

World Bank-Austria Urban Partnership Program
City to City Dialogue
MUNICIPAL FINANCE, URBAN PLANNING AND LAND MANAGEMENT
November 14-15,2017 Skopje, Macedonia

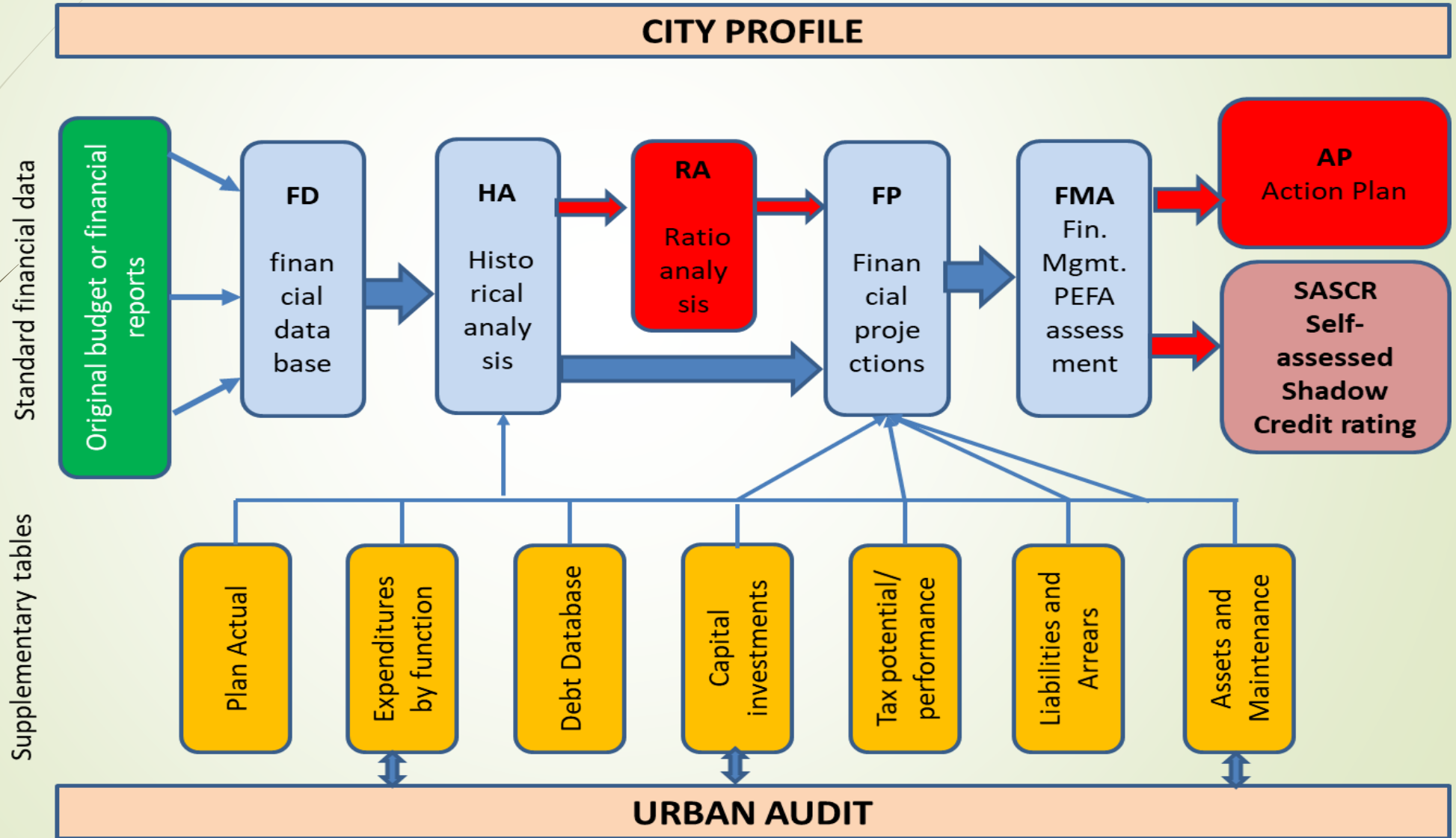
MFSA 2.0

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Main changes and enhancements

- Revision of tables based on UPP experiences and experts' feedback;
- New tables, new functions:
 - Financial Management Assessment (PEFA w. self-assessing mode) – PEFA guidelines 2016
 - Self-assessed Shadow Credit Rating (SASCR) – rating guidelines 2016-2017;
- Single-entry principle – tables linked and entries automated
- Automated calculations
- IT Platform – easy-to-use
- Detailed guidebook

MFSA Logframe



Financial Snapshot

	Items	2009	2010	2011	2012	2013	Growth indexes	(% of current revenue)
		actual	actual	actual	actual	actual		2013
1	Current revenue	41,999	41,214	48,636	52,743	65,821	11.9%	100.0%
2	Operating expenditure	33,498	37,784	41,187	44,610	56,893	14.2%	86.4%
3	Gross Operating margin/balance	8,502	3,430	7,449	8,133	8,928	1.2%	13.6%
4	Interests and borrowing costs	321	502	695	1,450	2,212	62.1%	3.4%
5	Current margin/balance	8,181	2,928	6,753	6,683	6,716	-4.8%	10.2%
6	Debt principal repayment	425	490	768	687	2,982	62.7%	4.5%
7	Net margin - net current balance	7,756	2,438	5,985	5,995	3,733	-16.7%	5.7%
8	Capital revenues	17,734	12,564	9,303	8,220	7,407	-19.6%	11.3%
9	Own capital revenues	12,724	9,607	8,938	7,904	7,078	-13.6%	10.8%
10	Investment grants and donations	32	90	365	316	329	79.0%	0.5%
11	Cash reserve from previous years	4,978	2,867	-	-	-	-100.0%	0.0%
12	Capital expenditures with debt service	26,270	24,260	28,990	29,788	25,596	-0.6%	38.9%
13	Investment balance before loan	(355)	(8,768)	(12,933)	(14,885)	(11,474)	138.4%	-17.4%
14	Loan proceeds (disbursed)	3,222	4,956	10,192	12,548	7,022	21.5%	10.7%
15	Overall closing balance w loans	2,867	(3,812)	(2,741)	(2,337)	(4,452)	n.a.	-6.8%

FM Assessment

Multiple choice questions

I. Intergovernmental relations

II. Planning, Budgeting, and Budget implementation

III. Financial Management

IV. Financial Reporting, Disclosure, Transparency

Themes	No	Financial Management Assessment and Scoring items	Score ranges A, B, C, D	Actual Scores
I. Intergovernmental relations				C
Predictability of transfers	1	There is a mature and robust framework for the LG sector with clear definition of transfers. Any changes are made at a deliberate and predictable pace. Transfers are stable and predictable, regulated, timely transmitted, no ad-hock grants.	A	
	2	CG transfers are predictable annually, regulated, but delivery times may vary during the year, no ad-hock grants	B	
	3	Transfers are not regulated but by and large stable, ad-hock grants appear	C	C
	4	Transfers are unpredictable, and/or not regulated, and/or ad-hock grants are common	D	
Inter-Governmental mandate arrangements	5	Revenue and expenditure mandates are clearly stipulated by law, and are respected. Any changes are made at a deliberate and predictable pace.	A	
	6	Revenue and expenditure mandates are stipulated, but not in harmony, rules are respected with some exceptions. Intergovernmental finance changes are mostly discussed with LGs	B	B
	7	Revenue and expenditure mandates are not well regulated, but rarely change.	C	
Debt Regulations	8	Revenue and expenditure mandates are unclear, not fully respected, and subject to changes without prior announcement or discussions	D	
	9	Debt financing is clearly regulated with market based rules and insolvency framework; LG debt service is stable	A	
	10	Debt financing is regulated; LG debt service is mostly timely	B	
	11	Ministry (of Finance) approves loans with no clear rules for debt financing. Payments may be delayed.	C	C
Own Revenue self-confidence	12	Debt financing is unregulated, loans may rolled-over, ad-hock short-term liquidity borrowing is common OR No borrowing is allowed	D	
	13	LG has the flexibility to change taxes/fees on a significant share of operating revenues and increases are politically acceptable at the local level. Own revenues are predictable with clear visibility of future revenues.	A	
	14	LG has the flexibility to change base or rate of some taxes/fees, but increases are politically challenging at the local level. Collection power and capacity are reasonable with low incentives to increase revenues.	B	
	15	LG has no power to change base or rate of taxes/fees, may propose changes to the Government/Ministry. Own revenues are somewhat predictable.	C	C
Expenditure spending flexibility	16	LG has no power to change rates or base of taxes and fees. Own revenues are not predictable OR very low.	D	
	17	Spending responsibilities are highly stable and predictable over time. LG has the flexibility to change the level and nature of spending, such as by cutting public services or changing service standards, on a significant share of operating expenditures. These cuts are politically acceptable at the local level.	A	
	18	LG has the legal power to change the level and nature of spending, such as by cutting public services or changing service standards, on a significant share of operating expenditures. These cuts are conceptually acceptable at the local level, but rarely occur and only under extreme situations.	B	
	19	LG has the legal power to change the level and nature of spending, but this occurs on an ad-hoc basis against shortages of cash, but it is not a common practice. Overspending occurs time and again.	C	
	20	LG can change the level and nature of spending, but this happens as quick fixes without long term plans. Overspending is very common.	D	D
II. Planning, Budgeting, and Budget implementation				B

Financial Projections

	Items	2009	2010	2011	2012	2013	Assumptions, formulas	2014	2015	2016	2017	2018
		Actual	Actual	Actual	Actual	Actual		Projection	Projection	Projection	Projection	Projection
		1	2	3	4	5	serial number of years (x)	6	7	8	9	10
A	TOTAL CURRENT REVENUE	41,999	41,214	48,636	52,743	65,821	sum lines 1+6	69,588	75,633	83,209	93,118	97,398
1	Transfers from higher Government	30,300	25,162	26,120	29,933	35,984	sum lines (7,10)	35,032	37,859	40,686	43,513	46,340
2	- Shared taxes	24,053	22,255	22,747	26,915	35,631	$y=2781.6x+17975$	34,665	37,446	40,228	43,009	45,791
3	- Unconditional transfers *4	6,192	2,613	3,076	2,865	-	$y=6588.6-1213.2$ USE zero!	0	0	0	0	0
4	- Conditional transfers	55	294	297	153	353	$y=45.565x+93.67$	367	413	458	504	549
5	Own Revenue	11,700	16,053	22,516	22,810	29,837	sum lines (2,5)	34,556	37,774	42,523	49,605	51,058
6	- Local tax revenues *1	4,235	4,818	6,212	7,548	8,037	$y=1033.4x+3069.6$	9,270	10,303	11,337	12,370	13,404
7	- Local fees and charges *2	2,496	4,389	5,571	5,397	12,347	$y=988.63x+1991.6+5412$	13,335	14,324	16,844	21,697	20,921
8	- Local asset revenues	4,969	6,847	9,778	8,723	8,989	$y=991.61x+4886.3$	10,836	11,828	12,819	13,811	14,802
9	- Local mixed revenues *3	-	-	955	1,142	464	$y=204x-108.84$	1,115	1,319	1,523	1,727	1,931
								0	0	0	0	0
B	TOTAL OPERATING EXPENDITURE	33,498	37,784	41,187	44,610	56,893		59,274	65,115	71,054	77,102	83,273
10	Labor (wages, salaries, taxes, charges)	6,592	7,635	8,141	9,075	10,034	$y=832.38x+5798.2$	10,792	11,625	12,457	13,290	14,122
11	- Administrative staff											
12	- Technical, service, and other staff											
13	Goods and services	10,052	10,917	11,386	12,737	15,044	$y=1180.3x+8486$	15,568	16,748	17,928	19,109	20,289

Financial Ratios

Indicator (definition)	Comparative index (benchmark)	Actual					Plan				
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1 Credit worthiness											
Operating savings before interests / Current revenue	> 30%	20%	8%	15%	15%	14%	15%	14%	15%	17%	15%
Net Operating Surplus (after debt service) / Current revenue	> 20%	19%	7%	14%	13%	10%	6%	5%	6%	10%	5%
Investment balance before loan/T total revenue	> -15%	-1%	-16%	-22%	-24%	-16%	-14%	-12%	-6%	-1%	-4%
Financing gap after loan proceeds/T total revenue	> -5%	5%	-7%	-5%	-4%	-6%	6%	21%	18%	23%	27%
2 Indebtedness											
Debt outstanding / operating surplus (capacity to clear its debt)	< 10 years	1	4	3	5	5	5	5	4	3	3
Debt service / T total current revenue	< 10 %	2%	2%	3%	4%	8%	9%	9%	9%	8%	9%
Debt outstanding /Budget total	< 60%	14%	24%	36%	51%	56%	63%	69%	59%	51%	48%
Borrowing /Current revenues	< 15%	8%	14%	23%	25%	13%	7%	16%	1%	3%	4%
3 Fiscal autonomy											
Own (taxes + fees + unconditional grants) / T total Current revenue	> 80 %	85%	93%	93%	94%	99%	99%	99%	99%	99%	99%
4 Capital investment effort											
Capital investment expenditure / Current revenue	> 40 %	62%	58%	58%	55%	34%	22%	20%	12%	11%	9%
Current margin / Capital investment expenditure	> 25%	32%	12%	24%	23%	30%	54%	55%	100%	142%	138%
Capital investments from earmarked grants / T total investment expenditure	< 50 %	0%	0%	1%	1%	1%	3%	4%	5%	6%	6%
5 Level of service sustainability											
Maintenance works expenditure / Operating expenditures	> 15 %	9%	8%	7%	8%	7%	7%	8%	8%	9%	9%
6 Quality of operations											
Salaries & wages / Operating actual expense	< 40 %	19%	20%	19%	20%	17%	18%	18%	18%	17%	17%
Number of municipal employees/1000 citizens	< 25	22	22	22	22	23	23	24	24	25	25
Actual revenue / Planned revenue	95<A/P<1.05	95%	111%	103%	102%	100%	110%	110%	105%	110%	110%

Self-assessed Shadow Credit-rating SASCR

- Qualitative assessment PEFA with numeric scoring
- Quantitative assessment based on ratios (5 year weighted average back and 5 year weighted average projected ahead)
- SASCR total Score = Qualitative scores + quantitative scores
- Methodology developed with a rating practitioner;
- Consistent with PEFA guidelines 2016
- Consistent with Rating agencies' guidelines 2015-2017

SASCR Qualitative Assessment (PEFA)

Based on MFA/PEFA tables with numeric scoring

Financial Reporting, Disclosure, Transparency			3.00	4.00	
Financial reporting	57	The LG has a reliable computerized financial reporting system consistent with generally accepted accounting principles and standards. Daily, monthly, quarterly and annual reports are generated timely in automated procedures (e.g. by IFMIS); results are disseminated to respective governing bodies, discussed, and corrective measures commenced timely.	5		
	58	The LG has a reliable financial reporting system and procedures in compliance with national legislation; reports are generated and disseminated mostly on due courses.	4	4	4
	59	The LG has rules and various templates for financial reporting in various LG entities, reports are generated separately and delays may occur due to missing information.	3		
	60	LG entities do generate some reports	2		
External Audit	61	The LG annual financial reports are audited by external auditor, audit reports are obtained within 8-12 month following a fiscal year. The LG audit committee discusses the audit results and commences corrective measures as may deem necessary. AND. The LG has obtained unqualified audits in the last 3 years.	5		
	62	The LG annual financial reports are audited by external auditor, audit reports are obtained within 2 years following a fiscal year. The LG audit committee discusses the audit results and commences corrective measures. AND. The LG has obtained unqualified audits in the last year.	4		
	63	The LG annual financial reports are audited by external auditor, audit reports are obtained within 2-3 years following a fiscal year. The LG audit committee discusses the audit results. The LG has obtained qualified audits in the last 2 years.	3	3	4
	64	The LG has no external auditor or the LG has failed to obtain audits or obtained qualified audits or one or more adverse external audits in the last 3 years.	2		
Financial Disclosures	65	The annual financial reports, the audit report, and short briefs on quarterly or monthly reports are made available for public scrutiny (e.g. posted on the LG website, readable at city hall, shared with key stakeholders in print or electronic forms). Town-hall meeting is held to discuss results and future plans.	5		
	66	The annual financial reports are made available for public scrutiny (e.g. posted on the LG website, readable at city hall, shared with key stakeholders in print or electronic forms).	4		
	67	The annual financial reports are made available for public scrutiny on demand	3	3	4
	68	Financial reports are not shared with the public.	2		
Public Procurement	69	LG has standard procedures that asset divestitures, all investment construction projects, and bulk purchases are procured by open competitive tendering published in various media and adhered to value for money principles.	5		
	70	LG has standard procedures supporting that large construction projects are procured by open competitive tendering published in various media.	4	4	4
	71	Some projects are published and procured by competitive tenders.	3		
	72	LG has no public procurement procedures	2		
AVERAGE OF TOTAL QUALITATIVE SCORES			3.42	3.78	

SASCR Financial Management Assessment Summary

Table 1 SASCR Scoring of Qualitative Areas and Factors

<i>Intergovernmental relations scoring summary</i>	<i>Factor Scores</i>	<i>Financial Management</i>	<i>Factor Scores</i>
Predictability of transfers	C=3	Financial management framework	B=4
Inter-Governmental mandate arrangements	B=4	Revenue management	C=3
Debt Regulations	C=3	Expenditure management	C=3
Own Revenue self-confidence	C=3	Cash and Debt management	B=4
Expenditure spending flexibility	D=2	Oversite and internal control	B=4
Average score	3.00	Average score	3.80
<i>Planning, Budgeting, and Budget implementation</i>		<i>Financial Reporting, Disclosure, Transparency</i>	
Strategic plan and CIP	A=5	Financial reporting	B=4
Budget Planning	A=5	External Audit	C=3
Scope of budget	B=4	Financial Disclosures	C=3
Budget implementation	B=4	Public Procurement	B=4
Average score	4.50	Lowest score	3.00
Qualitative assessment final scores = $0.4*IR+0.2*PB+0.2*FM+0.2*RDT =$			3.42

SASCR Quantitative Scoring

Based on Ration analysis table

Scoring will be automatic in platform

Ratio Scoring	Scoring				Scores based on 5 year averages		Past Average	Future Average
	5,	4,	3,	2				
Creditworthiness					3.75	4.25	5 year	5 year
Operating savings before interests / Current revenue	≥ 30%, ≥ 15%, ≥ 0%, < 0%				3	4	14%	15%
Net Operating Surplus/Current revenue	≥ 20%, ≥ 10%, ≥ 0%, < 0%				4	3	12%	6%
Investment balance before loan/Total revenue	≥ -15%, ≥ -20%, ≥ -25%, ≥ -30%				4	5	-17%	-8%
Financing gap after loan proceeds/Total revenue	≥ 0%, ≥ -3%, ≥ -6 %, ≥ -10%				4	5	-4%	18%
Indebtedness					4.7	4.7		
Debt outstanding / operating surplus (years).	≤ 10y, ≤ 15y, ≤ 20y, ≤ 25y				5	5	4	4
Debt outstanding /Budget total	≤ 60%, ≤ 80%, ≤ 100%, ≤ 120%				5	5	39%	59%
Debt service / Total current revenue	≤ 10%, ≤ 15%, ≤ 20%, ≤ 25%				5	5	4%	9%
Operating margin/Interest payment (x)	≥ 15x, ≥ 10x, ≥ 5x, ≤ 5x				4	3	10	6
Borrowing /Current revenues	≤ 15%, ≤ 20%, ≤ 25%, ≤ 30%				4	5	17%	7%
Debt outstanding / Total current revenue	< 100%, < 120%, <140%, 160%				5	5	52%	62%
Fiscal Autonomy					5	5		
Own (taxes + fees + unconditional grants) / Total Current revenue	≥ 80%, ≥ 65%, ≥ 50 %, ≤ 50%				5	5	0.94	0.99
Capital investment effort					4.5	3.5		
Capital investment expenditure / Total Current revenue	≥ 40%, ≥ 30%, ≥ 20 %, ≤ 20%				5	2	52%	16%
Capital investment expenditure / Total Expenditure	≥ 30%, ≥ 25%, ≥ 20 %, ≤ 20%				5	2	37%	14%
Current margin / Capital investment expenditure	≥ 30%, ≥ 25%, ≥ 20 %, ≤ 20%				3	5	24%	92%
Capital investments from earmarked grants / Total investment expenditures	≤ 50%, ≤ 70%, ≤ 90%, >90%				5	5	1%	5%
Service sustainability					2.3	2.3		
Maintenance works expenditure / Operating expenditures	≥ 15 %, ≥ 10%, ≥ 5%, < 5%				3	3	7%	8%
Taxes collected/ Taxes levied*	≥ 95 %, ≥ 80%, ≥ 70%, < 70%				2	2		69%
Fees Collected/Fees billed*	≥ 95 %, ≥ 80%, ≥ 70%, < 70%				2	2		69%
Quality of Operations					3.8	3.6		
Salaries & wages / Operating expenditures	≤ 40%, ≤ 50%, ≤ 60%, >60%				5	5	19%	18%
Number of municipal employees/1000 citizens	< 25, <40,<60, <80, <100				5	5	22	24
Actual revenue / Planned revenue	± 5%, ±10%, ±15%, ±20% or more				5	4	102%	109%
Arrears due/ net cash (end of the year).	≤ 100%, ≤ 120%, ≤ 140%, >140%				2	2	4%	0%
Financial resources (cash +cash-like)/Financial obligations (due liabilities + arrears)*	≤ 100%, ≤ 120%, ≤ 140%, >140%				2	2		
AVERAGE OF TOTAL FINANCIAL RATIO SCORES					4.06	4.03		
AVERAGE OF TOTAL QUALITATIVE SCORES					3.42	3.78		

Self-assessed Shadow Credit-rating

Financial Management Assessment and Scoring items	Scores Past 5 years average	Scores 5 years ahead
Intergovernmental relations	3.00	3.20
Planning, Budgeting, and Budget implementation	4.50	4.50
Financial Management	3.60	4.00
Financial Reporting and Disclosure	3.00	4.00
Qualitative scores total	3.42	3.78
Creditworthiness	3.75	4.25
Indebtedness	4.67	4.67
Fiscal Autonomy	5.00	5.00
Capital investment effort	4.50	3.50
Service sustainability	2.33	2.33
Quality of Operations	3.80	3.60
Financial Ratios total	4.06	4.03
Shadow credit rating total scores	3.74	3.91
Shadow credit rating sample city	b	b

MFSA Platform Development

- Internet based, User-friendly
- Single data entry (a data entered goes into all respective tables and cells)
- Automatically calculates derivative figures and populates tables from the initial financial database (for Historical analyses, ratios, projections, and rating scores)
- Provides templates and boxes for drawing lessons and analyzing results
- Under test phase, up and running December 2017
- Users can focus on analysis

Platform Current Status and Plans

Under test by Developer



Will be shared with UPP partners for testing in December 2017

Up and running January 2018

NALAS will host the platform

Planned to be translated to 3 regional languages

Screenshot on Financial Database

MFSA Municipal Finance Self-Assessment Mihaly Kopanyi  

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STANDARD SUPPLEMENTARY

CITY PROFILE

FINANCIAL DATABASE

HISTORICAL ANALYSIS

FINANCIAL PROJECTIONS

RATIO ANALYSIS

FINANCIAL MANGEMENT ASSESSMENT

SASCR1 QUALITATIVE ASSESSMENT

SASCR2 QUANTITATIVE ASSESSMENT

ACTION PLAN

Year: YYYY

Financial Database

REVENUES	
	Actual
TOTAL REVENUES	
1.CURRENT REVENUES	
Revenues from Central/Higher government	
1.Shared taxes	
2.Unconditional operation transfers	
3.Conditional/earmarked operation transfers	
Own current revenues	
1.Local taxes and levies	
Property tax	
EXPENDITURES	

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Screenshot on Financial Projections

Municipal Finance Self-Assessment

Mihaly Kopanyi

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RATIO ANALYSIS

FINANCIAL MANGEMENT ASSESSMENT

SASCR1 QUALITATIVE ASSESSMENT

SASCR2 QUANTITATIVE ASSESSMENT

ACTION PLAN

Financial Projections

FINANCIAL PROJECTIONS

ITEMS	2009 Actual	2010 Actual	Specific assumptions based on chosen policy option	2011 Projection
TOTAL CURRENT REVENUE	41999	41214		48636
Transfers from higher Government	30,300	25,162		48636
Shared taxes	24,053	22,255		48636
Unconditional transfers	6,192	2,613		48636
Conditional transfers	55	294		48636
Own revenue	11,700	16,053		48636
Local tax revenues	4,235	4,818		48636
Local fees, charges	2,496	4,389		48636

DEBT DATABASE (AGING LIST OF DEBTS AND AMORTIZATION) +

FINANCIAL PROJECTIONS (CONSERVATIVE SCENARIO) +

FINANCIAL PROJECTIONS - OPTIMISTIC SCENARIO +

Screen shot on SASCR Qualitative Assessment

Municipal Finance Self-Assessment

Mihaly Kopanyi

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SASCR1 QUALITATIVE ASSESSMENT

SASCR2 QUANTITATIVE ASSESSMENT

ACTION PLAN

SASCR1 Qualitative Assessment

INTERGOVERNMENTAL RELATIONS

Financial Management Assessment and Scoring items	Actual Scores	Five years ahead
Intergovernmental relations	3.00	3.20
Predictability of transfers		
<input type="radio"/> There is a mature and robust framework for the LG sector with clear definition of transfers. Any changes are made at a deliberate and predictable pace. Transfers are stable and predictable, regulated, timely transmitted, no ad-hock grants.		
<input type="radio"/> CG transfers are predictable annually, regulated, but delivery times may vary during the year, no ad-hock grants		

PLANNING, BUDGETING, AND BUDGET IMPLEMENTATION +

FINANCIAL MANAGEMENT +

FINANCIAL REPORTING, DISCLOSURE, TRANSPARENCY +

SASCR SCORING OF QUALITATIVE AREAS AND FACTORS +