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Lithuania's municipalities ID



2023

Presentation of the Analysis and Comparison Study on Municipal Indicators

02

Being closer to the residents, municipalities are among the most important public authorities. They are responsible for essential aspects of the society's well-being such as infrastructure, education and social protection. Even though there are more and more opportunities to improve the quality of life, municipalities need consistent and well-thought-out strategies to achieve this. In this publication, we present a comprehensive analysis and comparison study of municipal indicators carried out within the framework of the European Recovery and Resilience Facility's project "Assessing Municipalities' Opportunities to Increase Revenue through the Development of Analytical Tools".

The analytical tools for municipal indicators published at www.lietuvosfinansai.lt are useful for evidence-based decision-making. They can be used to assess a municipality's financial, economic and social situation and to compare it with other similar municipalities, to prepare plans for municipal development and strategic action, to increase the fiscal capacity of the autonomous property tax revenues and to optimise expenditure by function, to improve the quality of life of the residents and to reduce the gaps between municipalities.

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Note. The data samples presented in the publication do not necessarily represent the data contained in the analytical tools

The areas of the analysis are organised into three modules:

- **Municipal Quality of Life Index (QLI)** – how it was developed and how it can be used to assess municipal performance.
- **Gaps in autonomous revenues** – a study on the gaps in municipal property tax revenues, helping to assess how municipalities can increase the property tax revenues.
- **Gaps in expenditure** – analysis of gaps in expenditure, which identifies potential optimisation of expenditure and improvements in efficiency by individual municipal functions.

In order to make municipalities comparable to each other, they were grouped into 4 clusters of similar municipalities based on socio-economic and geographic indicators reflecting their context.

Every municipality falls into at least one of these clusters:



Big cities



Resorts



Rural municipalities



Other municipalities

The study analysed the balance indicator, which reflects the ratio of potential municipal revenues to modelled expenditures: the higher it is, the greater the municipality's fiscal capacity.

The study revealed that the balance indicator is partly related to the QLI and can be used as a tool to improve the financial management of municipalities. The gap in expenditures also affects the quality of life: where it is higher, the quality of life is lower than the cluster or national average. Comparing the gap in revenues with the gap in expenditures shows how additional revenues achieved by reducing the revenue gap could cover the gap or deficit in expenditure. The correlation of these indicators provides initial insights into the fiscal status of municipalities and their quality of life.

For more information on the connections between the indicators in the three modules, see the summary of indicators:

www.lietuvosfinansai.lt/mms



Darius Sadeckas

Vice-Minister of Finance of
the Republic of Lithuania

We are pleased to present analytical tools for municipalities, developed on the initiative of the Ministry of Finance, as an opportunity to find optimal solutions for the residents' well-being and quality of life.

Assess the quality of life in your municipality. The Municipal Quality of Life Index, calculated on the basis of the chosen methodology, provides a comprehensive picture of the quality of life in an individual municipality. It is an indicator that allows you to identify your municipality's strengths and weaknesses, to measure changes over the year, to compare them with those of other similar municipalities, and to set future goals.

Compare your municipality with similar ones. Comparisons with similar municipalities can be useful to see how your municipality performs in relation to other municipalities. This will help to reveal potential areas for improvement and to discover and benefit from good practice.

Analyse revenues and expenditure. Assessment of autonomous revenue and expenditure in the municipality will help to determine how efficiently financial resources are used to carry out municipal functions. By assessing these indicators, you can identify possible priorities for saving or investment, see the gaps in revenues and expenditures, and optimally plan your financial resources to avoid undesirable deficits or surpluses.

Make data-driven decisions. We believe that the information and tools will enable you to make data-driven decisions on municipal policy and financial management. Specific data will help you prioritise your activities and achieve long-term financial sustainability.

Encourage communication and participation of the public. Inform the residents of your municipality about your efforts to improve their quality of life, involve local communities and give them the opportunity to participate in the decision-making processes.

I wish you to actively use the tools presented to further enhance the quality of life of the Lithuanian people. It is an essential step towards a better development of public policy and a more efficient use of resources.



Viktoras Sirvydis

Expert at Central Project
Management Agency

What is the economic, financial and social situation in a particular municipality? How does the municipality look in the context of other similar municipalities? What data-driven changes would improve the situation in the municipality? The answers to these questions can now be found by reviewing the results of the analysis on municipal indicators and using the analytical tools developed.

This analytical resource is aimed at central and local governments seeking to make data-driven decisions to improve the residents' quality of life and to reduce differences between municipalities. The resource is also useful for residents wishing to find out what changes could be made in their area to improve the quality of life.

The analytical tools will enable municipalities to better assess their quality of life and finances, to compare individual indicators with those of other similar municipalities, to use them in the preparation of plans for development and strategic action, to assess the balance between revenues and expenditures, and to identify opportunities for revenue growth and other areas of activity.

The analytical tools of municipal indicators was prepared by experts of the Central Project Management Agency in cooperation with the Ministry of Finance of the Republic of Lithuania, the Association of Lithuanian Municipalities and other institutions.

I hope that municipalities will find this analytical tool useful in their work.

Quality of Life Index (QLI)

a composite indicator that measures and compares the quality of life in different municipalities or cities. The index covers various aspects of social conditions, economic situation, healthcare, education system, the environment and infrastructure.

Cluster

a group of conceptually and statistically similar objects (e.g. municipalities), where the differences between objects should be as small as possible and differences between clusters as large as possible. Clusters are not necessarily of the same size, objects are clustered according to certain similarities, the shape of a cluster depends on the attributes used for clustering, and objects are more similar within a cluster and more different between clusters.

Modelled municipal expenditure

econometric models involve estimated expenditures based on indicators representing the municipal functions.

Gap in expenditures

the difference between actual and modelled expenditure.

Deficit of expenditure (positive value of the indicator)

when the municipality's actual expenditure is lower than the modelled expenditure.

Surplus of expenditure (negative value of the indicator)

when the municipality's actual expenditure is higher than the modelled expenditure.

Gap in expenditures close to 0

means that actual and modelled expenditures are equal and balanced according to the municipality's modelled need for the fulfilment of the function.

Autonomous municipal revenue

the revenue a municipality receives, regardless of financing or grants provided by central government.

Potential revenue from property taxes

are calculated by adding the gaps between the municipality's tax revenues and the average of the cluster or the country, caused by municipal tax rates, tax reliefs and tax base indicators, to the actual revenues from property taxes.

Tax base

includes the total value of land and real estate from which revenue is actually collected for the municipal budget.

Tax rates

indicate the percentage of the taxable value of the land or property to be paid, as approved by the municipality.

Tax reliefs

various tax reductions and exemptions municipalities can apply.

The meanings of other terms used in the analytical resource can be found at

www.lietuvosfinansai.lt/zodynas 

Module 1:

Municipal Quality of Life Index (QLI)

The Municipal Quality of Life Index (QLI) has been compiled to assess the differences between Lithuanian municipalities since 2013.

The model and index of the quality of life used in the assessment of the impact of the European Union (EU) structural funds on the quality of life and reduction of social exclusion and poverty in Lithuania was chosen as the basis for the municipal QLI.

Quality of life in this model has been linked to the ability to secure a sufficient level of material well-being, defined by income related to work and employment and by the possibility to acquire housing. The improving quality of life is also reflected in satisfaction with one's health, better access to education and social services, increasing participation in cultural life, as well as in a good living environment with less pollution and a higher level of public safety. This municipal QLI was compiled based on a review of the scientific and empirical literature on quality of life measurement, as well as quality of life indices calculated by international organisations.

What is the quality of life in the municipality?

05

Benefits of the module:

it compares the economic and social differences between Lithuanian municipalities from 2013 and provides an opportunity to find ways to improve the quality of life in your municipality.

Who is the module for:

The QLI module is intended for everyone. First of all, it is aimed at central and local governments seeking to make data-driven decisions to reduce differences between municipalities and to improve the residents' quality of life. The module is also useful for residents wishing to find out where changes should be made to improve the living environment in their area.

Where to find the module

www.lietuvosfinansai.lt/gki

How to use the module

video

Areas of QLI

Quality of life is reflected by 41 indicators in 6 areas:



Material living conditions



Healthcare services



Demographics, civic and social engagement



Entrepreneurship and business competitiveness of the residents



Education services



Public infrastructure, quality and safety of the living environment

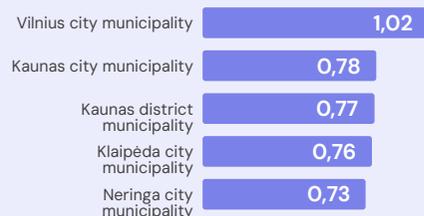
Data samples

What useful things can I learn?

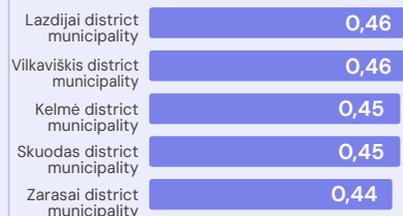
TOP 5 municipalities by highest and lowest QLI in 2021

Possibility to filter by selected year.

5 municipalities with the highest QLI

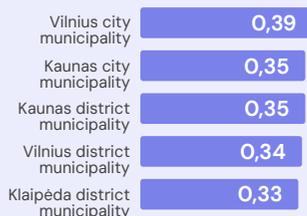


5 municipalities with the lowest QLI



How do municipalities rank in terms of material living conditions?

Possibility to assess against 5 other sub-indices



How did the indicator for the municipality change by year?

An example of Vilnius city municipality is provided (municipality with the highest QLI in 2021). Possibility to see the indicators that make up the sub-indices.

Year	Municipality	County	Sub-index	Value of sub-index
2019	Vilnius city municipality	Vilnius County	Healthcare services	0,5891
2020	Vilnius city municipality	Vilnius County	Healthcare services	0,6872
2021	Vilnius city municipality	Vilnius County	Healthcare services	0,6848

Assess the QLI and individual indicators of your municipality and other similar municipalities – this will help you to make the right decisions or influence decision-makers!

More:

www.lietuvosfinansai.lt/gki

video



Recommendations

The possibility for Lithuanian municipalities to compare with each other on the basis of the Quality of Life Index (QLI) is a very welcome initiative: healthy competition based on analytical data can encourage individual municipalities to strive for greater well-being of their citizens. At the same time, it is an opportunity for municipalities to assess where they are and in which direction they should move – to strengthen education or social services, to foster the entrepreneurial spirit of their residents and the competitiveness of their businesses, or to focus more on improving material living conditions.

My own wish for municipalities is to ask themselves, when benchmarking against the QLI rankings, to what extent these indicators reflect a situation that has been inherited over decades or even centuries, and to what extent they reflect the efforts of each municipality to improve its situation in different areas over the last 10 to 20 years.

In addition to the QLI indicators, it is also worth considering the views of local people – how they feel when compared to neighbouring municipalities, which things, in their opinion, are working better, and what could be applied in their own country. After all, the smaller the gap between the country's municipalities, the better it is for all Lithuania.

Žygimantas Mauricas
Economist

Module 2:

Gaps in autonomous municipal revenues

The municipal land and property tax revenue gap is the difference between the tax revenue received by municipalities and their potential property tax revenue, taking into account potential tax rates, tax reliefs and tax base.

Potential property tax revenue is calculated by adding the gaps between the municipality's tax revenues and the cluster or national average caused by municipal tax rates, tax reliefs and tax base indicators to the actual revenues from property taxes. The tax base gap is an approximate indicator of the tax value of the property per area unit (EUR/ha) compared to the average of the other municipalities in the cluster (or the country).

Does the municipality have the potential to increase its own autonomous revenue?

07

Benefits of the module:

it is possible to assess and compare whether a municipality has the potential to increase its property tax revenues by making decisions to increase tax rates and to reduce tax reliefs. Also, it is possible for a municipality to compare the gap in property tax revenues between municipalities in a cluster, and the tax rates, tax reliefs and tax base with the average in the cluster or the country.

Where to find the module

www.lietuvosfinansai.lt/ig

How to use the module

video

For more information on the factors behind the gaps in municipal property tax revenues, visit

www.lietuvosfinansai.lt/ig/igmeamun

What makes up the autonomous municipal revenue?

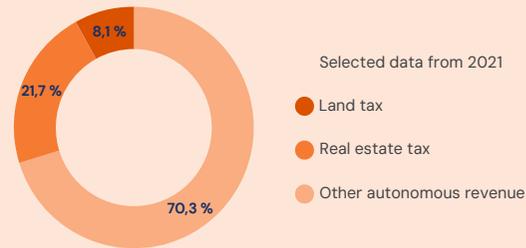
- Land tax;
- Real estate tax;
- Other property income;
- Income on goods and services;
- Proceeds from the sale of tangible and intangible assets;
- Other unlisted income.

What income is not included in the module?

Income from goods and services, from fines, confiscated property and other penalties, and from inherited property is excluded.

What is the share of property tax revenue in municipalities' autonomous revenue?

This module allows to analyse the data of autonomous revenue share (%) of each municipality separately, to compare between the municipalities in the cluster and to monitor the trends of autonomous revenue share since 2015.



What is the overall gap in property tax revenues across municipalities?

Property tax revenue

EUR 153.94 million

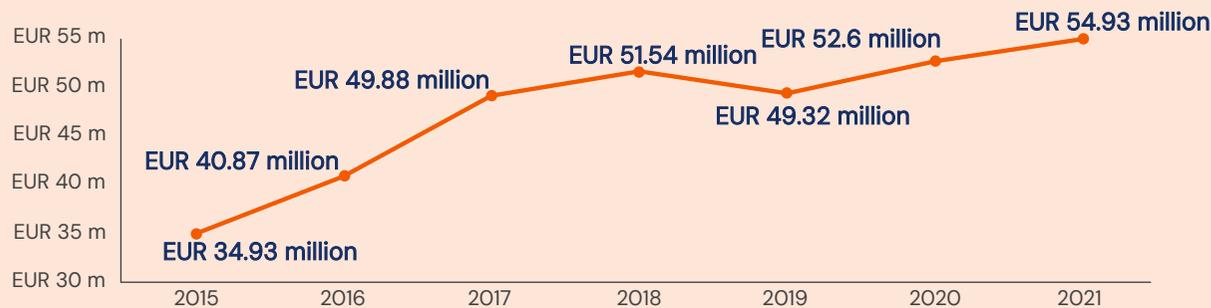
Gap in revenues

EUR 54.93 million

Gap in revenues %

35.68%

Selected data from 2021



It is possible to analyse the gap in revenues compared to the average of the cluster or the country, on a year-by-year basis from 2015 onwards, by type of municipality and for each municipality separately, by selecting the land and property tax factors (rates, tax reliefs or base) for individual financial or legal entities.

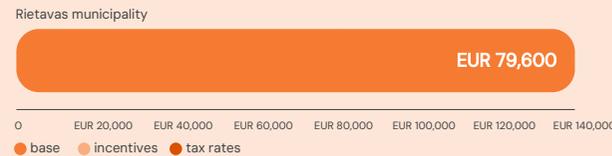
Data samples

What is the property tax revenue gap in the municipality I'm interested in, and what causes it?

In the module, you can select the municipality(s) and see how different factors contribute to the total gap in property tax revenues. E. g. the 2021 gap of EUR 138.3 thousand for the municipality of Rietavas consisted of a base gap of EUR 79.6 thousand and the rest of the gap was due to the tax rate gap (EUR 58.7 thousand).



If we only select the gap caused by the land tax, we can see that Rietavas municipality does not have a tax rate gap. This means that the tax rate gap is only due to the real estate rate applied.



The difference of EUR 58.7 thousand in real estate tax rates is due to the fact that in the cluster of rural municipalities the average real estate tax rate is 0.85%, while the municipality of Rietavas applied a weighted average tax rate of 0.5%. Multiplying the resulting 0.35% difference in tax rates, by which the municipality of Rietavas could increase its rate up to the cluster average, by the value of real estate taxed in the municipality, we get the above-mentioned gap in revenues of EUR 58.7 thousand.

In the visualisation we can see the real estate tax rates applied in 8 out of 38 rural municipalities (including Rietavas), which can be compared to the cluster average.



Assess the autonomous revenue indicators of the municipality of interest and make decisions, which will lead to more revenue from property taxes.

More:

www.lietuvosfinansai.lt/ig

video

Recommendations

Sometimes the favourable economic environment and good living conditions can be created by a good geographic location. It is the case for the municipalities of Vilnius, Kaunas and Klaipėda cities and districts, which are the leading municipalities in terms of material living conditions – the major economic centres, where government institutions, large enterprises and high incomes are concentrated.

On the other hand, new economic centres are emerging in Lithuania, something we wouldn't have thought of a decade ago. These are the small municipalities that make calculated economic decisions, attract investment and higher incomes, as a result, and improve the material living conditions of their residents.

Every municipality has the possibilities to improve material living conditions. All it needs to do is to benefit from the experience of other municipalities and to be open to investment. Investment attracts revenue and raises salaries, which in turn "feeds" the service sector, boosting people's entrepreneurial spirit and satisfaction with their living environment.

We do see many good examples in Lithuania and other municipalities can follow them. We have all the ingredients for success – people who want to work, good geography, land for investment, green energy – all we need to do is use them to open the door to investment and thus a better quality of life.

Marius Dubnikovas
Economist

Module 3:

Gaps in municipal expenditures



The gaps in municipal expenditures since 2015 have been calculated by analysing data from the State Data Agency, municipalities, the Social Insurance Fund, the National Health Insurance Fund, individual ministries, their subordinate institutions and other sources, and only considering continuous expenditures representing more than 80% of the total expenditure. This excludes expenditure on the acquisition of tangible and intangible assets and on the increase in financial assets, which account for 11% to 16% of the total budget.

Econometric models were built for the municipal functions under assessment, to determine the expenditure volumes to be modelled.

How do municipalities manage to plan their expenditure according to indicators reflecting their spending needs?

10

Benefits of the module:

It is possible to assess whether and how much more or less is being spent on specific functions in the municipality since 2015, by comparing actual and modelled expenditure. It is also possible to compare the gap in ongoing expenditures of the selected municipality with the municipalities in the cluster and, in the light of the results obtained, to seek a more efficient use of financial resources in the provision of public services.

Find out more about the results of the expenditure gap assessment at www.lietuvosfinansai.lt/mms/munegconcl

Where to find the module

www.lietuvosfinansai.lt/mms/muneg

How to use the module

video

Find out more about econometric models at

www.lietuvosfinansai.lt/mms/munegmet

Which functions are evaluated for ongoing expenditure?



Education



Social security



Sports and culture



Housing and utilities



Environmental protection



Economics



General administration

Which functions are not evaluated for ongoing expenditure?

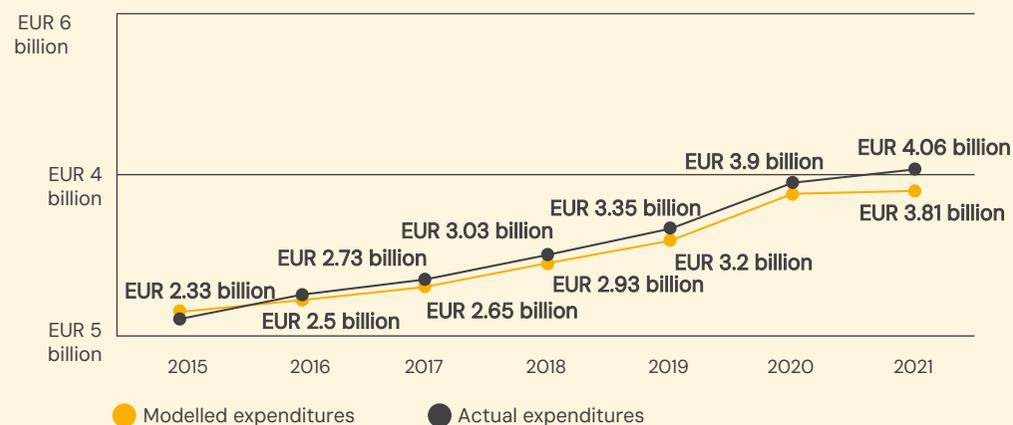
Expenditure on defence, public order and public safety and healthcare functions, which account for a relatively small share of municipal budgets, ranging from 1.4% to 2.7%, is not assessed or modelled.

Data samples

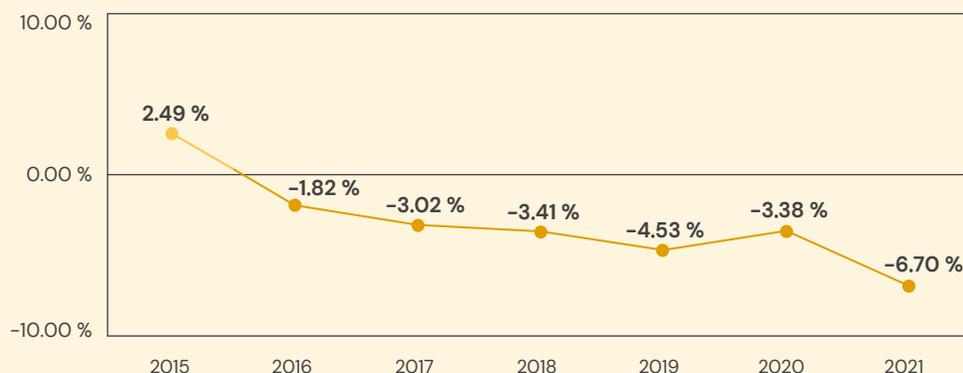
What useful things can I learn?

Gaps in municipal expenditures

Actual and modelled expenditures



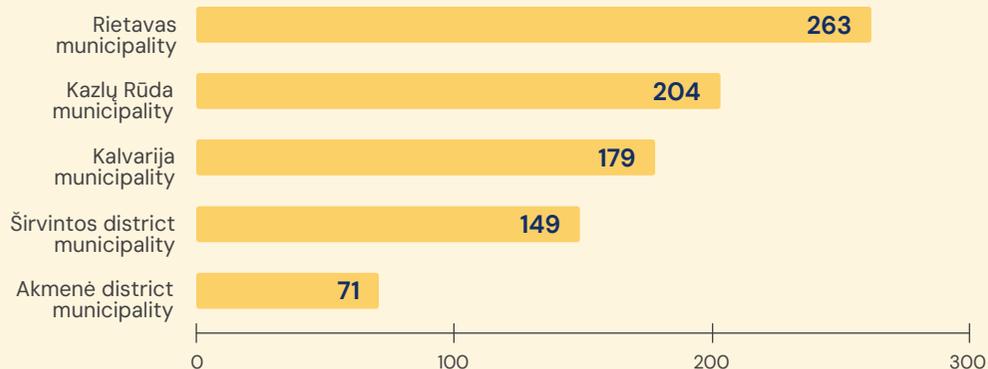
Gap in expenditures



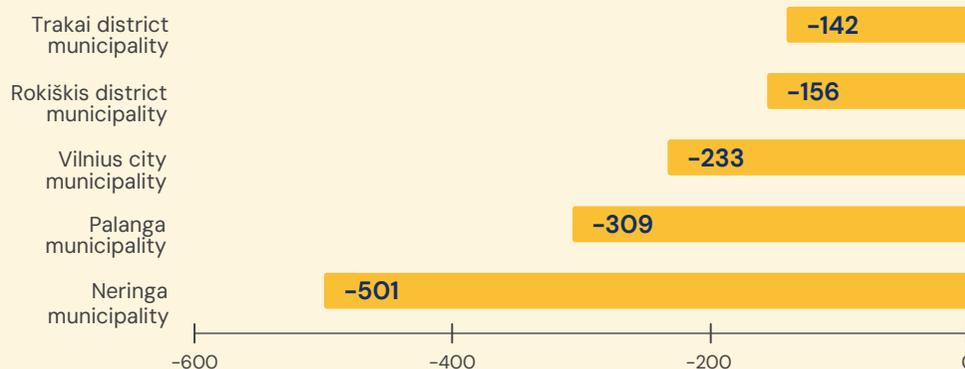
TOP 5 municipalities with the highest deficit and surplus per capita in 2021

Possibility to filter by year.

Deficit

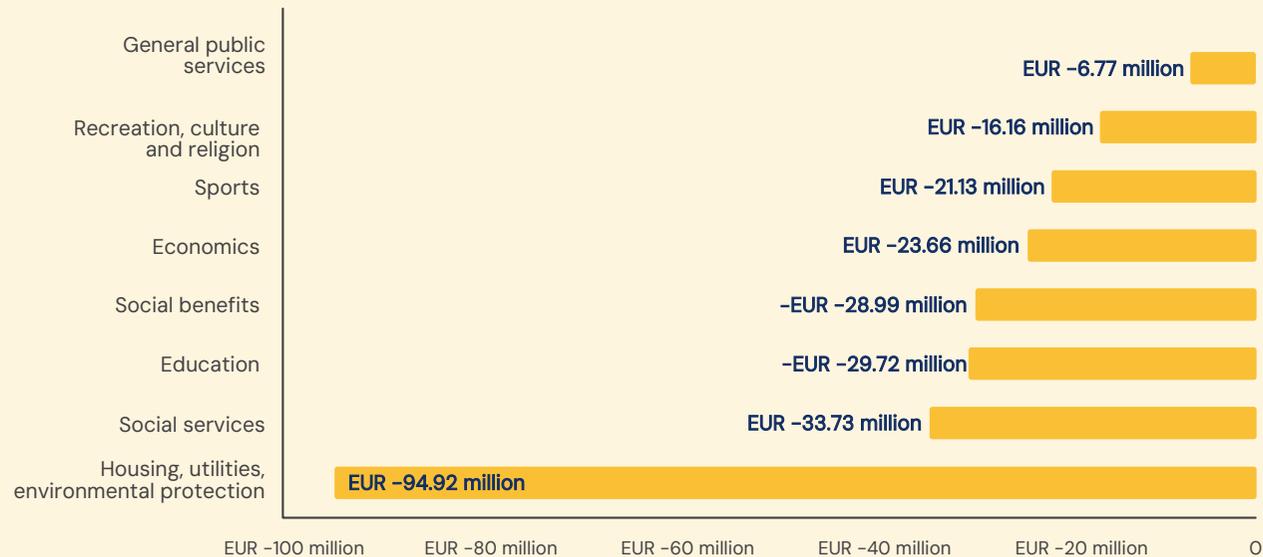


Surplus



Gaps in expenditure by function in municipalities

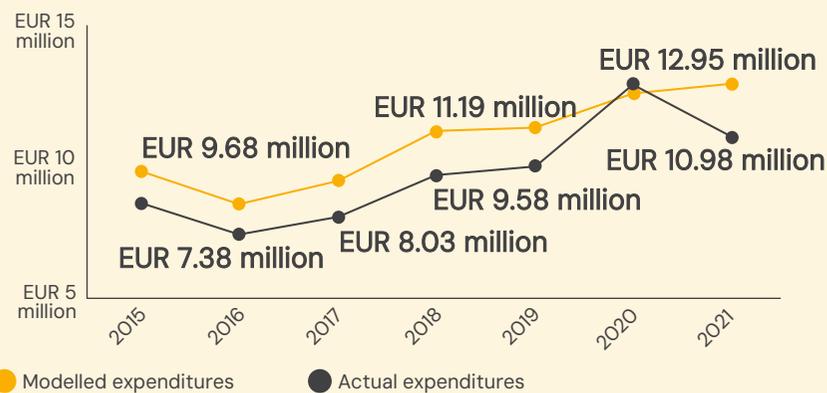
Gaps in expenditure in 2021



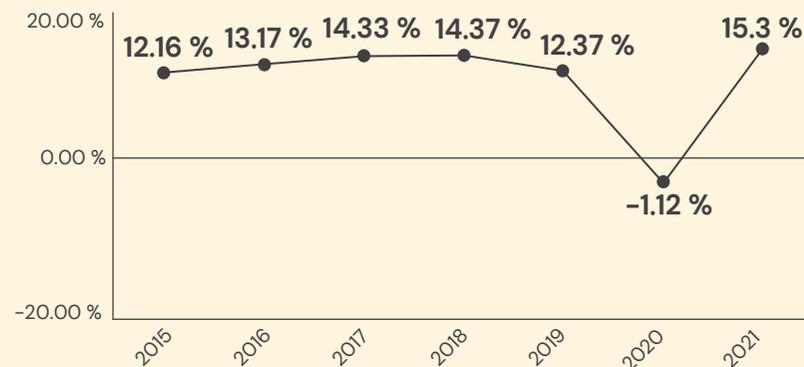
How are financial resources used in the municipality I am interested in?

An example of Rietavas municipality is provided (municipality with the highest expenditure deficit in 2021). Possibility to see expenditure for the whole period, for individual years, to filter by function or compare with other municipalities.

Actual and modelled expenditures



Gap in expenditures



Which functions did the municipality I am interested in have the largest expenditure gap in 2021?

An example of Rietavas municipality and the data on its expenditure gaps are used.

Gaps in expenditure in 2021



Assess the gaps in municipal expenditure – this will help to make decisions to allocate financial resources more effectively.

More:

www.lietuvosfinansai.lt/mms/muneg

video



Recommendations

When municipalities plan their expenditures, the starting point is usually the previous year's spending plan, which is adjusted and approved for the following year. As a result, the expenditure every year can be very similar to the previous one.

It is up to each municipality to accurately assess its expenditure and check whether it is too high or too low.

When comparing actual expenditure, it is important to look not only at the final result, but also at the factors that have determined the level of expenditure. Municipalities should therefore determine their own spending needs for education, social services or public utilities before comparing themselves with others. Knowing the factors that lead to differences in expenditure between municipalities can help to identify a typical level of expenditure that should be characteristic of individual municipalities.

Answers to the questions related to municipal expenditures can be obtained through the analytical tools of the Municipal Indicators Database. This resource is an opportunity for municipalities to benchmark themselves, to check in which years and areas actual expenditure was in line with plans and in which years it was over- or underspent, to explain the reasons for this, and to make progress towards better results, taking into account all the different aspects and circumstances.

Dr Algirdas Bartkus

Vilnius University

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