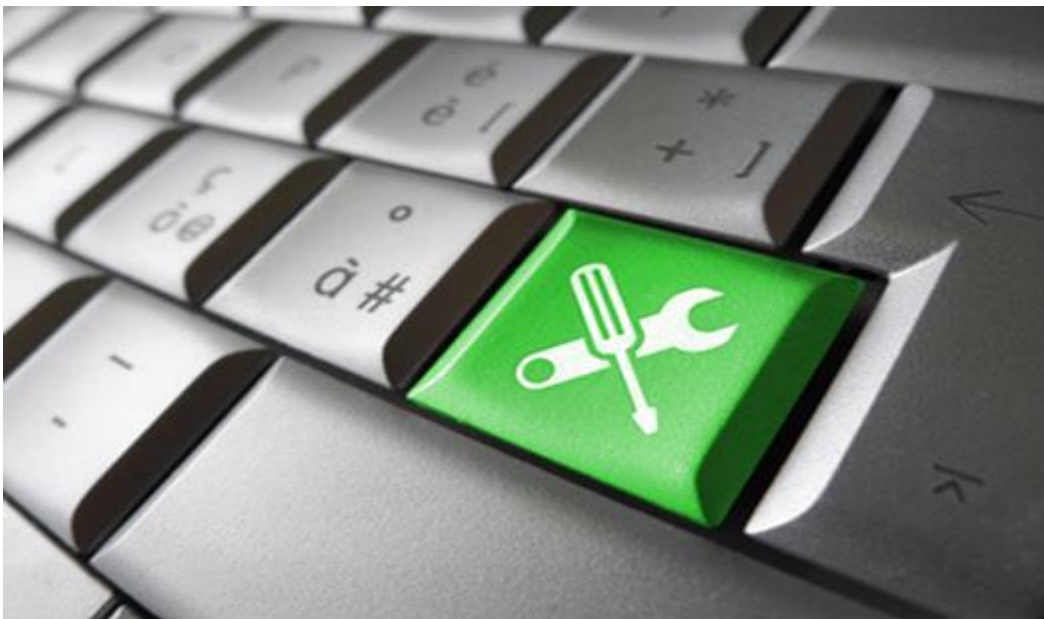


LOCAL FINANCE BENCHMARKING (LFB) TOOLKIT

PILOT SCHEME IN FIVE LOCAL COUNCILS OF BIZKAIA



***APPRAISAL* OF THE SYSTEM OF PROCEDURES AND INDICATORS OF BEST PRACTICES IN LOCAL AUTHORITY FINANCIAL RESOURCES AND BUDGETARY MANAGEMENT**

October 2015

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SYSTEM OF PROCEDURES AND INDICATORS OF BEST PRACTICES IN LOCAL AUTHORITY FINANCIAL RESOURCES AND BUDGETARY MANAGEMENT - LOCAL FINANCE BENCHMARKING TOOLKIT

APPRAISAL OF THE IMPLEMENTED SYSTEM

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APPRAISAL OF THE BEST PRACTICES SYSTEM (LFB TOOLKIT)**

BACKGROUND

The manual published in December 2014 and entitled “*The System of Procedures and Indicators of Best Practices in Local Authority Financial Resources and Budgetary Management*” contains the adaptation of the *Local Finance Benchmarking Toolkit* for the local councils of the province of Bizkaia.



This tool provided by the European Council's *Centre of Expertise for Local Government Reform* seeks to detect and establish best practices in local financing, by identifying a large number of representative *activities / indicators* of those best practices, structured along a series of strategic lines (core areas), sections and headings, relating to the *benchmarking* both of local government financial resources and of their budgetary and financial management.

At the same time, the aforementioned activities and indicators also seek to respond to the recommendations prepared by the *Committee of Ministers* of the Member States of that Council, regarding the requirements or characteristics to be met by best practices in local financing (*REC(2005)*, covering financial resources and *REC(2004)*, covering budgetary and financial management).

As the result of the courses of action implemented in the last quarter of 2014, we have prepared the aforementioned document with the selection of a total of **80 procedures and indicators of best practices in local financing** classified into **5 sections**, set out as a *datasheet or descriptive table* and containing detailed information on their description and characteristics (including their *level of relevance, category and priority approach*). Once introduced and implemented, they should be assessed in order to check the degree of attainment of their objectives.

The list of *sections*, their relationship with the *strategic line* of the *LFB Toolkit* with which it, basically studies, along with the number of procedures and indicators included in one of them, can be summarised as follows:

Section	LFB Toolkit Strategic Line	No.
I. Resources Policies	Financial resources benchmarking: Core Area 1. General principles of local authority resources policy	7
II. Taxes and Charges	Financial resources benchmarking: Core Area 2. Local taxation Core Area 3. Charges, prices and sundry income	24
III. Equity and investment financing	Financial resources benchmarking: Core Area 4. Financing from the capital budget Core Area 5. Local equity	13
IV. Budgetary Planning	Budgetary and financial management benchmarking: Core Area 1. Solvent resources and budgetary planning	21
V. Budgetary Implementation, Monitoring and Control	Budgetary and financial management benchmarking: Core Area 2. Special regulations regarding budgetary adjustments and implementation Core Area 3. Special auditing, monitoring activities	15

REVIEW OF THE BEST PRACTICES APPRAISAL MECHANISM

This report contains the appraisal as of the date it was issued, of the 80 representative procedures and indicators of best practices in local financing resulting from this adaptation of the *LFB Toolkit* in local councils in the province of Bizkaia.

This assessment (which must be conducted periodically) allows the certification of the effective implementation of those best practices or, in any event, streamlines the establishment of a continuous improvement plan for the municipal courses of action in this area. Thus, the degree of adjustment of the courses of actions implemented with the objectives pursued by the aforementioned series of selected procedures and indicators can be checked and quantified.

As a **final outcome** of the appraisal process, a **global rating** will be obtained and which shows the level of efficiency of the authority in implementing best practices in financial resources and in financial and budgetary management. This rating is expressed as a **score between 0 and 10**, and it is calculated as a ratio between the *points allocated* to the authority and the *maximum* of those that can be obtained.

The manual cited in the previous chapter includes the “*System to Assess the Courses of Action Implemented*” section, which describes in detail the scoring mechanisms and the different procedures and indicators identified, which allow the aforementioned rating to be calculated.

There is a brief description below of the rationale and characteristics of the proposed system (*see this section for a comprehensive compression of the appraisal system*):

1. The score allocated to each of procedures and indicators is weighted by the *relevance* allocated to each of them, classified as either *High, Medium* or *Low*, to which 15, 10 and 5 points are allocated respectively.

Out of the total procedures and indicators selected, 60 are classified as *Medium* relevance and 10 in each case, as *High* or *Low* relevance. Therefore, the highest score that an assessed authority could obtain, provided that all the procedures and indicators were applicable or considered, is 800 points.

2. The following *assessment factors* should be used in order to reduce the subjectivity in the appraisal process:
 - The full or partial checking of the appropriate and full implementation of the procedure defined or of the indicator calculated will result in one of the following ratings being allocated to the band: *Excellent, Satisfactory* or *Insufficient*. Each band has a minimum or maximum possible score, which varies according to its *category*.
 - On the other hand, the appraisal is affected by the degree to which the defined procedure or calculated indicator is embraced by the political or technical managers and its degree of formalisation in the municipal regulations.

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- And it is also affected by the adequacy of the evidence provided, including:
 - . The quantity and quality of the support documentation obtained and which is proof of the implementation of the procedure or the calculating of the indicator.
 - . The degree of accessibility to this information.
 - . The reasonableness of the time required to have it available (whether it is information that can be obtained immediately, or which needs additional time to be prepared or re-worked, or which, on the contrary, it is produced with a delay and without any reason being given for the lateness).
- 3. The procedures and indicators considered are classified in three *categories*:
 - Procedures that mean compliance of legislation (*regulated*)
 - Procedures that mean improvements to regulated aspects (*not regulated*)
 - Indicators.

The *points allocated* to each procedure or indicator (according to its *relevance*) are distributed between the different *assessment factors* according to the *category* to which they belong.

As can be seen in the *Summary Table of the Appraisal System* included in **Annex I** of this document, the objective of establishing these differences in the way of distributing the *allocated points*, is that of positively discriminating the attainment of excellent or satisfactory levels in the implementation of the procedures that exceed the requirements of the legislation, with regards to the procedures whose implementation is legally required. Those courses of action are understood to require additional motivation to be implemented.

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PRESENTATION OF THE MUNICIPALITIES

The appraisal of best practices in local financing is part of a project to which five local councils of Bizkaia have committed. As members of the so-called *monitoring panel*, they have been actively collaborating in the project, from their involvement in the work to prepare the manual to accepting to undertake to run these *pilot schemes* in order to validate its contents.

The participating local councils were:

Bilbao

Capital of the province and at the heart of the Gran Bilbao supramunicipal district, it has a surface area of 40.65 km² and is the most populated urban area in the Basque Country. In line with the same trend as the total population in Bizkaia, its population in 2014 had fallen compared to 2011.

The local public sector consists of the City Council and the “Viviendas Municipales de Bilbao, OAL”, “Bilbao Kirolak, OAL”, “Bilbao Musika, OAL” autonomous bodies and by the “La Alhóndiga Centro de Ocio y Cultura, S.A.”, “Sociedad Urbanística de Rehabilitación de Bilbao, S.A.”, “Funicular Artxanda, S.A.”, “Centro Informático Municipal de Bilbao, S.A.”, “Centro de Actividades Culturales Teatro Arriaga”, “Bilbao Kirolak S.A.” companies and “Mercabilbao, S.A.”, which are dependent on the council.

The rights and liabilities in the 2014 consolidated budget settlement for all the aforementioned set of authorities stood at 549,495,636 euros and 529,537,151 euros, respectively.

Galdakao

It is the second largest municipality in terms of size of the district behind Bilbao with 31.70 km². In contrast to Bizkaia's overall population trend, it registered demographic growth in the period 2011 to 2014.

The local public sector is made up by the City Council and the “Euskaltegi Municipal” and “Centro Municipal de Actividades Musicales” autonomous entities.

The rights and liabilities in the 2014 consolidated budget settlement for all the aforementioned set of authorities stood at 35,894,341 euros and 32,470,981 euros, respectively.

Getxo

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It has a surface area of 11.64 km². In the same way as for Bizkaia's total population, it registered a downward population trend between 2011 and 2014.

The local public sector consists of the Local Council and the "Music School", "Municipal Residence", "Getxo Kirolak" and "Culture Centre" autonomous bodies and by the "Puerto Deportivo El Abra –Getxo" company, all of which are dependent on the council.

The rights and liabilities in the 2014 consolidated budget settlement for all the aforementioned set of authorities stood at 99,448,368 euros and 94,321,601 euros, respectively.

Basauri

It has a surface area of 7.16 km². In the same way as the majority of local councils belonging to the group, it registered a drop in population compared to 2011.

The local public sector consists of the Local Council, the "Cultural Centre", "Municipal Sports Institute", "Euskaltegi Municipal" and "Residencia Etxe Maitia" autonomous bodies and by the "Basauri-Etxebarri Behargintza S.L." and "Bidebi Basauri S.L." companies, which are dependent on the council.

The rights and liabilities in the 2014 consolidated budget settlement for all the aforementioned set of authorities stood at 50,561 thousand euros and 51,390 thousand euros, respectively.

Ermua

It has a surface area of 6.49 km². In the same way as the total population of Bizkaia, it showed a downward trend between 2011 and 2014.

The local public sector is made up by the City Council and the "Municipal Sports Institute and "Euskaltegi" autonomous entities.

The rights and liabilities in the 2014 consolidated budget settlement for all the aforementioned set of authorities stood at 21,517,690 euros and 21,864,480 euros, respectively.

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Tables summarising information on the aforementioned local councils are included below.

Total number of inhabitants and broken down by sex (2011 and 2014)

	2011			2014		
	<i>Men</i>	<i>Women</i>	<i>Total</i>	<i>Men</i>	<i>Women</i>	<i>Total</i>
Bizkaia	557,765	595,586	1,153,351	551,855	592,359	1,144,214
Bilbao	165,603	184,955	350,558	162,046	182,397	344,443
Galdakao	14,338	14,740	29,078	14,460	14,831	29,291
Getxo	37,446	42,369	79,815	36,907	41,787	78,694
Basauri	20,432	21,555	41,987	20,158	21,341	41,499
Ermua	8,199	8,063	16,262	8,060	8,015	16,075

Source: EUSTAT

	2014 Consolidated Settlement (thousands of euros)	
	Recognised Rights	Recognised Liabilities
Bilbao	549,496	529,537
Galdakao	35,894	32,471
Getxo	99,448	94,322
Basauri	50,561	51,390
Ermua	21,518	21,864

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APPRAISAL RESULTS

In the appraisal conducted between May and September 2015, the average **global rating** obtained by the local councils on the monitoring panel was **4.91** (out of 10).

As regards the total procedures and indicators envisaged in the manual, the appraisal work carried out did not consider some indicators either because there were not applicable in the municipality, or due to the difficulties encountered to apply them in practice (in seven cases).

This latter premise affected all the municipalities on the *monitoring panel*, and the appraisal of those procedures and indicators did not take place in any of them. Should the difficulties persist in further assessments, we should either consider redefining those best practices or eliminating them from the manual.

Results of the appraisal of the best practices of the manual organised by section

The average ratings obtained by the panel in the appraisal conducted of the best practices procedures and indicators contained in each of the *sections* in the manual, are as follows:

<i>Section</i>	<i>Average Rating of the Panel</i>
I. Resources Policies	5.64
II. Taxes and Charges	5.07
III. Equity and investment financing	7.01
IV. Budgetary Planning	4.03
V. Budgetary Implementation, Monitoring and Control	4.54
Total	4.91

Results of the appraisal of the best practices of the manual organised by category

In line with the explanation given in an earlier chapter about the best practices appraisal mechanism, the *points allocated* to each of the various *assessment factors*, in different ways according to the *category* to which they belong (procedures that mean compliance of a legal imperative, procedures that mean an improvement on the regulated aspects or indicators).

This *points* distribution is detailed in the *Summary Table of the Appraisal System* included in **Annex I** of this document and it seeks to positively discriminate the attainment of excellent or satisfactory levels in the implementation of the procedures that exceed the requirements of the legislation.

Well, the average ratings obtained by the monitoring panel in the appraisal conducted of the best practices procedures and indicators contained in each of the *categories* identified in the manual, are as follows:

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<i>Categories</i>	<i>Average Rating of the Panel</i>
Regulated procedures	6.76
Procedures that improve the regulates aspects	4.35
Indicators	4.91
Total	4.91

Results of the appraisal of the best practices of the manual grouped by *priority focus*

The best practices manual in local financing establishes a relationship between each of the selected indicators and procedures and the municipal management *approach* with which it can be mainly identified, given their differentiated characteristics.

The average ratings obtained by the panel in the appraisal conducted of the best practices procedures and indicators contained in each of the *priority approaches* envisaged, are as follows:

<i>Priority Approach</i>	<i>Average Rating of the Panel</i>
Budgetary Stability. / Financial Sustainability	6.93
Training	1.71
Gender	3.42
Efficient management and financial management	4.25
True and fair view	6.40
Social justice / Equal treatment / Non-discrimination	5.49
Organisational / Jurisdictional	4.20
Transparency / Participation	4.34
Total	4.91

Finally, **Annex II** contains the breakdown of the average appraisal for each of the procedures and/or indicators envisaged in the Manual.

Conclusion

The global rating obtained by the panel in the appraisal of best practices in local financing resulting from the adaptations of the *LFB Toolkit* to the local councils of Bizkaia, along with

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the majority of those obtained in the appraisal of the different procedures and indicators identified in the prepared manual, regardless of the criteria into which they are grouped (*section, category or priority approach*), provide insufficient average results. However, in three of the cases, they exceed that global average rating.

In our opinion, the reasons for those results are mainly due to the following causes:

- ✓ The existence of indicators and/or procedures from which no information has been obtained that has enabled us to verify the appropriate and full implementation of the defined procedure or of the calculated indicator.
- ✓ Indicators and/or procedures where the local councils do not comply with the describer criteria, requirements or objectives pursued by the manual.

Finally, we should mention that the full documentation of the “*System of Procedures and Indicators of Best Practices in Local Authority Financial Resources and Budgetary Management*” is conceived as a tool that helps local councils to establish a continuous improvement plan for future municipal courses of action, once the earlier appraisals had been performed.

ANNEX I

SUMMARY TABLE OF THE APPRAISAL SYSTEM

In keeping with the comments made in an earlier chapter (“*Review of the Best Practices Appraisal Mechanism*”), the table below summarises the set of criteria established in the appraisal system of the best practices in local financing described in detail, and distributes the points allocated to each procedure or indicator selected in each of the *assessment factors* envisaged and for each of the *categories* considered:

Category	Opportunity and integrity of the implementation (*)			Degree of embracing / formalisation	Adequacy of evidence provided	Total % of points allocated (**)	Total points (***)
	Insufficient	Satisfactory	Excellent				
Procedure with improvements to regulated aspects	0 to 19%	20 to 49%	50 to 60%	0 to 20%	0 to 20%	0 to 100%	
Indicator (ratio / magnitude)	0 to 19%	20 to 49%	50 to 60%	0 to 10%	0 to 30%	0 to 100%	
Procedures that means compliance of legislation	0 to 9%	10 to 39%	40 to 50%	0 to 10%	0 to 40%	0 to 100%	

(*) *The appraisal of this assessment factor requires a percentage to be introduced in one of the three bands considered for each category. Within the band and category in question, the establishing of the rating within the interval will depend on the specific characteristics observed when checking the best practices.*

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()** *The percentages of this column are obtained as a sum of the percentages introduced as the result of the rating performed in each of the assessment factors.*

(*)** *This column will register the product between the sum of the previous column by the total points allocated to each procedure and indicator according to its relevance (High, 15; Medium, 10; Low, 5).*

ANNEX II

ATTACH AVERAGE SCORE FILE (see separate file)