

World experience of local finances management

Світовий досвід управління місцевими фінансами

Myroslav Treschov

Key words:

local self-governments, local budgets, local finances, resourcing, incomes, expenditures, territorial communities.

Ключові слова:

місцеве самоврядування, місцеві бюджети, місцеві фінанси, ресурсне забезпечення, доходи, видатки, територіальні громади.

Today, the concept of local finances is increasingly singled out as a separate legal category. It creates a clear legal framework for the financial resources of municipalities, management, building and continuous playback. For example, in Portugal since 2007 there have been two independent laws: Local Finance Law 2/2007 and Regional Finance Law 1/2007. Local Finance Law 2/2007 defines not only features of the budgetary mechanism, but also includes articles on municipal assets management, local tax debts, reserve funds and so on. Sources of local finances differ by components and management tools depending on the state policy in the country.

The practice of the US further deepens the legal framework of local finances management of down to the of cities. New York City has its own law on local finances – 2006 New York Code – Laws: Local Finance: (10.00–11.00)¹. The law defines the powers of municipalities, school districts and regional corporations on borrowing, and also for the expertise of the local budget state controller. The main focus is on municipal bonds, their types, issue orders and registration, compensation.

There are peculiarities of the priority areas of local finances around the world. The EU countries consider all the possibilities to expand financial resources without giving preference to any of them. The US focuses on the development of local bond markets.

In many countries national codes of the management of public finances and similar procedural documents are developed. They include recommended standards, which implementation is not associated with the legislation. They are:

“Recommended Practices for State and Local Governments” (US) contains 73 recommended practices in the public finances management in 5 sections²: accounting, auditing and financial reporting; liquidity management; budget and financial management; debt management; pensions and benefits management.

“Strategy for Innovation and Good Governance at Local Level” (EU) is a practical instrument consisting of twelve principles aiming at improving the governance at the local level and the quality of citizens’ life as a result³. It includes 12 principles for good governance at local level, with tools for implementation. In 2009 Minister of regional development and construction of Ukraine approved the Ukraine Action Plan for Implementing the Strategy for Innovation and Good Governance.

“The Prudential Code for Capital finance in Local Authorities” (UK). The main tasks are to ensure compliance with investment plans for the financial resources of local authorities, to ensure prudent and sustainable financing of these plans, to provide local authorities about the possible failure of the goals for the timely adoption of measures⁴.

¹ 2006 New York Code – Laws: Local Finance: (10.00–11.00). URL: <http://law.justia.com/codes/new-york/2006/local-finance/>.

² Recommended Practices for State and Local Governments. Government Financial Officers Association GFOA, 2001. URL: <http://www.gfoa.org>.

³ Strategy for Innovation and Good Governance at Local Level. URL: http://www.coe.int/t/dgap/localdemocracy/Strategy_Innovation/default_en.asp.

⁴ Гончаренко М. Нормативно-правове забезпечення управління суспільними фінансами: роль національних кодексів. Державне будівництво. 2011. № 1. С. 4–5. URL: <http://www.kbuara.kharkov.ua/e-book/db/2011-1/doc/5/03.pdf>.

Among the recommendations of international organizations distinguishes European legal instruments for improving the local finances management such as European Charter of Local Self-Government; Recommendations of the Committee of Ministers on financial issues; working reports of the European Committee on Local and Regional Democracy of the Council of Europe.

The revenue part of the municipalities in different countries usually formed by taxes, fees and intergovernmental transfers. Taxes on personal income, property and the business are often charged by local authorities. Also investment income; sale of real estate; fees for licenses and permits; general sales taxes and selective sales taxes (taxes on fuel, alcohol, tobacco, hotel accommodation); land taxes are distinguished.

In France, Finland, Belgium, the basis of financial autonomy of municipalities is local taxes and surcharges to local taxes. It is provided primarily direct collection of local taxes (property tax or inherited immovable property)⁵.

It should be noted that not all developed countries to fully implement the reform of decentralization. For example, in France, the traditions of centralized governance predominate. Local governments form their budget of four sources: government transfers, local taxes, loans and income from property and services. These French communes are allowed to introduce local taxes: a tax on cleaning the territories in communications. Local budgets of France include 40% of own revenue sources and 60% of subsidies from the central budget.

In Poland the share of own revenue in local budgets is 60% (taxes on corporate profits, property, personal income, agricultural tax). In Ukraine local budgets will essentially depend on the state budget. The share of transfers from central budgets is about 60%. The main sources of their local revenues are income tax; land tax; excise duty. Local governments in Germany are filled by their own revenues by 80% and only 15% are subsidies from the central budget and 5% are revenues from economic activity.

World practice of local finances management indicates trends empowerment of local governments to use fiscal controls as the establishment of additional local taxes and fees, as well as differentiation in tax rates, taking into account current or strategic needs of municipalities. By this way the principles of the system of local taxes and fees functioning are revealed. There are the optimum ratio of the size of local taxes and quality public services; high profitability and low management costs; transparency of the tax burden for individuals and businesses; the rights of local governments to set tax rates within the limits set by legislation; possibility to correct the amount of the tax burden, depending on changes in the cost.

Considering foreign experience it should be highlighted the following tools to ensure effective use of budget funds of local governments: using of models of result-oriented budgeting, (the US, New Zealand, Australia, the UK, Germany); a variety of options for cooperation with the municipalities; consolidation of local government statutory budgetary commitments (mandates); increasing the proportion of own sources taxes in local budgets; great attention to national standards of budget support in the formation of intergovernmental relations; implementation of the financial assistance from the center on the basis of local socio-economic development⁶; using of benchmarking tools and SWOT-analysis.

The widely used financial and management tools for regional and municipal development are the development funds. They can be of two base types. State regional or municipal development funds. These funds are used to support projects of socio-economic development of territories in accordance with the objectives of the state regional policies or strategies.

System of development funds in different countries is diverse (table 1).

⁵ Бондаренко А. Вплив держави на формування місцевих бюджетів в країнах Європи. Теорія та практика державного управління: збір. наук. пр. / за ред. О. Амосова та ін. Х.: ХарПіДУ НАДУ, 2010. № 4 (31). С. 1. URL: <http://www.kbuara.kharkov.ua/e-book/tpdu/2010-4/doc/2/13.pdf>.

⁶ Свиридов І. Закордонний досвід формування та розвитку економічної основи місцевих органів влади. Актуальні пробл. держ. упр.: збір. наук. пр. / за ред. Л. Беловой та ін. Х.: ХарПіДУ НАДУ, 2011. № 2 (40). С. 1–7.

Table 1

Development funds in the world

Country, fund name	Directions of financing	Forms of financing
EU, European Regional Development Fund ⁷	Priorities of Cohesion Policy	Co-financing funds from regional budgets
Poland, The Municipal Investments Development Fund ⁸	Enabling the municipalities and their unions to finance costs of municipal investment project preparation, assigned for co-financing from the European Union Funds	Preferential credits
Ukraine, State Regional Development Fund	Priorities of the National Strategy of Regional Development to 2020	Transfers from the state budget
Germany, Inner City Development Fund ⁹	Investment incentives by growing revenues in retail/local construction industry; protection of jobs and start-up activities	Investment grants (up to 23% of investment sum); investment loans
Czech Republic, MUFIS	Projects of municipalities development	Municipal property commonly used as collateral
Georgia, The Municipal Development Fund of Georgia	Local infrastructure and services, sustainable basis the primary economic and social services, renewable energy sources, sustainable economic basis for refugees, irrigation and drainage systems ¹⁰	Investment; low-interest loans; grants from international financial organizations, agencies and governments
Croatia, Regional Development Fund	Municipal infrastructure; business; business incubators; development agencies; rural development ¹¹	Loan over 15 years at 6%; grants; subsidies
UK, Single Local Growth Fund	Development of transport, skills and housing	Business co-financing from the local budget based on strategic plans
UK (Liverpool), Liverpool City Council	The City Council funding through the Mayoral Investment Fund, which supports projects which correspond to the Mayoral priorities ¹²	Financing of municipal and private sector through the city investment fund
Brazil, PrAM/PIMES	The increase added value of local budgets	The state bank deducts debt service payments directly from municipalities' accounts.

It is important to note that the analysis of development of funds in the world points to the widespread practice of establishing regional or municipal development funds that are generated from local funds and are regulated by local authorities.

PPP is used to increase the financial resources areas in many countries. The EU Commission has identified four principal roles for the private sector in PPP schemes: to provide additional capital; to provide alternative management and implementation skills; to provide value added to the consumer and the public at large; to provide better identification of needs and optimal use of resources¹³.

⁷ Official Journal of the European Union. Legislation, 12 December 2013. URL: <http://new.eur-lex.europa.eu/oj/direct-access.html>.

⁸ The Municipal Investments Development Fund. URL: <https://www.en.bgk.pl/activities/government-target-funds/the-municipal-investments-development-fund/>.

⁹ A small-scale fund for municipal development in Bad Dürkheim. 2010. URL: <http://www.immo.tu-dortmund.de/cms/EIBURS/en/research/presentations/index.html>.

¹⁰ Report of the Municipal Development Fund, 1st, 1ind quarters, 2013. URL: www.mdf.org.ge.

¹¹ Казюк Я. Інструменти фінансування видатків розвитку місцевих бюджетів. Науковий вісник академії муніципального управління. 2013. Вип. 1. С. 343–352.

¹² Funding for economic development: major of Liverpool, 2015. URL: <http://www.liverpoolvision.co.uk/wp-content/uploads/2014/04/Funding-table-A4-2pp-portrait.pdf>.

¹³ Guidelines for Successful Public-Private Partnerships. URL: http://ec.europa.eu/regional_policy/sources/docgener/guides/ppp_en.pdf.

Every country has different problems in the development of PPP. Most of these problems are specific and have the appropriate solutions. Excessive restrictions from the central government (France). In this country the PPP was at the crossroads between national peculiarities and the growing influence of international economics and remained limited. Legal development concessions as a form of delegating to the provision of public services became as a problem solution.

The lack of regulation and of expertise of the PPP at the local level (China, India). In China the number of ministries and 20 local governments developed the rules or policies of PPP. The Committee assessment of PPPs projects; Indian infrastructure finance company with limited liability to facilitate the exchange of long-term loans; the fund of infrastructure development projects to ensure appropriate expenditures; concession model as a guide for the specification and standardization; the proposals with the best PPPs practices were created in India.

The lack of clarity in the allocation of risk between the municipal and private sectors; low transparency of PPPs companies (Japan) Law of private financial initiative (PFI) was adopted. The law defines the purpose, scope, procurement process, legal action for promoting the principles PFI.

The excessive influence of political forces, the intervention of a large number of parties in the PPPs project (Indonesia). Financial institutions and government organizations responsible for the development of PPPs were established¹⁴.

Implementation of mechanisms of cooperation between local governments and enterprises of different ownership based on PPP integrates their efforts towards the lifting of municipal and regional economies and finance development projects.

Obviously, the content and technology of implementation of local government financial powers and tasks should be clearly presented in the semantic field of institutional management. These linked activities should be combined into a separate subsystem that creates the conditions to implement the functions and demands to allocate the local finances management system at local level. This local finance management system should consist of 9 basic functional blocks within which typical managerial measures of influence are implemented. They are: the block of legislative regulation; block of forecasting and planning; block of revenues, expenditures and funding; block of municipal assets management; PPPs block; block of public provide services; block of control and audit; reporting block; block of decisions correction.

Due to international practices among local finance management tools the focus is done on such as the regional and municipal development funds; flexible tax rates; formalization and standardization of payments and fiscal efficiency measures; optimization of municipal assets and local budgets; portfolio and project approaches; development of PPPs at the municipal level. The tools also include development programs, project competitions management of Local Democracy Week, the formation of the elements of consciousness through the media, support for financial activities etc.

Creation and implementation of regional and municipal development funds should occupy one of the first places in the activities of local governments in terms of fiscal decentralization. Regional (municipal) development fund is proposed to define a joint voluntary initiative of local authorities for innovative development through targeted investments. It should be aimed at promoting the use of innovative financial instruments for sustainable territorial development in the context of domestic politics and regional development strategies of municipalities. The use of such funds stimulates the formation of financial flows, the source of which formation is primarily their own resource capabilities of municipalities as independent economies. This will ensure the implementation of one of the new features of local finance as a creating conditions for self-sufficiency through self-expansion of resources of the municipality.

In order to make the most effective use of assets it is necessary to consider the consolidation of local financial resources from other development funds (both state and European). Features of formation of funds may vary depending on the characteristics of municipal economies. We found out that the use of effective instruments of local finances management will improve the financial capacity of the municipality. Other expected results of the measures specified in article can be defined such as strengthening the link between strategic and budget planning; growth of harmonization and standardization of local finances management processes; creation of conditions and incentives to increase financial resources of municipalities; appearance of capabilities to increase the financial base of the territories.

¹⁴Taking Stock of PPP and PFI Around the World / Graham M. Winch, Masamitsu Onishi, Sandra Schmidt. URL: www.accaglobal.com/ab/179.html.

Summary

The article deals with the experience of local finances management in different countries and the practice management instrument using. The study of theoretical and legal framework of formation and development of local finance in the world have shown significant role of local finance laws and national codes on management of local finances. The principles of the system of local taxes and fees are revealed in the context of fiscal decentralization. The article considers the practice of regional and municipal development funds as a modern financial instrument of territorial development projects implementation and mechanisms of state-private partnership. In conclusion the author emphasizes that the creation and implementation of local finances management will improve the financial capacity of the municipalities.

Анотація

У статті розглядається досвід управління місцевими фінансами в різних країнах і практика застосування окремих інструментів управління. Окреслено теоретичні та нормативно-правові межі формування та розвитку місцевих фінансів у світі. Наведено особливості спрямування систем управління місцевими фінансами в різних країнах. Розкрито роль комплексних законів про місцеві фінанси та національних кодексів із питань управління публічними фінансами. Розкрито принципи функціонування системи місцевих податків і зборів у контексті фінансової децентралізації. Вивчено практику застосування регіональних і муніципальних фондів розвитку як сучасного фінансового інструмента реалізації проектів розвитку територій. Досліджено механізми державно-приватного партнерства. У висновках узагальнено досвід країн світу щодо розширення шляхів збільшення фінансової бази розвитку територій.

Literature:

1. 2006 New York Code – Laws: Local Finance: (10.00–11.00). URL: <http://law.justia.com/codes/new-york/2006/local-finance/>.
2. A small-scale fund for municipal development in Bad Dürkheim. 2010. URL: <http://www.immo.tu-dortmund.de/cms/EIBURS/en/research/presentations/index.html>.
3. Guidelines for Successful Public-Private Partnerships. URL: http://ec.europa.eu/regional_policy/sources/docgener/guides/ppp_en.pdf.
4. Official Journal of the European Union. Legislation, 12 December 2013. URL: <http://new.eur-lex.europa.eu/oj/direct-access.html>.
5. Recommended Practices for State and Local Governments. Government Financial Officers Association GFOA, 2001. URL: <http://www.gfoa.org>.
6. Report of the Municipal Development Fund, Ist, Iind quarters, 2013. URL: www.mdf.org.ge.
7. Strategy for Innovation and Good Governance at Local Level. URL: http://www.coe.int/t/dgap/localdemocracy/Strategy_Innovation/default_en.asp.
8. Taking Stock of PPP and PFI Around the World / Graham M. Winch, Masamitsu Onishi, Sandra Schmidt. URL: www.accaglobal.com/ab/179.html.
9. The Municipal Investments Development Fund. URL: <https://www.en.bgk.pl/activities/government-target-funds/the-municipal-investments-development-fund/>.
10. Бондаренко А. Вплив держави на формування місцевих бюджетів в країнах Європи. Теорія та практика державного управління: збір. наук. пр. / за ред. О. Амосова та ін. Х.: ХарПІДУ НАДУ, 2010. № 4 (31). URL: <http://www.kbuara.kharkov.ua/e-book/tpdu/2010-4/>.
11. Гончаренко М. Нормативно-правове забезпечення управління суспільними фінансами: роль національних кодексів. Державне будівництво. 2011. № 1. URL: <http://www.kbuara.kharkov.ua/e-book/db/2011-1/doc/5/03.pdf>.
12. Казюк Я. Інструменти фінансування видатків розвитку місцевих бюджетів. Науковий вісник академії муніципального управління. 2013. Вип. 1. С. 343–352.
13. Funding for economic development: major of Liverpool, 2015. URL: <http://www.liverpoolvision.co.uk/wp-content/uploads/2014/04/Funding-table-A4-2pp-portrait.pdf>.
14. Свиридов І. Закордонний досвід формування та розвитку економічної основи місцевих органів влади. Актуальні пробл. держ. упр.: збір. наук. пр. / за ред. Л. Беловой та ін. Х.: ХарПІДУ НАДУ, 2011. № 2 (40). С. 1–7.

Myroslav Treschov,

Ph. D. in Economics, doctorate candidate,

Dnipropetrovs'k regional institute of public administration,

National academy for public administration under the President of Ukraine