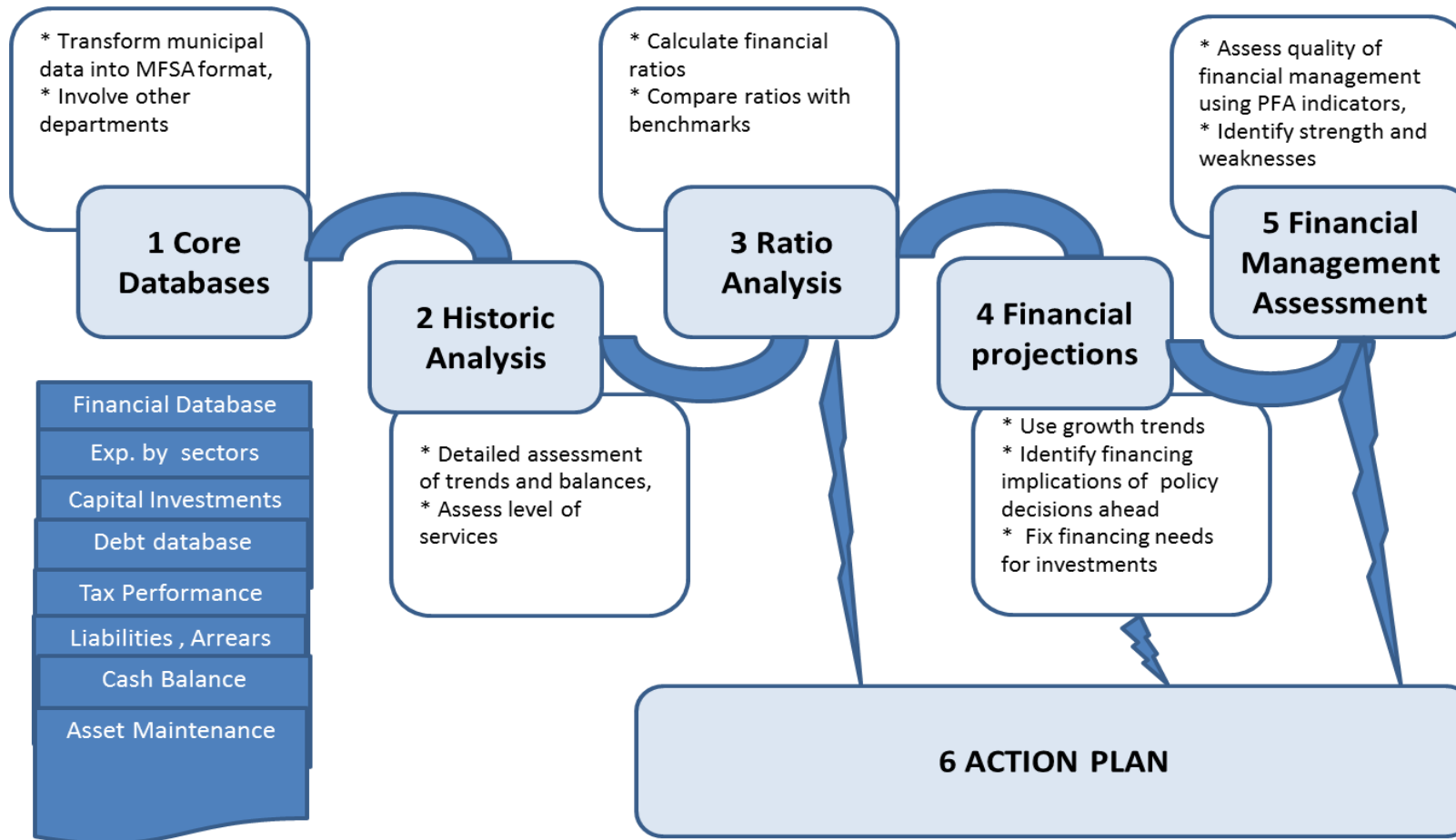


# **MFSA as a tool for improving local government budget transparency and accountability**

**Anto Bajo**

Finance Expert

# Municipal finance diagnosis framework



LGU fiscal and budget transparency key precondition for LGU management accountability

# How local government budget transparency could provide support for MFSA

- Making budget and budgetary information publically available keeps local authorities accountable and helps them in prudent local finance management
- Institute of Public finance survey (2017) - Budget transparency in Croatia- local government employees attitudes (Ott and Bronic)

## About survey

- 3.5.-17.5.2016. online survey – LGU employees attitudes
- Head of department/office for finance and budget
- (244 LGU, cities 65, municipalities 170 and counties 9)

# Main survey results and messages

- Local governments satisfied with their budget transparency more than they should be according to survey analysis,
- Neither broader public nor legal requirements create needs for additional budget information,
- Number of LGU still lacking administrative capacity - overburdened with other administrative tasks.

# LGU attitudes - VI

Most of surveyed (employees) completely or partly agree that public (citizens):

- are not interested in budget,
- don't understand budget,
- they couldn't change anything in the budget.

## LGU attitudes - What could help LGUs in offering more public available budgetary information

- Employment of young ICT qualified professionals,
- Additional funding for better web sites,
- Unified IT application for all LGU in the country – LGU would input all required data,
- Clear rules and procedures about what, how and when budget information should be publically available,
- Decrease reporting requirements for LGU employees
- Raise interest and awareness; seek for suggestions and comments from citizens.

## Some of the suggestions of LGU employees

- „IT applications for LGU and budgetary users for input of all data would help in better recording and analyses of budget and allow citizens easier approach and use of data on their web sites”
- „Budget transparency to be included in criteria for central government budget (grants) allocations to LGUs.”
- „Organize regular public discussions and hearings on budget allocation.”





# Key channel through which MFSA could help upgrade budget transparency

- Create common LGU budget database (and financial statements) in LGUs associations
- Simplify presentation of LGU budget data
- Making budget data available at university/Faculties and to broader public (e.g. teaching students „Local government finance” using MFSA analytical tools)

# Cities working on MFSA are some of the most transparent cities in Croatia

	Transparency – Lotus project (Association of Cities and GONG)						Open budget transparency index (Institute of Public finance)								
City	2009		2010		2014		2014			2015			2016		
	Rank	value	Rank	value	Rank	value	value	Max. value	Number of cities with this grade	value	max.	Number of cities with this grade	value	Max	Number of cities with this grade
<b>Rijeka</b>	1	8.90	1	9.43	1	9.61	7	7	3	5	5	15	5	5	25
<b>Crikvenica</b>	4	7.30	4	8.98	45	6.39	4	7	22	5	5	15	5	5	25
<b>Jastrebarsko</b>	29	4.35	232	3.58	42	6.45	5	7	13	4	5	35	4	5	35
<b>Labin</b>	15	6.60	2	9.10	5	8.78	6	7	4	4	5	35	5	5	35
<b>Pregrada</b>	50	3.45	280	2.89	36	6.76	4	7	22	4	5	35	4	5	35
<b>Zaprešić</b>	14	6.00	6	8.75	14	8.14	4	7	22	4	5	35	4	5	35

# MFSA impact on transparency

- MFSA had an impact on the strategic planning of the city budget. City of Rijeka and Crikvenica have implemented the system of multiyear planning and capital investment program planning which is an integral part of the budget for the three-year period and associated with the cities development strategy.
- MFSA has positive impact on the increase of budget transparency in the City of Crikvenica. The city regularly publishes data on budgetary spending on its website, creates Budget in Brief, and regularly holds public debates on budget proposal where the mayor and the city administration discuss with citizens the budget proposal. Using MFSA results was another reason why the City of Crikvenica passed through PEFA.
- City of Rijeka increased information on the budgetary spending - Budget in Brief. Rijeka is the only City in Croatia that has on its website a special interactive game Budgeting(me) in which citizens themselves can create a budget with real figures of the existing budget (available at: <http://www.vojko-obersnel.com/hr/proracunaj-me/2016>).
- Budget visualisation – Association of Cities in Croatia

1. City Profile

**Territorial organization:** Rijeka is the city center of Primorska and Gorski Kotar county, it consists of 24 municipal entities. Total area of the city 44 km<sup>2</sup>

**Population:** Total resident population (2011 census): 128,733. Annual growth: +1.17%. Rank in the county (in population): 2<sup>nd</sup>. Density: 2,923/km<sup>2</sup> – the most densely populated city in Croatia.

**Economy:** GDP per capita (national level): EUR19,887. Business entities: 4,100 (only companies with headquarters based in the city, and excluding companies that have branches in the city but not headquarters), consisting mostly of banks, shopping centers, national public utilities, and individual entrepreneurs. Labor force: 68,271 or 66.6% of the population. Unemployed: 16.7% (registered 2012). Its location on the Kvarner Bay, with 26.20 km of coastline, gives Rijeka a comparative advantage as a maritime economy, and in all activities related to the sea, logistics, new technologies, and tourism. Rijeka is on the Pan-European Transport Corridor V and X, as well as the Baltic-Adriatic corridor. Its main basic natural resource is high-quality drinking water.

**Utilities management:** The city is the owner of seven public utility companies and one organization in the area of water supply & sewerage, heating, gas supply, federal services, parks, public sanitation, parking, public lighting, public transport, road maintenance, city heating, and management and construction of sports infrastructure.

Municipal staff: 438 in city administration and 1,400 in utility companies.

**Existing Project Investment Plan:** In 2012, the city created a new city development strategy for the period 2014-2020 (action plan). The strategy has three main objectives with eight priorities, 20 planned actions, and 61 projects.

**Financial framework of the Strategy:** EUR0 billion for the period 2014-2020.

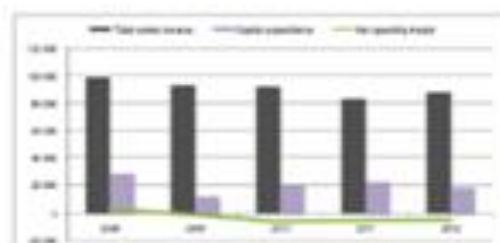
Structure of investments: 34% for the 1<sup>st</sup> strategic objective, 14% for the 2<sup>nd</sup> strategic objective, and 12% for the 3<sup>rd</sup> strategic objective.

**Urban issues & challenges:** The strategic objectives of Rijeka's development are: 1. Global positioning of the city through development of Rijeka Gateway Project; 2. Develop a competitive economy based on knowledge and new technologies; 3. Ensure the dignity of all citizens by strengthening social inclusion and developing projects that are locally beneficial.



2. Financial Situation

Item	2008					2012	2013
	2008	2009	2010	2011	2012		
Total revenues	41,07	40,81	41,38	40,88	41,91	41,1	
Revenue from taxes	24	24	24	24	24		
Current revenue	40,88	40,70	41,38	40,88	41,91	41,1	
Operating revenue	31,25	31,00	31,20	31,20	31,20	31,2	
Operating profit	1,82	1,82	1,82	1,82	1,82	1,82	
Operating revenue - current	3,88	3,88	3,88	3,88	3,88	3,88	
Operating revenue	31,25	31,25	31,25	31,25	31,25	31,2	
Expenses							
Operating expenses	4,40	4,40	4,40	4,40	4,40	4,40	
Operating expenses	31,25	31,25	31,25	31,25	31,25	31,2	
Operating expenses	1,82	1,82	1,82	1,82	1,82	1,82	
Operating revenue	18	18	18	18	18	18	
Operating revenue	2	2	2	2	2	2	



Exchange: 1 EUR = 7.5502 HRK (2012); Inflation index: 2008: +6.1%, 2009: +2.4%, 2010: +1.1%, 2011: +2.3%, 2012: +3.4%

• The 2012 actual budget of the City of Rijeka is EUR116 million of which EUR88 million are current revenues.

• Comparing 2008 and 2012:

The Average annual decrease in current revenues was -2.9% over the period, as a result of the economic crisis and falling GDP at the national level.

• Operating expenditures in 2012 were EUR81.2 million, with an annual decrease during the period of -2.3%, in line with the drop in current revenues.

• Capital expenditures also decreased from EUR29 million in 2008 to EUR17.7 million in 2012, after a strong investment cycle that is still evident in 2008.

• Capital expenditure is projected to grow in future years despite the current difficulties.

• Capital expenditure is financed from ongoing revenues (there are no sales of assets) and loans. Also, no grants have been available for less than 10% in past years.

1. City profile

**Territorial organization:** The city comprises four settlements: Crikvenica, Sreće, Dramalj and Jakovčica. Total area of the city: 57.90 km<sup>2</sup>. Crikvenica is located in the North Adriatic region, 37 km from Rijeka – the regional center.

**Population:** Total resident population (2011 census): 11,122. Annual population growth: -0.0037%. Rank in the county (in population): 62nd. Vital index: 53.8. Population density: 192/km<sup>2</sup>.

**Economy:** The economy of Crikvenica is based on tourism. Gross income per capita in 2010 was EUR8,778, net income per capita in 2010: EUR6,086. The economic activity rate in 2011 came in at 11.6%. The unemployment rate (% active population) stood at 11.6%, while the national human development index was 100-125%.

**Utilities management:** City utility (communal) companies: 2. Utility company "Vodovod Crikvenica" (water supply, heating, gas supply, parking, and so forth).

Utility company "CRIKVENICA" (garbage and wastewater treatment, collection and disposal of waste, municipal cemeteries, city market, city park, city beach, city gym, maintenance of public spaces).

Municipal staff: General administration: 28. Technical service unit: 1. Representatives: 2. Part-time officers: 2.

**Existing Project Investment Plan:** Main capital projects over the period 2012-2014 cost more than EUR10 million: building a school sports hall EUR12 M; capital investment in culture EUR2 M; continued investment in the main town square EUR7 million; investment in water and sanitation EUR1 million; construction of a new city cemetery EUR8 million; investment in the sports zone EUR1 million.

**Urban issues & challenges:**

Issues: Overbuilt urban spaces.

Challenges: Rehabilitation and improvement of the living conditions in the urban spaces.



2. Financial Situation

in Mill euros	2008	2009	2010	2011	2012
1 Total current income	1,744	1,656	1,676	1,702	18,014
1 Balance in € (if negative)	0	0	0	0	364
1 Current income per €	1,744	1,656	1,676	1,702	1,763
4 Operating expenditure	1,472	1,294	1,267	1,462	1,242
4 Operating surplus	1,072	1,62	1,562	1,888	1,291
4 Subsidy expense	382	748	391	448	371
1 Surplus	490	140	971	1,418	1,420
8 Capital expenditure	2,076	1,123	1,462	1,291	1,420
9 Financing	1,296	1,276	491	1,624	0
10 -One capital investment on	867	1,17	491	429	0
11 -Investment grant	0	0	0	0	0
11 -Loan	1,429	1,046	0	1,497	0
10 Surplus/deficit	0	0	0	0	0
14 Overall budget balance	382	748	391	448	371

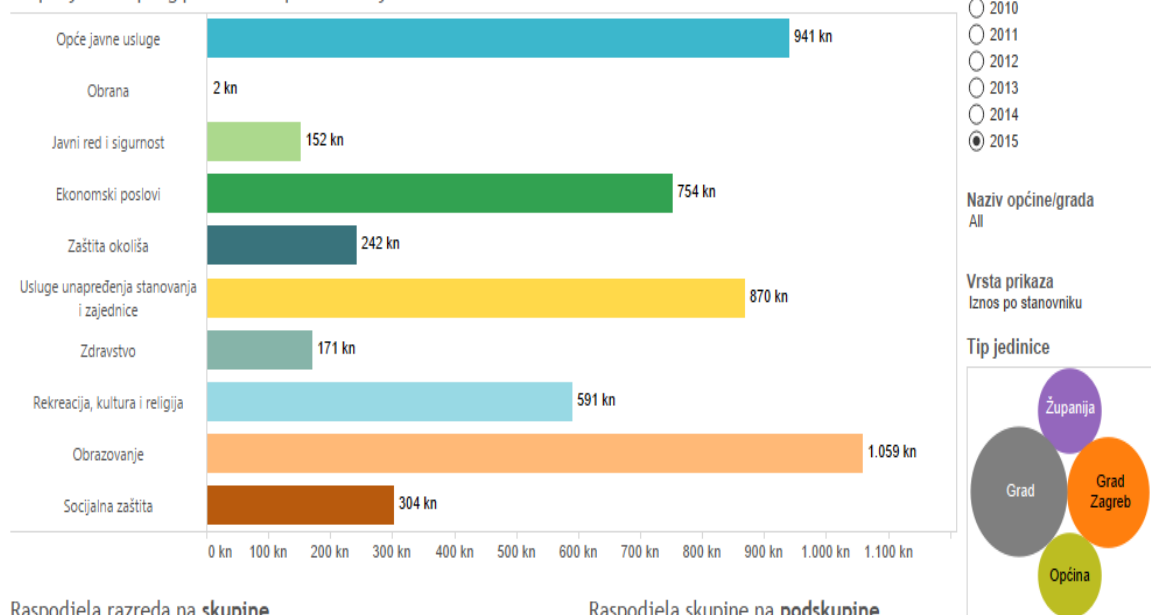
Exchange: 1 EUR = 7.51734 HRK. Inflation index: 2008: 6.1, 2009: 2.4, 2010: 1.1, 2011: 2.3, 2012: 3.4. Source: CGO and Ministry of Finance.

• The budget for 2012 was EUR12.8 million. Current revenues were EUR10.2 million. Revenue growth from 2008 to 2012 was 11.1%, indicating a recovery of the local economy and local finance.

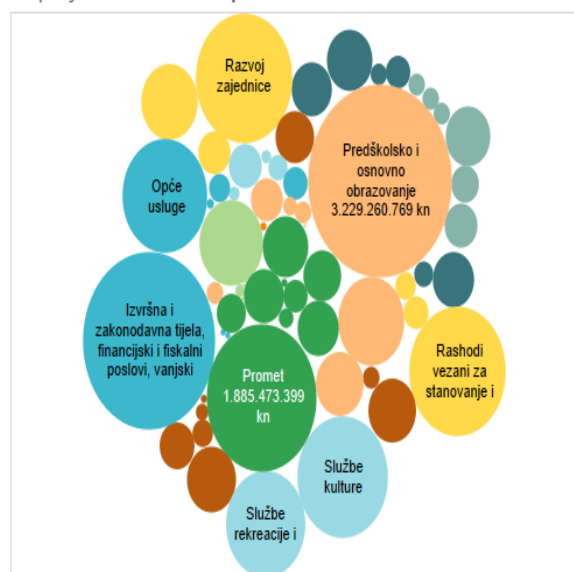
• Capital expenditures in 2012 amounted to EUR1.8 million. This was a decrease of 30.7% from 2008 because of the economic crisis, while 2012 recorded significant growth in investment activities.

# Budget visualisation

Raspodjela ukupnog proračuna \* prema namjeni na **razrede**



Raspodjela razreda na **skupine**



Raspodjela skupine na **podskupine**

