



Turkish Court of Accounts

Activity: EUROSAT TFMA SEMINAR “LOCAL GOVERNMENT FINANCE: FUTURE CHALLENGES” AND THE 2ND ANNUAL MEETING OF EUROSAT TFMA

Date: 5-6 November 2018

Place: Belgrade, SERBIA

Participant Countries: Poland, Italy, Lithuania, Slovakia, Spain, Portugal, Romania, Macedonia, Estonia, Montenegro, Greece, Ukraine, Latvia, Austria, Israel, Denmark, Finland, Turkey, Hungary, Croatia, Bosnia and Herzegovina, Slovenia, Serbia, Albania, Malta, Moldova

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Summary:

The subject of this seminar is the financing of local governments. In terms of financial difficulties and the results of the audit, reports are presented by appointed SAIs.

Fiscal discipline is particularly challenging in countries where local governments account for a large share of resources. In many countries, local governments rely on two main sources, i.e. taxes (which can be either set at a subnational level or assigned from the central government) and transfers (grants) from the central government. The literature generally underlines that if subnational governments can finance a large part of their expenditures with their own revenue sources (taxes and fees), they have stronger incentives to behave in a fiscally responsible way, with positive effects on the fiscal balance of the local and general government. Larger vertical fiscal imbalance (the share of local government expenditure not covered by own revenues, it captures the gap between expenditures and own revenues of local government which must be covered either by transfers or local government borrowing) as one of the primary sources of fiscal indiscipline at the local level. It follows from the above considerations that a lower vertical fiscal imbalance should lead to a 'harder budget constraint' for local governments, with positive effects on fiscal balances. The need to put local government in fiscal positions to a sound footing, following the Eurozone debt crisis, has brought fiscal rules back to the forefront of the fiscal policy. The International Monetary Fund defines a fiscal rule as a long-lasting

constraint on fiscal policy through numerical limits on budgetary aggregates with primary goals such as deficit reduction, balancing the budget or controlling public spending.

The main idea of the workshop:

was to discuss and answer the questions below:

- Is there a relationship between local government revenues composition and on fiscal balance of local government;
- Are subnational fiscal rules the panacea for steering local government fiscal balance;
- Is vertical fiscal imbalance as suitable instrument for local deficit/debt oversight and management.

All participant SAI shared their own experiences with others and the following presentations were made:

- Steering of local government finances, SAI of Finland,
- Steering of sustainable local government finances by the central government, SAI of Israel,
- Presentation of the recent audit on the system of financing the local government, SAI of Slovenia,
- Steering of sustainable local government finances by the central government, SAI of Italy,
- Use of the results of the internal auditors' and experts' work in the municipality audit process-experiences from the TFMA SAIs, SAI of Latvia,
- Use of the results of the internal auditors' and experts' work in the municipality audit process-experiences from the TFMA SAIs, SAI of Serbia,
- SAI activities after the audit process or the follow-up procedure-experiences form the TFMA SAIs, SAI of Slovenia,
- SAI activities after the audit process or the follow-up procedure-experiences form the TFMA SAIs, SAI of Serbia,
- Implementation of Strategic Plan Goals I, II, III SAIs of Austria, Lithuania, Croatia, Latvia, Romania, Estonia, Greece, Slovakia, Macedonia.