HANDBOOK FOR PUBLIC FINANCE MANAGEMENT (PFM) SELF-ASSESSMENT BY LOCAL SELF-GOVERNMENT UNITS OF NORTH MACEDONIA

USAID's Strengthening Resource Mobilization Activity in North Macedonia

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ABBREVIATIONS AND ACRONYMS

ESPEO	Electronic System for Reporting and Recording of Liabilities
GFS	Government Finance Statistics
ICT	Information and Communication Technology
IMF	International Monetary Fund
LSGU	Local Self Government Unit
M1	Scoring method 1
M2	Scoring method 2
MPE	Municipal Public Enterprise
NA	Not applicable
NU	Not used
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator
PPB	Public Procurement Bureau
PRO	Public Revenue Office
USAID'S PROJECT	USAID's Strengthening Resource Mobilization Activity
WL	Weakest Link

INTRODUCTION

The Republic of North Macedonia (RNM) aspires to be a prosperous, self-reliant, and inclusive democratic society. USAID Strengthening Resource Mobilization Activity (hereinafter referred to as "USAID's Project"), 2021-2026, is assisting North Macedonia's government institutions to raise and independently manage the resources necessary to fund services demanded by its citizens. Facing challenges in revenue generation and budget execution, North Macedonia's 81 municipalities are ready to act, and it is in the country's interest to seize the opportunity presented by the USAID's project. The Project team is facilitating participatory and sustainable transformation, aiding North Macedonia's local governments to generate, access, and effectively manage the own-source and external revenues necessary to fund the social services and programs that benefit their citizens.

The Project team is working with local governments, the Government of North Macedonia (GoNM), and key stakeholders to: 1) enhance the quality of municipal tax and fee collection systems; 2) increase the capacity of local self-government units (LSGUs) to access external resources from the national government, international organizations, and/or capital markets and banks; 3) improve LSGUs' ability to plan, manage, and implement public sector revenues in compliance with GoNM's regulations; and 4) enhance the decentralization process.

This Handbook is intended as a guide for Local Self-Government units (LGSUs) in North Macedonia in undertaking public financial management performance self-assessment on the basis of the existing tool for Public Public Expenditure and Financial Accountability (PEFA). This Handbook is a reduced version of the LSGU PEFA Framework, adapted within the USAID Strengthening Resource Mobilization Activity in order to develop a practical framework and guiding the self-assessment of performance in public financial management (PFM) system by the LSGUs of North Macedonia.

The document was drafted by Jorge Shepherd, PFM Consultant from the USAID's Project, and benefited from inputs and comments from USAID's Project Team. These included Ljubica Patlidzankovska, Deputy Chief of Party, Kristina Hadzi-Vasileva, Budget Planning and Execution Component Lead and Marina Jandrevska, Municipal Finance Specialist.

PART 1. OVERVIEW OF THE PEFA SELF-ASSESSMENT FRAMEWORK

1. 1. Scope and coverage

The Public Expenditure and Financial Accountability (PEFA) program[1] was initiated in 2001 by seven international development partners: The European Commission, International Monetary Fund, World Bank, and the governments of France, Norway, Switzerland, and the United Kingdom. The PEFA program provides a framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance. PEFA is designed to provide a snapshot of PFM performance at specific points in time using a methodology that can be replicated in successive assessments, giving a summary of changes over time. PEFA is a methodology for assessing public financial management performance.

The PEFA framework includes a report that provides an overview of the PFM system and evidence-based measurement against a full set of performance indicators. It also provides an assessment of the implications for overall system performance and desirable PFM outcomes. It provides a foundation for planning reform, discussing strategy and priorities, and monitoring progress.

It identifies 94 characteristics (dimensions) across 31 key components of public financial management (indicators) in 7 broad areas of activity (pillars). Initially focused on national government level it has evolved to include the subnational level of governance as well by offering recommendations on how each of the PEFA indicators and dimensions can be applied or modified to better suit the characteristics of the subnational governments.

In order to make the process easier and user-friendly for the LSGUs in North Macedonia, the Project offers a simplified approach to self-assessment by selecting a number of relevant areas and 14 indicators from the original LSGU PEFA[2] adapted to North Macedonian local government context.

What LSGU PEFA assesses

The PEFA framework consists of eight pillars of performance in a PFM system that are essential to achieve three key objectives:

- Aggregate fiscal discipline, which requires effective control of the total budget and management of fiscal risks.
- Strategic allocation of resources, which involves planning and executing the budget in line with government priorities aimed at achieving policy objectives.
- Efficient service delivery, which requires using budgeted revenues to achieve the best levels of public services within available resources.

What LSGU PEFA does not cover

The PEFA self-assessment will focus on the operational performance of key elements of the municipal PFM system rather than on all the various inputs and capabilities that may enable the PFM system to reach a certain level of performance. PEFA thus does not measure every factor affecting PFM performance, such as the legal framework, Information and Communication Technology (ICT) systems, institutional setup, or human resource capacities within the government. These are matters that should be taken into account, however, in addition to PEFA findings, as part of a dialogue on PFM reform after the PEFA report has been finalized. Further analysis, including more detailed examination of specific areas, may be required in addition to

[1] www.pefa.org
[2] https://www.pefa.org/sites/pefa/files/news/files/SNG_PFM%20performance%20Module_Oct2020.pdf

PEFA to explore the underlying factors affecting performance.

PEFA also does not involve fiscal or expenditure policy analysis that would determine whether fiscal policy is sustainable. It does not evaluate whether expenditures incurred through the budget ultimately have their desired effect on reducing poverty or achieving other policy objectives, or whether value for money is achieved in service delivery. A more detailed analysis of data, or utilization of country/LSGU specific indicators, would be required for such an assessment. PEFA focuses on assessing the extent to which the PFM system is an enabling factor for achieving such outcomes. PEFA does not assess the decentralization system either. It does not provide an evaluation of the share of responsibilities between different levels of governments, neither does it assess how mandates and competencies are transferred.

PEFA does not provide recommendations for reforms or make assumptions about the potential impact of ongoing reforms on PFM performance. However, PEFA does acknowledge actions taken by governments to reform PFM systems by describing recent and ongoing measures. The PEFA report thus summarizes the government's reform agenda but does not evaluate that agenda. Such considerations inform the actions to be taken after a PEFA assessment and form part of the dialogue between relevant stakeholders that contribute to the development of a new PFM improvement initiative.

Why LSGUs should conduct regular PEFA assessment

The framework facilitates comparison over time and between local governments. The results may serve as an important instrument towards establishment of sound subnational finances. The typical overarching objective is to assess the condition of the PFM system of the local governments with a view to informing decisions on how to improve PFM performance. It can assist local governments in developing and implementing PFM reform initiatives, which basically means it can serve as a tool for developing and improving local policies using the PFM results via a 4-step process, as follows:

Stage 1: Identify PFM strengths and weaknesses	• Present a list of strengths and weaknesses in PFM processes and systems identified in the PEFA report
Stage 2: Determine underlying causes of strengths and weaknesses	• Agree if analyses are to be undertaken to identify the technical and nontechnical causes of or factors contributing to the strengths and weaknesses
Stage 3: Develop desired PFM reform actions and outcomes	• Agree on the sequenced PFM reform and capacity development actions addressing the weaknesses identified and the desired short and medium-term outcomes
Stage 4: Monitoring, evaluation, and adjustment	• Execute the PFM reform action plan in a strategic manner • Set up a PFM reform monitoring team and divide roles and responsibilities by area of expertise • Monitor the implementation of reforms and individual capacity development

	activities • Identify potential constraints to PFM reform and propose remedial actions • Review and modify reform initiatives or plans

In addition, a set of PEFA assessments may be used for (i) laying out a PFM reform action plan for both LSGUs and the CG (limited to LSGU-related functions); and (ii) promoting LSGU benchmarking amongst LSGUs in a country.

Who conducts the self-assessment and the way of implementation?

The PFM self-assessment of the LSGU is teamwork. For the needs of this self-assessment, the LSGU will form a team of 3 to 5 employees representing the financial and administrative structures of the LSGU. The team will be led by the internal auditor or the most experienced financial employee or the secretary of the municipality. The purpose is to ensure independence in carrying out the municipal public financial management performance self-assessment.

1.2. Reference to the LSGU PEFA performance indicators

The PFM framework identifies eight pillars of performance that are essential to achieving the objectives above. The framework for LSGU PEFA[3] assessments uses the same pillars as the framework for national government PEFA assessments, with some adaptation, plus a new pillar on intergovernmental fiscal relations. Thus, the LSGU PEFA evaluates 8 areas as presented below.

LSGU pillar on intergovernmental fiscal relations. LGUs obtain reliable and timely information on transfers from the central government to help them prepare meaningful budgets. Central government sets effective fiscal rules and monitors the fiscal position of the LSGUs.

I. Budget reliability. The municipal budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

II. Transparency of public finances. Information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all municipal revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

III. Management of assets and liabilities. Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded, and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

IV. Policy-based fiscal strategy and budgeting. The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

V. Predictability and control in budget execution. The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

VI. Accounting and reporting. Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

[3] Ibid.

VII. External scrutiny and audit. Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Within the eight broad areas marked by these pillars, the LSGU PEFA framework defines specific indicators that focus on key measurable aspects of the PFM system. PEFA uses the results of the individual indicator calculations, which are based on available evidence, to provide an integrated assessment of the PFM system against the seven pillars of PFM performance. It then assesses the likely impact of PFM performance levels on the three desired budgetary outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery.

Each pillar comprises a group of indicators that capture the performance of the key systems, processes, and institutions of municipal government. Each indicator in turn includes one or more performance dimensions.

1.2.1. Scope of the adapted LSGU PFM performance

The adapted LSGU PFM Performance Measurement Framework, an integral part of this Handbook, covers 6 out of 8 areas (pillars) presented above. This assessment is laid upon the following pillars:

I. Budget reliability;

II. Transparency of public finances;

III. Management of assets and liabilities;

IV. Policy-based fiscal strategy and budgeting;

V. Predictability and control in budget execution;

VI. Accounting and reporting.

For each Pillar, it covers only a sample of performance indicators defined in the LSGU PEFA framework. Subsequently, for each indicator, it covers only a sample of and not all dimensions. A listing of selected pillars and indicators and their constituent performance dimensions is provided in Part 3 of this Handbook.

Each dimension of the indicators measures performance against a four-point ordinal scale from A to D. Calibration of dimensions is based on the presence of important attributes relevant to different standards of performance.

The highest score is warranted for an individual dimension if the core PFM element meets an internationally recognized standard of good performance. Dimension-specific scores are aggregated to reach an overall score for each indicator using an appropriate method based on the degree of linkage between the individual dimensions.

Part 2 includes further information on the calibration and the scoring methodology with guidance for each of the indicators.

1.3. Structure of the PFM performance self-assessment report

The result of the conducted PFM performance self-assessment is a final report that should be short and aims to signal key challenges and outline solutions to be translated into an action plan (see Annex 1).

It is of crucial importance to highlight identified recommendations for improvement and action plan for their implementation within the Report. In addition, presenting the PFM performance self-assessment report to the municipal council allows it to be utilized as a platform for dialogue and guide for improvement.

Publishing the report or at least extracts on the municipal website with the scores (in table format) per indicators with a short explanation for the score and list of actions the municipality will undertake to improve, is a step forward not only in municipal transparency but also in establishing a municipal PFM performance monitoring system.

PART 2 GUIDANCE ON SCORING

2.1. General guidance on scoring

Scoring of the performance indicators is the heart of the PFM process. For each indicator, the score takes into account a number of dimensions, which are aggregated according to the methodology described in section 2.2. (An Excel sheet for scoring is available in Annex 1).

Each dimension is scored separately on a four-point ordinal scale: A, B, C, or D, according to precise criteria established for each dimension. In order to justify a particular score for a dimension, every aspect specified in the scoring requirements must be fulfilled. If the requirements are only partly met, the criteria are not satisfied, and a lower score should be given that coincides with achievement of all requirements for the lower performance rating. A score of C reflects the basic level of performance for each indicator and dimension, consistent with good international practices. A score of D means that the feature being measured is present at less than the basic level of performance or is absent altogether, or that there is insufficient information to score the dimension. Below is a short description of the scores:

A = High level of performance in place;

B = Satisfactory level of performance;

C = Basic level of performance;

D = Weak performance.

Designation of D score for lack of sufficient information

The D score indicates performance that falls below the basic level. 'D' is applied if the performance observed is less than required for any higher score. For this reason, a D score is warranted when sufficient information is not available to establish the actual level of performance. A score of D due to insufficient information is distinguished from D scores for low-level performance by the use of an asterisk—that is, D*.

The aggregation of multidimensional indicators containing D* scores is no different from aggregation with other D scores. Aggregate indicator scores will not include an asterisk, and thus the insufficiency of information is only noted at the dimension level.

Scoring where indicators are not applicable or not used

There may be two situations in which no score can be allocated to an indicator or a dimension.

Materiality, size, and significance

The size and materiality of aspects of performance are important considerations in many PEFA dimensions. A standard approach to size and materiality has been adopted throughout the indicator set, unless otherwise stated, as follows:

• *All* refers to 90% or more (by value);

• *Most* refers to 75% or more (by value);

• *Majority* refers to 50% or more (by value);

• *Some* refers to 25% or more (by value);

• *A Few* refers to less than 25% and more than 10% (by value).

There are many indicators and dimensions that use these standards. In each case the words used above are italicized to emphasize the use of a standard term.

2.2. Scoring of indicators with multiple dimensions

Most indicators have a number of separate dimensions, each of which must be assessed separately. The overall score for an indicator is based on the scores for the individual dimensions. The scores for multiple dimensions are combined into the overall score for the indicator using either the Weakest Link (WL) method or the Averaging (AV) method. Each indicator specifies the method to be used.

1. <u>Weakest link method</u>: M1 (WL). This method is used for multidimensional indicators where poor performance on one dimension is likely to undermine the impact of good performance on other dimensions of the same indicator. In other words, this method is applied where there is a "weakest link" in the connected dimensions of the indicator. The steps in determining the aggregate indicator score are as follows:

• Each dimension is initially assessed separately and given a score on the four-point calibration scale;

• The aggregate score for the indicator is the lowest score given for any dimension;

• Where any of the other dimensions score higher, a "+" is added to the indicator score. Note: It is NOT acceptable to choose the score for one of the higher-scoring dimensions and add a "-" for any lower scoring dimensions.

2. <u>Averaging method</u>: M2 (AV). The aggregate indicator score awarded using this method is based on an approximate average of the scores for the individual dimensions of an indicator, as specified in a conversion table (Table 1). Use of this method is prescribed for selected multidimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. Though all dimensions of an indicator fall within the same area of the PFM system, in certain areas progress on some individual dimensions can be independent of the others. The steps in determining the aggregate indicator score are as follows:

• Each dimension is initially assessed separately and given a score on the four-point calibration scale;

• Refer to the conversion table for indicator scores using the averaging method (table 1) and find the appropriate section of the table—that is, whether there are two, three, or four dimensions for the indicator;

• Identify the row in the table that matches the scores for each dimension of the indicator; the ordering of the dimension scores does not matter;

• Enter the corresponding overall score for the indicator.

The conversion table applies to indicators using M2 (AV) scoring methodology only. Using it for indicators designated for M1 (WL) will result in an incorrect score. The conversion table is intended for use on individual indicators only and is not suitable for aggregating scores across the full set, or subsets, of indicators. No standard methodology has been developed for aggregation across indicators because each indicator measures a different subject and has no standard, quantitative relationship with other indicators.

Table 1. Conversion table for indicator scores using the averaging method M2 (AV)

Dimension scores			Aggregate score M2 (AV)	Dimension scores				Aggregate score M2 (AV)
2-dimensional indicators				**4-dimensional indicators**				
	D	D	**D**	D	D	D	D	**D**
	D	C	**D+**	D	D	D	C	**D**
	D	B	**C**	D	D	D	B	**D+**
	D	A	**C+**	D	D	D	A	**D+**
	C	C	**C**	D	D	C	C	**D+**
	C	B	**C+**	D	D	C	B	**D+**
	C	A	**B**	D	D	C	A	**C**
	B	B	**B**	D	D	B	B	**C**
	B	A	**B+**	D	D	B	A	**C+**
	A	A	**A**	D	D	A	A	**C+**
3-dimesional indicators				D	C	C	C	**D+**
D	D	D	**D**	D	C	C	B	**C**
D	D	C	**D+**	D	C	C	A	**C+**
D	D	B	**D+**	D	C	B	B	**C+**
D	D	A	**C**	D	C	B	A	**C+**
D	C	C	**D+**	D	C	A	A	**B**
D	C	B	**C**	D	B	B	B	**C+**
D	C	A	**C+**	D	B	B	A	**B**
D	B	B	**C+**	D	B	A	A	**B**
D	B	A	**B**	D	A	A	A	**B+**
D	A	A	**B**	C	C	C	C	**C**
C	C	C	**C**	C	C	C	B	**C+**
C	C	B	**C+**	C	C	C	A	**C+**
C	C	A	**B**	C	C	B	B	**C+**
C	B	B	**B**	C	C	B	A	**B**
C	B	A	**B**	C	C	A	A	**B**
C	A	A	**B+**	C	B	B	B	**B**
B	B	B	**B**	C	B	B	A	**B**
B	B	A	**B+**	C	B	A	A	**B+**
B	A	A	**A**	C	A	A	A	**B+**
A	A	A	**A**	B	B	B	B	**B**
Note: Dimension scores can be counted in any order. It is only the quantities of each score that are important for aggregation. Last column to right refers to average.				B	B	B	A	**B+**
				B	B	A	A	**B+**
				B	A	A	A	**A**
				A	A	A	A	**A**

2.3. Composition of PFM Performance Mesurement Methodology – selected pillars, indicators, and dimensions

Table 2 presents a summary of the PFM Performance Measurement Methodology – selected pillars, indicators, and dimensions for LSGU assessments. Further detailed technical guidance on the scoring of each indicator is presented in Part 3 of the Handbook.

Table 2. Scope of performance indicators

Category	Indicator	Dimension
I. Budget reliability	1. Aggregate expenditure outturn	1.1. Aggregate expenditure outturn
	2. Expenditure composition outturn	2.1. Expenditure composition outturn by main function, or department (heads) 2.2. Expenditure composition outturn by economic classification 2.3. Expenditure from contingency reserves (budgetary reserves)
	3. Revenue outturn	3.1. Aggregate revenue outturn 3.2. Revenue composition outturn
II. Transparency of public finances	5. Budget documentation	5.1. Budget documentation
III. Management of assets and liabilities	12. Public asset management	12.2. Monitoring of fixed assets and properties (nonfinancial asset) 12.3. Transparency of asset disposal
	13. Debt management	13.1. Recording, reporting and management of debt and guarantees
IV. Policy-based fiscal strategy and budgeting	14. Macroeconomic and fiscal forecasting	14.3. Medium-term budget estimates of revenues and expenditures
	17. Budget preparation process	17.1. Budget calendar (management of budget preparation process)
V. Predictability and control in budget execution	19. Tax administration	19.2. Property tax register and value assessment 19.4. Tax arrears monitoring
	20. Accounting for	20.1. Information on revenue

	revenue	collections
	23. Payroll controls	23.2. Management of payroll changes
	24. Procurement	24.1. Procurement implementation and monitoring 24.2. Procurement methods 24.4. Procurement complaints management and transparency
VI. Accounting and reporting	28. In-year budget reports	28.1. Coverage and comparability of reports 28.2. Timing and accuracy of in-year budget reports
	29. Annual financial reports	29.1. Completeness of annual financial reports

PART 3: MEASURING PERFORMANCE INDICATORS AND DIMENSIONS

This section provides detailed technical guidance on the scoring of each indicator and dimension. It also outlines the implications and possible interpretations of PEFA indicators for subnational government PEFA assessments. It expands on the PEFA 2016 Field guide[4] by providing guidance, clarifications, and definitions which are specific to the application of the PEFA Framework to local self- governments.

I. Budget reliability

PI-1 Aggregate expenditure outturn

This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in budget documentation and fiscal reports. There is one dimension for this indicator.

PI-1.1 Aggregate expenditure outturn

Scoring criteria

A Aggregate expenditure outturn was between 95% and 105% of the approved aggregate budgeted expenditure in at least two of the last three years.

B Aggregate expenditure outturn was between 90% and 110% of the approved aggregate budgeted expenditure in at least two of the last three years.

C Aggregate expenditure outturn was between 85% and 115% of the approved aggregate budgeted expenditure in at least two of the last three years.

D Performance is less than required for a C score.

Time period: Last three completed fiscal years

Data requirements:

- The aggregated expenditure outturn and the approved aggregated budget expenditure for each of the last three completed fiscal years.
- **For calculation of this indicator, assessors should use the spreadsheet annexed to this document**.

Main sources of information

Original budget as approved by Municipal Council (MC) and annual financial reports for all budget accounts (consolidated accounts of LSGU and LSGU users).

Corresponding laws and regulations

Budget Law, Budget Execution Law, Law on Financing of LSGUs, Law on Accounting for Budget Users, Rulebook for Expenditures Classification, Rulebook for Treasury Operations.

Dimension measurement guidance

Aggregate expenditure “originally approved” is the total amount of expenditure approved by the municipal council, presented in the annual budget documentation and fiscal reports. Aggregate expenditure includes planned expenditures and those incurred as a result of exceptional events-which may be met from contingency votes. Expenditures funded by transfers to the municipality should be included here. Principal payment expenditures are not included in the total amount.

[4] Volume II of the PEFA Handbook available on www.pefa.org

Expenditures financed by windfall revenues such as privatization should be included and noted in the supporting tables and narrative. Expenditures financed externally by loans or grants should be included, if reported in the budget, along with contingency vote(s) and interest on debt. Expenditure assigned to suspense accounts is not included in the aggregate. However, if amounts are held in suspense accounts at the end of any year that could affect the scores if included in the calculations, they can be included. In such cases the reason(s) for inclusion must be clearly stated in the self-assessment report.

In a narrative, assessors should comment on any general deviations, as well as those due to lower execution rates in investment (and how they influence overall deviation).

PI-2 Expenditure composition outturn

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

Indicator measurement guidance

Functional or program comparisons provide the most useful basis for assessment of policy intent. However, budgets are usually adopted and managed on the basis of an administrative classification and economic classification. The same basis should be used for comparison between appropriation and execution.

Actual expenditure outturns can deviate from the originally approved budget for reasons unrelated to the accuracy of forecasts—for example, a major macroeconomic shock. The calibration accommodates one unusual or 'outlier' year and focuses on deviations from the forecast that occur in two or more of the three years covered by the assessment for dimensions 2.1 and 2.2. Dimension 2.3 uses data from all three of the last completed fiscal years.

PI-2.1 Expenditure composition outturn by main function, or department (heads)

Scoring criteria

A Variance in expenditure composition by program, administrative or functional classification was less than 5% in at least two of the last three years.

B Variance in expenditure composition by program, administrative or functional classification was less than 10% in at least two of the last three years.

C Variance in expenditure composition by program, administrative or functional classification was less than 15% in at least two of the last three years.

D Performance is less than required for a C score.

Time period: Last three completed fiscal years.

Data requirements

- The expenditure composition of the end-of-year outturn and of the originally approved budget for each of the main functional classifications or for each of the 20 largest budget heads in the administrative classification.
- If the number of main budget heads exceed or is less than 20, the composition variance should be assessed against the largest heads that together make up 75% of the budget, with the residual heads (excluding contingency items) aggregated into one line.

- **For calculation of this indicator, assessors should use the spreadsheet annexed to this document.**

Main sources of information

Original budget as approved by MC, individual functional programs and annual financial reports for all budget accounts (consolidated accounts of LSGU and LSGU users).

Corresponding laws and regulations

Budget Law, Budget Execution Law, Law on Financing of LSGUs, Law on Accounting for Budget Users, Rulebook for Expenditures Classification, Rulebook for Treasury Operations.

Dimension measurement guidance

The dimension measures the difference between the original budget approved by the municipal council and end-of-year outturn in expenditure composition, by functional and program classification, during the last three years, excluding contingency items, and interest on debt. Other expenditures should be included- for example, expenditures funded by transfers to the municipality, approved by the national legislature, expenditure incurred as a result of exceptional events, expenditures financed by windfall revenues including privatization, local subsidies, and donor funds reported in the budget. Principal payment expenditures are not included in the total amount.

At the administrative level, the municipal budget can be organized according to the department or head that will implement the work for which the funds are provided, such as the local economic development department, urban planning, municipal infrastructure, education, pre-school education, environmental protection etc. Thus, differences should be calculated for the main budgetary heads/administrative entities that are responsible for management of the particular public service or function or program, that are included in the originally approved budget by the municipal council. If a functional classification based on international standards, e.g., GFS/COFOG, is used, differences should be based on the main functions which are applicable at local level (excluding functions such as defense, public order and safety which may be outside the local self-government responsibility and managed by the higher-level government). Where a functional classification not based on GFS/COFOG is used, the measurement of difference should be based on the main heads approved by the municipal council. If a program basis is used, the program-based categories should be at the same level at which they were voted by the municipal council.

The methodology for calculating this dimension is provided in a spreadsheet attached to this document.

PI-2.2 Expenditure composition outturn by economic type

Scoring criteria

A Variance in expenditure composition by economic classification was less than 5% in at least two of the last three years.

B Variance in expenditure composition by economic classification was less than 10% in at least two of the last three years.

C Variance in expenditure composition by economic classification was less than 15% in at least two of the last three years.

D Performance is less than required for a C score.

Time period: Last three completed fiscal years.

Data requirements

- The expenditure composition of the end-of-year outturn and of the originally approved budget for each of the main economic classifications for each of the last three completed fiscal years.
- The calculation of variance should use the second (two-digit) level of the GFS classification or a similar system. If a different classification is used, the level of aggregation should be comparable to the two-digit GFS classification.

- **For calculation of this indicator, assessors should use the spreadsheet annexed to this document.**

Main sources of information

Original budget as approved by the municipal council and annual financial reports for all budget accounts (consolidated accounts of LSGU and LSGU users).

Corresponding laws and regulations

Budget Law, Budget Execution Law, Law on Financing of LSGUs, Law on Accounting for Budget Users, Rulebook for Expenditures Classification, Rulebook for Treasury Operations.

Dimension measurement guidance

The dimension measures the difference between the original budget approved by the municipal council and end-of-year outturn in expenditure composition by economic classification during the last three years including interest on debt (if the municipality has authority to borrow) but excluding contingency items. Expenditures funded by transfers to the municipality should be included here. Principal payment expenditures are not included in the total amount.

The scope of expenditure is the same as for dimension 2.1, with the addition of interest on debt (if the municipality has authority to borrow), as this is one of the categories of economic classification. The methodology for calculating this dimension is provided in a spreadsheet attached to this document.

PI-2.3 Expenditure from contingency reserves (budgetary reserves)

Scoring criteria

A Actual expenditure charged to a contingency vote was on average less than 3% of the original budget.

B Actual expenditure charged to a contingency vote was averaging between 3% and 6%, inclusive, of the original budget.

C Actual expenditure charged to a contingency vote was on average more than 6% but less than 10% of the original budget.

D Performance is less than required for a C score.

Time period: Last three completed fiscal years.

Data requirements

- If there is no contingency reserve, the dimension score is A.
- The actual expenditure charged to a contingency heading (as a separate vote with a clearly marked title such as ‘contingency reserves’) for each of the last three completed fiscal years.

- **For calculation of this indicator, assessors should use the spreadsheet annexed to this document.**

Main sources of information

Original budget (e.g., budgetary reserves) as approved by the municipal council and annual financial reports for all budget accounts (consolidated accounts of LSGU and LSGU users).

Corresponding laws and regulations

Budget Law, Budget Execution Law, Law on Financing of LSGUs, Law on Accounting for Budget Users, Rulebook for Expenditures Classification, Rulebook for Treasury Operations.

Dimension measurement guidance

The dimension measures the average amount of municipal expenditure(s) actually charged to the contingency reserve as a percentage of the total budget approved by the municipal council (including expenditures funded by transfers to the municipality).

PI-3 Revenue outturn

This indicator measures the change in revenue between the original approved budget and end-of-year outturn. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores.

Indicator measurement guidance

The revenues to be assessed are all own source revenues of the municipality (excluding transfers from the central government), which may include:

- Revenue collected by municipalities directly and retained by them. Revenues are collected directly when the municipality has full control (i.e., full authority and autonomy) of its revenue and of how the overall management of revenue collection is carried out;
- Shared revenues collected and retained by municipalities, which refer to (i) individual taxes or a pool of taxes (general revenue sharing) and (ii) tax-base sharing (e.g., each level of government has a specific tax such as income tax);
- Municipal revenues that are collected on behalf of the municipality by a higher-level revenue authority (these are neither transfers nor shared revenues). This is the case when by law all revenues are collected by the central government and transferred to the municipalities (VAT, block grants, dedicated grants).

PI-3.1 Aggregate revenue outturn

Scoring criteria

A Actual revenue was between 97% and 106% of budgeted revenue in at least two of the last three years.

B Actual revenue was between 94% and 112% of budgeted revenue in at least two of the last three years.

C Actual revenue was between 92% and 116% of budgeted revenue in at least two of the last three years.

D Performance is less than required for a C score.

Time period: Last three completed fiscal years.

Data requirements

- The actual end-of-year revenue and the originally budgeted revenue, for each of the last three completed fiscal years.
- **For calculation of this indicator, assessors should use the spreadsheet annexed to this document.**

Main sources of information

Original budget (e.g., budgetary reserves) as approved by the municipal council and annual financial reports for all budget accounts (consolidated accounts of LSGU and LSGU users).

Corresponding laws and regulations

Budget Law, Budget Execution Law, Law on Financing of LSGUs, Law on Accounting for Budget Users, Rulebook for Expenditures Classification, Rulebook for Treasury Operations.

Dimension measurement guidance

This dimension assesses the change in revenue between the original approved budget and end-of-year outturn. It refers to own-source revenues that legally and exclusively belong to the municipality. When revenue is collected by a higher-level revenue authority on behalf of the municipality, information should be provided on the extent to which the local entity has autonomy in administering those revenues.

Assessors are encouraged to provide information explaining the causes of the differences between the executed budget and the approved budget. Explanations may include the accuracy of the original fiscal forecasts, external factors that may have impacted on revenues and expenditures after the budget was approved, and/or post-budget spending and revenue policy decisions, etc. Assessors are encouraged to specify whether these explanations come from the municipality or their own assessment.

Calculation of the deviations between approved budgets and outturns for this dimension should be performed using the spreadsheet attached to this document. Calculations for the indicator should be included in the assessment report as an Annex.

PI-3.2 Revenue composition outturn

Scoring criteria

A Variance in revenue composition was less than 5% in two of the last three years.

B Variance in revenue composition was less than 10% in two of the last three years.

C Variance in revenue composition was less than 15% in two of the last three years.

D Performance is less than required for a C score.

Time period: Last three completed fiscal years.

Data requirements

- The value of revenue in the original approved budget, by category at the GFS three-digit level, or comparable classification, and the end-of-year outturn for the same categories for each of the last three completed fiscal years.
- **For calculation of this indicator, assessors should use the spreadsheet annexed to this document.**

Main sources of information

Original budget (e.g., budgetary reserves) as approved by the municipal council and annual financial reports for all budget accounts (consolidated accounts of LSGU and LSGU users).

Corresponding laws and regulations

Budget Law, Budget Execution Law, Law on Financing of LSGUs, Law on Accounting for Budget Users, Rulebook for Expenditures Classification, Rulebook for Treasury Operations.

Dimension measurement guidance

The dimension measures the variance in revenue composition during the last three years. It includes actual revenue by category compared to the original budget approved by the municipal council using international standards, e.g., level three (3 digits) of GFS 2014 classification, or a classification that can produce consistent documentation according to comparable hierarchical levels and coverage. This dimension attempts to capture the accuracy of forecasts of the revenue structure and the ability of the municipality to collect the amounts of each category of revenues as intended.

Assessors are encouraged to provide information explaining the causes of the differences between the executed budget and the approved budget. Explanations may include the accuracy of the original fiscal forecasts, external factors that may have impacted on revenues and expenditures after the budget was approved, and/or post-budget spending and revenue policy decisions, etc. Assessors are encouraged to specify whether these explanations come from the LSGUs or their own assessment.

I. Transparency of public finances

PI-5.1 Budget documentation

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. There is one dimension for this indicator.

Dimension measurement guidance

Annual budget documentation refers to the municipality's budget proposals for the next fiscal year with supporting documents, as submitted to the municipal council for scrutiny and approval. The set of documents should allow a complete picture of the municipal government fiscal forecasts, budget proposals, and outturn of the current and previous fiscal years.

The dimension scoring requirements refer to the number of elements that are included in the last annual budget proposals submitted by the municipality. The full specification of the information benchmark must be met to be counted in the score.

The elements are as follows:

Basic elements

1. Forecast of the fiscal deficit or surplus and cash flow report.
2. Previous year's budget outturn, presented in the same format as the budget proposal.
3. Current fiscal year's budget presented in the same format as the budget proposal. This can be both amendment and supplement to the budget (budget rebalancing).
4. Aggregated budget data (revenue and expenditure according to the economic and functional classification), including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.

Additional elements:

5. Deficit financing, describing its anticipated composition.
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate. (N/A)

7. Debt stock, including data at least for the beginning of the current fiscal year or other standards.
8. Financial assets, including data at least for the beginning of the current fiscal year. (N/A)
9. Information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations such as public-private partnership (PPP) contracts.
10. Explanation of budget implications of new policy initiatives and major public investments, with estimates of the budgetary impact on revenues and expenditures (e.g. Introduction of new taxes, fees etc.)
11. Documentation on the medium-term fiscal forecasts.
12. Quantification of tax expenditures (tax losses).

All four basic elements are applicable at the municipality level, according to best international practice. However, some of the additional elements may not be applicable. For example, element 6 relating to macroeconomic assumptions may not be applicable if such data are already included in the central government (Ministry of Finance) budget documentation. Assessors should determine the applicability of the elements to be included on a case-by-case basis and provide reasons for their inclusion or exclusion from the assessment under this indicator.

If one or more of the additional elements (of the eight) are not relevant, scoring of this indicator should be done on a pro rate basis. Scoring will need to be adjusted to reflect the number of the additional elements applicable to the municipalities.

Scoring criteria

Score	1 non-applicable element	2 non-applicable elements	3 non-applicable elements
A	4 basic elements 5 additional elements	4 basic elements 4 additional elements	4 basic elements 3 additional elements
B	3 basic elements 3 additional elements	3 basic elements 2 additional elements	3 basic elements 1 additional elements
C	3 basic elements	3 basic elements	3 basic elements
D	Less than 3 basic elements		

Time period: Last budget submitted to the municipal council.

III. Management of assets and liabilities

PI-12 Public asset management

This indicator assesses the management and monitoring of municipal assets and the transparency of asset disposal. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores. For the purposes of this assessment, it will cover only two of the three dimensions.

PI-12.2 Monitoring of fixed assets and properties (nonfinancial asset)

Scoring criteria

A The municipality maintains a register of its holdings of fixed assets, land, and (where relevant) subsoil infrastructure, i.e. the subsoil cadastre (fecal sewage, atmospheric sewage, electrical infrastructure, water vapor, etc.), the land, including information on their usage and age, which is published at least annually.

B The municipality maintains a register of its holdings of fixed assets, land, and (where relevant) subsoil infrastructure, i.e. the subsoil cadastre (fecal sewage, atmospheric sewage, electrical infrastructure, water vapor, etc.)

C The municipality maintains a register of its holdings of fixed assets and collects partial information on their usage and age.

D Performance is less than required for a C score.

Time period: Last completed fiscal year.

Data requirements

- Register(s) of fixed assets, possibly with information on their usage and age.
- Published document or set of documents related to one or more nonfinancial asset categories mentioned above.

Main sources of information

Data refer to LSGU, their budget users, public enterprises (inventory list of fixed assets and accounting data, urban audit, Registers from urban planning departments, relevant data from PE, etc.)

Corresponding laws and regulations

Law on Management of State-Own Assets and Management of Municipal-Own Assets; Inventory Rulebooks; Law on Accounting for Budget User; Law on Obligation; Law on Financial Discipline.

Dimension measurement guidance

This dimension assesses the features of nonfinancial asset monitoring for budgetary units of the municipality being assessed. Reporting on nonfinancial assets should identify the assets and their use. Maintaining a register of fixed assets is a basic requirement; up-to-date registers allow the municipality to better utilize assets such as infrastructure and to plan investment programs and maintenance. If there are significant nonfinancial assets held by public enterprises, this should be reported in the narrative for this dimension. The dimension does not require valuation for nonfinancial assets.

Records should be maintained by the municipality. It means that the municipality should be able to access, capture and modify the records related to their fixed assets – and all other nonfinancial assets they may monitor.

PI-12.3 Transparency of asset disposal

Scoring criteria

A Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established, including information to be submitted to the municipal council for information or approval. Information on transfers and disposal is included in budget documents, financial reports, or other reports.

B Procedures and rules for the transfer or disposal of nonfinancial assets are established. Information on transfers and disposals is included in budget documents, financial reports, or other reports.

C Procedures and rules for the transfer or disposal of nonfinancial assets are established. Partial information on transfers and disposals is included in budget documents, financial reports, or other reports.

D Performance is less than required for a C score.

Time period: Last completed fiscal year.

Data requirements

- Rules and regulations related to transfer or disposal of financial and nonfinancial assets.
- Set of documents submitted to the municipal council for information or approval.
- Reports containing details of transfers and disposal of assets.

Main sources of information

Accounting records for any disposal, Inventory, Committee opinion for disposal, Council decisions, Supporting documents to any decision for disposal, etc.

Corresponding laws and regulations

Law on Management of State-Own Assets and Management of Municipal-Own Assets.

Dimension measurement guidance

This dimension assesses whether the procedures for transfer and disposal of assets are established through legislation, regulation, or approved procedures. It examines whether information is provided to the municipal council or the public on transfers and disposals. Transfer of assets includes transfer of usage rights where ownership is retained by the local self-government.

Procedures and rules for transfer and disposal of assets include formal directions or regulations relating to the authority and responsibility for taking such action, and the methods to be used for transfer or disposal, recording or publication of the results. These are considered to be established when the procedures and rules are formally recorded in laws, regulations or directions from appropriate authorities.

Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established either by the municipality, or a higher level of government, or both. For an A score, "municipal council" designates the legislature function at the municipal level of government subject to the assessment. Submission of information to a legislature performing at a higher level of government would not qualify for an A rating.

When there is no disposal or transfer of assets, the second requirement for an A and a B score would be fulfilled if the absence of disposal (or transfers) is acknowledged. If there is no such acknowledgment, the score could be C.

PI-13 Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective debt management arrangements. It contains three dimensions but, for the purposes of this assessment, it will cover only one of the three dimensions.

PI-13.1 Recording, reporting and management of debt and guarantees

Scoring criteria

A Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least quarterly.

B Domestic and foreign debt and guaranteed debt records are complete, accurate, and updated quarterly. Most information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least annually.

C Domestic and foreign debt and guaranteed debt records are updated annually. Reconciliations are performed annually. Areas where reconciliation requires additional information to be complete are acknowledged as part of documentation of records.

D Performance is less than required for a C score.

Time period: At time of assessment.

Data requirements

- When recording and reporting of debt and guarantees is undertaken by the central government or any higher level of government, the dimension will be not applicable (NA).
- Reports to identify how complete and updated the records are and evidence that debt records are reconciled along with information on how frequently.
- The most recent debt management and statistical reports and information on how frequently they are issued.

Main sources of information

Debt registry, K2 and K3 reports, ESPEO evidence, reconciliation letters, accounting data. Any analysis on municipal debt and unpaid obligations above 90 days.

Corresponding laws and regulations

Law on ESPEO; Public Debt Management Law, Law on Financing of LSGUs.

Dimension measurement guidance

This dimension assesses the integrity and comprehensiveness of domestic, foreign, and guaranteed debt recording and reporting. A system to monitor and report regularly on the main features of the debt portfolio is critical for ensuring data integrity and effective management, such as accurate debt service budgeting, making timely debt service payments, and ensuring well-planned debt rollovers. Regular reporting enables the government to monitor the implementation of its debt management strategy and address any deviations that arise.

Assessors need to identify where debt data are recorded, what system is in place for recording and managing debt (e.g., specialized software; software used for recording both foreign and domestic debt and the government guarantees), whether it captures all debt management transactions for direct debt and guarantees; what is the time lapse between a disbursement transaction and its record in the debt system. In addition, they need to determine how the debt registry system operates, i.e., if records are reconciled and the frequency of such reconciliation.

For this dimension it is necessary to determine types of debt management and statistical reports produced and the frequency of their production. The reports should cover debt service, debt stock, and operations. Assessors should mention in the narrative whether debt management and statistical reports are publicly available and whether the reports contain explanations of the statistical tables and give rationale for operations.

'**Most information'** means that at least 75% of the value of the debt recorded by the local self-government is reconciled with the creditor institutions records on a quarterly basis. '**At time of assessment**' means the last 12 months at time of assessment of this dimension. For instance, to rate B, assessors should verify the production of at least one debt management and statistical report during the last 12 months.

'**Complete government debt records'** mean that debt data cover all material domestic and foreign debt and credit guarantees of the central government. Reconciliation of debt records is undertaken to ensure that the same amounts are recorded in the government's debt records and the creditor's institutional records, irrespective of whether the reconciliation process is conducted by the central bank, the MoF, or local self-government that maintains local debt records.

This dimension and the other dimensions for this indicator refer to debt and guarantees contracted directly by municipalities and serviced by the municipality. Whether or not the debt is authorized or guaranteed by the central government is not relevant to assessing this dimension.

IV. Policy-based fiscal strategy and budgeting

PI-14 Macroeconomic and fiscal forecasting

This indicator measures the ability of the municipality to prepare budget estimates on the basis of a fiscal strategy, the impact of economic context and policy changes. It assesses the ability of the municipality to develop a medium-term budget that is aligned with the strategic plans for service delivery. It also examines the extent to which annual budgets are derived from medium-term estimates. It contains four dimensions but, for the purposes of this assessment, it will cover only one dimension.

PI-14.3. Medium-term budget estimates of revenues and expenditures

Scoring criteria

A The annual budget presents estimates of expenditures and revenues (by type) for the budget year and the two following fiscal years. Estimates of expenditure are allocated by administrative, program (or functional), and economic classification.

B The annual budget presents estimates of expenditures and revenues (by type) for the budget year and the two following fiscal years. Estimates of expenditure are allocated by administrative or program (or functional) classification.

C The annual budget presents estimates of expenditures and revenues (by type) for the budget year and the two following fiscal years.

D Performance is less than required for a C score.

Time period: Last budget submitted to the municipal council.

Data requirements

- Medium-term budget estimates for the budget year and the two following fiscal years disaggregated by administrative, economic, and program or functional classification.

Main sources of information

All strategic documents, budgets, and financial accounts.

Dimension measurement guidance

This dimension assesses the extent to which medium-term expenditure estimates are prepared and updated as part of the annual budget process. The preparation of medium-term estimates is intended to strengthen fiscal discipline and improve the predictability of budget allocations. Medium-term estimates should be disaggregated by high-level administrative, program (or functional), and economic classification. For administrative or program (or functional) classification, estimates should be at a level of detail that identifies the service delivery program or department.

The revenues should be disaggregated by type of revenue at a level of detail that differentiates a municipality's own revenue from transfers and shared revenues.

PI-17 Budget preparation process

This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. It contains three dimensions but, for the purposes of this assessment, it will cover only one dimension.

PI-17.1 Budget calendar (Management of budget preparation process)

Scoring criteria

A A clear annual budget calendar exists, is generally adhered to, and allows all budgetary units at least six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.

B A clear annual budget calendar exists and is largely adhered to. The calendar allows budgetary units at least four weeks from receipt of the budget circular. Most budgetary units are able to complete their detailed estimates on time.

C An annual budget calendar exists, and some budgetary units comply with it and meet the deadlines for completing estimates.

D Performance is less than required for a C score.

Time period: Last budget submitted to the municipal council.

Data requirements

- Budget calendar.
- Budgetary units are allotted number of weeks to complete their detailed estimates.
- Actual dates (timing) of the stages (actions) in the budget preparation process, compared to the dates in the budget calendar.
- Content of the circulars relating to the preparation of detailed estimates.
- For the purpose of this dimension, sampling could be used by focusing on the 5 largest budgetary units (by expenditure).

Dimension measurement guidance

This dimension assesses whether a budget calendar exists for the municipality, and the extent to which it is adhered to. For the purpose of this indicator, budgetary units are those that are directly charged with responsibility for implementing the budget, in line with expenditure policies, and that directly receive funds or authorization to spend from the municipal council (municipal departments and all institutions under the municipal jurisdiction-kindergartens, schools, municipal enterprises, and cultural centers)

Budgetary units may, in practice, start work on the preparation of budget estimates much earlier than the start of the budget calendar, but it is important that they are given sufficient time to prepare their detailed budget proposals in compliance with the guidance, including budget expenditure ceilings, of the budget circular(s), if issued. Delays in the process and the passing of the budget may create uncertainty about approved expenditures and lead to delays in certain municipal activities, potentially including major contracts.

'Generally, and largely adhered to' means that the majority of actions are taken within recommended time frames. While a delay of a couple of days from a given date may be acceptable, assessors need to identify whether at least the majority of the parameters set in the budget calendar for the relevant year were respected. For an A score, budgetary units must be given at least six weeks to complete their detailed estimates; for a B score, four weeks. This is to ensure that the estimates have real value and are given priority. If budgetary units complete their detailed estimates with a delay of a couple of days but after the calendar's deadline but have has at least 6 weeks to complete their estimate, score is A if other requirements are fulfilled (B for a 4-weeks completion time). In the context of this dimension, 'generally and largely adhered to' should not be treated as distinct.

A '**clear annual budget calendar'** implies that the key parameters of the process and corresponding timing are set up without any doubts and are followed.

An A score is given for this dimension if all budgetary units are able to complete their detailed estimates on time.

V. Predictability and control in budget execution

PI-19 Tax administration

This indicator focuses on the administration of the municipality core taxes. This indicator assesses the procedures used to collect and monitor the core taxes of the municipality. It contains the four dimensions and uses the M2 (AV) method for aggregating dimension scores. For the purposes of this assessment, it will cover only two of the four dimensions.

Indicator measurement guidance

This indicator focuses on the administration of the municipality core taxes, which would serve as proxies of all local taxes, for instance, property tax, inheritance and gift tax and real estate sales tax.

PI-19.2 Property tax register and value assessment

Scoring criteria

A Properties and land plots are recorded in the register, which is accurate and comprehensive. The register contains data on cadastral number, address or location, area, use, property rights, and assessed value. The register is directly linked to the taxpayer registration system. Assessed property value contained in the register is close to market value.

B Properties and land plots are recorded in the register, which is accurate and comprehensive. The register contains data on cadastral number, address or location, area, use, property rights, and assessed value. The register is linked to the taxpayer registration system. Assessed property value contained in the register is based on actual value that is less than 10 years old.

C Properties and land plots are recorded in the register, which might be incomplete.

D Performance is less than required for a C score.

Time period: At time of assessment, with a retrospective view of 5-10 years for property value reassessment.

Data requirements

- Information contained in the register.
- Evidence of the timing at which the property assessment process took place, the assessment technique used, and the coverage of municipal territory.
- Evidence that the register is linked to the taxpayer registration system.

- For scores A and B, reliable information on validity of valuation methodologies and data integrity.

Main sources of information

Tax department data, data from property tax database software, reconciliation of tax and financial accounting evidence, Methodology for property evaluation.

Corresponding laws and regulations

Tax Law, Methodology for evaluation of property.

Dimension measurement guidance

The dimension assesses the extent to which the collection from property tax and property transfer tax (in case of sale or inheritance) benefits from a comprehensive and accurate tax base. The property registers should be uniform within a jurisdiction. The register should include information on parcels and buildings, property rights, property use, and property value. The direct link between the property register and the register of taxpayers is key for maximizing collection and taxation by ensuring that every property corresponds to an identified taxpayer.

The direct link between the register and a geographic information system provides a means for ensuring that it covers all of the local territory.

Property assessment requires uniform valuations approximating market values. To ensure that assessed values are correlated with market values, property values, either of individual properties or of an area, need to be reassessed regularly through self-assessment or mass reassessment.

This register should cover all properties, which are subject to property tax, unlike the register in PI-12.2, which only covers the public lands and buildings owned by the municipality.

PI-19.4 Tax arrears monitoring

The dimension will be applicable to core taxes collected directly by the municipalities, such as: property tax, inheritance and gift tax and real estate sales tax.

Scoring criteria

A The stock of total core tax arrears at the end of the last completed fiscal year is below 10% of the total core tax revenue collection for the year, and the value of core tax arrears older than 12 months are less than 25% of the value of all core tax arrears for the year.

B The stock of total core tax arrears at the end of the last completed fiscal year is below 20% of the total core tax revenue collection for the year, and the value of core tax arrears older than 12 months are less than 50% of the value of all core tax arrears for the year.

C The stock of total core tax arrears at the end of the last completed fiscal year is below 40% of the total core tax revenue collection for the year, and the value of core tax arrears older than 12 months are less than 75% of the value of all core tax arrears for the year.

D Performance is less than required for a C score.

Time period: Last completed fiscal year.

Data requirements

- The stock of total core tax arrears at the end of the last completed fiscal.
- The total core tax revenue collection for the last completed fiscal year.
- The value of core tax arrears older than 12 months.

Main sources of information

Tax data from tax administration software or other evidence by relevant departments (urban, communal etc.), budget and annual financial reports.

Corresponding laws and regulations

Tax Law, Methodology for evaluation of property, Accounting Law, Communal Fee Law.

Dimension measurement guidance

The dimension assesses the extent of proper management of arrears for core taxes within the municipality by focusing on the level and age of arrears for core taxes (property tax, inheritance and gift tax, and real estate sales tax). Municipalities need to have a critical focus on the management of arrears for core taxes to ensure that debts owed to the municipality are managed actively and that appropriate processes are adopted focusing on expediting the payment of collectable debt. This will ensure that municipality maximize the collection of the arrears for core taxes before the arrears become uncollectable. In order for the tax arrears management process to be considered comprehensive, it should allow for capturing information on the tax arrears and facilitate collection of those arrears in the year they occur.

PI-20 Accounting for revenue

This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling revenue accounts. It contains three dimensions and uses M1 (WL) method for aggregating dimension scores. For the purposes of this assessment, it will cover only one of the three dimensions.

PI-20.1 Information on revenue collection

Scoring criteria

A The municipality obtains revenue data at least monthly from entities collecting **all** municipal revenue. This information is broken down by revenue type and is consolidated into a report.

B The municipality obtains revenue data at least monthly from entities collecting **most** municipal revenue. This information is broken down by revenue type and is consolidated into a report.

C The municipality obtains revenue data at least monthly from entities collecting the **majority** of municipal revenue and consolidates the data.

D Performance is less than required for a C score.

Time period: At times of assessment.

Data requirements

- Evidence that information (reports, bank statements) is received on all revenue of the municipality, through systems or separate reports.
- Evidence that information on revenue data is broken down by revenue type and consolidated into a report.

Main sources of information

Data from Treasury system and LSGUs accounting software, annual financial reports.

Corresponding laws and regulations

Budget Law, Budget Execution Law, Law on Financing of LSGUs, Law on Accounting for Budget Users, Rulebook for Expenditures Classification, Rulebook for Treasury Operations.

Dimension measurement guidance

This dimension assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling revenue accounts between the finance department and the Treasury system in the Ministry of Finance. The dimension covers all own-source revenues (excluding the transfers from the central government).

The report should indicate (i) whether all revenue types are covered, and the data are complete, (ii) the extent to which data are broken down by revenue type and period of collection, and (iii) whether data on collected revenue are consolidated into a report.

PI-23 Payroll controls

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances do not form part of this indicator. This indicator contains the following four dimensions and uses the M1 (WL) method for aggregating dimension scores. For the purposes of this assessment, only one of the four dimensions is covered.

PI-23.2 Management of payroll changes

Scoring criteria

A Required changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. Retroactive adjustments are rare. If reliable data exists, it shows corrections in a maximum of 3% of salary payments.

B Personnel records and payroll are updated at least quarterly and require a few retroactive adjustments.

C Personnel records and payroll are updated at least quarterly and require some retroactive adjustments.

D Performance is less than required for a C score.

Time period: At times of assessment.

Data requirements

- Frequency and timing of updating of personnel records and payroll data.
- Information (ideally, documented) on the number and size of retroactive adjustments.
- Delay in the number of days from a change in personnel status to personnel records and payroll data are updated.

Main sources of information

HR evidence, accounting evidence, PRO evidence.

Corresponding laws and regulations

Law on Payment of Salaries, Law on Public Sector Employees.

Dimension measurement guidance

This dimension assesses the timeliness of changes to personnel and payroll data. Any amendments required to the personnel database should be processed in a timely manner through a change report and should result in an audit trail.

Retroactive adjustments refer to changes in the payroll following relevant changes in personnel status, or as a result of errors, and that require supplementary compensation or clawback of payments that the employee is not entitled to. Lacking timeliness of changes to the payroll will lead to payment arrears to staff.

PI-24 Procurement

This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. The scope of this indicator covers every procurement of good, services, civil works, and major equipment investments, whether classified as recurrent of capital investment expenditures. It contains the four dimensions and uses the M2 (AV) method for aggregating dimension scores. For the purposes of this assessment, it covers three of the four dimensions.

PI-24.1 Procurement implementation and monitoring

<u>Scoring criteria</u>

A Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works.

B Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for most procurement methods for goods, services and works.

C Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for the majority of procurement methods for goods, services and works.

D Performance is less than required for a C score.

<u>Time period</u>: Last completed fiscal year.

<u>Data requirements</u>

- Data bases, statistics, or reports with information on what has been procured, the value of procurement, and who has been awarded the contracts.
- Information on the accuracy and completeness of data.

<u>Main sources of information</u>

PPB data, internal LSGUs procurement data, Procurement Plan, Quarterly reports for realization.

<u>Corresponding laws and regulations</u>

Public Procurement Law.

<u>Dimension measurement guidance</u>

This dimension assesses the extent to which prudent monitoring and reporting systems are in place within the municipality to ensure value for money and promote fiduciary integrity. Completeness refers to the information on contracts awarded. The accuracy and completeness of information can be assessed by reference to audit reports.

If there is a lack of external reports to evidence the accuracy and completeness of databases, assessors may rely on a sample. If the assessment focusses on a specific (set of) service delivery function(s), assessors may decide to focus on that function/those functions for the assessment of this dimension.

PI-24.2 Procurement methods

Scoring criteria

The total value of contracts awarded through competitive methods in the last completed fiscal year represents:

A 80% or more of total value of contracts;

B 70% or more of total value of contracts;

C 60% or more of total value of contracts;

D Performance is less than required for a C score.

Time period: Last completed fiscal year.

Data requirements

Data bases, statistics, or reports with information on contracts awarded through competitive and non-competitive methods and value.

Main sources of information

PPB data required by law, internal LSGUs procurement data.

Corresponding laws and regulations

Public Procurement Law.

Dimension measurement guidance

This dimension assesses the procurement methods used by the municipalities and analyzes the percentage of the total value of municipal contracts awarded with and without competition. A good procurement system ensures that procurement uses competitive methods, except low-value procurement under an established and appropriate threshold. This includes situations in which other methods are effectively restricted by regulations or where the provisions to apply other methods are used sparingly. It covers only procurement awarded and managed by the municipal government.

This dimension focuses on assessing the actual use of competitive methods (inter alia methods that promote open participation of potential providers). Assessors need to identify (i) the extent of use of competitive methods, (ii) whether there is a threshold, and, if so, (iii) the threshold above which open competition is the default method. In addition, assessors need to identify concerns, if any, regarding the reliability of data on procurement methods and the value of contracts (e.g., statements on data completeness and accuracy by internal or external auditors), as assessed under dimension 24.1. The assessors are encouraged to mention in the narrative the percentage of the total value of contracts carried out under the set threshold for which open competition is the default method.

PI-24.4 Procurement complaints management and transparency

Scoring criteria

Complaints are reviewed by a body that:

(1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;

(2) does not charge fees that prohibit access by concerned parties;

(3) follows processes for submission and resolution of complaints that are clearly defined and publicly available;

(4) exercises the authority to suspend the procurement process;

(5) issues decisions within the timeframe specified in the rules/regulations; and

(6) issues decisions that are binding on every party (without precluding subsequent access to an external higher authority).

A Системот за The procurement complaint system meets every criterion.

B The procurement complaint system meets criterion (1), and three of the other criteria.

C The procurement complaint system meets criterion (1), and one of the other criteria.

D Performance is less than required for a C score.

Time period: Last completed fiscal year.

Data requirements

- Legal and regulatory framework of the complaint body addressing the requirements of the dimension 24.4.
- Data with number of complaints received and resolved (settled in favor of complainants and procuring entities respectively).
- Fees charged, if any (refer to criterion 2).

Main sources of information

Complaints submitted to the PPB, register of received complaints, finance evidence on fees charged (if any, refer to criterion 2)

Corresponding laws and regulations

Public Procurement Law.

Dimension measurement guidance

This dimension assesses the existence and effectiveness of an independent, administrative complaint resolution mechanism for procurement. It covers only procurement managed by the municipalities. A good procurement system offers stakeholders access to such a mechanism as part of the control system, usually in addition to the general court system. To be effective, submission and resolution of complaints must be processed in a fair, transparent, independent, and timely manner. The timely resolution of complaints is necessary to allow contract awards to be effectively reversed where required. It sets limits on remedies tied to profit/loss and costs associated with bid or proposal preparation after contract signatures. A good process also includes the ability to refer the resolution of the complaints to an external higher authority for appeal.

The narrative description of this indicator should include the evidence required for rating the dimension and a description of qualitative aspects of the performance of the system, such as the independence of the complaints mechanism and the protection afforded to complainants.

To be effective, the submission and resolution of complaints against municipal procurement must be processed in a fair, transparent, independent, and timely manner.

VI. Accounting and reporting

PI-28 In-year budget reports

This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports (quarterly reports) must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. This indicator contains three dimensions and uses the M1 (WL) method for aggregating dimension scores. For the purposes of this assessment, it covers only two of the three dimensions.

PI-28.1 Coverage and comparability of reports

Scoring criteria

A Coverage and classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditures made from transfers to budgetary units within the municipality are included in the reports.

B Coverage and classification of data allows direct comparison to the original budget with partial aggregation. Expenditures made from transfers to budgetary units within the municipality are included in the reports.

C Coverage and classification of data allows direct comparison to the original budget for the main administrative headings.

D Performance is less than required for a C score.

Time period: Last completed fiscal year.

Data requirements

- Budget execution reports compared with authorized budgets, including transfers and activities of budgetary units.

Main sources of information

Budget realization data and annual financial reports (consolidated).

Corresponding laws and regulations

Law on Accounting for Budget Users, Law on Financing of LSGUs, Budget Law.

Dimension measurement guidance

The dimension assesses the extent to which municipal financial information is reported within a given year, and in a form that is easily compared to the original budget.

Information must include all items of the original budget. It means that in year reports must be presented at the same level of disaggregation as the budget. A few items could be presented at a more aggregate level than the budget, provided their amount represents less than 10% of the total expenditure.

'Partial aggregation' means any situation between score A requirement and a C requirement (presentation limited to the main administrative headings).

PI-28.2 Timing and accuracy of in-year budget reports

Scoring criteria

A Budget execution reports are prepared monthly and issued within two weeks from the end of each month.

B Budget execution reports are prepared quarterly and issued within four weeks from the end of each quarter.

C Budget execution reports are prepared quarterly (possibly excluding first quarter) and issued within 8 weeks from the end of each quarter.

D Performance is less than required for a C score.

Time period: Last completed fiscal year.

Data requirements

- Frequency of in-year budget execution reports.
- Number of days following end of period that budget report is disseminated within the government.
- Availability of reports or ability to generate reports.

Main sources of information

Financial reports to the MoF according to the law (date of issuance from the LSGUs).

Corresponding laws and regulations

Law on Accounting for Budget Users, Law on Financing of LSGUs, Budget Law.

Dimension measurement guidance

The dimension assesses whether in-year budget reports of the municipalities are submitted in a timely manner and accompanied by an analysis and commentary on budget execution. The report should highlight the nature of the relationship between the municipalities and the central government, and the impact this may have on the timeliness of in-year budget reports.

'**Issued'** means produced and made available to the Mayor/Municipal council and the Ministry of Finance.

PI-29 Annual financial reports

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains the following three dimensions and uses the M1 (WL) method for aggregating dimension scores. For the purposes of this assessment, it covers only one of the three dimensions.

PI-29.1 Completeness of annual financial reports

Scoring criteria

A Financial reports for budgetary units of the municipality are prepared annually and are comparable with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations, and are supported by a reconciled cash flow statement.

B Financial reports for budgetary units of the municipality are prepared annually and are comparable with the approved budget. They contain information on at least revenue, expenditure, financial assets, financial liabilities, guarantees, and long-term obligations.

C Financial reports for budgetary units of the municipality are prepared annually and are comparable with the approved budget. They include information on revenue, expenditure, and cash balances.

D Performance is less than required for a C score.

Time period: Last completed fiscal year.

Data requirements

- Annual financial reports compared with the approved budget.

Main sources of information

Financial reports to the MoF according to the law (date of issuance from the LSGUs).

Corresponding laws and regulations:

Law on Accounting for Budget Users, Law on Financing of LSGUs.

Dimension measurement guidance

This dimension assesses the completeness of financial reports. Annual financial reports should include an analysis providing for a comparison of the outturn with the initial municipal government budget. Financial reports should include full information on revenue, expenditure, assets, liabilities, guarantees, and long-term obligations. This information can be either incorporated into financial reports in a modified cash or accrual-based system, or presented by way of notes or ad hoc reports, as is often done in a cash-based system. The usefulness of reports depends on whether they are compiled after the clearance of any suspense accounts and after advance and bank account reconciliation, as assessed in PI-27.

The reports of the budgetary units of the municipality could be considered for this dimension provided that a comparison with the approved budget is feasible (i.e., in details and for at least 90% of budgetary units' expenditure) and they contain the required information.

The financial reports should include data from departments and all institutions under municipal jurisdiction, as a part of the consolidated budget.

ANNEXES

ANNEX I. PFM PERFORMANCE SELF-ASSESSMENT REPORT OUTLINE

1. Executive Summary

In this section briefly describe the following processes: *Rationale and purpose of the self-assessment; Description of the self-assessment process; and Key findings of the self-assessment process (1 page)*

2. General context

In this section briefly describe the following processes: *Overview of PFM in the Republic of North Macedonia (do not change this); and Overview of PFM in municipality____________(1 page)*

3. Analysis of PFM performance

This section gives a detailed description of all the indicators that are subject to self-assessment of the municipality, identifies the key challenges in each of the assessed indicators and defines an action plan of improvement measures. The action plan should contain a measure, deadline and responsible entity.

Annexes

Summary of PFM performance indicators

Calculation of budget performance for PI-1, PI-2 and PI-3

List of interviewed persons from the municipality

Sources of information

ANNEX II. CALCULATION SHEETS FOR PEFA-BASED PFM DIMENSIONS