STRENGTHENING INSTITUTIONAL FRAMEWORKS FOR LOCAL GOVERNANCE

Benchmarking Local Finances

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Why to benchmark local finances?

1. ***It is a mirror***: comprehensive analysis of local finances and financial management

2. ***What is done well:*** successes, innovations

3. ***What to change:*** areas of improvement

4. ***Ranking tool:*** positioning a country/city

5. ***Lessons for policy makers:*** need for change, lacking capacities, wrong incentives, missing regulations

6. ***Learning from each other:*** internationally (Eastern Partnership); within your country

Evidence based analytical and diagnostic tool!

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Basis: CoE Recommendations on financial resources and management

I. Financial resources (2005)

II. Financial and budgetary management (2004)

Guidelines for benchmarking:

    a) central authorities, on local finance systems:
- 76 items on financial resources
- 43 items on financial management

    b) local (regional) authorities, on local practices
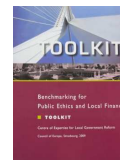- 31 items on financial resources
- 43 items on financial management

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LFB: assessing national systems and local practices

Areas of local finances	National systems, decentralisation	Local, regional authorities
Financial resources	Statistical data Institutional review Scorecards	Data analysis Scorecards
Financial management	Institutional review Scorecards	Scorecards

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Areas of standard finance benchmarks:
National level (CoE Toolkit, 2009)

I. ***Financial resources:***

  1) General principles: objectives of IGF, fiscal autonomy,
tax principles, equalization, financing services

  2) Local taxation: sufficient, forms, diversity, proportional to benefits, tax administration

  3) Fiscal equalization: spending needs and revenue capacities, transparent, predictable

  4) Grants to local governments: general vs. specific grants, incentives created

  5) Fees, charges: significant, local autonomy

  6) Borrowing: financing capital expenditures only, local repayments, debt limits

II. ***Financial management:***

  1) Sound finances: revenues suitable for financing local expenditures, set standards

  2) Budgeting framework: regulated procedures, local implementation autonomy

  3) Budget implementation: requirements on service performance, regulations on commitments, transactions, recording, accounting, control and monitoring

  4) Balanced budget: separation of current/capital expenditures, local debt regulations, intervention rules in emergency cases

  5) Financial monitoring system: information transparency and support to accountability, accuracy of fiscal information, audit capacity

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Areas of standard finance benchmarks:
Local level (CoE Toolkit, 2009)

I. ***Financial resources (45 items):***

  1) Local fiscal policies: taxes, transparency, using IT, staff capacity development

  2) Local tax system: design, policy, publicity, administration, system audit

  3) Fees, charges: cost recovery, social policy

  4) Capital budget financing: non-recurrent revenues, debt rules

  5) Local property: inventories, management forms & powers

II. ***Financial management (34 items):***

  1) Fiscal strategy: multi-year, discussed

  2) Budgeting methods and capacity: analytical, consolidation, reserves

  3) Procedures: timing, independent views, openness

  4) Fiscal policy: cost saving, limited redundancy, cooperation

  5) Budget implementation and adjustment,

  6) Control, supervision, audit

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Implementing and piloting *local* LFB

Bulgaria: 6 pilots (2007)=>53 (2013)
- significantly simplified LFB
- local interest after elections
- paid service to members
- support to legislative changes

Ukraine (2012): 10 city pilots
- ✓ focus on budgeting and transparency
- ✓ unified rules=>diverse implementation
- ✓ lacking local taxing powers, revenue administration autonomy
- ✓ strong data component
- ✓ no host organization

Three country pilot (2013):
➢POR: local elections; GRE: crisis, reforms; ESP: regional differences
➢self-assessment: lacking capacity, need for local support

Basque country (2014-): Bizkaia region

http://www.coe.int/t/dgap/localdemocracy/Centre_Expertise/Local_Finance_Benchmarking/

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Benchmarking method in practice

0.   Defining critical areas of local finances, financial management
1. Section ➡ area ➡ components ➡ sub-categories
2. Specifying the activities, indicators measured
3. Identifying sources of verification, documents
4. Scoring (interval scale: 0-10)
5. Interpretation of the results:
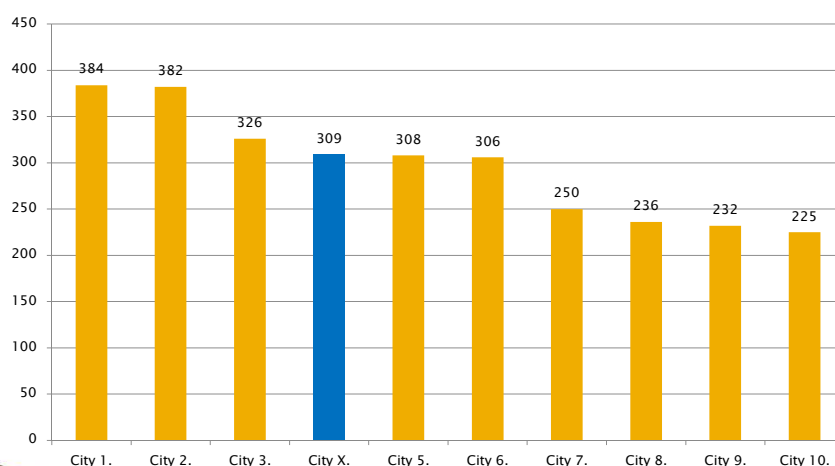   low scores ➡ factors behind the differences?

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Scoring by areas of recommendations

SECTION, AREA, COMPONENT	ACTIVITY, INDICATOR	VERIFICATION STATEMENT, DOCUMENT	SCRORE, WEIGHT
SECTION: e.g. *II. Local taxation*			
AREA: *Tax administration*			
COMPONENT: a) Smooth, timely revenue flow	– regularly updated taxpayer registry – proportional distribution in fiscal year –information on delayed taxes –warning practices are in place –procedures on non-payment	Local tax regulation Reports on local revenues Tax administration	0–10
b) Simple tax administration	– …	– …	0–10

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Ukraine: total scores in pilot cities

City	Score
City 1.	384
City 2.	382
City 3.	326
City X.	309
City 5.	308
City 6.	306
City 7.	250
City 8.	236
City 9.	232
City 10.	225

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Measurement techniques

1. Expert judgement, peer review (qualitative)
➢ Analysis of documents, local practices
➢ Performance indicators
➢ Secondary analysis of surveys, assessments
2. Data on local governments (quantitative)
➢ fiscal autonomy: reclassified taxes (OECD FN)
  • local rate setting; legislated sharing ratio
  • transfers: scope of local discretion
➢ budget size, composition, unit costs of services
➢ capital investment spending
➢ local indebtedness

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Scoring methods

Importance of the indicator: equal or weighted

Components of scoring

‣ Legal requirement or non-regulated

‣ Method applied or missing

‣ Assessing the quality of the domestic/local practice (low, medium, high)

‣ Established procedures, evidences exist

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Formulating policy lessons:
7 city pilots

Low scores items:
- Multi-year planning, impact assessment methods
- Public involvement, transparency in budgeting
- Support to tax policy design, tax administration
- Improved external audit and not intervention
- Need for capacity dev. (administration, elected)
- Better service contracts, performance control
- Proper local assets management techniques

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Formulating policy lessons:
areas of improvement in Ukraine

Areas of local finances scored zero	No. of cases
Frequent budget amendments during the fiscal year	9
Low shares of local taxes and duties	8
Lack of borrowing	8
No PPP projects	8
Internet is not used in local (tax) policy design	7
Information disseminated to citizens (booklets, leaflets)	6
Limited local funds in capital investment projects	6
Low share of non-public funding of capital investments	6
High ration of unfinished, delayed construction projects	5
Not depositing temporarily free funds in banks	4
Limited budget proposals from NGOs, citizens	4

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Conditions of successful implementation

1. Selecting areas of local financial autonomy
2. Getting support from partners, participants (pilots)
3. Critical mass of information for comparison: more cases, regular surveys
4. Balancing confidentiality, publicity: local elections?
5. Technical capacity to design and implement (external evaluation and *not* self-assessment)
6. Sustainability of the LFB program
7. Utilization: analytical capacity to formulate recommendations (beneficiary/host organization)

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