

CENTRE OF EXPERTISE  
FOR LOCAL GOVERNMENT REFORM



# LOCAL FINANCE BENCHMARKING TOOLKIT

for Central Authorities

*Delivering Good Governance*

LOCAL FINANCE  
BENCHMARKING  
TOOLKIT

CENTRE OF EXPERTISE  
FOR LOCAL GOVERNMENT  
REFORM

May 2017

*in cooperation with*

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## TOOLKIT

May 2017



Centre of Expertise  
for Local Government Reform



Benchmarks on financial resources and financial management of local and regional authorities  
Central authorities (characteristics of fiscal autonomy)

<b>Local Finance Benchmarks: financial resources</b>					
		<b>SECTION and AREA (with reference to the number of Recommendation)</b>	<b>ACTIVITY, INDICATOR</b>	<b>VERIFICATION STATEMENT/ DOCUMENTS</b>	<b>SCORE</b>
<b>I.</b>		<b>General principles of financial resources</b>			
	1	<b>Goals of intergovernmental fiscal relations (R2)</b>			
		1 Ensure vertical fiscal balance: secure revenues according to responsibilities and standard needs	newly assigned local responsibilities are coupled with increased local budget revenues (transfers, own revenues)	National budget documents, listing new municipal functions and changes in revenues	<b>0-10</b>
			changes in service (input or output) standards are compensated by higher local revenues	National budget data by economic categorisation	
			increase in tax burden (on labour or services) is followed by enhanced local resources	National and local government fiscal statistics	
			inflation is compensated by proportional increase in intergovernmental transfers or shared revenues	Sectoral regulations on service provision	
			inflation is compensated by proportional increase in own source revenue raising limits		
	2	Support horizontal fiscal equity	similar functions are financed in a similar way for all types of local governments	National budget documents	<b>0-10</b>
			different functions are financed differently for all types of local governments	Fiscal statistics by groups of municipalities (region, size, administrative status) on:	
			ratio of per capita municipal expenditures in the richest and poorest regions	unit costs by service areas	
			ratio of per capita municipal expenditures in the richest and poorest 10% of local governments	transfers per service units	
	3	Enhance efficiency through fiscal incentives for revenue raising and cost savings	incentives created by the intergovernmental transfers on the expenditure and revenue side of the current and capital budget	National budget documents	<b>0-10</b>
			local governments are not compensated for above the average (or planned) expenditures	Rules of allocating local government grants and transfers	
			local governments are not compensated for collecting below the average (or targeted) own source revenues	Annual budgets and reports	

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	2	<b>Own source revenue raising</b>			
	1	Revenue adequacy: local governments have adequate own source revenues (taxes, user charges)	ratio of own source current, capital and total revenues in the percentage of local budgets	Municipal fiscal statistics	<b>0-10</b>
			local own source revenues are directly connected to local functions and competencies	Tax legislation, regulation on setting charges of municipal services	
	2	Revenue autonomy: local governments have autonomy in disposing own source revenues	local own source revenues are accounted against the expenditure appropriations during the national fiscal planning	Rules of national budgeting	<b>0-10</b>
			use of own source revenues is connected to special funds or groups of expenditures (earmarked revenues)	Tax legislation	
			local government has the authority to control the own revenues raised by the municipal service organisations	Regulation on setting charges of municipal services	
	3	Fiscal equivalence: locally decided expenditures are financed by own revenues (R5)	share of user charges, fees, miscellaneous own revenues compared to expenditures by functions	Local expenditures by COFOG categories (Table 5.)	<b>0-10</b>
			share of earmarked local tax revenues compared to expenditures by functions	Local own source revenues matched to expenditures by COFOG categories	
	4	Tax-benefit principle: citizens and businesses as beneficiaries, pay charges, taxes for local services received (R6)	share of user charges, fees, miscellaneous revenues compared to expenditures by functions	Laws on local taxes, user charges and fees	<b>0-10</b>
			share of user charges, fees, compared to household income	National and local fiscal statistics	
			share of user charges, fees, local taxes compared to overall tax burden on businesses		
	5	Not services, but eligible users are subsidised (R7)	charging methods: flat, two component (base + variable)	Laws on local taxes, user charges and fees	<b>0-10</b>
			forms and scale of subsidies to service users	Sectoral regulations on subsidies	
			national regulations on local tax relieves and exemptions	Forms and scale of social/welfare payments in local services	
	3	<b>Local tax autonomy (R.4)</b>			

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	1	Scope of local tax autonomy	local autonomy in defining tax base, setting the rate and managing tax administration	Laws and regulations on local taxes and tax administration	
	2	Tax administration: local powers for efficient and appropriate procedures, organization and management	Local governments' role in	Regulations on local taxes and tax administration	
			billing	Tax administration practices	
			tax collection		
			managing arrears		
			regulating enforcement procedures		
4	1	Tax sharing (R9): related to local tax effort (derivation basis)	types and significance of taxes shared with local budgets (Table 2.)	Tax laws	
			methods of tax sharing: proportional to tax base, collected taxes or arbitrary (formula or ad hoc decision)	National budget on tax sharing	
			Indirect influence on available shared tax revenues	Legislation on tax procedures	
				National budget on tax sharing	
5	1	Equalisation grants (R10): Compensation for financially weak local authorities (difference between standard spending needs and local financial capacity)	regulation is focused on LG specific or standard (average, minimum) local expenditures €	National budgets	
			assessment of local own source revenues: projecting LG specific or standard (average, minimum, maximum) local own source revenues (R )	Legislation on local finances	
			methods of equalisation grant design: guaranteeing standard (minimum, average) expenditures to specific levels of own revenues (E-R <sub>i</sub> =>G <sub>i</sub> ); providing grants by service areas, regardless of own source revenues (G+R <sub>i</sub> =>E); equalisation grant is the difference of standard expenditures and standard revenues (E-R=> G)		
<b>II.</b>		<b>Financing local government services</b>			
	1	<b>Harmonising performance of services of national interest (with externalities)</b>			

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	1	Central guidance through service standard setting	service standards are specified as outputs	National budgets	<b>0-10</b>
			input standards are set by service areas	Legislation on local finances	
			standards are set in natural terms	Sectoral legislation	
			standards are set in financial terms (unit costs)	Budgeting procedures	
	2	Supporting these services through specific (earmarked) grants	types of specific (earmarked grants)	National budgets	
			weight of specific (earmarked grants) compared to total grants	Legislation on local finances	
			ratio of specific (earmarked grants) to expenditures by functions	Sectoral legislation	
				Budgeting procedures	
		Specified service related criteria in general grant design and allocation	grant allocation criteria: number of actual users	National budgets	30%
			grant allocation criteria: number of estimated number users (capacity)	Legislation on local finances	
			grant allocation criteria: proxy of demand		
	2	<b>Financing delegated service (R12)</b>			<b>0-10</b>
	1	Full funding for local services, which are administered under central control	setting the standards and level of delegated services	National budgets	
			accounting regulations and cost allocation rules of delegated services	Legislation on local finances	
			funding standards and budgeting practices of delegated functions	Sectoral legislation	
			financing schemes and incentives of delegated services	Budgeting procedures	
	2	Central contribution to locally controlled delegated services, programmes (connectivity principle)	local autonomy in setting service volume, target, inputs, administration/management and organisational forms of delegated functions	National budgets	
			allocation of intergovernmental transfers (R10-R11)	Legislation on local finances	
				Sectoral legislation	
				Table 2.	
<b>III</b>		<b>Local taxation</b>			

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	1	<b>Sufficient local taxes, ensuring accountability (R13, R17)</b>			
		1 Sufficient own resources to fund significant proportion of local responsibilities, set by law	number of local taxes	Municipal fiscal statistics	
			ratio of local taxes to current and total revenues	Tax legislation	
		2 Local taxation is regulated by laws	minimum/maximum level of major own source revenues set by law	Tax legislation	
			scope of municipal autonomy in setting local own source revenue base and rate	Regulation on setting charges of municipal services	
		3 Local taxes should encourage accountability through wide local scope of manoeuvre	local governments' autonomy in: a) defining tax base, exemptions; b) setting tax rate (regulation allows: 0, minimum, maximum, range) ; c) tax collection is locally administered	Municipal fiscal statistics	
			objectivity and uniformity in setting tax base (information is available)	Local tax laws	
			availability of information on taxes collected by higher level of governments	Legislation on tax procedures	
			percentage of local governments levying local taxes at the maximum possible rate	Tax procedures	
			local taxes are more levied on voters	Tax information systems	
	2	<b>Diverse, fair, proportional to benefits, visible local taxes</b>			<b>0-10</b>
		1 Local taxes are levied on resident individuals, property, businesses (R24)	proportion and type of local tax revenues collected from	Local fiscal statistics	
			residents,		
			service users,		
			businesses		
			proportion of local taxes by type of tax base		
		2 Local taxes are levied according to taxpayers' ability to pay (R25)	local tax exemptions and relieves, set by law and by local regulations		
			variation of effective tax rates by municipalities		
		3 Local taxes limit distortion, discrimination, inequalities	progressivity of local taxes	Financial statistics	
			local taxes in percentage of income or net wealth	Household income statistics	

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				Survey of local tax regulations	
	4	Local tax burden is related to benefits in a visible way (R26)	characteristics of local taxes:	Tax laws	
			scope, scale of local tax revenues	Local fiscal statistics	
			number of local taxes		
			type of local taxes		
			ratio of local taxes in municipal budgets		
	3	<b>Tax administration</b>			
	1	Tax yield is comparable to collection and inspection costs (R28, R33)	local and external costs of tax administration collecting local taxes: registration, information systems, billing, payment, accounting, enforcement, litigation, alternative methods of paying taxes are available, distance to access points of tax administration	Local tax laws; Legislation on tax procedures	<b>0-10</b>
	2	Central support to local tax administration (R31, 34)	Information (registry on tax payers, tax base) is shared with local tax administration	Local tax administration	
			Models for local tax regulations are disseminated	Tax IT systems	
			Standards and procedures of local tax administration		
			Training and information exchange for local staff		
			Harmonised IT systems		
			Single database, access point to all local taxes		
			Citizen information centres at local governments (number, functions)		
	3	Timely transfer of centrally collected local taxes, regular payments (R35)	regulations on transferring local and shared taxes by national tax administration: timing, instalments, end of year balancing, arrears		
	4	Single common litigation procedure (R36)	unified appealing rules	Legislation on tax procedures	<b>0-10</b>
			number of cases at first and higher instances, compared to total number of taxpayers	Legal statistics	
			national government support to assessment of local tax base	Legislation on tax procedures	
			standardised methods of property valuation	Property assessors (association)	



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			computerised information systems shared with local governments on local tax payers and tax base	Governments' IT systems	
<b>IV</b>		<b><i>National policies towards local taxes</i></b>			
	1	<b>Neutrality and limited distortion (R30, R19)</b>			
	2	Minimum impact on municipality's economic growth and structure	avoiding tax exportation	National tax law	
			differences in setting local tax base and rate	Local fiscal statistics	
	3	Prevent migration (demographic distortion)	overall local tax wedge on residents	Local tax laws	
			balanced structure of own source revenues (user charges and local taxes)	National tax law	
	4	Not causing further problems for poor (social distortion)	overall local tax wedge on residents		
			local scope of manoeuvre in tax policy design		
	5	Restrictions aim to increase fairness	local tax exemptions set by law		
			differences between nominal and actual tax rates		
			variation of effective tax rates by municipalities		
	6	Restrictions for economic policy reasons	scale of competition among national and local governments for the same tax base		
	7	Restrictions are to be			
		proportionate to objectives	changes in regulations affecting local (own and shared) tax revenues		
		lifted, as soon as possible	changes in regulations affecting local (own and shared) tax revenues		
		consulted with associations (R20)	involvement of associations in amendments of tax law, national budget preparation		
		provide compensation for cutting the tax base (R21)	changes in regulations affecting local (own and shared) tax revenues		
	8	Local taxes are reasonably stable and foreseeable	changes in legislation and regulations on local tax laws	Budget law	
				National budget	

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				Law on local finances	
	2	<b>Openness and consultation in local tax policy design (R23)</b>			<b>0-10</b>
	1	Local tax policy design procedures are set by law	timing and procedures of national and local fiscal planning	Budget law	40%
			steps required for legislative changes	National budget	
				Regulations on legislative process	
	2	At national level: publication of information, national debates, consultation	availability of information on potential local tax revenues		30%
			modelling and simulations on local tax policy design		
			involvement of local governments in drafting tax laws		
	3	At local level: public meetings, public votes, publication of key documents	general requirements on local legislative process:		30%
			involvement of taxpayers in the amendment of decrees on local taxes		
			sharing information on tax policy design, implications on local budgets		
<b>V</b>	1	<b>Shared revenues are non-earmarked additional revenues, set by law (R14)</b>			<b>0-10</b>
	1	non-earmarked, raised locally (proportional)	types of national taxes shared with local budgets	Tax laws	
			local discretion over tax base, rate and exemptions	Legislation on tax procedures	
			indirect influence on collected shared tax	National budget on tax sharing	
				Table 2.	
	2	non-earmarked, additional revenues	methods of tax sharing: proportional to tax base, collected taxes or arbitrary	Tax laws	
				Legislation on tax procedures	
				National budget on tax sharing	
	3	timely transfer of sums collected (R35)	timely transfer of shared taxes	National budget	
			timely transfer of local taxes, collected by the national tax administration	Law on tax procedures	
<b>Vi</b>		<b>Fiscal equalisation</b>			

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	1	<b>Objectives of fiscal equalisation</b>			
	1	Factors of inequalities are separately taken into account:			
		measurement of financial capacity and its incorporation into the transfer system (more resources to financially weaker authorities) (R38, R39)	share of own source revenues taken into account in the grant formula	National budget: intergovernmental transfers	
		compensation for differences in spending needs (more resources for additional services and specific factors) (R38, R39)	local autonomy over own source revenues incorporated in the transfer scheme	Local tax law	
			composition of intergovernmental transfers: more general, formula based and discretionary grants allow more compensation		
		no compensation for differences due to divergent service management capacities (R38, R39)	grant allocation formula is based on proxies of demand for services		
			grant allocation formula is based on actual capacity of specific service organisations		
		no compensation for differences in local preferences (R38, R39)	grant allocation formula is based on proxies of demand for services		
			composition of intergovernmental transfers: more general, formula based and discretionary grants allow more compensation		
			criteria of grant allocation are linked to demand and not specific forms of service provision		
			more proxies of demand and not actual service capacity measures are used for grant allocation		
	2	Similar tax efforts should result similar level of services (R37)	scale of incorporating revenue raising capacity in the grant allocation schemes:	National budget: intergovernmental transfers	0-10
			incorporated for a limited group of functions (for local services, only)	Law on local finances: intergovernmental transfers	
			individual assessment, negotiation on level of appropriated local taxes	Local fiscal statistics	
			standardised (average) level of local taxes	Table 6.	

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			strong statistical relationship between per capita expenditures and per capita local taxes		
2	1	<b>Political decisions for economic stability and sustainable regional development (R40)</b>	political goals and preferences are reflected by the equalisation schemes		
			priorities of intergovernmental fiscal relations are derived from fiscal policy goals	National budget: intergovernmental transfers	0-10
			fiscal policy goals are translated into techniques of grant allocation	Sectoral laws on services	
			changes in allocation criteria reflect modification of fiscal and sectoral preferences		
3		<b>Stable, foreseeable, standardised equalisation schemes</b>			
	1	degree of equalisation in revenue capacity and spending needs is clear and foreseeable (R43)	methods of estimating local own source revenues are standardised	National budget: intergovernmental transfers	0-10
			methods of estimating local own source revenues are public	Budgeting rules and procedures	
			rate of standard (average, estimated) own source revenues are set and published	Rules of extra-budgetary funds	
			methods for estimating all groups of local expenditures are standardised	Table 6.	
			methods for estimating all groups of local expenditures are public		
			standard (minimum, maximum, estimated) levels of expenditures are set and published		
			allocation methods for most types of grants are standardised		
			allocation methods for most types grants are public		
	2	equalisation schemes are based on standardised (not actual) levels of revenues and expenditures (R46)	methods of grant allocation do not allow end-of-the-period compensation (implicit bail-out)	National budget: intergovernmental transfers	0-10

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			intergovernmental transfers are general by nature and discretionary at local level (accountability)	Budgeting rules and procedures		
			individual local governments have no influence on specific grant allocation criteria (avoid moral hazard)	Rules of extra-budgetary funds		
		3	vertical equalisation (grants) should be indexed to growth of aggregate national budget revenues (R42)	total pool of intergovernmental transfers for current budget are budgeted according to set rules:	National budget	0-10
			fixed increase for a set period	Budget law		
			follows inflation	Law on local finances		
			connected to GDP growth	Table 4.		
			expressed in percentage of national budget			
			related to budget deficit			
			linked to national tax revenues			
		3	redistribution of local tax revenues (pooling for horizontal equalisation) is regulated by law (R42)	horizontal equalisation mechanism through local taxes is regulated by law for more than one year	National budget	0-10
			significance: share of reallocated local tax revenues in percentage of total transfers	Budget law		
			impact:	Law on local finances		
			share of reallocated local tax revenues in percentage of total local government revenues	Municipal fiscal statistics		
			number of local governments receiving redistributed local taxes			
			number of local governments providing local taxes for redistribution			
			share of reallocated local tax revenues in percentage of total revenues at the recipient side			
		4	regularly assessing the impact of equalisation systems (R47)	number and significance of changes in equalisation schemes during the past five years	National budget: intergovernmental transfers and tax sharing	0-10
			intergovernmental fiscal policy design capacity at the government (in house)	Government reports		
			external intergovernmental fiscal policy design capacity (private and third sector)	Reform committees		

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				Policy centres focusing on public finances	
	4	<b>Transparent and understandable information on equalisation systems is provided to LGs(R41)</b>			
		1 information on equalisation schemes are disseminated and explained	transfers for current budget expenditures are allocated by set criteria and rules	National budget: intergovernmental transfers	0-10
			transfers for capital budget expenditures are allocated by set criteria and rules	Budgeting rules and procedures	
			grant allocation criteria and procedures are known by local governments	Rules of extra-budgetary funds	
			grant allocation criteria are discussed with representatives of local governments (e.g. associations)	Table 6.	
			methods of grant allocation and tax sharing are regulated by law		
		2 eligibility criteria for equalisation in revenue capacity and spending needs are laid down by law (R44)	regulations of revenue equalisation schemes are set by law	National budget: intergovernmental transfers and tax sharing	0-10
			intergovernmental transfers for current budget are regulated by law	Budget law	
			intergovernmental transfers for capital budget are regulated by law	Budgeting rules and procedures	
			rules of tax sharing are specified by law	Rules of extra-budgetary funds	
				Law of local finances	
	5	<b>Equalization of spending needs</b>			
		1 Objectivity of spending needs is guaranteed through criteria not controlled by local governments (R48, R49)	grants allocated through statistical (objective, uncontrollable) indicators percentage of total grants	National budget: intergovernmental transfers and tax sharing	0-10
			information system supporting grant allocation is based on statistical data collected regularly	Statistical systems on local government services	
				Local financial statistics	
				Table 6.	

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	2	Formula based assessment of spending needs should be comprehensive, stable, detailed, reliable and simple (R50, R51)	all local government functions are incorporated in grant allocation formula	National budget: intergovernmental transfers and tax sharing	0-10
			rules of grant allocation schemes (formulae) are set for a longer period	Budget law	
			grant allocation criteria are linked to main groups of local functions	Law on local finances	
			methods of spending need assessment, grant allocation are understandable and communicated with the general public		
	3	Equalisation grant allocation criteria create local incentives (R49)	eligibility for equalisation grant is not limited to specific forms of service provision (neutrality of service organisations receiving grants)	National budget: intergovernmental transfers and tax sharing	0-10
			grant scheme does not penalise local governments for lowering costs	Budget law	
			equalisation criteria support rationalisation of service provision through cooperation, mergers achieving economies of scale and service efficiency	Law on local finances	
			transfer mechanisms do not endanger accountability		
	4	Local discretion over grants for equalisation of spending needs (R48)	block and general grants dominate intergovernmental transfers	National budget	0-10
			programme based grants are monitored according to general rules of audit	Budget law	
			programme based grants are based on public contracts	Law on local finances	
				Table 6.	
6		<b>Equalisation of financial capacity</b>			
	1	equalisation grant should reinforce local revenue base, measured against national standards (benchmark) (R52)	scope of local revenue raising autonomy	National budget: intergovernmental transfers and tax sharing	0-10
	2	actual fiscal pressure is not an appropriate indicator of fiscal capacity(R57)	share of transfers used for “gap filling” in the overall grant allocation schemes	Local financial statistics	

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			standards used for measuring revenue capacity:	Table 6.	
			statutory limits (maximum)		
			national average		
			specific (adjusted) averages		
			regression based models		
	3	overall financial capacity should be taken into account (comprehensiveness (R53), representativeness (R56))	standardised measurement of local revenue raising capacity for the revenue equalisation grants	National budget: intergovernmental transfers and tax sharing	0-10
			all major local government revenues are incorporated in grant allocation formula	National budget: intergovernmental transfers and tax sharing	0-10
	4	equalisation should create incentives (R54, R55)	impact on local tax policy and tax collection: incentives for improvement;	National budget: intergovernmental transfers and tax sharing	0-10
			impact on local tax policy: not penalising for tax efforts;	Local tax laws	
			impact on local tax policy: allowing variation in revenue mix (tax rates)	Local financial statistics	
	5	revenue equalisation grants should be unconditional (R52)	revenue equalisation grants are block grants or general grants	National budget: intergovernmental transfers and tax sharing	0-10
	7	<b>Policies towards general and specific grants</b>			
	1	grants should be regulated by laws (R58)	specific laws identify the types, forms and allocation methods of intergovernmental transfers and rules of revenue sharing	Budget law	0-10
			national (annual) budget regulates grant allocation	Law on local finances	
			types, award criteria and actual allocation of capital investment grants are regulated by laws	Specific laws on grant allocation	
	2	general grants are the preferred forms of intergovernmental transfers (R59)	composition of intergovernmental transfers	Table 6.	0-10
	3	Stability is needed in calculating total sum of local grants (R61, R62)	Total pool of intergovernmental transfers is linked to economic indicators in a transparent way	Budget law	0-10
			Economic (fiscal) policy goals determine total sum of grants	Procedures of fiscal planning and budgeting	



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			No arbitrary decisions on total sum of grants are made during the fiscal year	Law on local finances	
			There are infrequent changes in methods of planning total sum of grants		
	4	Amount of grants should be known by local governments in advance (R62)	Techniques of grant allocation are designed in cooperation with all tiers of government	Legislation and practices on fiscal planning procedures and timing	0-10
			Grant allocation criteria are set by law		
			Timing of annual fiscal planning allows sufficient time to local governments for budgeting the grant funded services		
	5	Local governments should not be able to influence the amount of general grants received (R64)	Grant allocation criteria are linked to statistical (objective) indicators	National budget: intergovernmental transfers and tax sharing	0-10
				Table 6.	
	6	Various factors should be taken into account for calculating the total sum of general grants (R60)	Fiscal planning of total general grants are based on factors like:	National budget: intergovernmental transfers and tax sharing	0-10
			Demographic changes (population number, age composition)	Budget law	
			Economic conditions: growth, inflation, budget deficit	Procedures of fiscal planning and budgeting	
			Government policies on:	Table 6.	
			taxation		
			labour costs,		
			local service standards,		
			environmental protection requirements		
	5	Gradual changes in grant policy should allow local adaptation to new conditions (R63)	No amendment of annual budget laws on intergovernmental transfers during the fiscal year	National budget: intergovernmental transfers and tax sharing	0-10
			Set rules of changing the proportions of major intergovernmental fiscal relations	Budget law	
			Planned transformation of grant design	Procedures of fiscal planning and budgeting	
				Table 6.	
8		<b>Specific grants</b>			

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	1	Objectives of specific grants should be limited to (R65):	Proportion of specific (earmarked) grants within the total pool of transfers	National budget: intergovernmental transfers and tax sharing	0-10
		a) co-financing capital expenditures (matching grants)	Specific grants as the share of capital grants	Budget law	
		b) financing minimum level (standards) of municipal services	Matching grant schemes in percentage of total capital grants	Sectoral laws of public services and administration	
		c) financing delegated public services	Ratio of delegated services in total local budgets	Table 6.	
			Grants compared to total costs of delegated services		
	2	Allocation of specific grants should be (R66)		National budget: intergovernmental transfers and tax sharing	0-10
		a) based on objective criteria		Budget law	
		b) related to spending needs		Sectoral laws of public services and administration	
		c) transparent, when all eligible local governments are informed		Table 6.	
		d) awarded by transparent procedures			
	3	Conditional specific grants should be allocated by criteria, which measure local financial capacity (R67)	Matching criteria should take into consideration local fiscal capacity	National budget: intergovernmental transfers and tax sharing	0-10
				Laws on specific grants	
<b>VII</b>		<b><i>Fees and charges</i></b>			
	1	<b>Fees, charges should make considerable contribution to local revenues (R68)</b>	User charges, fees in percentage of total current budgets	Municipal fiscal statistics	0-10
			User charges, fees in percentage of total own source revenues	Table 4.	
			Ratio of user charges by specific groups of local governments, groups are created:		
			population size		
			per capita total budget		
			per capital own revenues		
			administrative status		
	2	<b>Fees and charges should not limit access to services (R68, R70, R71)</b>	Minimum service standards are set by national government	Sectoral laws on municipal services	0-10

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			Conditions for accessing services (subsidies, exemptions for disadvantaged groups)	Law on local finances	
			Equal access through setting maximum and/or minimum charges	Budget law	
				Specific legislation on price setting	
	3	<b>Local autonomy in designing charging policy (R69)</b>	Pricing methods are set by law	Sectoral laws on municipal services	0-10
			Differences in user charges by local governments	Law on local finances	
				Budget law	
				Specific legislation on price setting	
<b>VIII</b>		<b>Borrowing</b>			
	1	Loans should be used for financing capital expenditures (R73)	Forms of loans available for local governments	Law on local finances	0-10
			Short term borrowing in percentage of total borrowing (within a fiscal year)	Budget law	
			Composition of annual debt burden by loans with different maturity	Municipal fiscal statistics	
			Share of loans funding total capital budgets	Regulations on municipal borrowing	
	2	Current expenditures should not be financed through loans, except for managing short term cash flow problems (R74)	Forms of loans available for local governments	Law on local finances	0-10
			Short term borrowing in percentage of total borrowing (within a fiscal year)	Budget law	
			Composition of annual debt burden by loans with different maturity	Municipal fiscal statistics	
			Number of short term loans	Regulations on municipal borrowing	
	3	Borrowing is preferred in service areas, where loan is repaid by user charges (R73)	Loans used by service areas	Municipal fiscal statistics	0-10
			Sources of repayment of loans		
	4	Central authorities should not guarantee local loans (R76)	Guarantees issued by national government/budget	Law on local finances	0-10
				Budget law	

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	5	National regulations might set limits on local borrowing, but restrictions should be fair and discussed with local authorities (R75)	Limitations on local government borrowing:	Law on local finances	0-10
			by type of loans	Budget law	
			by lending organisations	Regulations on municipal borrowing	
			by setting borrowing procedures (authorisation)	Law on banking activities	
			total amount of outstanding debt (in percentage of total budget)	Regulations on securities	
			total amount of annual debt repayment and interest (in percentage of current or own source revenues)		
			Involvement of local authorities in setting the limits to local borrowing		
<b>Local Finance Benchmarks: financial management</b>					
<b>I</b>		<b>Budget preparation and approval framework</b>			
	1	Law should establish the main rules of budget procedures, approval and budget implementation. (R.4.)	rules and procedures of budget preparation	Legislation on budgeting	0-10
			define the different actors involved in budgeting	Annual budget planning rules and procedures	
			set the responsibilities and powers of these players	Manual on budgeting and budget implementation	
			define the information basis and required outputs		
			timing and stages of fiscal planning		
			guidance is provided to support the local level budgeting ("rule book")		
			recommendations on local budget planning methods are in place		
			mandatory and optional content of local budgets is set		
			planning methods of delegated functions are set		

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	2	Prohibition of delegating the local budget approval rights to other than elected bodies (R.5.)	legislation is in place	Law on local governments	0-10
			local practice on budgeting and budget amendments	Budget law	
				Annual budget planning regulations	
				National budget (annual)	
	3	Autonomy in local budget adoption and setting the operational rules (R.6.)	ratio of budget expenditure appropriations set by sectoral laws, central regulations of total budget	Law on local governments	0-10
			local scope of manouvre in local budget design	Budget law	
			control (influence) of national government agencies over local budget planning and financial management	Public financial management rules	
				Law on local financial management	
				Annual budget planning regulations	
	4	Standards for planning spending needs of essential local services (R.19.)	sectoral regulations on fiscal planning of basic local services	Sectoral laws and service strategies on service performance indicators and financing requirements	0-10
			general fiscal planning rules and regulations on cost estimation	Budget planning manuals with actual service and spending standards	
			centrally approved standards are available on local services	Budget manual and sectoral regulations on local room for changing service standards	
	5	Local budget resources should be designed within the framework of national economic policy (R.1)	national economic priorities are reflected by the framework of local budget planning (economic growth, inflation, public debt)	National economic policy	0-10
			national economic policy targets are reflected by the regulations on	National budget documents, key parameters	
			local tax policies	Annual budget documents	
			revenue sharing and		
			grant allocation policies		
	6	Regular evaluation of publicly available cost estimation, revenue calculation and grant allocation methods (R. 17, 18)	annual budgeting guides set the detailed planning rules	Budgeting legislation, rules and procedures	0-10
			fiscal planning regulations are publicly available	National budget Annex with	

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			central budget estimations on local service performance and financing arrangements	changes of the allocation formulae,	
				impact of financial conditions on local service performance.	
				budget appropriations	
				by economic and	
				by functional classification.	
	7	Mechanisms are in place if local budgets are not adopted in time (R31)	reports on following the budget adoption timing	Budget law	0-10
			procedures for managing delays in annual budget approval	Law on local government finances	
				Audit reports	
	8	Central intervention is proportional and limited in the case of budget delays (R31)	procedures for managing delays in annual budget approval	Budget law	0-10
			intervention cases on delayed budget adoption	Law on local government finances	
			scope and form of national budget interventions in the case of delayed budgets	Audit reports	
	9	Local autonomy to allocate carried over credit and debit balances (unused funds) (R.7)	procedures of budget commitments and recording rules into the budgeting control system.	Budget law	0-10
			right to carry over the credit (appropriation) balances from a budget year to next.	Public financial management rules	
			legislation on the rules on the use of non-committed budget appropriations	Law on local financial management	
			central government's right to manage local budget reserves and the conditions of usage	Financial accounting principles	
			central control over local financial transactions		0-10
<b>II</b>		<b>Budget restrictions</b>			
	1	Restrictions should be implemented within the set financial management framework, should not be excessive or threaten local autonomy. (R.8)	purposes and frequency of announcing extraordinary macroeconomic measures	Budget law	0-10
			regulations on the national government discretion to intervene into local budgets	Public financial management rules	
			limits to intervene in local budgets	Law on local financial management	

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			methods of occasional restrictions on local budgets due to exceptional central budget problems.	Annual budget reports	
	2	General (applied to all) or specific restrictive measures should aim to ensure macro economic balance and have to be rule based (R. 9.)	clear, transparent goals of restrictive measure	Budget law	0-10
			clear aims for specific limitations to apply	Public financial management rules	
			set rules for authorities, which might limit local budget appropriations	Law on local financial management	
				Annual budget reports	
				Central government rules, regulations, procedures	
	3	Limitations should be based on objective, transparent and verifiable criteria set by law and applied fairly (R.10, 14)	rules of budget limitations, restrictions are public	Budget law	0-10
			quantifiable and measurable criteria for budget restrictions and limitations	Annual budget	
			local impact assessment of restrictions	Annual budget reports	
			published results of budget restrictions	National government procedures and official documents	
	4	The limitations should be proportionate to the desired aim and be free of any punitive nature. (R.15)	limitations are in line with fiscal policy objectives	Annual budget and budget reports	0-10
			restrictions support financial sustainability	Central government rules, regulations, procedures	
			no occasional excessive limitations are made	National economic policy documents	
	5	Incentives and flexible limitations are preferred to direct ones (e.g. capping) (R. 16.)	form and method of budgetary limitations on local government budgets	Annual budget and budget reports	0-10
				Central government rules, regulations	
				National economic policy documents	
	6	Mechanisms for regular dialogue and consultation over budgetary limitation are in place and followed (R.11)	consultations on local fiscal restrictions and occasional limitations	Budget law	0-10

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			set procedures for negotiating budgets, budget amendments, revenue and financial management regulations with local governments and their representatives	Annual budget and budget reports	
				Law of local governments	
				Law on local financial management	
				Central government rules, regulations, procedures	
	7	Impact of budget limitations are regularly checked to assess whether they are necessary and effective (R.12.)	form and method of budgetary limitations on local government budgets	Annual budget and budget reports	0-10
			period and timing of limitations are regulated	Central government rules, regulations	
			regular assessment of budget restriction, limitations	National economic policy documents	
<b>III</b>		<b>Assessment and management of financial risks</b>			
	1	Monitoring and warning mechanisms are in place for assessing financial risk (R20)	information on local budget implementation is regularly evaluated	Annual budget and budget reports	0-10
			reporting mechanism on local spending and revenue is in place	Central government rules, regulations	
			set methods for assessing local fiscal deficit, debt, capital and current budget balances	Fiscal reporting mechanisms	
				Communication channels towards local governments	
	3	Established procedures for monitoring financial situation of localities (R36)	disaggregated fiscal database at national government	Regulation on local financial management	0-10
			set rules and protocol for gathering and publishing fiscal information on local budgets	Local government fiscal reporting system	
				Public sector information management rules	
	4	Publicly available information for assessing the financial status of a local government (R36)	access to information on local budget data	Local government fiscal reporting system	0-10
			indicators for comparing local budgets	Public sector information management rules	



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	2	Financing techniques for hiding local government debt are prohibited (R.22)	accounting and reporting rules on local government debt regulations are in place	Budget law	0-10
			local governments follow established internal audit practices	Regulation on local financial management	
			regular external audit over local finances	Local accounting rules and regulations on final statements	
			planning and timing of asset sale	Audit reports	
				Statistics of local government asset mgmt	
	3	Speculative investment by local and regional authorities should be prohibited. (R.21)	established national regulations on financial investments by public and government entities	Budget law	0-10
			regulations on local asset management	Regulation on local financial management	
				Reports on banking sector, financial intermediaries	
	4	Investment in equity market should be managed professionally. (R.21)	financial consulting service organizations for local governments are in place	Regulation on local financial management	0-10
			local government contracting practices for making financial investments	Reports on banking sector, financial intermediaries	
			manuals, training materials on financial investment in the public sector are available	Regulations on public sector participation in the equity market	
				Manuals, training materials	
	5	Assets of mandatory municipal services cannot be used as collateral for borrowing or as debt guarantee (R.23)	types and forms of local government borrowing	Regulation on local financial management	0-10
			local practices of guarantees for other municipal companies, budgetary institutions	Local accounting rules and regulations on final statements	
			buildings and assets used for mandatory services are registered	Audit reports	
			local government collaterals and issued guarantees are listed	Annual reports on the banking sector and public sector lending	
				Statistics of local government asset mgmt	

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	6	Debt can be issued only for financing capital investments (R24)	scope and form of local government borrowing	Budget law	
			managing current budget deficit (delays, arrears)	Regulation on local financial management	
				Local borrowing regulations	
				Audit reports	
	7	Level of municipal debt is related to its own source revenue flow (R.24)	local government borrowing and debt limits	Annual budget and budget reports	0-10
			stable and foreseeable own source current revenues	Regulation on local financial management	
			size and form of short term borrowing	Local government borrowing regulations	
			local governments with financial difficulties due to delayed or non-payment	Audit reports	
				Local revenue statistics	
<b>IV</b>		<b><i>Recovery of local authorities in financial difficulties</i></b>			
	1	Current expenditures are primarily financed by current revenues and non-earmarked reserves (R 35)	clear definition of re-current and one-time capital revenues	Budget law	0-10
			legal separation of current and capital budgets	Annual national budget report	
			local autonomy in using budget reserves	Regulation on local financial management	
				Financial reports of local budgets	
				Audit reports	
	2	Procedures for local management of short-term financial crisis (insolvency) (R37)	number of local government cases with financial difficulties:	Regulation on local financial management	0-10
			delayed payments,	Local government fiscal reporting system	
			uncollected revenues	Financial reports of local budgets	
			restructured debt	Audit reports	
	3	Clear intervention rules for managing financial difficulties (R38)	cases for managing local government with financial difficulties	Regulation on local financial management	0-10
			scope and form of national government intervention in local budgets	Local government fiscal reporting system	

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				Financial reports of local budgets	
				Audit reports	
	4	National funds are allocated for managing emergency situations (R41)	size of vis major funds	Budget law	0-10
			allocation of funds for emergency situations	Law on local government finances	
				Annual budget reports	
				Audit reports	
	5	Financial assistance is proportional to local government's wealth and economic potential (R43)	cases of financial recovery	Budget law	0-10
			methods of drafting local financial recovery plans	Law on local government finances	
			scope and allocation rules of emergency funds	Annual budget reports	
				Audit reports	
	6	Grants for financial recovery should be preceded by a dialogue and recovery plan (R42)	cases of financial recovery	Budget law	0-10
			methods of drafting local financial recovery plans	Law on local government finances	
			established rules of negotiating local financial recovery	Annual budget reports	
				Audit reports	
	7	Rules of financial recovery make local government officials responsible (R39)	cases of dismissal financial managers in bankrupt local governments	Regulation on local financial management	0-10
			number of resignation or withdrawal of elected officials in bankrupt local governments	Local borrowing regulations	
				Audit reports	
				Local election statistics	
	8	National authorities should intervene in the case of structural income deficit (R40)	comparison of forecasts and actual local government own source revenues	Annual budget reports	0-10
			changes in the amount of national budget grants and subsidies during the fiscal year	Regulation on local financial management	
			allocation of modified national budget grants and subsidies during the fiscal year	Audit reports	
				Financial reports of local budgets	
<b>V</b>		<b>Means of local government control</b>			

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	1	External supervision is regulated by law (R 28, R29)	form and practice of external audit	Regulation on public sector audit	0-10
			statistics of financial and sectoral supervision	Law on local government finances	
				Audit reports on local governments	
	2	Legal supervision with independent appealing options (R28)	form and practice of external audit	Regulation on public sector audit	0-10
			cases on dispute resolution about supervisory reports	Law on local government finances	
			statistics on local appeals against first level audit reports	Audit reports on local governments	
				Appeals and court cases on audit reports	
	3	Reasonable time is allowed by law if prior approval is needed by supervisory authority (R30)	scope of financing delegated functions	Law on local government finances	0-10
			forms of financing delegated functions	Sectoral regulations on managing delegated functions	
			regulations on intervention of higher authorities in local financial decisions	Audit reports on public service managed through local governments	
			cases of intervention of higher authorities in local financial decisions		
	6	Central level monitoring and early warning system on local fiscal underperformance (R.32.)	comparative analysis of budget appropriation and actual spending	Regulation on public sector audit	0-10
			warning procedures in local government financing system.	Law on local government finances	
				Audit reports on local governments	
				Fiscal information system on local government budget	
	7	Centrally supported local fiscal database for benchmarking purposes is in place (R33)	content and format of disaggregated fiscal information on local governments	Law on local government finances	0-10
			public access to local government fiscal information	Fiscal information system on local government budget	

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<b>VI</b>		<b><i>Responsibility of elected representatives and staff</i></b>			
	1	Local responsibility for the quality and accuracy of the financial information and budgetary reports. (R. 25)	cases on non-compliance of financial reports	Budget law	0-10
			causes of rejecting local financial reports	Law on local government finances	
			standard rules and procedures on preparing and submitting local budgets	Local government fiscal reporting system	
				Audit reports	
	2	Rules on personal accountability for discretionary local fiscal decisions (R26)	public and court cases of local misconduct	Budget law	0-10
				Law on local government finances	
				Rules of procedures of large cities	
				Audit reports	
	3	Guaranteed forms and resources for professional training of appointed and elected local officials (R27)	training courses of civil servants on public financial management	Regulation and reports of civil service training	0-10
			funding of civil service training	Training system of elected local officials	
			access to training on local PFM	Network of local training organizations	
				Reports on local training programs	