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PARAĆIN



Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

May, 2020





Municipality of Paraćin - Serbia

Public Expenditure and Financial Accountability (PEFA)
Performance Assessment Report

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat,

January 29, 2021

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Abbreviations and acronyms

COE – City Owned Entity
EU – European Union
FMC – Financial Management and Control
GGE – General Government Expenditure
HR – Human Resources
IMF – International Monetary Fund
IPSAS – International Public Sector Accounting Standards
MOE – Municipally owned enterprises
MoF – Ministry of Finance
MPALSG – Ministry of Public Administration and Local Self-Government
NA – Not Applicable
NU – Not Used
NR – Not Rated
OECD – Organisation for Economic Cooperation and Development
PAR – Public Administration Reform
PEFA – Public Expenditure and Financial Accountability
PIFC – Public Internal Financial Control
PFM – Public Financial Management
PPP – Public Private Partnership
PUC – Public Utility Company
RELOF – Implementation of the SECO Local Government Finance Reform Programme in Serbia
SAI – State Audit Institution
SECO – State Secretariat for Economic Affairs
SCTM – Standing Conference of Towns and Municipalities
SIGMA – Support for Improvement in Governance and Management
SNG – Sub-national Government
TSA – Treasury Single Account
UNDP – United Nation Development Programme
USAID – United States Agency for International Development
VAT – Value Add Tax

Executive summary

Background

1. Paraćin is a relatively well-developed municipality with a long-established industrial base and excellent communications along the main North-South corridor in Serbia. It has about 54,000 inhabitants and is located 150km south of Belgrade. This repeat PEFA assessment reflects the situation in 2018; where it is based on fiscal data the period is 2015-17. Where applicable, the cut-off date is end-October 2018. The assessment uses the revised PEFA criteria issued in 2016, and thus provides a baseline against which future changes in public financial management can be measured. It also provides an indication of changes since the previous 2014 assessment; comparisons are made using the 2011 PEFA criteria in force at the time of the previous assessment. The assessment has been commissioned by SECO, which has supported efforts to improve public financial management (PFM) in sub-national governments (SNGs) through the Local Government Reform Programme (RELOF). Management of the assessment has been undertaken by RELOF.

The assessment has been commissioned by the State Secretariat for Economic Affairs (SECO), which has supported efforts to improve public financial management (PFM) in sub-national governments (SNGs) through the “Implementation of the SECO Local Government Finance Reform Program in Serbia” (RELOF). The management of the assessment has been undertaken by RELOF. The assessment has been coordinated by RELOF and was overseen by a team co-chaired by SECO and RELOF. The other members of the Oversight Team were representatives of the Ministry of Finance, the State Audit Institution, the six Subnational Governments, the Standing Conference of Towns and Municipalities and UNDP. The assessment is conducted in six Serbian sub-national governments – Knjaževac, Osečina, Paraćin, Sremska Mitrovica, Vranje and Užice. The purpose of the repeat assessments now undertaken is to review progress since 2015 in these SNGs, and to facilitate the design of future steps to improve local PFM throughout Serbia. All Performance Indicators set out in the 2016 PEFA criteria have been evaluated apart from PI-7, which is not applicable because there are no government units subordinate to the Paraćin municipality.

A. Integrated analysis of PFM performance

2. The findings from the assessment of each Indicator are summarised in terms of each of the seven Pillars of the PFM performance measurement framework.

1. Reliability of the Budget

3. Approximately 60 per cent of central government funding for Paraćin comes through the municipality’s share of income and other CG taxes. Total actual receipts from CG (tax share and transfers combined) were 5.2 per cent above budget for 2015, 9.6 per cent above budget for 2016 and 18.7 per cent above budget for 2017, HLG-1). Own revenue fell well short of budget, particularly in 2016 and 2017 (PI-3), leading to actual expenditure falling about 12 per cent below budget in each of the years 2015-17 (PI-1). The functional breakdown of expenditure showed relatively low variance (as measured by the PEFA criteria) in 2016 (6.7 per cent) and 2017 (8.3 per cent), indicating that expenditure on most functions fell below budget by similar percentages (PI-2.1). The broadly similar measured variance by economic classification results from the differences between budget and out-turn for capital investment and other expenditure, while actual staff costs were very close to budget despite the overall expenditure shortfall (PI-2.2). No expenditure was charged to contingency during 2015-17.

2. Transparency of public finances

4. The Treasury system through which all municipal revenue and expenditure pass contains enough information to enable comparisons between budget and out-turn by reference to administrative,

functional and economic classifications (PI-4). (However, the Government does not produce such comparisons for Local government spending as a whole.) Information given to the Assembly as part of budget proposals needs supplementing to meet PEFA standard (PI-5). All municipal revenue and expenditure are included in financial reports: there are no extra-budgetary units. Reporting of performance against targets established for each of the programmes into which SNG expenditure has to be fitted has been initiated, but the formulation of the objectives requires improvement. There have been no independent evaluations of public service performance, although it should be acknowledged that the limited nature of SNG responsibilities makes performance difficult to measure and evaluate (PI-8). Information for the general public is satisfactory (PI-9).

3. Management of assets and liabilities

5. Full financial reports are published for the municipality's utility and other service companies, but no consolidated reports, or analyses of the fiscal risks faced by the municipality, have been published (PI-10). Investment is planned within the framework of the municipal strategy to promote increases in employment, and progress is regularly monitored and reported (PI-11). MOEs are effectively monitored, as are the municipality's holdings of nonfinancial assets, but the asset register is incomplete, and valuations are lacking. Asset disposals are subject to competition, but details of sales are not published (PI-12). Overall debts are small, and debt records are complete and regularly reconciled, but there is no published debt management strategy with targets for interest rates or the maturity of debt instruments used (PI-13).

4. Policy-based fiscal strategy and budgeting

6. Paraćin has been unable to allocate the staff resources necessary to undertake medium-term fiscal and expenditure planning (PI-15 and PI-16). Budget preparation is orderly, although central government guidance on economic assumptions is only provided months after the statutory deadline; as a result, time is very limited for the administration to finalise its proposals and the Assembly to consider them in time for enactment before year-end (PI-17 and PI-18).

5. Predictability and control in budget execution

7. Good progress has been made in expanding the property tax base, and arrangements are in place to encourage compliance and to check the validity of tax declarations. Tax arrears remain a problem, much of it inherited in 2009 when responsibility was transferred from central to local government, with write-offs discouraged by the need to maintain the municipality's claims in bankruptcy proceedings (PI-19). Aggregate revenues are reported and reconciled monthly, and individual taxpayer accounts updated as revenue is received (PI-20). New IT software ensures that commitments cannot be undertaken without the assurance of available funds (PI-25.3), while the municipality's financial reserves enable budget users to make commitments within their budget allocations at any time during the year (PI-21). There are no expenditure arrears (PI-22). Payroll controls are effective, and there is an annual external inspection to ensure that all staff positions are authorised, and all employees correctly paid according to their qualifications, responsibilities, and length of service (PI-23). The management of procurement by the municipal administration (including indirect budget beneficiaries) appears satisfactory, but it is not clear that information is complete, and a good part of expenditure on goods and services is not subject to competition (PI-24). Internal control arrangements are stretched because of the fall in staff numbers, while there is as yet no internal audit (PI-26).

6. Accounting and reporting

8. Bank reconciliations arising from budgetary operations are undertaken daily. No use is made of suspense accounts, and advances are cleared promptly and reconciled at year-end. Arrangements are in place to ensure the integrity of financial records (PI-27). In-year and end-year financial reporting

are satisfactory, but annual financial statements do not contain all the information required to comply with cash-based International Public Sector Accounting Standards (IPSAS) (PIs 28 and 29).

7. External scrutiny and audit

9. Serbian SNGs are subject to a thorough audit to international standards by the State Audit Institution (SAI) every three or four years. In other years, a limited financial audit is undertaken by a commercial audit firm, which does not result in significant audit findings. MOEs are also within the ambit of the SAI, but coverage of them is more limited. Paraćin was not audited by the SAI for 2015-17, so there are no significant audit findings to take into account in this report. The resources available to the SAI are controlled and restricted by the Government (PI-30). There has been little substantial involvement of the Assembly in audit follow-up (PI-31).

B. Effectiveness of the internal control framework

10. The internal control system should contribute towards four objectives: (1) the execution of operations in an orderly, ethical, economical, efficient, and effective manner; (2) fulfilment of accountability obligations; (3) compliance with applicable laws and regulations; and (4) safeguarding of resources against loss, misuse and damage. The analysis of the performance of the internal control system looks at the five control components: (1) the control environment; (2) risk assessment; (3) control activities; (4) information and communication; and (5) monitoring.

11. The control environment depends on the legal and regulatory framework and the way it is applied in practice. The Budget Systems Law (2009) sets out how internal audit and internal financial control (including inspection) should operate (Articles 80-89). Other relevant legislation is the law on local self-government (2007), the Public Debt law (2005), the Public Procurement law (2013), the Law on Determining the Maximum Number of Employees in the Public Sector (2015), and the State Audit Institution law (2005). In the local government context, the performance of the municipality will depend on the integrity of management and staff, the management styles of the organisation, the organisational structure (including appropriate segregation of duties and reporting arrangements), the management of human resources, and the professional skills of the staff. It is the responsibility of the Mayor to set the tone of the city organisation and to adopt a strategy to minimise the risks of damage to the provision of good services.

12. The main risks faced by Paraćin are that revenue from the municipality's own taxes will not be collected, that revenue producing developments will not take place, and that procurements will not secure the best value. A continued focus on maximising local revenues will be important in sustaining the services, which are the responsibility of the municipality.

13. Internal controls in the municipal administration appear to work satisfactorily, but there is still no internal audit. There has been no recent external audit by the SAI. Monitoring the performance of service delivery is still in the process of development, with the first (unpublished) reports of performance against targets having been submitted to the central government in September 2018.

C. PFM strengths and weaknesses

Aggregate financial discipline

14. The restraints on borrowing, and the sanctions against local authorities failing to pay invoices within 45 days, mean that the risks of uncontrolled overspending are low. But budget estimates have been poor predictors of own revenue during 2015-17, with capital investment falling far below amounts originally envisaged.

Strategic allocation of resources

15. Paraćin has yet to introduce medium-term fiscal and expenditure planning, while public investment planning is adversely impacted by central government control and the absence of any medium-term planning of targeted transfers on which much SNG investment depends. New arrangements at central government level to improve the planning of public investment have yet to be finalised but will have little impact at SNG level because most SNG projects will fall below the threshold costs above which the new arrangements are to apply.

Efficient use of resources for service delivery

16. The presentation of all SNG (and central government) expenditure in terms of 17 programmes represents the first step towards results-oriented budgeting. However, it appears that the definition of the programmes may need to be reconsidered, so that they fit more readily into the responsibilities and circumstances of SNGs. It should be recognised, moreover, that the services for which SNGs are responsible – local infrastructure, urban planning, recreational and cultural facilities - do not very readily lend themselves to the measurement of the standard of services delivered. Analysis of the costs of standard operations (e.g., road maintenance, public lighting) may over time provide indications where greater efficiency could be achieved, although differences in local circumstances are likely to mean that comparisons of cost need to be treated cautiously.

Performance changes since 2015

17. Paraćin has been particularly severely constrained by staffing restrictions which prevented any progress in the development of medium-term fiscal planning and the establishment of internal audit. Substantial progress has been made with the assistance of RELOF in expanding the property tax base and enforcing collection. A start has been made towards results-oriented budgeting, and commitment controls have been improved through the provision of new software by the central government. Paraćin improved the credibility of its budget by reducing the difference between the aggregate expenditure out-turn and the original approved budget, and the variance in expenditure composition during the last three years, excluding contingency items. In addition, the frequency of budget revisions was reduced. The comprehensiveness of information included in budget documentation was also improved together with public access to key fiscal information. Paraćin worked on developing consolidated quarterly and annual reports on public enterprises in compliance with the Public Enterprise Law, thus improving oversight of aggregate fiscal risk from other public sector entities.

Approach to PFM reform

18. Serbia is engaged in an ambitious and wide-ranging Public Administration Reform (PAR) programme with the objective of meeting the standards required for admission to the European Union. Different elements cover the functioning of the economy and the working of the judicial system, as well as government operations and the provision of public services. Within this framework, the Government is implementing a PFM Reform programme, with technical assistance from OECD/SIGMA, IMF, SECO and others. The specific objectives are (1) to improve the quality of economic and fiscal projections; (2) to improve medium-term fiscal planning and budgeting; (3) improvements in public procurement legislation and practice; (4) the embedding of Public Internal Financial Control (PIFC) arrangements on the EU model (through a development strategy and action plan for the period 2017-20); the further development of TSA business practices and reporting; and (5) enhancement of the work of the SAI. The SECO-supported RELOF initiative is contributing to these efforts, which are led by the Ministries of Finance, Economy, and Public Administration and Local Government. Neither the PAR strategy nor the PFM Reform programme has a specific focus on local level.

19. RELOF is supporting the corresponding PFM improvements also at the local government level, focusing on (1) improvement of Financial Management and Control (FMC); (2) the introduction and

development of Internal Audit; (3) improvements in budget planning, execution, and reporting, including the medium-term dimension; and (4) improving tax administration and tax yields. RELOF is also supporting the improvement of financial management in utility and other companies owned by local authorities on which much of the delivery of public services depends. Paraćin has made good progress in tax administration, but staff limitations have prevented progress in other areas targeted by RELOF. Thus, there remains much scope for improvements in fiscal and expenditure planning and the further development of programme budgeting. These processes could be substantially enhanced if the central government facilitated public investment planning through the provision of targeted transfers on a rolling three-year basis (as has operated for general transfers) instead of demanding fresh bids every year from all SNGs. At the same time, SNGs need greater flexibility in recruiting the staff they need to implement these PFM improvements than they have had during 2015-17.

Table 1: Summary of scores

Performance Indicator		Scoring method	Dimension score				Overall score
			1	2	3	4	
Pillar 1	Budget reliability						
HLG-1	Transfers from Central Government	M1	A	NA	A		A
PI-1	Aggregate expenditure out-turn	M1	C				C
PI-2	Expenditure composition out-turn	M1	B	C	A		C+
PI-3	Revenue out-turn	M2	D	D			D
Pillar 2	Transparency of public finances						
PI-4	Budget classification	M1	A				A
PI-5	Budget documentation	M1	D				D
PI-6	Municipal operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to subordinate governments	M2	NA	NA			NA
PI-8	Performance information for service delivery	M2	B	B	A	D	B
PI-9	Public access to fiscal information	M1	B				B
Pillar 3	Management of assets and liabilities						
PI-10	Fiscal risk reporting	M2	B	NA	NA		B
PI-11	Public investment management	M2	D	C	C	B	C
PI-12	Public asset management	M2	B	D	A		B
PI-13	Debt management	M2	A	A	D		B
Pillar 4	Policy-based fiscal strategy and budgeting						
PI-14	Macroeconomic and fiscal forecasting	M2	NA	D	NA		D
PI-15	Fiscal strategy	M2	C	D	NA		D+
PI-16	Medium-term perspective in expenditure budgeting	M2	D	NA	NA	NA	D
PI-17	Budget preparation process	M2	B	C	D		C
PI-18	Legislative scrutiny of budgets	M1	C	B	A	A	C+
Pillar 5	Predictability and control in budget execution						
PI-19	Revenue administration	M2	A	A	D	D	C+
PI-20	Accounting for revenue	M1	A	A	A		A
PI-21	Predictability of in-year resource allocation	M2	A	B	A	A	A
PI-22	Expenditure arrears	M1	A	A			A
PI-23	Payroll controls	M1	B	A	A	A	B+
PI-24	Procurement	M2	D	D	D	A	D+
PI-25	Internal controls on non-salary expenditure	M2	B	A	A		A
PI-26	Internal audit	M1	D	NA	NA	NA	D

Pillar 6	Accounting and reporting						
PI-27	Financial data integrity	M2	A	NA	C	B	B
PI-28	In-year budget reports	M1	A	A	B		B+
PI-29	Annual financial reports	M1	B	B	A		B+
Pillar 7	External scrutiny and audit						
PI-30	External audit	M1	D	A	NA	C	D+
PI-31	Legislative scrutiny of audit reports	M2	D	D	D	NA	D

Chapter 1: Introduction

1.1 Rationale and purpose

1. In recent years, Serbia has been pursuing improvements to its administrative, economic and judicial systems which will enable it to qualify for membership of the European Union (EU). Alongside this, Serbia has implemented a programme of fiscal consolidation with the assistance of the IMF which has enabled the country to restore economic stability and put public debt on a downward path as a proportion of GDP. The country is in the process of implementing its Public Financial Management Reform Programme 2016-20, with assistance from the EU, the World Bank and the State Secretariat for Economic Affairs (SECO).

2. As part of its effort to make government more efficient and responsive to the needs of citizens, the country is looking in the longer run for deconcentration and decentralisation of government activity, with increasing responsibilities being undertaken by local governments. Public Expenditure and Financial Accountability Assessments (PEFA) were undertaken in 2014-15 at both central and local government levels to identify the problems to be addressed in improving public financial management (PFM). These assessments pointed to the need at both central and local government level to make budgeting more realistic, to establish effective medium-term fiscal planning, to ensure control over expenditure commitments, to improve tax administration, to bring in effective internal audit and strengthen external audit, and to ensure effective oversight of public enterprises of all kinds.

3. In addition to contributing to improvements in PFM at central government level, SECO has funded the Local Government Finance Reform Programme (RELOF), which has sought to improve the functioning of the six municipalities which were previously the subject of PEFA assessments. These six sub-national governments (SNGs) – three cities and three municipalities – are in different parts of the country, of different sizes and at different levels of economic development, and thus form a representative sample of Serbian SNGs as a whole. The purpose of the repeat assessments now undertaken is to review progress since 2015 in these SNGs, and to facilitate the design of future steps to improve local PFM throughout Serbia.

1.2 Assessment management and quality assurance

4. These assessments are coordinated by RELOF and are overseen by a team co-chaired by SECO and RELOF. The other members of the Oversight Team are representatives of the Ministry of Finance (MoF), the State Audit Institution (SAI), the six SNGs, the Standing Conference of Towns and Municipalities (SCTM), and UNDP. The Oversight Team oversaw approving the concept note for the PEFA assessment, sharing relevant reports and other PFM related data with the assessor and providing inputs and comments on the draft PEFA reports. The Oversight Team steer the assessment, monitor progress and support communication with other stakeholders or enable access to data or institutions that may arise throughout the assessment process.

The list of reviewing institutions includes a government (MoF) and SNG institutions (six LGs), the PEFA Secretariat, as well as independent institutions within (SCTM, UNDP, SAI) and outside the country (SECO). Based on a joint agreement between the stakeholders, the PEFA Secretariat, SECO, MoF and RELOF reviews all six draft PEFA assessment reports (one per each LG). Due to the limited capacities available, the SAI, UNDP and SCTM will review two draft reports each, providing that all six reports will be reviewed in total by a non-government group of peers. The LGs will review only their draft report.

Moreover, SECO has recruited an experienced PFM expert, Mr Tony Bennett, to serve as backstopper to the assessments to ensure that the PEFA criteria are correctly applied, that comparisons of performance as between 2015 and 2018 are correctly made, and that sufficient evidence is collected to support the scores and conclusions recorded.

5. The assessment team consists of John Wiggins (UK), an international PFM expert who has undertaken PEFA assessments at central and local government level in some 20 different countries; Dr Anto Bajo (Croatia), an expert on local government finance with PEFA experience in the region at both central and local government level, and Ms Gordana Tisma (Serbia), consultant with extensive PFM experience including as a member of the Council of the Serbian SAI.

BOX 1.1: Assessment management and quality assurance arrangements

PEFA assessment management organisation

- Oversight Team — Co-Chairs: Irene Frei and Thomas Stauffer (SECO), Ana Jolović and Georgios Chatzigiagkou (RELOF); Members: Ljubiša Stojanović (City of Vranje), Mirjana Drndarević (City of Užice), Duško Šarošković (City of Sremska Mitrovica), Slobodan Janković (Paraćin Municipality), Vesna Pavlović (Osečina Municipality), Ankica Marković (Knjaževac Municipality), Mileša Marjanović (Ministry of Finance), Iva Vasilić (State Audit Institution), Milovan Filimonović (UNDP), Dunja Naić (Standing Conference of Towns and Municipalities)
- Assessment Managers: Ana Jolović and Georgios Chatzigiagkou (RELOF)
- Assessment Team Leader and Team Members: John Wiggins (free-lance expert, UK), Anto Bajo (University of Zagreb, Croatia), Gordana Tisma (free-lance expert, Serbia)

Review of the concept note and/or terms of reference

- Date of reviewed draft concept note and/or terms of reference: October 22, 2018.
- Invited reviewers: Oversight Team
- Reviewers who provided comments: Julia Dhimitri, PEFA Secretariat [November 6, 2018], Milovan Filimonović, UNPD [November 8, 2018], all representatives of LGs [November 6-8, 2018]; Dunja Naić, Standing Conference of Towns and Municipalities [November 7, 2018], Iva Vasilić, State Audit Institution [November 20, 2018], Mileša Marjanović, Ministry of Finance [January 31, 2019]
- Date(s) of final concept note and/or terms of reference: March 11, 2019.

Review of the assessment report

- Date(s) of reviewed draft report(s): submitted for review May 18, 2020.
- Invited reviewers: PEFA Secretariat, Thomas Stauffer (SECO), Ana Jolović and Georgios Chatzigiagkou (RELOF2), Darko Komnencic (Ministry of Finance), Dunja Naić (Standing Conference of Towns and Municipalities) and Slobodan Janković (Paraćin Municipality)
- Reviewers who provided comments: Ana Jolović and Georgios Chatzigiagkou, RELOF [June 10, 2020], Thomas Stauffer, SECO [June 10, 2020], Dunja Naić, Standing Conference of Towns and Municipalities [June 10, 2020]

1.3 Assessment methodology

6. The assessment covers the cities Sremska Mitrovica, Užice and Vranje, and the municipalities Paraćin, Knjaževac and Osečina, and includes all their subordinate institutions. It also covers, to the extent required by the PEFA criteria, the utility and other companies owned by the six SNGs through which a substantial proportion of public services are provided. It uses the revised methodology and criteria issued by the PEFA Secretariat in 2016, and to provide a measure of changes since the previous assessments in 2014-15 also applies the 2011 PEFA criteria to the evidence collected. The assessments were preceded by a capacity building workshop for the SNGs concerned held in May 2018.¹

7. Evidence for the assessment was collected during the second half of 2018; thus, the last completed financial year considered is 2017, with actual practice reviewed as during 2018. Where the three most recent years are considered, these are 2015-17. Where applicable, the cut-off date is end-October 2018. Visits to the SNGs to collect evidence were made in two stages in August/September (Užice, Paraćin, Knjaževac) and October/November (Sremska Mitrovica, Osečina, Vranje). Interviews were held with Mayors, Council members, Heads of Finance Departments, and officials responsible for different aspects of SNG activities, and people engaged in the economic development of the different SNGs. Where assessments are undertaken at central government level it is important to look to representatives of civil society for an alternative view of the performance of the government. In the Serbian municipal context, the municipal assemblies and their networks of local community councils are in effect civil society, although in larger municipalities consultation may be possible with semi-independent Chambers of Commerce. Prior to the visits, a schedule of the evidence required to assess each Performance Indicator and Dimension was sent to the six SNGs, but it did not prove possible to collect this in advance of the visits. The necessary statistical and other information gradually became available during the period up to early December 2018. Following some consultation on different points with the backstopper, who joined in the visit to Užice, complete drafts of all six reports were prepared by the team leader towards the end of January 2019.

Chapter 2: Country background information

2.1 Economic performance

[1. The structural reform and fiscal consolidation programme agreed with the IMF for the period 2015-18](#) helped Serbia reverse the fiscal deficit recorded in 2014 (at 6.6 per cent of GDP, or nearly EUR 2.2bn) and achieve a fiscal surplus of 1.2 per cent of GDP in 2017. This positive trend continued into 2018, with an overall fiscal surplus of EUR 78mn recorded at the general government level in the first five months, and a primary fiscal surplus of EUR 555mn. The aggregate surplus of LGs (municipalities and towns/cities) stood at EUR 68mn for the same period.²

2. These fiscal improvements are the result of measures designed to both cut expenditures and increase revenues, coupled with favourable external factors, such as declining oil and gas prices, falling interest rates across Europe, and economic recovery in the EU, which Serbia maintains close ties with through exports and foreign direct investments (FDIs). An increase (of some EUR 700mn) in public revenues between 2015 and 2017 can be ascribed to higher economic growth than had been

¹ According to the Law on Local Self-Government the City has more than 100.000 inhabitants, while the municipality has minimum of 10.000 inhabitants. The powers of a city and a municipality are the same, except that the President of a city Council has the title Mayor, and a city may have one or more subordinate municipalities.

² Source: www.mfin.gov.rs.

envisaged under the consolidation programme. The structural increase in public revenues was also promoted by efficient tax collection (which accounted for some EUR 500mn) and measures that targeted the informal economy. The remaining unforeseen increase in public revenues in 2017 (of some EUR 600mn) was the result of a number of special factors. Nearly half of this figure came from unusually high amounts collected in corporation tax, due to greater profitability in the manufacturing sector in 2016. In the same year, indirect taxes made up 40.6 per cent of consolidated public revenues, whilst salaries and pensions accounted for more than half of all public expenditures (51.2 per cent). At 63.2 per cent, the tertiary (services) sector accounted for most of the GDP, followed by industry with 23.5 per cent and agriculture at 12.7 per cent.

Table 2.1: Economic Developments 2015-18

Year	2015	2016	2017	2018*
GDP (Euro millions)	35,716	36,723	39,183	
Change in real GDP (%)	0.8	3,3	2,0	4,2
Inflation (average % change in CPI)	1,5	1,6	3,0	2,2
Trade Balance (Euro million)	-4.048	-3.636	-4.345	-3.818
Current Balance (Euro million)	-1.234	-1.075	-2.051	-1.502
Foreign direct investment (% of GDP)	5,1	5,2	6,2	
Unemployment (% labour force)	17,7	15,3	13,5	13,4
Fiscal balance	-3.7	-1.3	1.2	0.6
Public debt (as % of GDP)	70	67,8	57,9	56,2

*Data for January-august 2018

Sources: Ministry of Finance, State Statistics Office and National Bank of Serbia

3. Serbia's improved investment climate and better credit ratings (BB, assigned by both Standard and Poor's and Fitch Ratings) have allowed the country to attract FDIs amounting to nearly EUR 2bn annually (6% of GDP IN 2017), exceeding the current account deficit. General government debt as a percentage of GDP is still high compared to some EU Member States. Nevertheless, there have been positive developments in this regard as well. Public debt stood at 70 per cent of GDP at year-end 2015, only to decline to some 57,9 per cent in 2017 and 56.2 per cent of GDP at the end of November 2018.

2.2 Fiscal and budgetary trends

4. General Government revenue and expenditure in Serbia comprises the central government, sub-national governments, social insurance funds, and the body responsible for road construction and maintenance. As Table 2.2 below shows, the central government budget accounts for rather more than 40 per cent of total General Government expenditure (GGE), pensions for approaching 30 per cent of GGE, and local government expenditure for about 16 per cent, with the remainder attributable to other insurance funds and roads. This reflects the relatively limited responsibilities assigned to local government in Serbia, which cover the local infrastructure, the provision of pre-primary education, and some involvement in the provision of facilities for primary education, housing, district heating and environmental protection.

Table 2.2: General government expenditure (GGE) 2015-17 (RSD bn. and % of GDP)

	2015	2016	2017
Central government budget	784 (19.4)	759 (17.8)	784 (17.6)
Pension fund	537 (13.3)	536 (12.6)	537 (12.0)
Other insurance funds	245	242	245
PE Roads	38	60	38

Local government	281 (7.0)	302 (7.1)	317 (7.1)
General government expenditure	1,844 (45.6)	1,900 (44.6)	1,921 (43.0)
% of GDP (% of GGE)			
Central government budget	19.4(42.5)	17.8(40.0)	17.6(40.9)
Pension fund	13.3(29,2)	12.6(28.3)	12.0(27.9)
Other insurance funds	6.1	5.7	5.5
PE Roads	0.9	1.4	0.9
Local government	7.0(15.4)	7.1(16.0)	7.1(16.5)
General government expenditure	45.6	44.5	43.0

Source: Ministry of Finance RS, 2018

5. The structure of general government revenue and expenditure is shown in Table 2.3 below. The largest elements in total revenue are social insurance contributions, VAT and excise duties. Taxes on income and profits account for less than 10 per cent of total revenue.

Table 2.3: General government balance 2015-17 (bill RSD and % of GDP)

	2015		2016		2017	
	bill RSD	% of GDP	bill RSD	% of GDP	bill RSD	% of GDP
I Total revenue	1,695	41.9	1,843	43.2	1,973	44.2
tax on income	147	3.6	155	3.6	168	3.8
tax on profit	63	1.5	80	1.8	112	2.4
VAT	416	10.3	454	10.6	479	10.7
Excise duties	236	5.8	266	6.2	280	6.3
Custom duties and other tax revenue	56	0.8	61	0.8	66	0.8
tax on property	41	0.9	42	0.9	46	1.0
Social contributions	506	12.5	527	12.4	567	12.7
Non tax revenue	224	5.5	247	5.6	247	5.4
Grants	7	0.2	9	0.2	9	0.2
II Total expenditure	1,844	45.6	1,900	44.5	1,921	43.0
Wages and salaries, etc.	419	10.4	418	9.8	426	9.5
Goods and services	258	7.5	284	8.0	302	8.2
Interest	130	3.2	132	3.1	121	2.7
Subsidies	135	3.3	113	2.7	113	2.5
Social welfare and transfers	710	17.6	717	16.8	720	16.1
Other current expenditures	45	1.1	56	1.3	63	1.4
2. Capital expenditures and net lending	118	2.9	142	3.4	147	3.3
3. Guarantees called	30	0.7	39	0.9	29	0.6
III Deficit/surplus (I-II)	-149	-3.7	-57	-1.3	52	1.2

Source: Ministry of Finance RS, 2018

2.3 Local Government Finance

6. Local government in Serbia is based on Part 7 of the 2006 Constitution, which provides for autonomous provinces, cities and municipalities to have their own self-governing institutions. Detailed provisions are contained in the 2007 Law on Territorial Organisation and Local Self-Government, as subsequently amended. Table 2.4 below gives an overview of the subnational government structure

in Serbia, as required by the standard model PEFA Report at sub-national level. According to the Constitution Kosovo and Metohija remain part of Serbia as autonomous province. In practice, all the statistics and other information in this report exclude Kosovo and Metohija. Serbia, as described here, contains just one autonomous province (Vojvodina), the capital city Belgrade which has a special status, 28 cities and 117 municipalities. Vojvodina directly receives part of the revenue accruing to the central government, and is guaranteed an amount at least equal to 7 per cent of the central government budget; it is responsible in its territory in Northern Serbia for delivery of the main public services - education, health, communications, strategic planning – which are the responsibility of central government elsewhere in Serbia. Cities and municipalities have essentially the same responsibilities for local infrastructure, urban and land use planning, housing and local amenities, nursery education, and sport, recreation, and culture. Cities generally have a population of around 100,000 and are able to establish subordinate municipalities on parts of their territory which take over some functions which are the responsibility of the city, with financing determined by the city concerned. Municipalities have populations of 60,000 or less (one has less than 2,000). Cities and municipalities may also establish Community Councils in different parts of their territory whose expenditures are met directly from the local government budget. Cities and municipalities in Vojvodina are financed in the same way and at the same level as those elsewhere in Serbia, but the central government element in their revenues accrues through the province.

Table 2.4: Overview of subnational government structure in Serbia

Level of government	Central	Regional	Municipal
Corporate Body	Yes	Yes	Yes
Own political leadership	Yes	Yes	Yes
Approves own budget	Yes	Yes	Yes
Number of jurisdictions	1	1	146
Average population	7.1 million	1.9 million	50,000
% of public revenue	94.1%	*	5.9%
% of public expenditure	83.5%	*	16.5%

*Vojvodina is in effect part of central government for the purposes of this analysis.

7. Table 2.5 shows the overall balance of local government finance (2015-17). Cities and municipalities in total were in balance in 2015 and ran aggregate surpluses in 2016 and 2017 which were used to repay debt or build balances, depending on the financial position of the local governments concerned.

Table 2.5: Local government finance 2015-17 (RSD bn. and % of GDP)

	2015	2016	2017
GDP (RSD bn.)	4,043	4,262	4,465
Taxes and own revenues	215 (5.3)	242 (5.7)	253 (5.7)
Net transfers from central government	66 (1.6)	70 (1.6)	77 (1.7)
Total revenue	281 (6.9)	312 (7.3)	329 (7.4)
Total expenditure	281 (6.9)	302 (7.1)	317 (7.1)
Net deficit/surplus	0	9 (0.2)	12 (0.3)

Source: Ministry of Finance, RS

8. Table 2.6 shows the breakdown of total local government revenue, and Table 2.7 the breakdown of expenditure by the main economic categories. For the local government as a whole, about two thirds of revenue are determined by the central government (share of income tax and central government transfers), with the remaining third accruing from property tax and non-tax revenues. More economically advanced local governments are mainly dependent on tax revenues, while the less advanced are heavily reliant on general fiscal transfers. Tax revenues account for about 55% of revenues, government transfers 23%, non-tax revenues 21% and grants the rest. Most transfers are

general, i.e., to be spent at the discretion of the recipient local government, but a minority are targeted by central government Ministries to be spent for particular purposes – mainly public investment projects. The distribution of general transfers is based on a formula in which population size has 65 per cent of the weighting and geographical area 19 per cent, with the remainder dependent on school class numbers and the number of children needing protection; local governments receiving less than 90 per cent of the average tax revenue per head of population qualify for additional compensatory transfers.

Table 2.6: Total revenue of local government units in the Republic of Serbia 2015-17
(RSD million and % of total)

	2015		2016		2017	
	mil	%	mil	%	mil	%
Total revenue	280,957	100	311,554	100	329,477	100
Tax revenue	160,726	57.2	170,296	54.7	181,369	55.0
Share of income taxes	101,950	36.3	107,390	34.5	112,321	34.1
Share of profit tax	5,707	2.0	6,175	2.0	8,459	2.6
Tax on property	40,769	14.5	42,379	13.6	45,652	13.9
Other tax revenue	12,300	4.4	14,352	4.6	14,938	4.5
Nontax revenue	52,854	18.8	70,480	22.6	70,397	21.4
Grants	1,325	0.5	840	0.3	985	0.3
Transfers from central government	66,051	23.5	69,938	22.4	76,726	23.3

Source: Ministry of Finance RS, 2018

9. As Table 2.7 shows, the share of expenditure on pay fell by three percentage points, while that on goods and services increased. Interest payments accounted for only a very small proportion of expenditure, while subsidies, welfare payments and capital expenditure all fluctuated somewhat.

Table 2.7: Total expenditures of local government units in the Republic of Serbia 2015-17 (mil RSD and % of total)

	2015		2016		2017	
	mil. RSD	%	mil. RSD	%	mil. RSD	%
Total expenditure	280,556	100	302,438	100	317,197	100
Current expenditure	245,992	87.7	261,749	86.5	280,146	88.3
Pay, etc.	80,833	28.8	81,301	26.9	81,921	25.8
Purchases of goods and services	67,951	24.2	80,929	26.8	87,872	27.7
Interest payments	3,958	1.4	3,402	1.1	2,860	0.9
Subsidies	31,918	11.4	26,144	8.6	32,312	10.2
Social welfare	40,935	14.6	48,479	16.0	49,310	15.5
Other current expenditure	20,398	7.3	21,495	7.1	25,871	8.2
Capital expenditure (including net lending)	34,565	12.3	40,689	13.2	37,049	11.7

Source: Ministry of Finance RS, 2018

10. The normal structure of a PEFA report at sub-national level looks for a summary of the functional allocation of local government expenditure according to the ten main expenditure categories in the UN Classification of Functions of Government (COFOG). This analysis is not produced by the Government of Serbia, although all the information required for its production is held in the records of the Treasury Single Account managed by the Ministry of Finance (MoF). An OECD Profile of Serbia

produced in 2016 jointly with the Serbian Standing Conference of Towns and Municipalities shows that expenditure in 2014 was allocated as follows:

- General Public Services – 20 per cent
- Economic Affairs – 21 per cent
- Environment Protection – 3 per cent
- Housing and Community Amenities – 19 per cent
- Health – 1 per cent
- Recreation, Culture and Sport – 11 per cent
- Education – 19 per cent
- Social Protection – 6 per cent.

This may somewhat overstate the amount for General Public Services since the functional expenditure tables produced by each local government include capital repayments (treated as a financing rather than expenditure by IMF GFS) and interest payments (excluded from the functional allocation of expenditure by the PEFA criteria) under this heading.

2.4. Legal and regulatory arrangements for PFM

11. **The Law on Local Self-Government**³ provides for local populations to manage affairs of direct, shared, and common interest through freely elected representatives; it provides for local authorities to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population. In the exercise of its rights and the discharge of its duties in connection with meeting the needs of the local population, **a local authority may establish enterprises, institutions, and other organisations that provide public services**, as envisaged by Law and its articles of association. Much of service delivery – road maintenance, street cleaning, minor construction, etc. – is carried out by corporatised entities owned by local authorities. Until recently, authorities retained discretion to have some of this work done directly by municipal administrations. However, the central government required that as from 1 December 2016 all such work should be assigned to utility companies. As noted in paragraph 6 above, to meet the general, shared, and day-to-day needs of particular local populations, local authorities may establish **local community councils** or other sub-local governments. **Local authorities perform the following duties** through their bodies as envisaged by the Constitution and Law:

- Enact development programmes;
- Enact urban plans;
- Adopt budgets and final accounts;
- Establish rates of own-source municipal revenues and criteria for setting local fees and charges;
- Regulate and ensure the provision and development of local public utilities;
- Enact programmes for the management of development land;
- Enact local economic development programmes and pursue appropriate projects;
- Ensure environmental protection and enact programmes for the use and protection of natural resources and environmental protection programmes;
- Establish institutions and organisations tasked with primary education, culture, primary healthcare, recreation, sports, children’s welfare, and tourism, and monitor and facilitate their operation;
- Establish social welfare institutions and monitor and facilitate their operation;
- Prescribe basic requirements for the protection, use, and management of agricultural land;

³ Law on Local Self-Government (*Official Gazette of the Republic of Serbia*, Nos. 129/2007, 83/2014, 101/2016, and 47/2018).

- Ensure the exercise, protection, and enhancement of human rights and individual and collective rights of national minorities and ethnic groups;
- Other duties of immediate interest to members of the public.

12. **Some powers of public administration may be devolved on all or some local authorities by the central government**, where doing so allows members of the public to exercise their rights and perform their duties more efficiently and effectively and ensures their needs can be met more appropriately. Funds for the exercise of devolved public administration powers are provided from the central budget in proportion to the type and extent of such powers. These devolved duties consist of some aspects of inspection oversight in education, healthcare, environmental protection, mining, trade in goods and services, agriculture, water management, forestry, and other areas as envisaged by Law.

13. In recent years, local government finance in Serbia has seen frequent changes. Individual line ministries generally enact internal plans for enacting new regulations, but the exact scope of duties and spending powers to be devolved on local authorities remains unknown in advance. As such, new spending powers are devolved on local authorities year after year pursuant to ad hoc decisions (Government orders, Ministry rules, collective agreements, and Government conclusions) rather than by statute. Whenever it assigns or devolves new powers onto a local authority, the central government is required to provide the funds, required for the exercise of these powers in the form of earmarked transfers or additional revenue sources. The amount of these transfers and the criteria for their disbursement are set by line ministries, but the practice has revealed a great deal of discretion in arranging these transfers; their allocation is based neither on realistic needs nor on objective criteria.

14. In the period 2014-2018, the priority was on fiscal consolidation and rationalisation, and thus the ultimate goal of the Government of Serbia to establish the strategic framework for decentralisation and deconcentration did not materialise⁴. The Ministry of Public Administration and Local Self-Government (MPALSG) recognises the need for strategic planning of further reform of the local self-government system and the process of decentralisation in the context of a Decentralisation Strategy or a programme of reform of local self-government⁵. It remains to be seen whether the MPALSG will manage to effectively engage and/or lead in strategic planning of decentralisation efforts, co-ordinate ministries, and supervise the transfer of new functions and the required financial arrangements onto the local level.

15. **All revenue** of a local authority **constitutes its general revenue and may be used for any purpose** provided this is envisaged by Law and the local authority's budget decision, **except for revenue directed by Law into a special revenue fund**. A local authority's budget is derived from own-source and shared revenue, transfers, borrowing, and other income and receipts. Each local authority is entitled to own-source revenue collected in its territory. Rates of own-source revenue and criteria for setting local fees and charges are set by the local legislature; for the most important own-source revenue, local property taxes, a maximum annual rate of 0.4 per cent of assessed value of a property is set by Law, with local authorities free to charge a lower rate. For shared revenue, the central government establishes taxable bases and tax rates, as well as criteria for setting fees and charges, and administers these levies, whereupon it shares with each local government all or part of the revenue collected in that local authority's territory. As well as shared revenues, local authorities receive fiscal transfers (Law on Local Self-Government Article 37), which may be general (non-earmarked) or earmarked (used to finance a specific type of expenditure for the exercise of an original or devolved power). A local authority may receive a donation from a Serbian or foreign individual, or a legal entity provided it enters into the appropriate agreement with the donor.

⁴ Ministry of Public Administration and Local Self-Government, *Annual Report 2015-2017 on the implementation of the Action Plan for implementing the Public Administration Reform Strategy for RS for the period 2015-2017*, 6 March 2018, http://www.mduls.gov.rs/doc/PAR%20Report_eng_mar2018.pdf

⁵ *ibid*

16. Serbia operates a decentralised **public procurement system**; public procurement rules are governed by the Public Procurement Law⁶. Local authorities pursue procurement procedures independently but must notify the central-level Public Procurement Office of all tenders advertised and contracts awarded. In 2017, local authorities and their wholly-owned companies together accounted for one-third of the aggregate value of public procurement in Serbia (17 per cent was spent by public utility companies, whilst town/city and municipal administrations spent 15 per cent).

17. Serbian **local authorities enjoy fiscal autonomy**: they are able to **introduce and collect local taxes, fees, charges, and other public revenues**. The Tax Administration has been decentralised and local tax administrations have been created. That said, the ability of local authorities to set property tax rates is restricted by a cap imposed through central-level legislation. Under the Budget System Law⁷, the local executive is responsible for fiscal policy and management of public assets, revenues and receipts, and expenditures and outlays. The Law provides accountability mechanisms in the form of general fiscal accountability principles, procedures, and rules that also apply to local authorities. The Budget System Law caps **fiscal deficit**: a local authority may incur a fiscal deficit only for public investments, this may not exceed 10 per cent of its revenue for the year in question.

18. Cities/towns and municipalities may **borrow** in the financial market, subject to approval by MoF. Local authorities may freely compare offers available in the market and choose either to borrow from banks or issue municipal bonds. The Public Debt Law⁸ prevents local authorities from issuing guarantees. This piece of legislation stipulates that borrowing decisions are made by the appropriate body of the local government. Local authorities may borrow in Serbia or abroad. Short-term borrowing is permitted only to finance temporary liquidity issues, whilst capital projects require long-term borrowing. The legal framework imposes some restrictions on borrowing by local governments: short-term borrowing to overcome current liquidity constraints may not exceed 5 per cent of aggregate local revenue for the preceding year; local authorities may not incur short-term debt to finance capital investments; total long-term debt may not exceed 50 per cent of total current revenue in the previous year, excepting where the repayment period for such long-term borrowing is greater than five years; aggregate costs associated with long-term capital borrowing may not exceed 15 per cent of aggregate local revenue for the preceding year, excepting where two-thirds of the current revenue surplus amount to more than 15 per cent of such aggregate revenue. Under Serbian Law, the central government (through the Ministry of Finance) is able to grant or withhold permission for borrowing by local authorities and so exercises control over this process.

19. Local authorities have not been fully **autonomous in terms of their hiring practices** since the recent entry into effect of the Law on the Manner of Determining the Maximum Number of Employees in the Public Sector⁹. This piece of legislation requires local governments to register all staff whose salaries are paid from the local budget with the Ministry of Finance. A provision of this Law continuing in effect in 2018 obliges local authorities to seek approval for any new open-ended hiring from a Government Commission through the Ministry of Public Administration and Local Self-Government. From the standpoint of local authorities, it appears that this provision has been applied arbitrarily without regard to the need to replace staff who move or retire; this inevitably causes greater problems where individual authorities were efficiently run than for authorities which employed relatively more staff. As well as controls over staff numbers, the central government maintains close control over local government pay. All permanent employees must be placed within a salary grid which determines their pay by reference to their qualifications, experience, and responsibilities. Pay has been frozen for most of the period covered by this assessment.

⁶ Public Procurement Law (*Official Gazette of the Republic of Serbia*, Nos. 124/2012, 14/2015 i 68/2015)

⁷ Budget System Law (*Official Gazette of the Republic of Serbia*, Nos. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13 – amendment, 108/13, 142/14, 68/15, 103/15)

⁸ Public Debt Law (*Official Gazette of the Republic of Serbia*, Nos. 61/2005, 107/2009, 78/2011 i 68/2015)

⁹ Law on the Manner of Determining the Maximum Number of Employees in the Public Sector (*Official Gazette of the Republic of Serbia*, Nos. 68/2015 and 81/2016)

Municipality of Paraćin - background information

2.5 General information

20. Paraćin is a long-established industrial centre producing glass, cement, textiles, foodstuffs, and electrical components. The Municipality of Paraćin has 8 urban and 33 rural settlements on an area of 541.7 square km, with a total population in 2011 of 54,224. It is situated in the Morava valley about 150km South of Belgrade in the Pomoravlje district. It is a relatively well-developed middle-sized municipality. Economic data (see Table 16 below) show modest growth in local incomes and in the number of profitable companies, but unemployment, although falling, remains high.

2.6 Revenue and expenditure

21. Budget planning is essentially focused on what can be financed from the municipality's share of national taxes and general transfers from central government, together with the municipality's own revenues from property taxes and other locally determined charges, from payments for goods and services, and from the exploitation of municipal property. While the municipal development strategy may, in the long run, add to tax revenues accruing from central government, in the short run increases in revenue are most readily achieved by increasing the efficiency of collection of property tax and other local taxes and charges. Table 8 shows the overall fiscal balance for each of the years 2015-17. Table 9 provides details of revenue, and Tables 10 and 11 show functional and economic analyses of expenditure. Revenue figures in all cases exclude the proceeds of new loans, and expenditure figures in all cases exclude capital repayments.

Table 8: Fiscal Balance 2015-17 RSD thousands

	2015	2016	2017
Total revenue	1,108,470	1,178,400	1,232,704
Total expenditure	1,076,274	1,147,081	1,164,356
Fiscal balance	+32,196	+31,319	+68,348

Source: Paraćin Finance Dept.

Table 9: Municipal revenues 2015-17 RSD thousands

	2015	2016	2017
Share of CG taxes	438,257	465,143	508,231
Local taxes	283,710	273,234	283,930
Revenue from property	53,659	61,821	34,181
CG Transfers	291,769	317,566	317,824
Admin. fees	12,386	16,768	9,317
Fines	8,564	7,441	6,627
Other revenue	20,125	36,427	43,847
Asset sales	-	-	28,747
Total revenue	1,108,470	1,178,400	1,232,704

Source: Paraćin Finance Dept.

22. As Table 9 shows, more than two thirds of Paraćin's revenue are derived from the municipality's share of taxes collected by central government (over 40 per cent) and from central government transfers (over 25 per cent). Local taxes provide more than 20 per cent of revenue, with other local sources providing the remainder.

Table 10: Functional analysis of expenditure

RSD thousands

	2015	2016	2017
Genl. Public services	241,674	237,254	238,579
Public order, etc	9,526	5,305	13,639
Economic Affairs	106,780	137,049	147,062
Environ. protection	50,080	42,244	39,522
Housing, amenities	141,958	147,693	137,526
Health	17,348	48,683	40,393
Culture, sport, recr.	142,480	148,538	176,986
Education	219,361	236,593	229,335
Social protection	133,235	132,988	136,983
Total	1,062,442	1,136,337	1,160,0251

Source: Paraćin Finance Dept.

23. As table 10 shows, the allocation of expenditure to most functions has been rather stable during the period 2015-17. The allocation for social protection (about 11 per cent) was relatively high as compared with a national average of 6 per cent.

Table 11: Economic breakdown of expenditure

RSD thousands

	2015	2016	2017
Employment costs	222,330	225,531	228,723
Goods & Services	345,304	350,326	436,368
Interest payments	13,832	10,744	4,331
Subsidies	10,133	13,844	6,348
Grants to community councils, etc	285,398	337,925	323,172
Social benefits	18,203	17,906	13,479
Other expenditure	86,157	90,072	93,024
Capital expenditure	94,917	100,733	58,911
Total expenditure	1,076,274	1,147,081	1,164,356

Source: Paraćin Finance Dept.

24. As Table 11 shows, employment costs were extremely stable during 2015-17. This is a reflection of the fact that the central government exercised particularly severe control over total numbers employed by the municipality and its MOEs, with the administration not being permitted to replace those leaving or retiring. Expenditure on goods and services increased in 2017, while capital expenditure declined.

2.7 Municipal organisation

25. The municipality area contains 23 local communities established as legal entities to serve the interests of their local populations. Funds are provided from the municipal budget to meet expenditure approved by the President of the Municipality (Mayor). The direct budget beneficiaries are the Municipal Assembly, the Mayor and the Municipal Council, the Municipal Public Attorney, and the Municipal Administration, which is made up of four Departments (see Chart 1 below). Apart from the local community councils, Paraćin has established 14 subordinate institutions which are indirect budget beneficiaries (see Tables 12 and 13 below).

26. A municipality may establish separate companies to provide particular public services; the appointment of their managements is subject to approval by the municipal Assembly, which must also approve their annual and multi-annual business plans and to which they must make regular reports.

Such companies may receive subsidies from the budget, and/or receive payments from the budget under contracts for services rendered. Paraćin has one utility company and three public companies wholly owned by the municipality (see Tables 14 and 15 below).

Representative body

27. The Municipal Assembly has ultimate responsibility for the functions of local government throughout the municipality. The Speaker of the Assembly organises its work, convenes and presides over its sessions, and performs other tasks determined by the law and the municipal Statute. The Assembly consists of 55 members elected on party lists for 4-year terms. It enacts its Statute and Rules of Procedure, adopts the annual municipal budget and the subsequent final account, and determines the rates and other conditions of municipal taxes and charges, including fees for land development and construction. It adopts the municipal development programme, including urban planning and land use. It exercises ultimate authority over the activities and staffing of the services, public enterprises, institutions, and organisations established in accordance with the statute of the municipality. It elects its own Speaker, Deputy Speaker and Secretary, and appoints the President (Mayor) of the municipality, the Deputy President, and the members of the municipal Council. It has established 10 specialist Committees covering different aspects of the work of the municipality, and three standing Commissions to deal with administrative issues.

Management

28. The activities of Paraćin municipality are managed by the President (Mayor) and the municipal Council. The President represents the municipality, prepares proposals for decision by the Assembly, supervises the execution of the budget, and ensures the control of the use of budget funds. Within limits set by central government, the President controls the staffing structure and numbers employed in the municipal administration and indirect budget beneficiary organisations. He/she directs the work of the municipal administration, manages the exploitation and use of municipal property (subject in some cases to the consent of the Property Directorate of the Republic of Serbia), and informs the public about the work of the municipality. Apart from the President and Deputy President of the municipality the Council consists of 10 members. The Council proposes the statute, budget and other decisions and acts to be adopted by the Assembly and supervises their execution. It may decide on temporary financing in case the Assembly fails to adopt the budget before the beginning of the fiscal year.

Municipal council

29. The municipal administration for each particular area is headed by the Department chief. The Head of the Administration (between the Mayor and the Department chiefs) organises, consolidates and directs the work of the municipal administration, deciding the organisation structure and the allocation of responsibilities for different tasks. Chart 1 below shows how the work of the Administration is organised.

Chart 1 Inner organisation of Municipality Paraćin

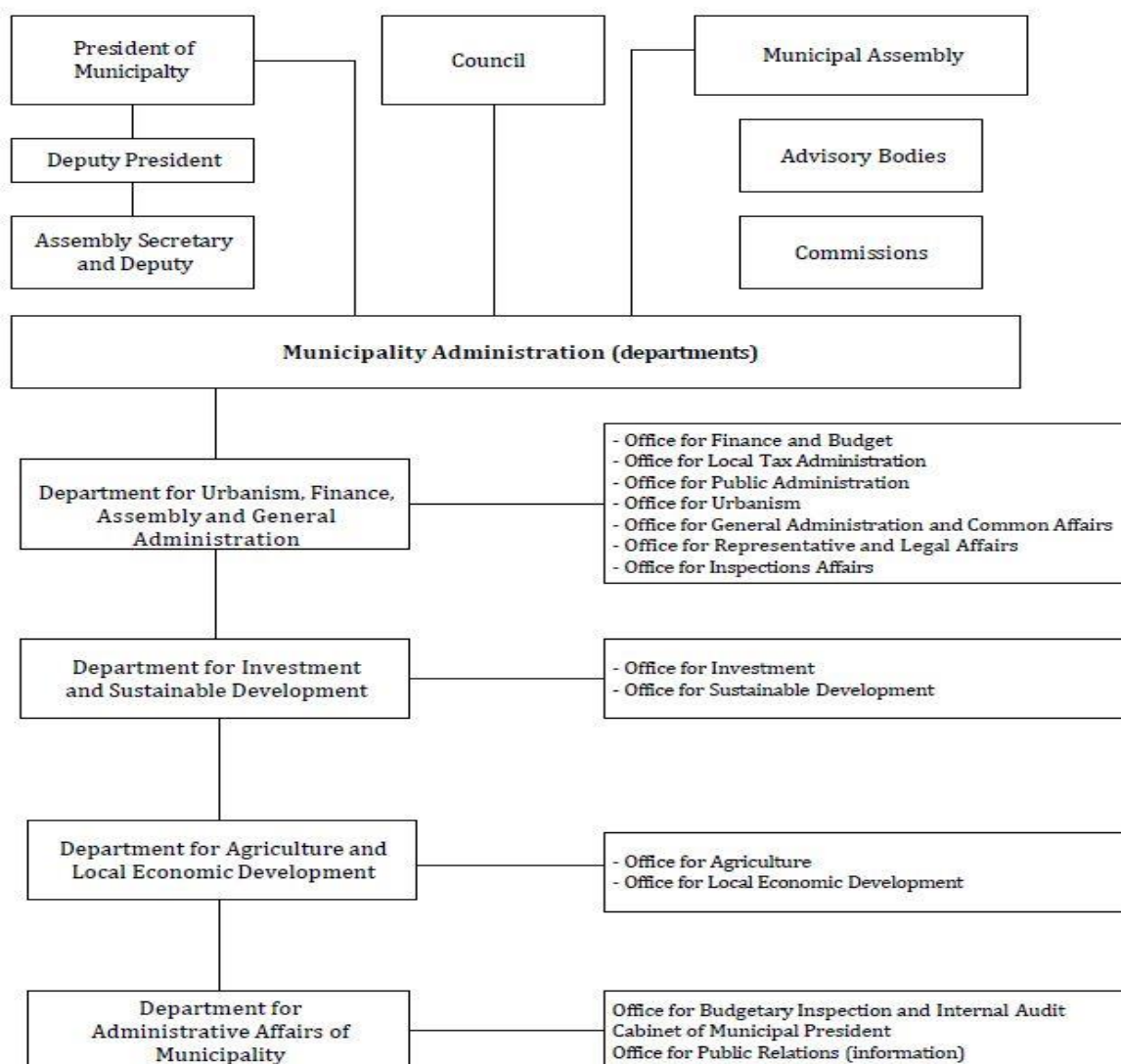


Table 12: Municipality of Paraćin: Public Institutions employees and assets value in 2017

	Public institutions	Function	% of LGU ownership	No. of employees	Assets value in RSD
1	Zavičajni Muzej	Museum	100	5	6,923,464
2	Biblioteka "Dr Vićentije Rakić"	Library	100	11	14,114,711
3	Kulturni centar	Culture	100	11	5,855,440
4	Pozorište	Theatre	100	1	19,200
5	Dom omladine	Youth hall	100	1	0
6	Turistička organizacija opštine Paraćin	Tourism	100	4	0
7	SRC "7. juli"	Sport centre	100	11	123,754,839
8	Ustanova Sportsko-rekreativni centar "Borac"	Sport and recreation		1	183,960

9	Ustanova Sportsko-rekreativni centar "Jedinstvo"	Sport and recreation	100	2	135,325
10	Predškolska ustanova "Bambi"	Kindergarten	100	95	92,172,262
11	Centar za socijalni rad	Social welfare	100	17	26,482,623
12	Apoteka	Pharmacy	100	15 ¹⁰	130,081,705
13	Dom zdravlja	Primary health care	100	187 ¹¹	88,782,540
14	Opštinska stambena agencija	Management, maintenance of social housing space, implementing social welfare programs	100	1	0

Table 13: Municipality of Paraćin: Public Institutions financing in 2017

	Public institutions	Function	Revenue without budget revenues	Total revenues generated from the budget	Total revenues	Budget revenue as % of total revenues
1	Zavičajni Muzej	Museum	3,385,094	15,148,239	18,533,333	82
2	Biblioteka "Dr Vićentije Rakić"	Library	309,600	14,858,107	15,167,707	98
3	Kulturni centar	Culture	1,542,891	18,070,878	19,613,769	92
4	Pozorište	Theatre	0	2,084,905	2,084,905	100
5	Dom omladine	Youth hall	0	5,439,984	5,439,984	100
6	Turistička organizacija	Tourism	1,208,969	17,529,919	18,738,888	94
7	SRC "7. juli"	Sport centre	1,205,813	33,627,524	34,833,337	97
8	Ustanova Sportsko-rekreativni centar "Borac"	Sport and recreation	0	4,964,183	4,964,183	100
9	Ustanova Sportsko-rekreativni centar "Jedinstvo"	Sport and recreation	0	5,661,145	5,661,145	100
10	Predškolska ustanova "Bambi"	Kindergarten	21,766,478	125,574,149	147,340,627	85
11	Centar za socijalni rad	Social welfare	66,146,070	123,789,953	189,936,023	65
12	Apoteka	Pharmacy	119,992,921	142,814,516	262,807,437	54
13	Dom zdravlja	Primary health care	232,576,257	249,563,234	482,139,491	52
14	Opštinska stambena agencija	Management maintenance of social housing space, implementing social welfare programmes	0	2,530,133	2,530,133	100

¹⁰ Not treated as municipal or MOE employees

¹¹ Same as above

Table 14: Municipality of Paraćin - Public companies' ownership, employees and assets value in 2017

	Public companies	Activity	% of ownership	No. of employees	Assets value in RSD
1	JP Vodovod	Supply of drinking water and purification wastewater	100	51	1,077,040,333
2	JKP Paraćin/	Waste management, management of cemeteries and funeral services, management of local market, cleaning public surfaces, maintenance of green public areas, animal health services	100	94	106,334,468
3	JP direkcija za izgradnju Paraćin/Direction for construction	Public parking management, public security lighting, public roads management, architectural,	100	17	10,342,163
4	JP Poslovni centar Paraćin/ Bussines center	Engineering services, design, and supervision, securing the conditions for the maintenance of the land for construction	100	1	2,876,005

Table 15: Municipality of Paraćin: Public companies' financing in 2017

	Public companies	Public companies' revenue without budget revenues	Total public companies' revenues generated from the budget	Total	Budget revenue as % of total revenues
1	JP Vodovod Paraćin/Water supply	206,751,908	217,610,343	424,362,251	51
2	JKP Paraćin/Utility services	140,790,799	197,270,499	338,061,298	58
3	JP direkcija za izgradnju Paraćin/Direction for construction	2,953,154	77,094,357	80,047,511	96
4	JP Poslovni centar Paraćin/ Business centre	4,210,789	10,558,658	14,769,447	71

Table 16: Municipality of Paraćin: key economic data

Economic Indicator	Value			
	2015	2016	2017	2018
Number of Companies	724	764	782	807
Number of companies with net profit	310	312	320	332
Total number of employed	10,375	11,149	11,131	11,058
Total number of unemployed	8,291	8,019	7,777	7,353
Average net income (in RSD)	36,638	37,404	39,271	40,506

Source: Serbian Business Register Database

Chapter 3: Assessment of PFM performance

Pillar 1 Budget reliability

This section includes four Performance Indicators. HLG-1 looks at the predictability of revenue dependent on central government. PIs 1 and 2 examine the difference between budget estimates of expenditure and actual out-turn, in aggregate and in composition. PI-3 examines the city's own revenue in aggregate and composition.

HLG-1 Transfers from central government

This Indicator has three dimensions: the first looks at the overall predictability of revenue accruing through action by central government, the second the predictability of targeted (earmarked) transfers, and the third at the predictability of the in-year timing of transfers.

HLG-1.1 Out-turn of transfers from central government

The main streams of revenue accruing from central government are shown in Table 3.1 below. Municipalities receive 74 per cent of personal income tax paid by their residents (the share was reduced from 77 per cent from the beginning of 2017). Amounts are paid throughout the year as funds are received by central government. General transfers are based on a formula designed to enable comparable levels of service to be provided throughout the country, and may be spent at the municipality's discretion; they are paid monthly in 12 equal instalments. Targeted transfers are never notified until well after the beginning of each fiscal year; thus, they can only be taken into account with certainty in budget-setting where a project extends beyond the first year and funds have been committed by central government for the second year. For Paraćin the data show that the municipality received slightly more than budgeted in respect of its tax share in 2015 and 2016, and substantially more in 2017. General transfer receipts exceeded the budget in all three years 2015-17, and there were additional unbudgeted receipts from targeted transfers in all three years.

Table 3.1 Transfers from central government

RSD thousands

	2015 Budget	2015 Out-turn	2016 Budget	2016 Out-turn	2017 Budget	2017 Out-turn
Share of income tax, etc	475,350	438,257	497,350	465,143	469,600	508,231
CG General transfers	283,000	283,000	283,000	283,000	300,000	300,000
CG targeted transfers	-	8,769	-	34,566	-	17,824
Total transfers	283,000	291,769	283,000	317,566	300,000	317,824
Total receipts from CG	758,350	730,026	780,350	782,709	769,600	826,055
Out-turn as % of budget		96.3%		100.3%		107.3%

Source: Paraćin Finance Dept.

Since actual receipts were more than 95 per cent of the budget in all three years 2015-17, the score is A.

HLG-1.2 Earmarked grants out-turn

As noted above, municipalities must bid after the beginning of each fiscal year for new targeted grants from CG Ministries. If they are successful, the budget law permits the additional amounts to be spent without any need for a budget revision. Since there is no satisfactory basis for measuring differences between budget and out-turn, this dimension is Not Applicable.

HLG-1.3 Timeliness of transfers from central government

Funds are received from central government in a steady and predictable stream throughout the year. General transfers are paid monthly in 12 equal instalments in accordance with a previously agreed time schedule, while tax revenue is transferred daily as it is received by central government. The timing of payment of targeted transfers is determined when the amounts are notified to the municipalities concerned. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
HLG-1 (M1)	A	
1.1 Transfers from Central Govt (CG)	A	Actual receipts exceeded budget in all three years 2015-17.
1.2 Conditional transfers out-turn	NA	SNGs have very little information about targeted transfers at time of budget enactment.
1.3 Timeliness of transfers from CG	A	Funds are received in a steady and predictable stream.

PI-1 Aggregate expenditure out-turn

This Indicator measures the overall difference between originally budgeted expenditure and the actual out-turn.

Table 3.2 Budgeted and actual expenditure 2015-17

RSD thousands

PI-1	2015 Budget	2015 Out-turn	2016 Budget	2016 Out-turn	2017 Budget	2017 Out-turn
Total expenditure	1,223,079	1,076,274	1,297,967	1,147,081	1,332,358	1,164,356
Out-turn as % of budget		88.0%		88.3%		87.4%
Less interest paid	20,000	13,832	13,000	10,744	4,000	4,331
Expenditure excl. interest	1,203,079	1,062,442	1,284,967	1,136,337	1,328,358	1,160,025
Out-turn as % of budget		88.3%		88.4%		87.3%

Source: Paraćin Finance Dept.

Since the out-turn was between 85% and 115% of budget in all three years 2015-17, score is C.

PI-2 Expenditure composition out-turn

This Indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. It looks separately at reallocations by function (dimension 2.1) and by economic classification (dimension 2.2). It also reviews the amount of expenditure charged to contingency reserves. The variance of expenditure is measured by adjusting the originally budgeted amounts of expenditure in each functional or economic category by the overall difference between budget and out-turn; the absolute differences between these adjusted amounts and the actual expenditure in each category are then summed, and the variance is calculated as the percentage the sum of the differences represents of the actual total out-turn.

2.1 Expenditure composition out-turn by function

Interest payments and expenditure from a contingency reserve are excluded from the amounts considered. The calculations assume that debt repayments, interest payments and contingency reserves are all classified as General Public Services in the data provided by the municipality. The calculated variances were 10.6 per cent, 6.4 per cent, and 7.3 per cent for the three years 2015-17 respectively. Detailed calculations are shown in Annex 5. There was no consistent pattern in the calculated variances; in 2015 education fell back by substantially more than the overall shortfall of expenditure against budget, while social protection expenditure increased absolutely. In other years the variances were more evenly distributed.

Since the variance was less than 10 per cent in two of the three years 2015-17, the score is B.

2.2 Expenditure composition out-turn by economic type

Expenditure charged to a contingency reserve is excluded from consideration in this dimension, but interest payments are included. (Debt repayments are also excluded.) The calculated variances were 11.5 per cent, 10.4 per cent, and 5.3 per cent for the three years 2015-17 respectively. The detailed calculations are shown in Annex 5. The relative share of capital investment fell sharply in 2015 and 2017, while the relative share taken by grants to community councils, etc. increased in 2015 and 2016.

Since the variance was less than 15 per cent in all three years, score is C.

2.3 Expenditure from contingency reserves

An A score is given for this dimension if expenditure charged to a contingency reserve was on average less than 3 per cent of the original budget. No expenditure was charged to the reserve in any of the three years. Score is therefore A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-2 (M1)	C+	
2.1 Expenditure composition out-turn by function	B	Variance was less than 10% in two of the three years
2.2 Expenditure composition by economic classification	C	Variance was less than 15% in all three years
2.3 Expenditure from contingency reserves	A	No expenditure was charged to contingency reserves

PI-3 Revenue out-turn

This Indicator has two dimensions, aggregated by Method 2. The first looks at the difference between the original budget and actual out-turn, while the second looks at changes in the mix of revenue in the same way as PI-2 measures the variance of expenditure. Only revenue which is under the control of the municipality is taken into consideration; its share of tax revenue collected by central government and transfers from central government are covered in HLG-1 above.

3.1 Aggregate revenue out-turn

Actual revenue amounted to 83.3 per cent, 77.6 per cent and 73.9 per cent of budget for the three years 2015-17 respectively. Since revenue was below 92 per cent of the budget in all three years, the score is D. Detailed calculations are shown in Annex 5.

3.2 Revenue composition out-turn

As can be seen from Annex 5, property and other local tax revenue held up relatively well in all three years, while revenue from administrative fees and asset sales fell far short. As a result of these changes in relative share, there were high measured variances in all three years (37.1 per cent, 29.3 per cent and 35.2 per cent for the three years 2015-17 respectively), resulting in the score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-3 (M2)	D	
3.1 Aggregate revenue out-turn	D	Revenue was below 92% of budget in all three years 2015-17
3.2 Revenue composition variance	D	Variance exceeded 15% in all three years 2015-17

Pillar 2: Transparency of public finances

This Pillar contains six Performance Indicators. PI-4 assesses the extent to which the classifications of revenue and expenditure in budget and out-turn statements meet international standards. PI-5 assesses the comprehensiveness of the information provided to the municipal Assembly together with the budget proposals for the following year. PI-6 measures the extent to which revenue and expenditure controlled by the municipality are reported municipal financial reports. PI-7 assesses the transparency and timeliness of transfers from a higher to a lower level of government and is Not Applicable to Paraćin. PI-8 reviews the extent of performance information for service delivery. PI-9 assesses the comprehensiveness of fiscal information available to the general public.

PI-4 Budget formulation, execution and reporting

The municipality provides consistent information about the approved budget and actual out-turn broken down by administrative, economic (consistent with GFS), functional (COFOG) and programme classifications. All classifications are used in budget formulation, execution, and reporting. This is in compliance with the Rulebook on Classification¹², which specifies that SNG should use economic, administrative, functional and programme classifications in budget formulation, execution and reporting.

All transactions take place through the (national) Treasury system which provides the basis for out-turn reports on all classifications. IMF confirmed in July 2018 that Serbia had implemented the enhanced General Data Dissemination System for its public finance statistics at both central government and SNG levels. Score A.

PI-5 Budget Documentation

The score for this Indicator depends on how many of four basic and eight additional elements of information are provided to the municipal Assembly alongside the budget proposals. Any score above D requires at least three of the four basic elements to be provided.

Basic elements:

1. Forecast of fiscal deficit/surplus: Yes
2. Previous year's budget out-turn in the same format as budget proposal (i.e., 2016 for 2018 proposed budget): although the 2016 budget execution will have been published some months before it is not included in budget documentation: No
3. Current year's budget (i.e., 2017 for 2018 budget proposal): Yes
4. Aggregated budget data for revenue and expenditure broken down by main classification heads (administrative, economic, functional, programme/activities) for 2016 out-turn, 2017 revised budget and 2018 proposals: No

Additional elements:

5. Deficit financing: Yes (New loans and capital repayments are shown even if the municipality is budgeting for a surplus.)
6. Macroeconomic assumptions: guidance from CG probably does not include interest rates and exchange rate, and LGs are not in a position to make independent forecasts, so NA

¹² Rulebook on Classification (*Official Gazette of the Republic of Serbia*, Nos. 6/2016, 49/2016, 107/2016, 46/2017, 114/2017, 20/2018, 36/2018, 93/2018, 104/2018, 14/2019, 33/2019, 68/2019 and 84/2019)

7. Debt stock: Yes

8. Financial assets: No

9. Summary information on fiscal risks, including contingent liabilities: although there are no guarantees or PPPs there are municipally owned enterprises (MOEs) which could pose risks. Since there is no report about them: No

10. Explanation of budget implications of new decisions about revenue and expenditure: Yes

11. Documentation on medium-term fiscal forecasts: No

12. Quantification of tax expenditure: NA – LGs have no discretion to grant tax exemptions.

The Municipality provides information on the webpage <https://www.paracin.rs/index.php/budzet-opstine-paracin>.

Because only 2 of 4 basic elements satisfied, score is D.

PI-6 Government operations outside financial reports (M2)

6.1 Expenditure outside financial reports

All municipal expenditure, including expenditure from own revenue collected by indirect budget beneficiaries (such as libraries, sports, and cultural institutions), is included in the municipal budget and financial reports. The central government is responsible for the main education and health services where significant revenues typically arise from service users. Score A.

6.2 Revenue outside financial reports

Revenue collected by indirect budget beneficiaries is included in the town budget. Revenue other than transfers from the town accruing to municipal bodies is included in their reports to the town Administration. Reporting is as for expenditure. Score A.

6.3 Financial reports of extrabudgetary units

Since the municipal utility company and other three public companies are all established and controlled as corporate entities in accordance with Government policy and legislation, they are all considered under PI-10.1 below. Thus, there are no extra-budgetary units. Score NA.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-6 (M2)	A	
6.1 Expenditure outside financial reports	A	All expenditure by the municipality is included in published reports.
6.2 Revenue outside financial reports	A	All revenue accruing to municipal bodies and MOEs is included in published reports.
6.3 Financial reports of extra-budgetary units	NA	There are no extra-budgetary units.

PI-7 Transfers to subnational governments

Since the activities of the Community Councils are fully controlled by the municipal Administration, and integrated into the municipal budget, this Indicator and its two dimensions (covering respectively the system for allocating transfers and the timeliness of information to subordinate governments) is NA.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-7 (M2)	NA	
7.1 System for allocating transfers	NA	No subnational governments
7.2 Timeliness of information on transfers	NA	No subnational governments

PI-8 Performance information for service delivery (M2)

8.1 Performance plans for service delivery

Since the introduction of Programme Budgeting in 2015, budget proposals include objectives to be achieved by each programme specified as performance indicators. All expenditure by all budget users has to be fitted within 17 programmes specified by MoF, which do not always correspond to local circumstances, so there remains much scope for improving the system. Objectives are, for the most part, defined in terms of outputs rather than outcomes. Score B.

8.2 Performance achieved for service delivery

Performance reports for 2017 and the first half of 2018 were submitted to MoF by 1 September. However, Information on the quantity of outputs for each programme, was published as a part of the annual budget execution report for 2017, including information on indicator, baseline, target and achieved result in 2017. Score B.

8.3 Resources received by service delivery units

Indirect budget beneficiaries' (kindergarten schools, library, cultural institutions) resources (both funds provided by the municipality and any income from user charges) are fully reported in budgets and execution statements. The national Treasury system where all transactions are recorded makes it possible to identify all the resources received by each institution. Moreover, there are quarterly reconciliations between the data held by the Finance Department and the records of the indirect budget beneficiaries. Annual reports are made to the Finance Department by each institution. Score A.

8.4 Performance evaluation for service delivery

There have been no independent evaluations. Evaluations of the efficiency or effectiveness of service delivery have not been carried out within the last three years. Score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-8 (M2)	B	
8.1 Performance plans for service delivery	B	Programme objectives and targets in terms of outputs are included in budget documentation.
8.2 Performance achieved for service delivery	B	Reports to MoF were made for the first time in September 2018. Information on outputs is provided in the 2017 Budget Execution Report.
8.3 Resources received by service delivery units	A	Full information is available about resources received by nursery schools, cultural institutions and MOEs providing public services.
8.4 Performance evaluation for service delivery	D	There have been no independent evaluations.

PI-9 Public access to fiscal information

The score for this Indicator depends on how many of the five basic and four additional elements are made available to the general public.

Basic information

1. Annual budget proposal documentation: published immediately on municipal website. There is a link on the homepage related to the budget – Yes
2. Enacted budget: published immediately on municipal website. The information is easily accessible to the public. – Yes
3. In-year budget execution reports: published monthly and in detail half year and 9 months – Yes
4. Annual budget execution report: budget execution report includes a narrative analysis of budget execution and is published by 30 June – Yes
5. Audited annual financial report: budget execution report includes auditor's report in years when the municipality is not audited by the State Audit Institution (SAI). When there is an audit by SAI, the audited report is available within 12 months of year-end – Yes

Additional elements

6. Prebudget statement: not issued – No
7. Other external audit reports: there are none – NA
8. Summary of budget proposal – No
9. Macroeconomic forecasts: not relevant at LG level – NA

Public can access to fiscal information on municipality's webpage at <https://www.paracin.rs/index.php/budzet-opstine-paracin> and <https://www.paracin.rs/index.php/2020-04-23-13-40-28>.

Information on fees, charges and taxes belonging to the municipality, and information about services provided by the municipality may be substituted for elements 7 and 9. Both are provided.

Since all five basic elements and two additional elements are provided, score is B.

Pillar 3: Management of assets and liabilities

This Pillar contains four Performance Indicators. PI-10 assesses fiscal risk reporting. PI-11 looks at different aspects of the planning and management of public expenditure. PI-12 assesses the management and monitoring of financial and nonfinancial assets, and the transparency of asset disposal. PI-13 assesses debt management.

PI-10 Fiscal risk reporting (M2)

10.1 Monitoring of public corporations

Paraćin's four MOEs make quarterly and annual reports to the municipality, which like all other documents submitted to the Assembly are available to the public. The Assembly formally approves their budgets and audited annual financial statements each year. Consolidated quarterly and annual reports are submitted to the Ministry of Economy. A consolidated overview is prepared but has not been published. Since audited financial statements in the format prescribed for public corporations

are published by the end of June each year for all MOEs, but there is still no published overview, the score is B.

10.2 Monitoring of subnational governments

NA to Paraćin. (see PI-7 above)

10.3 Contingent liabilities and other fiscal risks

There are no guarantees or PPPs. Implicit contingent liabilities arising from MOE operations are covered by reporting under PI-10.1 above. Since the municipality has no explicit contingent liabilities, the score is NA.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-10 (M2)	B	
10.1 Monitoring of public corporations	B	Audited annual financial reports are published by the end of June each year, but no consolidated overview is published.
10.2 Monitoring of subordinate governments	NA	There are no subordinate governments in Paraćin.
10.3 Contingent liabilities and other fiscal risks	NA	Paraćin has no explicit contingent liabilities.

PI-11 Public investment management (M2)

11.1 Economic analysis of investment proposals

A recent MoF Order requires the economic appraisal of projects costing more than 0.5m Euro, but the promised software to be used for this purpose has not been provided. In any event very few municipal projects are large enough to fall within the ambit of this Order. Otherwise, there are no applicable national guidelines for the assessment of projects, nor any independent assessment of projects. Small projects within the scope of municipal responsibilities for infrastructure and the environment do not readily lend themselves to analysis of the costs and benefits: in many cases they are a response to perceived public need. Few funds were available for investment in Paraćin in the period 2015-17, and only small infrastructure improvements were undertaken. Capital expenditure accounted for only 7.5 per cent of total expenditure during 2015-17.

In 2017 there were two substantial investment projects in the budget: reconstruction of village roads, and building of a cultural centre, each costing about 3 per cent of total budget expenditure. No economic analyses were conducted for either of these projects.

Score D.

11.2 Investment project selection

There are no published or unpublished standard criteria for project selection, but the selection is in the hands of the municipal Council on the proposal of its President, following a public consultation, and requires approval by the municipal Assembly. Score C.

11.3 Investment project costing

The capital costs of investment projects in the budget year and the 2 following years are included in budget documentation. The full capital costs are given where projects extend beyond 3-year time horizon. In addition, timeline and type of each project are described. Score C.

11.4 Investment project monitoring

The total cost and physical progress of projects are monitored by the municipal administration, with timing depending on the terms of the contract. Department for Investment and Sustainable Development, together with Department for Urbanism, Finance, Assembly and General Administration prepares monthly reports for the President and municipal Council. The municipality also prepares reports for the public on budget execution where the costs of projects are published (<https://www.paracin.rs/index.php/2020-04-23-13-40-28>). Score B.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-11 (M2)	C	
11.1 Economic analysis of investment proposals	D	Larger projects may be justified by reference to the increase generated in local employment, but no economic assessments have been made.
11.2 Investment project selection	C	Projects are prioritised by the municipal administration, following public consultation.
11.3 Investment project costing	C	Amounts to be spent on each project over the next three years are included in budget documentation, with the full capital costs given where projects extend beyond the three year time horizon.
11.4 Investment project monitoring	B	The costs and physical progress of projects are regularly monitored by the Investment Department of the administration, and information is published budget execution reports.

PI-12 Public asset management (M2)

12.1 Financial asset monitoring

There is quarterly monitoring of MOEs and their annual financial reports are published, including balance sheet valuations at historical costs (but not fair or market value). The municipality's credit balances and amounts owed to the municipality are included in its annual financial statements. Score B.

12.2 Nonfinancial assets monitoring

The municipality has recently received details of assets returned to it by central government, but registration is incomplete and valuation lacking. The national cadastre is open, but municipal holdings are not published. Since the register is not complete, score is D.

12.3 Transparency of asset disposal

Article 29 of the Law on Public Property (most recently amended in 2016) requires sales of municipal property to be subject to competitive bids. Properties are accordingly offered for sale or lease on the municipal website [<https://www.paracin.rs/index.php/lokalna-samouprava/konkursi-javno-oglasavanje>]. The municipality has plans to realise some significant assets but had not yet been successful at the time of the assessment. Only in 2017 were there any appreciable receipts from asset sales, which amounted to 2.3 per cent of that year's revenue. Assembly must approve sales and results of the tender, which are published. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-12 (M2)	B	
12.1 Financial asset monitoring	B	Financial reports of all MOEs are published annually, with assets values at historical cost.

12.2 Nonfinancial asset monitoring	D	The register of municipal assets is incomplete.
12.3 Transparency of asset disposal	A	Sales are subject to competitive bids, and Assembly must approve the results of tenders which are published.

PI-13 Debt management (M2)

13.1 Recording and reporting of debt and guarantees

Records maintained by the Finance Department are complete, and all details of amounts outstanding, interest paid, and repayments of principal are reconciled and reported monthly to MoF, in accordance with arrangements applicable to all SNGs. Full quarterly reports are published. Outstanding amounts are small, and debt service payments (principal and interest) less than 2 per cent of expenditure in 2017. Score A.

13.2 Approval of debt and guarantees

The municipality's policy is that borrowing should be undertaken only to finance investments. Borrowing management is the responsibility of the municipal Finance Department and is subject to established procedures - under the Public Debt Law, the approval of the municipal Assembly must be obtained before consent for borrowing is sought from the Minister of Finance. SNGs are forbidden to give guarantees. Score A.

13.3 Debt management strategy

It did not appear that Paraćin has a debt management strategy other than an observance of the overall limits on SNG borrowing, whereby debt service payments in total must not exceed 15 per cent of the previous year's revenue. Debts are small. Score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-13 (M2)	B	
13.1 Recording and reporting of debt and guarantees	A	All records of amounts outstanding, interest paid, and principal repayments are complete and up to date.
13.2 Approval of debt and guarantees	A	All borrowing requires approval by MoF and municipal Assembly.
13.3 Debt management strategy	D	No debt management strategy has been published

Pillar 4: Policy-based fiscal strategy and budgeting

This Pillar contains five Performance Indicators. PI-14 reviews macroeconomic and fiscal forecasting, and PI-15 assesses the operation of a fiscal strategy. PI-16 reviews the development of a medium-term perspective in expenditure budgeting. PI-17 examines arrangements for the preparation of the annual budget by the municipal Administration, while PI-18 assesses the extent of the municipal Assembly's scrutiny of the budget proposals.

PI-14 Macroeconomic and fiscal forecasting (M2)

14.1 Macroeconomic forecasts

Since the municipality relies on central government forecasts, the dimension is NA. (The central government forecasts would score D because of the absence of information on interest and exchange rates.)

14.2 Fiscal forecasts

Budget documentation covers the details of revenue and expenditure for the budget year only, with no forecasts for the two subsequent years. Paraćin has been unable to employ the additional staff required to undertake medium-term fiscal planning, and has produced no medium-term forecasts even for internal use only. Score D.

14.3 Macroeconomic sensitivity analysis

In the absence of any forecasts beyond the year immediately ahead, this dimension is Not Applicable.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-14 (M2)	D	
14.1 Macroeconomic forecasts	NA	The municipality relies on forecasts supplied by CG.
14.2 Fiscal forecasts	D	No forecasts are produced beyond the budget year immediately ahead.
14.3 Macroeconomic sensitivity analysis	NA	There are no medium-term forecasts to serve as a basis for such analysis.

PI-15 Fiscal strategy (M2)

15.1 Fiscal impact of policy proposals

The annual budget sets out the Administration's proposals on local tax rates and new investments as well as any other initiatives concerning expenditure and includes an explanation how these decisions are fitted within the overall requirement for a balanced budget. Budget documentation includes the impact of revenue and expenditure decisions on the figures for the budget year only. Score C.

15.2 Fiscal strategy adoption

Paraćin does not have a medium-term fiscal strategy. No consideration has been given to periods beyond the year immediately ahead, and no longer term fiscal objectives have been set even in qualitative terms. Score D.

15.3 Reporting on fiscal outcomes

In the absence of a fiscal strategy this dimension is Not Applicable.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-15 (M2)	D+	
15.1 Fiscal impact of policy proposals	C	Budget documentation includes fiscal impact of all changes in revenue and expenditure for the budget year only.
15.2 Fiscal strategy adoption	D	Paraćin does not have a medium-term fiscal strategy.
15.3 Reporting on fiscal outcomes	NA	In the absence of a strategy, this dimension is Not Applicable.

PI-16 Medium-term perspective in expenditure budgeting (M2)

16.1 Medium-term expenditure estimates

The budget, as presented, provides estimates of expenditure for the budget year only. Score D.

16.2 Medium-term expenditure ceilings

There are no medium-term budgets. Score: Not Applicable

16.3 Alignment of strategic plans and medium-term budgets

There are no medium-term budgets. Score Not Applicable.

16.4 Consistency of budgets with previous year's estimates

Since there are no medium-term forecasts, this dimension is Not Applicable.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-16 (M2)	D	
16.1 Medium-term expenditure estimates	D	The annual budget presents figures for the budget year only.
16.2 Medium-term expenditure ceilings	NA	There are no medium-term budgets.
16.3 Alignment of strategic plans and medium-term budgets	NA	There are no medium-term budgets.
16.4 Consistency of budgets with previous year's estimates	NA	There are no expenditure projections against which to measure deviations.

PI-17 Budget preparation process (M2)

17.1 Budget calendar

There is a clear annual budget calendar fixed by the Budget System Law, which is respected by the municipality. This requires the issue of the budget circular to budget users by August 1 each year. Submissions are then required by 1 September, and initial responses are made accordingly by budget users. MoF Guidance on economic assumptions about overall GDP growth, inflation and public service pay should be received by August 1. But in practice, this has been provided much later – for 2018 budget on 10 November. The municipality's budget circular has been issued on time, using the previous year's assumptions. When MoF Guidance is finally received, budget users have to revise their figures within a very short timescale. Since budget users have 4 weeks to provide their submissions after receipt of the circular, score is B.

17.2 Guidance on budget preparation

Budget ceilings for the year ahead are issued by the Finance Department to municipal Departments and indirect budget users without any prior discussion with the Council. They are reviewed and approved by the Council only after the estimates have been completed in every detail. Score C.

17.3 Budget submission to the Assembly

The budget proposals have been submitted to the Assembly for the last three budgets on 16 December 2015, 14 December 2016, and 14 December 2017. Since the Assembly has only a very few days to consider the proposals, score is D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-17 (M2)	C	
17.1 Budget calendar	B	Although the final MoF Guidance is not received in the required timescale, budget users are able to complete most of their work on the basis of interim instructions given within the specified timescale.

17.2 Guidance on budget preparation	C	Budget proposals are reviewed by the Council only after they have been completed by the Administration.
17.3 Budget submission to the Assembly	D	Budget proposals have been submitted to the Assembly less than a month before year-end for the last three budgets.

PI-18 Legislative scrutiny of budgets (M1)

18.1 Scope of budget scrutiny

The Assembly's discussions cover the details of revenue and expenditure for the year ahead. But there is no attention paid to the medium term, and the discussions have been concluded within 2-5 days during the last three years. Score C.

18.2 Legislative procedures for budget scrutiny

There are standard procedures previously adopted by the Assembly, including review by a specialised Committee. If the Committee issued a negative report, the budget proposals would be returned to the administration for revision, although in fact amendments were made to any of the proposals during discussions of the three most recent budgets. Although there are extensive consultations with community councils during budget preparation, there has been no further consultation once the proposals have been approved by the Council. Score B.

18.3 Timing of budget approval

The Assembly has approved the budget before the start of the year for the last 3 budgets. Dates were 18 December, 21 December, and 16 December respectively for 2015, 2016 and 2017 budgets. Score A.

18.4 Rules for budget adjustments by the executive

Virements of up to 10% of the amounts for each activity within a programme can be made subject to approval by the Council (Budget System Law, Article 61). Larger reallocations or reallocations between programmes require a supplementary budget. These limits are respected. Budget revisions by the Assembly have been made only once or twice a year. In 2017 there was one revision of the budget. In 2016 there was no revision of the budget. In 2015 there were two revisions of the budget. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-18 (M1)	C+	
18.1 Scope of budget scrutiny	C	The Assembly's consideration has been restricted to revenue and expenditure for the year immediately ahead.
18.2 Legislative procedures for budget scrutiny	B	There are standard procedures, including review by a specialised Committee, with the possibility of negotiation with the administration.
18.3 Timing of budget approval	A	The Assembly approved the budget before the beginning of the next year for each of the budgets for 2016-18.
18.4 Rules for budget adjustments by the executive	A	There are clear rules limiting the extent to which the Council can make budget adjustments without the approval of the Assembly.

Pillar 5: Predictability and control in budget execution

This Pillar, which contains eight Performance Indicators, covers revenue administration, cash management, internal controls over payroll and other expenditure, procurement, and internal audit.

PI-19 Revenue administration (M2)

About 70 per cent of Paraćin's own revenue accrues from property taxes, environmental charges, fees for the use of public space and fees for the display of business names (see PI-3 above). The largest elements in the remainder of municipal own revenue derive from property rents, etc. and sales of goods and services. These other revenue streams do not give rise to issues covered in this PI concerning the provision of information to taxpayers, the identification of taxpayers or the need for audit, investigation and enforcement measures. Accordingly, the assessment here covers only those revenue streams which are determined by municipal ordinances.

19.1 Rights and obligations for revenue measures

Full information is provided by the municipal tax office to domestic and business payers of property tax about the basis on which their liabilities is calculated. The same applies to public utility charges on new constructions, charges for the use of public space and charges for the display of business names. Since 2012 Paraćin has introduced e-database which allows all taxpayers easy access to comprehensive and up-to-date information on their obligation areas. Additionally, domestic property tax amounts are notified by the municipality. Business taxpayers must self-assess using the instructions provided. Notifications to domestic taxpayers and instructions to business taxpayers make clear that if the municipality's response to a complaint is not accepted, it may be taken to MoF Regional Office (a procedure which is not fully independent and transparent). Score A.

19.2 Revenue risk management

The Tax Department, which collects well over 75% of the municipality's own revenues, uses a systematic approach to revenue risks. Non-registration of properties is addressed by a continuous effort to increase the number of taxpayers through aerial surveys and cross-referencing of data in different registries, including businesses and bank accounts. The number of taxpayers increased from 9,700 in 2009 to 17,900 in 2013 through the efforts of two aid projects. A further 4,000 taxpayers were added in 2014 when the tax was extended to agricultural land, and there are now 22,000 taxpayers. Paraćin has been successful in collecting property tax from owners living in other countries. So as to ensure accurate reporting of information in declarations, the self-assessment returns of the business taxpayers who account for about 30 per cent the value of annual assessments (2017) are all examined in some detail. Timely declaration and payment are encouraged by the provision that full payment by 31 December of amounts owed for the year entitles the taxpayer to a 10 per cent reduction in payments for the following year. Score A.

19.3 Revenue audit and investigation

A compliance improvement programme must be in operation for any score of C and above. The effort to identify additional taxpayers, the requirement to provide a tax clearance certificate in order to participate in public procurement, and the willingness to negotiate the rescheduling of payments could all be considered to represent elements in such a programme. The 5 staff assigned to inspection and enforcement prioritise the collection of larger amounts of arrears and undertake a programme of site visits to check the consistency of tax returns with the actual properties as well as with the information in the property register. But there is no overall audit plan or report of activities in accordance with it. Score D.

19.4 Revenue arrears monitoring

In common with other SNGs, Paraćin inherited a substantial amount of arrears when the municipality became responsible for property tax collection in 2009. Much of these were attributed to failed businesses and deceased property owners. Unpaid property and other taxes accrue interest as long as they are outstanding. A partial waiver of interest charges may be allowed when a taxpayer makes and complies with a payment rescheduling arrangement, but failure to comply results in the full restoration of the interest liability. Movements in tax arrears are shown in Table 3.6 below.

Table 3.6 Tax collections and arrears 2016-17

RSD thousands

	Arrears at 1.1.16	Assessments 2016	Collections 2016	Arrears at 1.1.17	Assessments 2017	Collections 2017	Arrears at 1.1.18
Property tax	272,877	209,073	191,261	274,772	210,318	194,202	344,105
Trade name fee	165,475	28,549	32,187	182,201	28,760	36,864	193,356
Other taxes	6,323	29,160	23,130	12,444	26,605	24,268	19,636
Total	444,675	266,783	246,578	469,417	265,683	255,334	557,097

Source: Paraćin Finance Dept.

These figures show that Paraćin is relatively successful in collecting assessments of property tax, and that some progress has been made in collecting outstanding trade name fees, but total arrears have continued to grow because of interest on amounts owed. It is not possible to identify the proportion of arrears outstanding at the beginning of a year which have been collected during the year, but the fact that arrears at the end of 2017 amounted to 218 per cent of collections during the year means that the score must be D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-19 (M2)	C+	
19.1 Rights and obligations for revenue measures	A	A variety of different means are used to notify taxpayers of their obligations.
19.2 Revenue risk management	A	Identification of taxpayers and collection of amounts owed is efficient.
19.3 Revenue audit and investigation	D	Although there is a programme of tax audits, there is no overall audit plan.
19.4 Revenue arrears monitoring	D	Although there is evidence of some success in collecting outstanding debts, arrears at end-2017 were 218 per cent of 2017 collections.

PI-20 Accounting for revenue (M1)

20.1 Information on revenue collections

Almost all revenue (other than tax shares and transfers from MoF) accruing directly to the municipality is collected by the Tax Department. All revenue from all sources is paid into the municipality's account at the MoF-administered TSA. The system collects full details of each receipt. The Finance Department makes a monthly report broken down by revenue type to the Council and MoF. Score A.

20.2 Transfer of revenue collections

All revenue is paid the same day into the city's account in the TSA. Score A.

20.3 Revenue accounts reconciliation

A full monthly reconciliation is made by the Finance Department within four weeks of month-end of assessments, collections, arrears and payments into TSA. More than 75 per cent of the municipality's own revenues is assessed and collected by the municipal tax office. Individual taxpayer accounts maintained by the tax office are updated and reconciled as payments are received. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-20 (M1)	A	
20.1 Information on revenue collections	A	A monthly report is made to the Council and MoF.
20.2 Transfer of revenue collections	A	All revenue is paid the same day into the municipality's account in the TSA.
20.3 Revenue accounts reconciliation	A	There is a complete monthly reconciliation of assessments, collections, arrears and payments into TSA, and individual accounts are updated as revenue is received.

PI-21 Predictability of in-year resource allocation (M2)

21.1 Consolidation of cash balances

Cash balances are all held in TSA and consolidated daily. Score A.

21.2 Cash forecasting and monitoring

A cash flow forecast is produced for the fiscal year and updated quarterly in the light of the experience of actual cash inflows and outflows. Score B.

21.3 Information on commitment ceilings

The municipality's financial reserves enable it to assure budget users as soon as the budget is approved that all approved budgetary allocations for the year may be committed at any time. Score A.

21.4 Significance of in-year budget adjustments

Revised budgets are approved by the Assembly only once or twice a year with full transparency. In 2017 there was one revision of the budget. In 2016 there was no revision of the budget. In 2015 there were two revisions of the budget. (A revised budget is not needed for the spending of targeted transfers not notified before the beginning of each fiscal year.) Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-21 (M2)	A	
21.1 Consolidation of cash balances	A	Cash balances are all held in the TSA
21.2 Cash forecasting and monitoring	B	Cash forecasts are updated quarterly
21.3 Information on commitment ceilings	A	Budget users are able to commit their whole annual allocations at any time.
21.4 Significance of in-year budget adjustments	A	Revised budgets are approved by the Assembly only once or twice a year, with full transparency.

PI-22 Expenditure arrears (M1)

22.1 Stock of expenditure arrears

The Law on Terms of Settlement of the Financial Obligations in Commercial Transactions (“Off. Gazette of the Republic of Serbia”, no. 113/2017) introduced a new concept – Central Register of Invoices, which represents the system (database) established and maintained by the central Treasury Administration (under the Ministry of Finance), where the invoices and other requests for payment issued by the suppliers in commercial transactions between public sector entities and business entities are registered. The Law prescribes that suppliers must register their invoices in the database (<https://crf.trezor.gov.rs/>). As explained in 22.2 below, the flow of income tax revenues is interrupted if invoices are not paid within 45 days. In addition, the Ministry of Finance daily publishes the list of all budgetary users, LGs included, that have arrears with the amount of the arrears (<https://www.mfin.gov.rs/tip-dokumenta/pregled-iz-rino/>) Paraćin had no arrears during 2015-17. Score A.

22.2 Expenditure arrears monitoring

Contractors and suppliers register their invoices directly with the Central Register of Invoices at the CG Treasury, which suspends transfers of tax revenue if invoices are not paid within the stipulated period. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-22 (M1)	A	
22.1 Stock of expenditure arrears	A	Paraćin has no expenditure arrears
22.2 Expenditure arrears monitoring	A	This is done automatically through the TSA with which all invoices have to be registered.

PI-23 Payroll controls (M1)

23.1 Integration of payroll and personnel records

Central government sets an overall ceiling for the number of municipal employees, including those in MOEs. Only the 258 staff in the municipal administration and the indirect budget beneficiary institutions are paid from the municipal budget on the basis of approved staff lists. Personnel and payroll records are not directly linked, but all changes in personnel records are subject to close control, and no changes are made to payroll unless authorised by HR management at senior level. Operation of the payroll is supervised by the Head of Finance, and it is reconciled monthly by reference to changes since the previous month. Score B.

23.2 Management of payroll changes

Payroll is updated monthly in the light of any changes in relevant personnel records. The Finance Department which manages the payroll confirmed that retroactive adjustments are very rare, and far below 3 per cent of the annual payroll. Score A.

23.3 Internal control of payroll

As explained in 23.1 above, there is close hierarchical supervision of changes to personnel and payroll records. Access to the payroll software system is closely controlled so as to ensure the integrity of the data, and there is always an audit trail. Score A.

23.4 Payroll audit

The personnel records of all SNGs are subject to annual external inspection organised by the central government, to confirm that all employees hold the required qualifications, that their pay is correctly assessed in accordance with their grade and length of service, and that all posts are authorised by central government. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-23(M1)	B+	
23.1 Integration of payroll and personnel records	B	There is no automatic link between personnel records and the payroll, but the payroll is changed only when authorised by staff managers.
23.2 Management of payroll changes	A	Personnel records and the payroll are updated monthly, and retroactive adjustments are almost unknown.
23.3 Internal control of payroll	A	Authority to change payroll is restricted, and always produces an audit trail.
23.4 Payroll audit	A	There is regular inspection of the personnel records of all employees to confirm that all posts are approved and that all employees are paid correctly.

PI-24 Procurement (M2)

24.1 Procurement monitoring

Records are stated to be complete and accurate, covering the municipal Administration and indirect budget beneficiaries. However, the annual value of contracts (about 120m RSD taking 2016 and 2017 together – see Table 3.7 below) is far below total annual expenditure on goods and services and capital investment (495m in 2017 – see Chapter 2, Table 11 above). Thus, procurement records appear not to cover payments to MOEs, which totalled some 500m RSD in 2018 (see Table 2.14 above). It would appear that part of the payments to MOEs are classified as “other expenditure” in financial reports, with the remainder classified as payments for goods and services. Because of the apparent incompleteness of information, score proposed is D.

24.2 Procurement methods

Procurement in 2016 and 2017 recorded as directly financed from the municipal budget is summarised in Table 3.7 below. No contracts were placed through direct approaches to a single supplier. Low value procurements were all advertised on the municipal website and the central government Public Procurement Portal. However, (see 24.1 above) it appears that much procurement was not subject to any form of competition.

Table 3.7 Public procurement 2016-17

RSD thousands

	Goods (Number of contracts)	Services (Number of contracts)	Works (Number of contracts)	Total (number of contracts)
2016				
Open procedure	6,850 (2)	15,818 (5)	117,806 (14)	140,474 (21)
Low value procurement	19,056 (28)	20,257 (24)	77 (1)	39,390 (53)
Total	25,906 (30)	36,076 (29)	117,883 (15)	179,864 (74)
2017				
Open procedure	-	16,663 (5)	2,276 (1)	18,940 (6)
Low value procurement	20,753 (29)	24,149 (22)	689 (4)	45,590 (55)

Total	20,753 (29)	40,812 (27)	2,965 (5)	64,530 (61)
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Source: Paraćin Dept. of Finance

Given that a large part of the expenditure on goods and services cannot have been subject to competition, score is D.

24.3 Public access to procurement information

5 of 6 key elements of information are in principle accessible to the general public (legal and regulatory framework, city procurement plans, bidding opportunities, contract awards, data on resolution of procurement complaints). But as explained in 24.1 above, it is doubtful whether information on procurement plans, bidding opportunities and contract awards is complete. There is no publication of annual procurement statistics. Score D.

24.4 Procurement complaints management

The Republican Commission which judges complaints satisfies all 6 criteria:

- (1) The members of the Commission have no involvement in procurement transactions or the award of contracts.
- (2) The fees required, although high enough to discourage frivolous complaints (60,000 RSD for contracts in the range 0.4m. – 3m.RSD, 120,000 RSD for contracts up to 120m.RSD, and 0.1 per cent for the largest contracts), are not such as to prohibit access to the appeals process.
- (3) The Commission follows clearly defined processes which are publicly available.
- (4) The Commission has the authority to suspend the procurement process.
- (5) The Commission issues decisions within a specified timeframe.
- (6) The Commission's decisions are binding on all parties (without precluding subsequent access to the administrative court).

Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-24 (M2)	D+	
24.1 Procurement monitoring	D	The procurement data explain only a minor part of expenditure on goods and services.
24.2 Procurement methods	D	It is doubtful whether more than 60% of expenditure is subject to competition.
24.3 Public access to procurement information	D	Five of the six elements of information are published, but not annual procurement statistics. But it is doubtful whether the information on procurement plans, bidding opportunities and contract awards is complete.
24.4 Procurement complaints management	A	The complaints system meets all six criteria.

PI-25 Internal controls on nonsalary expenditure (M2)

At the time of the assessment the municipal administration was working on the development of a risk strategy, and on measures to strengthen internal controls, with the assistance of RELOF.

25.1 Segregation of duties

The MoF Rulebooks on the Organisation and Systemisation of Workplaces and on Accounts and Budgetary Accounting prescribe the appropriate arrangements for ensuring segregation of duties. Effect is given to this through the municipal Decision on the Organisation of the Municipal Administration. Score B rather than A is proposed because the shortage of staff cause by the central government's refusal to allow leavers to be replaced means that some members of staff have to undertake functions outside their normal responsibilities in order to ensure that segregation of duties is complied with.

25.2 Effectiveness of expenditure commitment controls

As explained in 22.1 above, new IT software introduced since 2015 requires contracts to be registered with the Treasury on signature. These would be rejected if they were not within the budgetary provision for the budget user concerned. This ensures that no order is placed unless there is the specific budgetary provision and cash available. Score A.

25.3 Compliance with payment rules and procedures

The Treasury system will only make payments if the orders are in the correct form supported by two signatures and documentary evidence of the justification for each payment. Thus, all payments should be properly authorised and justified, without any exceptions. There can be no doubt that the 90 per cent threshold for payments to be considered compliant with regular payment procedures is met. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-25 (M2)	A	
25.1 Segregation of duties	B	Staff shortages mean that officials have to undertake responsibilities outside their normal sphere of work.
25.2 Effectiveness of expenditure commitment controls	A	The new IT controls prevent commitments from being undertaken unless budgetary provision and cash are available.
25.3 Compliance with payment rules and procedures	A	All payments are properly authorised and justified.

PI-26 Internal audit (M1)

26.1 Coverage of internal audit (IA)

CG has refused to authorise the recruitment of an internal auditor. The Finance Department is already severely understaffed, so no one can be redeployed. Thus, there is still no IA. Score D.

26.2 Nature of audits and standards applied

Not Applicable, since no IA in operation.

26.3 Implementation of internal audits and reporting

Not Applicable, since no IA in operation.

26.4 Response to internal audits

Not Applicable, since no IA in operation.

Indicator/Dimension	2018 score	Justification for 2018 score
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PI-26 (M1)	D	
26.1 Coverage of internal audit (IA)	D	There is no IA.
26.2 Nature of audits and standards applied	NA	There is no IA.
26.3 Implementation of internal audits and reporting	NA	There is no IA.
26.4 Response to internal audits	NA	There is no IA.

Pillar 6: Accounting and reporting

This Pillar contains three Performance Indicators: PI-27 looks at financial data integrity, while PIs 28 and 29 address in-year financial reporting and annual financial reports, respectively.

PI-27 Financial data integrity (M2)

27.1 Bank account reconciliation

All transactions by the municipal administration and the indirect budget beneficiaries take place through the TSA with daily reconciliations with city records. Score A.

27.2 Suspense accounts

Full information is collected about all receipts. Any deficiency in information would prompt immediate investigation. No use is made of suspense accounts. Score NA.

27.3 Advance accounts

Apart from advances to contractors under works contracts, the city makes no advances. Advances to contractors are cleared at each stage of the contract and reconciled at year end. Monthly or quarterly reconciliations are required for scores higher than C, so score is C.

27.4 Financial data integrity processes

There is no separate unit responsible for ensuring data integrity. But access to IT systems is controlled and supervised and gives rise to an audit trail on each occasion. The system does not allow retrospective alteration of data. Score B.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-27 (M2)	B	
27.1 Bank account reconciliation	A	All transactions included in the municipal budget are executed through the TSA with daily reconciliations between municipal and bank records
27.2 Suspense accounts	NA	There are no suspense accounts.
27.3 Advance accounts	C	Advances to contractors are cleared in accordance with contractual arrangements, and outstanding amounts are reconciled at year-end.
27.4 Financial data integrity processes	B	Access and changes to records are restricted and recorded and give rise to an audit trail.

PI-28 In-year budget reports (M1)

28.1 Coverage and comparability of reports

The Treasury system contains all the information needed to produce reports of revenue and expenditure on all classifications at any time. Monthly reports are published on an aggregated basis for each classification, with full coverage of indirect budget beneficiaries. Reports with the same detail as the original budget are published after 6 and 9 months. Monthly reports with full detail on

economic, administrative, functional and programme classifications are sent to MoF within 15 days of month-end in accordance with MoF Rulebook on reporting. Score A.

28.2 Timing of in-year budget reports

Reports are produced by the municipal Finance Department within 15 days of month-end and submitted to the Treasury and management. In addition, the reports are posted on the Paraćin's official webpage. Score A.

28.3 Accuracy of in-year budget reports

There are no material concerns about data accuracy. A detailed analysis of budget execution is produced 6-monthly and 9-monthly, but commitments are not reported. Those two reports are subject of the Assembly approval and are published on the official webpage <https://www.parcin.rs/index.php/budzet-opstine-paracin>.

Also, Paraćin prepares the detailed monthly budget execution report for the top management and submits it to the MoF. The monthly budget execution report is also prepared for the citizens, but in a simplified format and published on the official municipality webpage <https://www.parcin.rs/index.php/2020-04-23-13-40-28>. Score B.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-28 (M1)	B+	
28.1 Coverage and comparability of reports	A	Detailed monthly reports are made to MoF on economic and functional classifications.
28.2 Timing of in-year budget reports	A	Reports are sent to MoF within 15 days of month-end.
28.3 Accuracy of in-year budget reports	B	Reports cover payments only, and not commitments

PI-29 Annual financial reports (M1)

29.1 Completeness of annual financial reports

Reports are produced in accordance with MoF Regulations issued in 2006 and contain full information on revenue and expenditure, financial assets and liabilities, and a cash flow statement. But tangible assets are not covered as required for an A score. Score B.

29.2 Submission of reports for external audit

Articles 78 and 79 of the Budget System Law require audited financial reports to be sent by the municipal Council to the Assembly by 1 June and then after adoption by the Assembly to be submitted to MoF by 15 June. Reports include financial reports and external audit report, and reconciliations should be provided between the different statements as well as notes on accounting policies. Budget execution reports of the indirect budgetary users for the year must be submitted to the municipality by 28 February, with the consolidated report prepared by the municipal Finance Department by 31 March; this represents the starting point for the audit. However, although the revenue and expenditure reports are available at the end of March, the other elements of the financial report (balance sheet, cash flow, reconciliation, etc) are normally completed in April. SAI decides by 15 April whether it will audit each SNG; if it does not decide to audit, SNG must appoint commercial auditors before the end of April to carry out a financial audit within a very short space of time, to comply with the required timetable. This has been the situation in 2015-17. The Paraćin Finance Department confirmed that the audit on 2017 was begun before the end of April 2018. Score B.

29.3 Accounting standards

Annual financial statements are prepared in accordance with MoF Regulations issued in 2006. Paraćin complied with the requirements of Article 79 of the Budget System Law in its financial report on 2017. The financial reports are presented in the consistent format and follow the standards disclosed in *Rulebook on Method of Preparation, Compiling and Submission of Financial Statements of Budget Beneficiary, Mandatory Social Insurance and Budgetary Funds*¹³ and *Government Order on Budgetary Accounting*¹⁴. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-29 (M1)	B+	
29.1 Completeness of annual financial reports	B	Reports contain full information about revenue and expenditure, assets and liabilities, and a cash flow statement, but tangible assets are not covered.
29.2 Submission of reports for external audit	B	Reports are normally submitted within four months of year-end.
29.3 Accounting standards	A	Reports are consistent from one year to the next, and in compliance with national regulation.

Pillar 7: External scrutiny and audit

This Pillar contains two Performance Indicators: PI-30 assesses the functioning of external audit, and PI-31 the response of the municipal Assembly to audit findings.

PI-30 External audit (M1)

The State Audit Institution (SAI)'s audit remit covers all SNGs and publicly-owned enterprises as well as the activity of central government. But it does not have the resources to achieve complete coverage, and thus chooses which SNGs to audit in any particular year. Where the SAI does not audit, SNGs must appoint commercial auditors to undertake a limited financial audit. The SAI takes no part in these appointments and does not supervise the extent or quality of the commercial auditors' work. SAI did not audit Paraćin in any of the years 2015-17.

30.1 Audit coverage and standards

In most years SNGs are subject to a limited financial audit by commercial auditors which pays little attention to the functioning of systems or compliance with legal requirements. This is the case in Paraćin in all three years 2015-17, so the score is D.

30.2 Submission of audit reports to the legislature

Audit reports for 2015-17 were submitted to the Assembly within two months of the auditor receiving the draft financial statements. In all three years, the audit started in April, while the audited reports are submitted to the Assembly by 15 June. The 2017 audit report was submitted with the financial report to the Assembly on 12 June 2018. Score A.

30.3 External audit follow-up

¹³ Rulebook on Method of Preparation, Compiling and Submission of Financial Statements of Budget Beneficiary, Mandatory Social Insurance and Budgetary Funds, *Republic of Serbia's Official Gazette Nos. 18/2015 and 104/2018*

¹⁴ Government Order on Budgetary Accounting, *Republic Serbia's Official Gazette Nos. 125/2003 and 12/2006*.

Where there is only a limited financial audit, which produces no recommendations, the question of follow-up does not arise, and this dimension is NA.

30.4 Supreme Audit Institution (SAI) independence

The President and Council members of the SAI are appointed by the National Assembly on a proposal by its relevant Committee for five year terms, renewable once (Article 19 of the SAI Law as amended in 2010). The SAI is independent of the executive in determining its work programme, and executing its budget; it has full access to all information. Its budget is put forward to the Government by the National Assembly (Article 51 of the SAI Law), but it appears that MoF ultimately controls the amount of the approved budget. Because the SAI is not independent of the executive in the determination of the amount of its budget, the score is C.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-30 (M1)	D+	
30.1 Audit coverage and standards	D	Only limited financial audits were undertaken for 2015-17. There is no information about the audit of MOEs.
30.2 Submission of audit reports to the legislature	A	The limited financial audit reports have been submitted to the Assembly within 2 months of the receipt of the financial statements by the auditor.
30.3 External audit follow-up	NA	Commercial audit reports for 2015-17 have not produced any recommendations requiring follow-up.
30.4 SAI independence	C	Appointments to the SAI are made by the National Assembly, and the SAI is independent in determining its work. But the amount of its budget is ultimately controlled by the executive.

PI-31 Legislative scrutiny of audit reports (M2)

31.1 Timing of audit report scrutiny

Audit reports are submitted to the Assembly with the annual financial statements. But unless there is an audit by the SAI, there is no scope for substantive scrutiny, as was the case for 2015-17, and the reports are formally approved by the Assembly within a very short time. The PEFA Secretariat consider that unless the Assembly insists on a substantive audit every year, it is not holding the Administration to account, resulting in the score D.

31.2 Hearings on audit findings

No in-depth hearings have been held. Score D.

31.3 Recommendations on audit by the Assembly

No recommendations have been made. Score D.

31.4 Transparency of legislative scrutiny of audit reports

Since there is no substantive scrutiny, this dimension is Not Applicable.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-31 (M2)	D	
31.1 Timing of audit report scrutiny	D	There have been no substantive audits, so the Assembly is not holding the Administration to account.
31.2 Hearings on audit findings	D	No hearings have been held.

31.3 Recommendations on audit by the Assembly	D	No recommendations have been issued.
31.4 Transparency of legislative scrutiny of audit reports	NA	There has been no substantive scrutiny.

Chapter 4: Conclusions of the analysis of PFM systems

4.1 Integrated analysis of PFM performance

1. The findings from the assessment of each Indicator are summarised in terms of each of the seven Pillars of the PFM performance measurement framework.

4.1.1 Reliability of the Budget

2. Approaching 60 per cent of central government funding for Paraćin comes through the municipality's share of income and other CG taxes. Total actual CG transfers were 3 per cent above budget for 2015, 12 per cent above budget for 2016. And 6 per cent above budget for 2017. Own revenue fell more than 20 per cent below budget in all three years, leading to actual expenditure falling about 12 per cent below budget in each of the years 2015-17 (PI-1). The functional breakdown of expenditure showed relatively low variance (as measured by the PEFA criteria) in 2016 (6.9 per cent) and 2017 (8.0 per cent), indicating that expenditure on most functions fell below budget by similar percentages (PI-2.1). Much of the somewhat greater measured variance by economic classification resulted from the large shortfalls between budget and out-turn for capital investment in 2015 and 2017 and for expenditure on goods and services in 2016, while in 2015 and 2016 transfers to community councils substantially increased their share in total expenditure in 2015 and 2016. Actual staff costs were very close to the budget despite the overall expenditure shortfall (PI-2.2). No expenditure was charged to contingency during 2015-17.

4.1.2 Transparency of public finances

3. The Treasury system through which all municipal revenue and expenditure pass contains enough information to enable comparisons between budget and out-turn by reference to administrative, functional, and economic classifications (PI-4). (However, the Government does not produce such comparisons for Local government spending as a whole.) Information given to the Assembly as part of budget proposals needs supplementing to meet PEFA standard (PI-5). Reporting of performance against targets established for each of the programmes into which SNG expenditure has to be fitted has been initiated, but the formulation of the objectives requires improvement. There have been no independent evaluations of public service performance, although it should be acknowledged that the limited nature of SNG responsibilities makes performance difficult to measure and evaluate (PI-8). Information for the general public is satisfactory (PI-9).

4.1.3 Management of assets and liabilities

4. Full financial reports are published for the municipality's utility and other service companies, but no consolidated reports, or analyses of the fiscal risks faced by the municipality, have been published (PI-10). Investment is planned within the framework of the municipal strategy to promote increases in employment, and progress is regularly monitored and reported (PI-11). MOEs are effectively monitored, as are the municipality's holdings of nonfinancial assets, but the asset register is incomplete, and valuations are lacking. Asset disposals are subject to competition, with sufficient publication of the results published (PI-12). Overall debts are small, and debt records are complete and regularly reconciled, but there is no published debt management strategy with targets for interest rates or the maturity of debt instruments used (PI-13).

4.1.4 Policy-based fiscal strategy and budgeting

5. Paraćin has been unable to allocate the staff resources necessary to undertake medium-term fiscal and expenditure planning (PI-15 and PI-16). Budget preparation is orderly, although central government guidance on economic assumptions is only provided months after the statutory deadline; as a result, time is very limited for the administration to finalise its proposals and the Assembly to consider them in time for enactment before year-end (PI-17 and PI-18).

4.1.5 Predictability and control in budget execution

6. Good progress has been made in expanding the property tax base, and arrangements are in place to encourage compliance and to check the validity of tax declarations. Tax arrears remain a problem, much of it inherited in 2009 when responsibility was transferred from central to local government, with write-offs discouraged by the need to maintain the city's claims in bankruptcy proceedings (PI-19). Aggregate revenues are reported and reconciled monthly, and individual taxpayer accounts updated as revenue is received (PI-20). New IT software ensures that commitments cannot be undertaken without the assurance of available funds (PI-25.3), while the municipality's financial reserves enable budget users to make commitments within their budget allocations at any time during the year (PI-21). There are no expenditure arrears (PI-22). Payroll controls are effective, and there is an annual external inspection to ensure that all staff positions are authorised, and all employees correctly paid according to their qualifications, responsibilities, and length of service (PI-23). The management of procurement by the municipal administration (including indirect budget beneficiaries) appears satisfactory, but it is not clear that information is complete, and much expenditure on goods and services is apparently not subject to any form of competition (PI-24). Internal control arrangements appear satisfactory despite the fall in staff numbers, but there is as yet no internal audit (PI-26).

4.1.6 Accounting and reporting

7. Bank reconciliations arising from budgetary operations are undertaken daily. No use is made of suspense accounts, and advances are cleared promptly and reconciled at year-end. Arrangements are in place to ensure the integrity of financial records (PI-27). In-year and end-year financial reporting are satisfactory, but annual financial statements, while fully meeting national requirements do not contain all the information required to comply with cash-based International Public Sector Accounting Standards (IPSAS) (PIs 28 and 29).

4.1.7 External scrutiny and audit

8. Serbian SNGs are subject to a thorough audit to international standards by the State Audit Institution (SAI) every three or four years. In other years a limited financial audit is undertaken by a commercial audit firm, which does not result in significant audit findings. MOEs are also within the ambit of the SAI, but coverage of them is more limited. Paraćin was not audited by the SAI for 2015-17, so there are no significant audit findings to take into account in this report. The resources available to the SAI are controlled and restricted by the Government (PI-30). There has been little substantial involvement of the Assembly in audit follow-up (PI-31).

4.2 Effectiveness of the internal control framework

9. The internal control system should contribute towards four objectives: (1) the execution of operations in an orderly, ethical, economical, efficient, and effective manner; (2) fulfilment of accountability obligations; (3) compliance with applicable laws and regulations; and (4) safeguarding of resources against loss, misuse, and damage. The analysis of the performance of the internal control

system looks at the five control components: (1) the control environment; (2) risk assessment; (3) control activities; (4) information and communication; and (5) monitoring.

10. The control environment depends on the legal and regulatory framework, and the way it is applied in practice. The Budget Systems Law (2009) sets out how internal audit and internal financial control (including inspection) should operate (Articles 80-89). Other relevant legislation is the Law on local self-government (2007), the Public Debt Law (2005), the Public Procurement Law (2013) the Law on Determining the Maximum Number of Employees in the Public Sector (2015), and the State Audit Institution Law (2005). In the local government context, the performance of the city will depend on the integrity of management and staff, the management styles of the organisation, the organisational structure (including appropriate segregation of duties and reporting arrangements), the management of human resources, and the professional skills of the staff. It is the responsibility of the Mayor to set the tone of the city organisation, and to adopt a strategy to minimise the risks of damage to the provision of good services. At the time of the assessment the municipality was working on the development of a risk strategy, and on measures to strengthen internal controls, with the assistance of RELOF.

11. The main risks faced by Paraćin are that revenue from the municipality's own taxes will not be collected, that revenue producing developments will not take place, and that procurements will not secure the best value. A continued focus on maximising local revenues will be important in sustaining the services, which are the responsibility of the municipality (PI-19).

12. Internal controls (Pillar V of the PEFA Framework) in the municipal administration appear mostly to work satisfactorily, but it is not clear that procurement data are complete (PI-24) there is still no internal audit (PI-26). There has been no recent external audit by the SAI. Monitoring the performance of service delivery (PI-8) is still in the process of development, with the first reports of performance against targets having been submitted to central government in September 2018. Meanwhile the municipality included reports of programme outputs in its budget execution report on 2017.

4.3 PFM strengths and weaknesses

4.3.1 Aggregate financial discipline

13. The restraints on borrowing, and the sanctions against local authorities failing to pay invoices within 45 days, mean that the risks of uncontrolled overspending are low. But budget estimates have been poor predictors of own revenue during 2015-17, with capital investment falling far below amounts originally envisaged.

4.3.2 Strategic allocation of resources

14. Paraćin has yet to introduce medium-term fiscal and expenditure planning, while public investment planning is adversely impacted by central government control and the absence of any medium-term planning of targeted transfers on which much SNG investment depends. New arrangements at central government level to improve the planning of public investment have yet to be finalised but will have little direct impact at SNG level because most SNG projects will fall below the threshold costs above which the new arrangements are to apply.

4.3.3 Efficient use of resources for service delivery

15. The presentation of all SNG (and central government) expenditure in terms of 17 programmes represents the first step towards results-oriented budgeting. However, it appears that the definition of the programmes may need to be reconsidered, so that they fit more readily into the responsibilities and circumstances of SNGs. It should be recognised, moreover, that the services for which SNGs are responsible – local infrastructure, urban planning, recreational and cultural facilities - do not very

readily lend themselves to measurement of the standard of services delivered. Analysis of the costs of standard operations (e.g., road maintenance, public lighting) may over time provide indications where greater efficiency could be achieved, although differences in local circumstances are likely to mean that comparisons of cost need to be treated cautiously.

4.4 Performance changes since 2015

16. Paraćin has been particularly affected by staffing restrictions during the period 2015-18. Although there have been substantial divergences between budget and out-turn for both expenditure and own revenue, there have been improvements in other aspects of PFM. A start has been made in planning expenditure by reference to programme objectives, the property tax base has been extended and many more taxpayers identified, and expenditure commitment control has been improved through new software provided by the central government. Resource limitations have prevented progress in developing medium-term fiscal planning and the establishment of an internal audit.

Chapter 5: Government PFM reform process

5.1 Approach to PFM reform

1. Serbia is engaged in an ambitious and wide-ranging Public Administration Reform (PAR) programme with the objective of meeting the standards required for admission to the European Union. Different elements cover the functioning of the economy and the working of the judicial system, as well as government operations and the provision of public services. Within this framework, the Government is implementing a PFM Reform programme, with technical assistance from OECD/SIGMA, IMF, SECO and others. The specific objectives are (1) to improve the quality of economic and fiscal projections; (2) to improve medium-term fiscal planning and budgeting; (3) improvements in public procurement legislation and practice; (4) the embedding of Public Internal Financial Control (PIFC) arrangements on the EU model (through a development strategy and action plan for the period 2017-20); the further development of TSA business practices and reporting; and (5) enhancement of the work of the SAI. RELOF is contributing to these efforts, which are led by the Ministries of Finance, Economy, and Public Administration and Local Government.

PFM reforms in Serbia are defined by the 'Public Financial Management Reform Program 2016 – 2020' with the main goal to address macroeconomic imbalances and vulnerabilities. This programme does not include any pillar, measure or activity specifically related to the PFM decentralisation. This said, no specific reforms are conducted at the central level regarding the PFM decentralisation.

5.2 Institutional considerations

2. RELOF is supporting the corresponding PFM improvements also at local government level, focusing on (1) improvement of Financial Management and Control (FMC); (2) the introduction and development of Internal Audit; (3) improvements in budget planning, execution, and reporting, including the medium-term dimension; and (4) improving tax administration and tax yields. RELOF is also supporting the improvement of financial management in utility and other companies owned by local authorities on which much of the delivery of public services depends. Paraćin has sought to improve its PFM in line with these elements but has been held back by the severe limits imposed on its available staff. It has made good progress in tax administration, but staff limitations have prevented progress in other areas targeted by RELOF. Thus, there remains much scope for improvements in fiscal and expenditure planning and the further development of programme budgeting. These processes could be substantially enhanced if the central government facilitated public investment planning

through the provision of targeted transfers on a rolling three-year basis (as has operated for general transfers) instead of demanding fresh bids every year from all SNGs. At the same time SNGs need greater flexibility in recruiting the staff they need to implement these PFM improvements than they have had during 2015-17.

Annex 1: Performance indicator summary

PI	Indicator/Dimension	Score	Justification for score
HLG-1	Predictability of transfers from Higher Level of Government (M1)	A	
1.1	Difference between planned and actual transfers	A	Actual transfers exceeded budget in all three years 2015-17.
1.2	Conditional grant composition Variance	NA	Conditional transfers are not notified before budget is enacted.
1.3	In-year timeliness of transfers from central government (CG)	A	Transfers are paid in a steady and predictable stream.
PI-1	Aggregate expenditure out-turn	C	Out-turn exceeded 85% of budget in two of three years
PI-2	Expenditure composition out-turn (M1)	C+	
2.1	Expenditure composition out-turn by function	B	Variance was less than 10% in two of the three years.
2.2	Expenditure composition by economic classification	C	Variance was less than 15% in all three years.
2.3	Expenditure from contingency reserves	A	No expenditure was charged to contingency reserves in 2015-17
PI-3	Revenue out-turn (M2)	D	
3.1	Aggregate revenue out-turn	D	Actual own revenue was less than 92% of budget in all three years 2015-17.
3.2	Revenue composition out-turn	D	Measured variance averaged nearly 34% for the three years 2015-17.
PI-4	Budget classification	A	Consistent information is presented, broken down by administrative, economic, functional and programme classifications.
PI-5	Budget documentation	D	Only two of the basic elements are satisfied
PI-6	Operations outside financial reports (M2)	A	
6.1	Expenditure outside financial reports	A	All expenditure by the municipality is included in published reports.
6.2	Revenue outside financial reports	A	All revenue accruing to municipal bodies is included in published reports.
6.3	Financial reports of extra-budgetary units	NA	There are no extra-budgetary units.
PI-7	Transfers to lower tier governments	NA	Paraćin has no subordinate governments.
PI-8	Performance information for service delivery (M 2)	B	
8.1	Performance plans for service delivery	B	Output objectives for the programmes within which all SNG expenditure is fitted have been published since 2015.
8.2	Performance achieved for service delivery	B	The budget execution report on 2017 included data on programme outputs.
8.3	Resources received by service delivery units	A	Resources received by nursery schools and cultural institutions are fully reported in Budgets and out-turn statements.

8.4	Performance evaluation for service delivery	D	There have been no independent evaluations.
PI-9	Public access to fiscal information	B	All five basic elements are satisfied, and two others.
PI-10	Fiscal risk reporting (M2)	B	
10.1	Monitoring of public corporations	B	Audited financial reports are published by end-June.
10.2	Monitoring of subordinate governments	NA	Paraćin has no subordinate governments.
10.3	Contingent liabilities and other fiscal risks	NA	Municipality has no explicit contingent liabilities
PI-11	Public investment management (M2)	C	
11.1	Economic analysis of investment proposals	D	Larger projects are justified by reference to the increase generated in local employment, but there is no economic analysis.
11.2	Investment project prioritisation	C	Projects are prioritised by the municipal Council, following public consultation.
11.3	Investment project costing	C	Projections of full capital costs of projects are included in budget documentation
11.4	Investment project monitoring	B	Progress is systematically monitored by the Capital Investment Department of the municipality and information is included in budget execution reports.
PI-12	Public asset management (M2)	B	
12.1	Financial asset monitoring	B	Financial reports of all MOEs are published annually, with assets valued at historic cost.
12.2	Nonfinancial asset monitoring	D	The register of municipal assets is incomplete.
12.3	Transparency of asset disposal	A	Sales are subject to competitive bids, and Assembly must approve the results of tenders which are published.
PI-13	Debt management (M2)	B	
13.1	Recording and reporting of debt and guarantees	A	All records of amounts outstanding, interest paid, and capital repayments are complete, up to date and reconciled monthly.
13.2	Approval of debt and guarantees	A	Incurrence of debt requires approval of both MoF and municipal Assembly.
13.3	Debt management strategy	D	No debt management strategy has been published.
PI-14	Macroeconomic and fiscal forecasting(M2)	D	
14.1	Macroeconomic forecasts	NA	The municipality relies on CG forecasts
14.2	Fiscal forecasts	D	No forecasts beyond the year immediately ahead have been produced.
14.3	Macrofiscal sensitivity analysis	NA	There are no fiscal forecasts.
PI-15	Fiscal strategy (M2)	D+	
15.1	Fiscal impact of policy proposals	C	Budget documentation shows the impact of revenue and expenditure decisions for the budget year only.
15.2	Fiscal Strategy adoption	D	Paraćin has not adopted a fiscal strategy.
15.3	Reporting on fiscal outcomes	NA	There is no fiscal strategy against which to measure progress.
PI-16	Medium-term perspective in expenditure budgeting (M2)	D	

16.1	Medium-term expenditure estimates	D	No medium-term expenditure estimates have been produced.
16.2	Medium-term expenditure ceilings	NA	No medium-term ceilings have been issued. There are no medium-term budgets.
16.3	Alignment of strategic plans and medium-term budgets	NA	There are no medium-term budgets.
16.4	Consistency of budgets with previous year's estimates	NA	In the absence of medium-term budgets there is no basis of comparison.
PI-17	Budget preparation process (M2)	C	
17.1	Budget calendar	B	Although the final MoF Guidance is not received in the required timescale, budget users are able to complete most of their work on the basis of interim instructions given within the specified timescale.
17.2	Guidance on budget preparation	C	The Council does not consider the expenditure ceilings until the draft budget proposals have been completed.
17.3	Budget submission to the Assembly	D	The Assembly has only a few days to consider the draft budget, if it is to be approved before year-end.
PI-18	Legislative scrutiny of budgets (M1)	C+	
18.1	Scope of budget scrutiny	C	The Assembly's scrutiny is restricted to details of revenue and expenditure.
18.2	Legislative procedures for budget scrutiny	B	There are standard procedures, including review by a specialised Committee, with the possibility of negotiation if the Committee gave an adverse opinion on the Council's proposals.
18.3	Timing of budget approval	A	The budget has been approved before the start of the year in each of the last three years.
18.4	Rules for budget adjustment by the executive	A	There are strict limits to the extent of reallocations without the approval of the Assembly, which are fully observed.
PI-19	Revenue administration (M2)	C+	
19.1	Rights and obligations for revenue measures	A	A variety of different means are used to notify taxpayers of their obligations.
19.2	Revenue risk management	A	Identification of taxpayers and collection of amounts owed is efficient.
19.3	Revenue audit and investigation	D	There is an ongoing programme of physical checks but there is no overall compliance improvement plan or reporting of performance against plans.
19.4	Revenue arrears monitoring	D	Although there is evidence of some success in collecting outstanding debts, arrears at end-2017 were 218 per cent of 2017 collections.
PI-20	Accounting for revenue (M1)	A	
20.1	Information on revenue collections	A	A monthly report of revenue broken down by type is made to MoF and municipal Council.
20.2	Transfer of revenue collections	A	All revenue is paid daily into the municipality's account in the TSA.
20.3	Revenue accounts reconciliation	A	A full monthly reconciliation is made of assessments, collections, arrears and payments into the TSA. Taxpayer accounts are updated as payments are received.
PI-21	Predictability of in-year resource allocation (M2)	A	

21.1	Consolidation of cash balances	A	Cash balances are all held in the TSA and consolidated daily.
21.2	Cash forecasting and monitoring	B	A cash flow forecast is prepared at the beginning of the year and updated quarterly.
21.3	Information on commitment ceilings	A	Budget users may commit their allocations in full at any time during the year.
21.4	Significance of in-year budget adjustments	A	Revised budgets are approved by the Assembly only once or twice a year, with full transparency.
PI-22	Expenditure arrears (M1)	A	
22.1	Stock of expenditure arrears	A	There are no expenditure arrears
22.2	Expenditure arrears monitoring	A	This is done automatically through the TSA with which all invoices are registered.
PI-23	Payroll controls (M1)	B+	
23.1	Integration of personnel records and the payroll	B	Payroll is only changed when authorised at high level by senior management, but there are no automatic links between personnel records and the payroll.
23.2	Management of payroll changes	A	The payroll is updated monthly, and retroactive adjustments are very rare.
23.3	Internal control of payroll	A	There is close hierarchical supervision of all changes to personnel records and the payroll, which always leave an audit trail.
23.4	Payroll audit	A	There are systematic annual inspections of all personnel records to ensure that all posts have been authorised and that all staff are paid correctly based on their qualifications, responsibilities and length of service.
PI-24	Procurement (M2)	D+	
24.1	Procurement monitoring	D	It is not clear that information is complete.
24.2	Procurement methods	D	Much expenditure on goods and services is not subject to competition.
24.3	Public access to procurement information	D	5 of the 6 elements are available; only annual procurement statistics are lacking. But there are doubts about the completeness of information on procurement plans, bidding opportunities and contract awards.
24.4	Procurement complaints management	A	The Republican Commission meets all 6 criteria.
PI-25	Internal controls on nonsalary expenditure (M2)	A	
25.1	Segregation of duties	B	Staff shortages mean that officials have to undertake responsibilities outside their normal sphere of work.
25.2	Effectiveness of expenditure commitment controls	A	A new IT system ensures that commitments cannot be undertaken unless budgetary provision and cash are available.
25.3	Compliance with payment rules and procedures	A	There are no exceptions requiring justification.
PI-26	Internal audit (IA) (M1)	D	
26.1	Coverage of internal audit	D	There is no IA.
26.2	Nature of audits and standards applied	NA	There is no IA.
26.3	Implementation of audits and reporting	NA	There is no IA.
26.4	Response to internal audits	NA	There is no IA.
PI-27	Financial data integrity (M2)	B	

27.1	Bank account reconciliations	A	Budgetary transactions through the TSA are reconciled daily.
27.2	Suspense accounts	NA	No use is made of suspense accounts
27.3	Advance accounts	C	Advances to contractors are cleared in accordance with contractual terms and reconciled at least annually.
27.4	Financial data integrity processes	B	Access and changes to records are restricted and recorded, and leave an audit trail.
PI-28	In-year budget reports (M1)	B+	
28.1	Coverage and comparability of reports	A	Monthly reports to MoF are broken down by functional, programme, administrative and economic classifications.
28.2	Timing of in-year budget reports	A	Reports are made to MoF within 15 calendar days of month-end.
28.3	Accuracy of in-year budget reports	B	There is no reason to doubt the accuracy of the figures, but commitments are not reported (as required for an A score).
PI-29	Annual financial reports (M1)	B+	
29.1	Completeness of annual financial reports	B	Reports contain full details of revenue and expenditure, assets and liabilities, and a cash flow statement, but tangible assets are not covered.
29.2	Submission of reports for external audit	B	Reports are submitted within 4 months of year-end.
29.3	Accounting standards	A	Reports are consistent from one year to the next, and fully consistent with national requirements.
PI-30	External audit (M1)	D+	
30.1	Audit coverage and standards	D	Only limited financial audits were undertaken for 2015-17.
30.2	Submission of audit reports to the Assembly	A	The limited financial audit reports have been submitted to the Assembly within 2 months of the receipt of the financial statements by the auditor.
30.3	External audit follow-up	NA	The commercial audit reports for 2015-17 have not required follow-up.
30.4	SAI independence	C	Appointments to the SAI are made by the National Assembly, and the SAI is independent in determining its work. But its budget is ultimately controlled by the executive.
PI-31	Legislative scrutiny of audit reports	D	
31.1	Timing of audit report scrutiny	D	Because there have been no substantive audit reports there has been no question of the municipal Assembly holding the Administration to account.
31.2	Hearings on audit findings	D	There have been no hearings.
31.3	Recommendations on audit by the Assembly	D	No recommendations have been issued.
31.4	Transparency of Assembly's scrutiny of audit reports	NA	There has been no substantive discussion of, or hearings arising from, audit reports.

Annex 2: Summary of observations on the Internal Control Framework

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude towards internal control throughout the organisation	The municipal administration is run by experienced staff who have maintained a well-functioning operation despite drastic staff reductions. Internal audit has yet to be established. (PI-26)
1.2 Commitment to competence	The staff are well-qualified and competent.
1.3 The “tone at the top”	The head of the municipal administration gives an appropriate lead to the staff.
1.4 Organisation structure	The heads of the four main municipal departments report to the Mayor through the head of the administration. (See Organisation chart in Chapter 2)
1.5 Human resources policies and practices	The municipality’s scope for initiative is drastically limited by the central government controls over appointments and conditions of service, and by the current freeze on new appointments. (Chapter 2) Staff pay is well managed (PI-23).
2. Risk assessment	
2.1 Risk identification	Risks are recognised of non-collection of property and other local taxes, and of failure to obtain the best value in procurement. (PI-19, PI-24) At the time of the assessment Paraćin was working on the development of a risk strategy and on measures to strengthen internal controls, with the assistance of RELOF (PI-25).
2.2 Risk assessment	Restrictions over staff recruitment have prevented much progress towards the establishment of PIFC arrangements on the EU model (PI-26).
2.3 Risk evaluation	Reports on performance against objectives have only just begun to be produced, and have not yet been published (PI-8). There has been no publication of fiscal risks faced by the municipality (PI-10), although there are no explicit contingent liabilities.
2.4 Risk appetite assessment	Paraćin has avoided commitment to investment projects until the necessary finance has been assured (PI-11, PI-22).
2.5 Responses to risk	Paraćin has developed and improved its tax assessment and collection operations. (PI-19)
3. Control activities	
3.1 Authorisation and approval procedures	New arrangements as part of the municipality’s interface with the Treasury Single Account ensure that commitments are not undertaken unless financial provision for them has previously been shown to be available (PI-21, PI-25).
3.2 Segregation of duties	Within the constraints of a small administration, segregation of duties appears to work adequately. (PI-25)
3.3 Controls over access to resources and records	The budget, payment and accounting system include controls over access to records (PI-27.4).
3.4 Verifications	Payroll and financial management systems include appropriate requirements for verifications before commitments are undertaken or payments made. (PI-23, PI-25)
3.5 Reconciliations	There are daily reconciliations of revenue and expenditure (PI-20, PI-27).
3.6 Reviews of operating performance	Reporting has only just been initiated, and results have not yet been published. There have been no external evaluations. (PI-8)

3.7 Reviews of operations, processes and activities	Systems reviews are undertaken when the municipality is subject to audit by the SAI, but no such audit has taken place since 2013. (PI-30)
3.8 Supervision	The structure of the administration provides appropriately for supervision (PIs 21, 23, 24, 25,27).
4. Information and communication	Reporting to MoF and the public on the performance of internal audit and internal controls has yet to be developed (PI-8, PI-25, PI-26).
5. Monitoring	
5.1 Ongoing monitoring	Monitoring of the implementation of public investment projects is regularly undertaken, and an (unpublished) annual report is made to central government on MOEs (PIs 10-11). Expenditure is continuously tracked against budget (PI-28).
5.2 Evaluations	No significant action hitherto.
5.3 Management responses	There has been little audit or evaluation in recent years to which a response would have been made.

Annex 3: Sources of information

Annex 3A: Related surveys and analytical work

No	Institution	Document title	Date	Link (when available)
1	Ministry of Finance Republic of Serbia	Public financial management reform Programme 2016-20	2015	https://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/Public%20Financial%20Management%20Reform%20Program%202016-2010%20EN.PDF
2	OECD	Serbia Profile	9/2016	https://www.oecd.org/regional/regional-policy/profile-Serbia.pdf
3	IMF	Republic of Serbia: Request for a 30-Month Policy Coordination Instrument-Press Release; Staff Report; and Statement by the Executive Director for Serbia, IMF Country Report 18/237.	July 24, 2018	https://www.imf.org/en/Publications/CR/Issues/2018/07/23/Republic-of-Serbia-Request-for-a-30-Month-Policy-Coordination-Instrument-Press-Release-Staff-46118
4	IMF	Republic of Serbia: Eighth Review Under the Stand-By Arrangement-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Serbia IMF Country Reports 17/397.	December 21, 2017	www.imf.org/en/Publications/CR/Issues/2017/12/21/Republic-of-Serbia-Eighth-Review-Under-the-Stand-By-Arrangement-Press-Release-Staff-Report-45506
5	EU COMMISSION	STAFF WORKING DOCUMENT Serbia 2018 Report Accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 2018 Communication on EU Enlargement Policy, Strasbourg.	April 17, 2018	https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-serbia-report.pdf
6	Ministry of Public Administration and Local Self-Government	Public Administration Reform Report	3/2018	http://www.mduls.gov.rs/doc/PAR%20Report_eng_mar2018.pdf
7	Opština Paraćin	Opština Paraćin (2018), Informator o radu organa Opštine Paraćin.	March 12, 2020	https://www.parcin.rs/index.php?option=com_content&task=view&id=3969&Itemid=143
8	Opština Paraćin	Strategija održivog razvoja opštine Paraćin Akcioni plan 2012 – 2017	12/2017	https://www.parcin.rs/index.php?option=com_content&task=view&id=4683&Itemid=162
9	Opština Paraćin	Strategije održivog razvoja Opštine Paraćin 2008 - 2017	3/2008	https://www.parcin.rs/index.php?option=com_co

				ntent&task=view&id=4683&Itemid=162
10	Opština Paraćin	Odluka o budžetu Opštine Paraćin za 2019	10/2018	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
11	Opština Paraćin	Izveštaj nezavisnog ovlašćenog revizora predsedniku opštine Paraćin o izvršenoj eksternoj reviziji konsolidovanog završnog računa Opštine Paraćin sa stanjem na dan 31. decembra 2017. godine	June 11, 2018	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
12	Opština Paraćin	Izveštaj o izvršenju budžeta opštine Paraćin za period 01.01.2018. do 30.06.2018. godine	07/2018	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
13	Opština Paraćin	Odluka o izmenama i dopunama Odluke o budžetu opštine Paraćin za 2018.godinu – prvi rebalans	05/2018	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
14	Opština Paraćin	Odluka o izmenama i dopunama Odluke o budžetu opštine Paraćin za 2018.godinu – drugi rebalans	06/2018	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
15	Opština Paraćin	Odluka o izmenama i dopunama Odluke o budžetu opštine Paraćin za 2018.godinu – treći rebalans	07/2018	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
16	Opština Paraćin	Odluka o završnom računu budžeta Opštine Paraćin za 2017. godinu	June 12, 2018	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
17	Opština Paraćin	Odluka o budžetu Opštine Paraćin za 2018. godinu.	10/2017	http://www.paracin.rs/files/opstina/2018/odluka_o_budzetu_za_2018_godinu.pdf
18	Opština Paraćin	Izveštaj o izvršenju budžeta Opštine Paraćin za period 01.01.2017. do 30.09.2017. godine	10/2017	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
19	Opština Paraćin	Izveštaj o izvršenju budžeta Opštine Paraćin za period 01.01.2017. do 30.06.2017. godine	7/2017	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
20	Opština Paraćin	Izveštaj o reviziji finansijskih izveštaja za 2016. godinu Opština Paraćin	5/2017	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
21	Opština Paraćin	Odluka o budžetu Opštine za 2017. godinu	10/2016	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
22	Opština Paraćin	Odluka o završnom računu budžeta Opštine Paraćin za 2016. godinu	May 29, 2017	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254

				ntent&task=view&id=15920&Itemid=254
23	Opština Paraćin	Odluka o izmenama i dopunama odluke o budžetu Opštine Paraćin za 2017. godinu – prvi rebalans finansijski planovi	7/2017	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
24	Opština Paraćin	Budžet za 2016. godinu	10/2015	https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
25	Ministry of Public Administration and Local Self-Government	Zakon o javnim službama, Službeni glasnik RS. 79/2005, 81/2005 - isp., 83/2005 - isp., 64/2007, 67/2007 - isp., 116/2008, 104/2009, 99/2014, 94/2017 and 95/2018		http://mduls.gov.rs/wp-content/uploads/Zakon-o-drzavnim-službenicima-2017.pdf?script=lat
26	Ministry of Construction, Transport and Infrastructure	Zakon o komunalnim delatnostima, Službeni glasnik RS 16/97 i 42/98,		https://www.mgsi.gov.rs/lat/dokumenti/zakon-o-komunalnim-delatnostima
27	Ministry of Education, Science and Technological Development	Zakon o budžetskom sistemu, Službeni glasnik RS 54/2009		http://www.mpn.gov.rs/wp-content/uploads/2015/09/Zakon-o-budžetskom-sistemu.pdf
28	Opština Paraćin	Grafički prikaz organizacije lokalne jedinice u 2018.		
29	Opština Paraćin	Javne nabavke Opštine Paraćin od 2015. do 2017.		https://www.paracin.rs/index.php?option=com_content&task=view&id=10883&Itemid=239
30	Opština Paraćin	Funkcionalna klasifikacija rashoda Opštine Paraćin 2015. do 2017.		https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
31	Opština Paraćin	Administrativna/organizacijska klasifikacija/ rashoda po korisnicima Opštine Paraćin od 2015. do 2017.		https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
32	Opština Paraćin	Programska klasifikacija rashoda Opštine Paraćin od 2015. do 2017.		https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
33	Opština Paraćin	Prihodi po ekonomskoj klasifikaciji Opštine Paraćin od 2015. do 2017.		https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
34	Opština Paraćin	Rashodi po ekonomskoj klasifikaciji Opštine Paraćin od 2015. do 2017.		https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
35	Opština Paraćin	Autonomni budžetski prihodi/fiskalna autonomija Opštine Paraćin od 2015. do 2017.		https://www.paracin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254

36	Opština Paraćin	Stanje budžetske rezerve Opštine Paraćin od 2015. do 2017.		https://www.parcin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
37	Opština Paraćin	Odobranja i amandmani na budžet Opštine Paraćin od 2015. do 2017.		https://www.parcin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
38	Opština Paraćin	Potraživanja za porezne prihode Opštine Paraćin od 2015. do 2017.		https://www.parcin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
39	Opština Paraćin	Potraživanja za neporezne prihode Opštine Paraćin od 2015. do 2017.		https://www.parcin.rs/index.php?option=com_content&task=view&id=15920&Itemid=254
40	Opština Paraćin	Broj poreznih obveznika i obveznika sa dugom Opštine Paraćin a od 2015. do 2017.		
41	Opština Paraćin	Broj obveznika neporeznih prihoda i broj onih sa dugom po svakom od neporeznih prihoda Opštine Paraćin od 2015. do 2017.		
42	Opština Paraćin	Ovisnost finansiranja javnih i komunalnih preduzeća od sredstava iz budžeta u 2017.		
43	Opština Paraćin	Indirektni budžetski korisnici, broj zaposlenih i vrednost imovine Opštine Paraćin od 2015. do 2017.		
44	Opština Paraćin	Godišnji i polugodišnji izveštaji o poslovanju javnih preduzeća Opštine Paraćin od 2015. do 2017.		
45	Opština Paraćin	Godišnji i polugodišnji izveštaji o poslovanju javnih preduzeća - dostavljene opštini/gradu, učestalost objava Opštine Paraćin od 2015. do 2017.		

Annex 3B: List of people interviewed

	Name and Surname	Department	Position
1	Slobodan Janković	Finance and budget section	Head of Section
2	Vesna Petrović	Public Procurement	Head of Public Procurement Working Group
3	Ivana Jovanović	Section for Accounting	Head of Accounting
4	Jasna Žikić	Department for Finance and Budget - Treasury Working Group	Head of Treasury Working Group
5	Mirjana Milutinović	Section for Local Tax Administration	Head of Local Tax Administration
6	Vladan Miletić	Budget Working Group – Section for Finance and Budget	Head of Budget Working Group
7	Maja Tanić	Department for Public Administration - Section for monitoring public enterprise operations	Head of Section for Monitoring Public Enterprise Operations
8	Nikola Jovičić	Accounting- Department for Investment and Sustainable Development	Chief of bookkeeping in the Department for Investment and Sustainable Development
9	Vojislav Vasić	Department for Investment and Sustainable Development	Head of Department
10	Ivan Atanasijević	Section for Local Tax Administration	Inspector

Annex 3C: Sources of information used to extract evidence for scoring each indicator

Indicator/dimension	Data Sources
HLG-1 Predictability of transfers from higher level of government	Budget documents and budget execution reports for 2015, 2016, 2017
Budget reliability	
PI-1. Aggregate expenditure outturn	Budget documents and budget execution reports for 2015, 2016, 2017
1.1. Aggregate expenditure outturn	
PI-2. Expenditure composition outturn	Budget documents and budget execution reports for 2015, 2016, 2017
2.1. Expenditure composition outturn by function	
2.2. Expenditure composition outturn by economic type	
2.3. Expenditure from contingency reserves	
PI-3. Revenue outturn	Budget documents and budget execution reports for 2015, 2016, 2017
3.1. Aggregate revenue outturn	
3.2. Revenue composition outturn	
Transparency of public finances	
PI-4. Budget classification	Documentation as for PIs 1-3, IMF report on compliance with GFS
4.1 Budget classification	
PI-5. Budget documentation	Discussion with Paraćin officials
5.1 Budget documentation	
PI-6. Central government operations outside financial reports	
6.1. Expenditure outside financial reports	Discussion with Paraćin officials
6.2. Revenue outside financial reports	
6.3. Financial reports of extra-budgetary units	
PI-7. Transfers to subnational governments	Discussion with Paraćin officials confirmed that Indicator is NA
7.1. System for allocating transfers	
7.2. Timeliness of information on transfers	
PI-8. Performance information for service delivery	
8.1. Performance plans for service delivery	Budget documentation and discussion with Paraćin officials
8.2. Performance achieved for service delivery	
8.3. Resources received by service delivery units	
8.4. Performance evaluation for service delivery	
PI-9. Public access to fiscal information	Budget documentation, discussion with Paraćin officials, and further information supplied by the municipality
9.1. Public access to fiscal information	
Management of assets and liabilities	
PI-10. Fiscal risk reporting	
10.1. Monitoring of public corporations	Discussion with Paraćin officials
10.2. Monitoring of sub-national government	
10.3. Contingent liabilities and other fiscal risks	
PI-11. Public investment management	
11.1. Economic analysis of investment proposals	Discussion with Paraćin officials and further information supplied by the municipality
11.2. Investment project selection	
11.3. Investment project costing	
11.4. Investment project monitoring	
PI-12. Public asset management	
12.1. Financial asset monitoring	Discussion with Paraćin officials, municipal financial statements
12.2. Nonfinancial asset monitoring	
12.3. Transparency of asset disposal.	
PI-13. Debt management	Discussion with Paraćin officials

13.1. Recording and reporting of debt and guarantees	
13.2. Approval of debt and guarantees	
13.3. Debt management strategy	
Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting	
14.1. Macroeconomic forecasts	Discussion with Paraćin officials
14.2. Fiscal forecasts	
14.3. Macro-fiscal sensitivity analysis	
PI-15. Fiscal strategy	
15.1. Fiscal impact of policy proposals	Discussion with Paraćin officials
15.2. Fiscal strategy adoption	
15.3. Reporting on fiscal outcomes	
PI-16. Medium-term perspective in expenditure budgeting	
16.1. Medium-term expenditure estimates	
16.2. Medium-term expenditure ceilings	Discussion with Paraćin officials
16.3. Alignment of strategic plans and medium-term budgets	
16.4. Consistency of budgets with previous year's estimates	
PI-17. Budget preparation process	
17.1. Budget calendar	Discussion with Paraćin officials and specific information on relevant dates
17.2. Guidance on budget preparation	
17.3. Budget submission to the legislature	
PI-18. Legislative scrutiny of budgets	
18.1. Scope of budget scrutiny	Discussion with Paraćin officials and specific information on relevant dates
18.2. Legislative procedures for budget scrutiny	
18.3. Timing of budget approval	
18.4. Rules for budget adjustments by the executive	
Predictability and control in budget execution	
PI-19. Revenue administration	
19.1. Rights and obligations for revenue measures	Discussion with Paraćin officials and specific information on relevant dates
19.2. Revenue risk management	
19.3. Revenue audit and investigation	
19.4. Revenue arrears monitoring	
PI-20. Accounting for revenues	
20.1. Information on revenue collections	Discussion with Paraćin officials
20.2. Transfer of revenue collections	
20.3. Revenue accounts reconciliation	
PI-21. Predictability of in-year resource allocation	
21.1. Consolidation of cash balances	Discussion with Paraćin officials
21.2. Cash forecasting and monitoring	
21.3. Information on commitment ceilings	
21.4. Significance of in-year budget adjustments	
PI-22. Expenditure arrears	
22.1. Stock of expenditure arrears	Discussion with Paraćin officials
22.2. Expenditure arrears monitoring	
PI-23. Payroll controls	
23.1. Integration of payroll and personnel records	Discussion with Paraćin officials
23.2. Management of payroll changes	
23.3. Internal control of payroll	
23.4. Payroll audit	
PI-24. Procurement	
24.1. Procurement monitoring	Discussion with Paraćin officials
24.2. Procurement methods	

24.3. Public access to procurement information	
24.4. Procurement complaints management	
PI-25. Internal controls on non-salary expenditure	
25.1. Segregation of duties	Discussion with Paraćin officials
25.2. Effectiveness of expenditure commitment controls	
25.3. Compliance with payment rules and procedures	
PI-26. Internal audit	
26.1. Coverage of internal audit	Discussion with Paraćin officials
26.2. Nature of audits and standards applied	
26.3. Implementation of internal audits and reporting	
26.4. Response to internal audits	
Accounting and reporting	
PI-27. Financial data integrity	
27.1. Bank account reconciliation	Discussion with Paraćin officials
27.2. Suspense accounts	
27.3. Advance accounts	
27.4. Financial data integrity processes	
PI-28. In-year budget reports	
28.1. Coverage and comparability of reports	Discussion with Paraćin officials, and further specific information about the content of in-year reports
28.2. Timing of in-year budget reports	
28.3. Accuracy of in-year budget reports	
PI-29. Annual financial reports	
29.1. Completeness of annual financial reports	Discussion with Paraćin officials and annual financial statements
29.2. Submission of the reports for external audit	
29.3. Accounting standards	
External scrutiny and audit	
PI-30. External audit	
30.1. Audit coverage and standards	Discussion with Paraćin officials
30.2. Submission of audit reports to the legislature	
30.3. External audit follow up	
30.4. Supreme Audit Institution independence	
PI-31. Legislative scrutiny of audit reports	
31.1. Timing of audit report scrutiny	Discussion with Paraćin officials
31.2. Hearings on audit findings	
31.3. Recommendations on audit by the legislature	
31.4. Transparency of legislative scrutiny of audit reports	

Annex 4: Tracking change in performance based on previous versions of PEFA

Indicator/Dimension	Score previous assessment 2015	Score current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
A. PFM-OUT-TURNS: Credibility of the Budget				
HLG-1 Predictability of transfers from higher level of government (M1)	NR	A		
HLG-1.1 Out-turn of transfers from HLG	C	A	Transfers were more than 95% of budget in all three years.	Performance improvement over 2011-13
HLG-1.2 Earmarked grants out-turn	NR	NR	Amounts are not notified before budget is enacted.	No change
HLG-1.3 Timeliness of transfers from HLG	A	A	Transfers are paid in a steady and predictable stream.	No change
PI-1 Aggregate expenditure out-turn compared to original approved budget	D	C	Deviation of expenditure from budget was less than 15% in all three years.	Performance improvement
PI-2 Composition of expenditure out-turn compared to original approved budget (M1)	D+	B+		
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	B	Variance was less than 10% in 2 of 3 years	Performance improvement
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A	A	No expenditure was charged to contingency in 2015-17	No change
PI-3 Aggregate revenue out-turn compared to original approved budget	D	D	Actual own revenue fell below 92% of budget in all three years.	No change
PI-4 Stock and monitoring of expenditure payment arrears	A	A		

(i)	Stock of expenditure payment arrears and a recent change in the stock	A	A	There were no expenditure arrears	No change
(ii)	Availability of data for monitoring the stock of expenditure payment arrears	A	A	Full information is available from the Treasury system	No change
	PI-5 Classification of the budget	A	A	Budget formulation and execution is based on administrative, economic, functional and programme classifications.	No change
	PI-6 Comprehensiveness of information included in budget documentation	C	B	5 of 8 applicable benchmarks are satisfied (2,3,4,7,9)	Performance improvement
	PI-7 Extent of unreported government operations	A	A		
(i)	Level of unreported government operations	A	A	There are no unreported government operations	No change
(ii)	Income/expenditure information on donor-funded projects	A	NA	There were no donor-funded projects	No underlying change
	PI-8 Transparency of inter-governmental fiscal relations	NA	NA	There are no subordinate governments	No change
	PI-9 Oversight of aggregate fiscal risk from other public sector entities	C	A		
(i)	Extent of central government monitoring of autonomous entities and public enterprises	C	A	MOEs submit 6-monthly and audited annual financial reports which are consolidated into an annual report to M/Economy	Performance improvement based on a consolidated annual report
(ii)	Extent of central government monitoring of SN government's fiscal position	NA	NA	There are no subordinate governments	No change
	PI-10 Public access to key fiscal information	B	A	All 6 elements of information are provided	Performance improvement based on a prompt publication of budget documentation and in-year execution reports

C. BUDGET CYCLE				
<i>C(i) Policy-Based Budgeting</i>				
PI-11 Orderliness and participation in the annual budget process (M2)	B+	B		
(i) Existence of, and adherence to, a fixed budget calendar	C	B	Budget users have 4 weeks to complete most of their work	Some improvement
(ii) Guidance on the preparation of budget submissions	A	C	The Council consider the draft budget only when proposals are substantially complete	Some apparent reduction in involvement of the Council
(iii) Timely budget approval by the legislature	A	A	Last 3 budgets were approved before the beginning of each year	No change
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	D		
(i) Multiyear fiscal forecasts and functional allocations	D	D	No multi-year forecasts have been produced	No change
(ii) Scope and frequency of debt sustainability analysis	D	NA	Total debt remains far below the conservative limit set by the Budget Code	No underlying change
(iii) Existence of costed sector strategies	D	D	There are no costed sector strategies	No change
(iv) Linkages between investment budgets and forward expenditure estimates	D	D	There are no forward expenditure estimates	No change
<i>C(ii) Predictability and Control in Budget Execution</i>				
PI-13 Transparency of taxpayer obligations and liabilities (M2)	B+	B+		
(i) Clarity and comprehensiveness of tax liabilities	A	A	Tax liabilities are clearly defined	No change
(ii) Taxpayer access to information on tax liabilities and administrative procedures	A	A	Information is readily available about tax liabilities and administrative procedures	No change
(iii) Existence and functioning of a tax appeal mechanism	C	C	The appeals system is not fully independent	No change

PI-14 Effectiveness of measures for taxpayer registration and tax assessment (M2)	C	C+		
(i) Controls in the taxpayer registration system	B	B	Taxpayer are registered in a complete database system with some links to other relevant registration systems	Performance improvement as system has been developed
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	D	C	There are significant penalties, but substantial tax arrears remain	Performance improvement
(iii) Planning and monitoring of tax audit and fraud investigation programs	C	C	There are tax inspections, but they are not part of a programme, or the subject of reports.	No change
PI-15 Effectiveness in collection of tax payments (M1)	D+	D+		
(i) Collection ratio for gross tax arrears	D	D	Arrears were over 200% of 2017 collections	No change
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	All revenue is paid immediately into the Treasury Single Account.	No change
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	A	A	There is a complete monthly reconciliation of assessments, collections, arrears and receipts by the Treasury.	No change
PI-16 Predictability in the availability of funds for commitment of expenditures (M1)	C+	B+		
(i) Extent to which cash flows are forecasted and monitored	B	B	Cash flows are updated quarterly	No change
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	A	A	Budget users can commit their allocations at any time during the year	Previously allocations were made for 6 months
(iii) Frequency and transparency of adjustments to budget allocations above the	C	A	There have been only one or two budget revisions each year	Frequency of budget revisions reduced

level of management of MDAs				
PI-17 Recording and management of cash balances, debt and guarantees (M2)	A	A		
(i) Quality of debt data recording and reporting	A	A	Debt records are complete, updated and reconciled monthly	No change
(ii) Extent of consolidation of the government's cash balances	A	A	All balances are consolidated in the Treasury	No change
(iii) Systems for contracting loans and issuance of guarantees	B	B	All loans are contracted within prescribed limits and approved by the municipal Assembly, but not within a framework of fiscal targets	No change
PI-18 Effectiveness of payroll controls (M1)	C+	B+		
(i) Degree of integration and reconciliation between personnel records and payroll data	A	B	There are no automatic links between personnel records and the payroll, but payroll is only changed when authorised by staff managers	No underlying change: requirement of automaticity for score A not taken into account in 2015
(ii) Timeliness of changes to personnel records and the payroll	A	A	Personnel records and the payroll are updated monthly	No change
(iii) Internal controls of changes to personnel records and the payroll	A	A	Authority to change personnel records and the payroll is restricted and changes always leave an audit trail	No change
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C	A	Central annual inspections check that all positions are authorised, and that staff are correctly paid.	No underlying change; system of annual inspections not taken into account in 2015
PI-19 Competition, value for money and controls in procurement (M2)	A	C+		
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	A	A	The legal and regulatory framework meets all 6 requirements	No change
(ii) Use of competitive procurement methods	A	D	Exceptions to competition are	Probably no underlying change.

				justified in relation to legal requirements but it is doubtful whether data are complete.	2015 report does not include any procurement statistics
(iii)	Public access to complete, reliable and timely procurement information	A	D	Public has access to all 4 elements of information required by PEFA criteria, but it is doubtful whether data are complete.	Probably no underlying change (as for PI-19(ii) above)
(iv)	Existence of an independent administrative procurement complaints system	A	A	Appeals machinery meets all 7 benchmarks	No change
PI-20 Effectiveness of internal controls for non-salary expenditure (M1)		C+	A		
(i)	Effectiveness of expenditure commitment controls	A	A	New software automatic control ensures that commitments cannot be made unless both cash and budgetary provision are available	Performance improvement
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/procedures.	C	A	Internal rules and procedures are comprehensive and well understood by the staff concerned	Performance improvement driven by focused staff effort
(iii)	Degree of compliance with rules for processing and recording transactions	B	A	Municipal instructions and Treasury procedures ensure that transactions are processed and recorded correctly	The B score in 2015 reflected some emergency circumstances in 2013.
PI-21 Effectiveness of internal audit (M1)		D	D		
(i)	Coverage and quality of the internal audit function	D	D	There is no internal audit	No change
(ii)	Frequency and distribution of reports	D	NA	There is no internal audit	No change
(iii)	Extent of management response to internal audit function.	NA	NA	There is no internal audit	No change
<i>C(iii) Accounting, Recording and Reporting</i>					
PI-22 Timeliness and regularity of accounts reconciliation (M2)		A	B		

(i)	Regularity of bank reconciliation	A	A	All transactions take place through the Treasury, and municipal and Treasury records are reconciled daily	No change
(ii)	Regularity and clearance of suspense accounts and advances	NA	C	Advances to contractors are cleared in accordance with contracts and amounts outstanding reconciled at year-end	Advances to contractors not taken into consideration in 2015
PI-23 Availability of information on resources received by service delivery units		A	A	Information is available from the Treasury about all resources received by service delivery units	No change
PI-24 Quality and timeliness of in-year budget reports(M1)		A	C+		
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	A	C	Reports are fully compatible with budget estimates but only payments are covered, not commitments	Probably no underlying change: 2015 report said commitments were separately reported
(ii)	Timeliness of the issue of reports	A	A	Reports are produced within 15 days of month-end	No change
(iii)	Quality of information	A	A	There are no doubts about the quality of information	No change
PI-25 Quality and timeliness of annual financial statements (M1)		A	A		
(i)	Completeness of the financial statements	A	A	Financial statements include full information on revenue, expenditure and financial assets/liabilities	No change
(ii)	Timeliness of submissions of the financial statements	A	A	Statements are produced within 6 months of year-end	No change
(iii)	Accounting standards used	A	A	Statements comply fully with national regulations	No change
<i>C(iv) External Scrutiny and Audit</i>					
PI-26 Scope, nature and follow-up of external audit (M1)		D+	D+		

(i)	Scope/nature of audit performed (including adherence to auditing standards)	A	D	No financial statements for the years 2015-17 were subject to comprehensive audit	Probably no underlying change: 2015 report did not address the comprehensiveness of the limited audits undertaken in 2011 and 2012
(ii)	Timeliness of submission of audit reports to the Legislature	C	A	Audit reports are submitted to the Assembly within 4 months of the receipt of the financial statements by the auditors	No underlying change: 2015 score based on late delivery of SAI report on 2013
(iii)	Evidence of follow up on audit recommendations	D	NA	There were no recommendations requiring follow-up	No underlying change
PI-27 Legislative scrutiny of the annual budget law (M1)		D+	D+		
(i)	Scope of the legislature scrutiny	C	C	The Assembly's review covers revenue and expenditure, but only at a stage when detailed proposals have been finalised.	No change
(ii)	Extent to which the legislature's procedures are well established and respected	B	B	There are standard procedures, but the Assembly's work is concluded within a very short space of time which precludes any detailed negotiations	No change
(iii)	Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	D	D	The Assembly has only a few days to complete its work	No change
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	A	There are clear limits to the extent of reallocations by the administration without the	No underlying change: 2015 assessors considered that significant reallocations were

			approval of the Assembly, which are respected	possible within the rules
PI-28 Legislative scrutiny of external audit reports (M1)	D+	D		
(i) Timeliness of examination of audit reports by the legislature	A	D	The (limited) audit reports on 2015-17 were formally considered within a few days of their receipt by the Assembly but the Assembly has not insisted on a substantive audit every year.	Probably no underlying change. 2015 score apparently based on SAI audit of 2013.
(ii) Extent of hearing on key findings undertaken by the legislature	D	D	There were no hearings	No change
(iii) Issuance of recommended actions by the legislature and implementation by the executive	D	D	The Assembly made no recommendations	No change

Annex 5: Calculations for PI-1, PI-2 and PI-3

Data for year =		2015				
Administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	273238	241674	243,949.2	-2,275.2	2,275.2	0.9%
Public order & safety	11700	9526	10,445.9	-919.9	919.9	8.8%
Economic affairs	158903	106780	141,869.9	-35,089.9	35,089.9	24.7%
Environment protection	72020	50080	64,300.1	-14,220.1	14,220.1	22.1%
Housing	152610	141958	136,251.5	5,706.5	5,706.5	4.2%
Sport, recreation, culture	142600	142480	127,314.5	15,165.5	15,165.5	11.9%
Health	13434	17348	11,994.0	5,354.0	5,354.0	44.6%
Education	241819	219361	215,898.0	3,463.0	3,463.0	1.6%
Social protection	116300	133235	103,833.6	29,401.4	29,401.4	28.3%
allocated expenditure	1190000	1062442	1,055,856.6	6,585.4	111,595.4	
interests	20000	13832				
contingency	20455	0				
total expenditure	1230455	1076274				
aggregate outturn (PI-1)						87.5%
composition (PI-2) variance						10.6%
contingency share of budget						0.0%

Data for year =		2016				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	272552	237254	243,837.7	-6,583.7	6,583.7	0.027
Public order and safety	11500	5305	10,288.4	-4,983.4	4,983.4	0.484372
Economic affairs	150356	137039	134,515.5	2,523.5	2,523.5	0.01876
Environment protection	56000	42244	50,100.2	-7,856.2	7,856.2	0.15681
Housing	164594	147693	147,253.4	439.6	439.6	0.002985
Health	39500	48683	35,338.5	13,344.5	13,344.5	0.377618
Sport, recreation, culture	153170	148538	137,033.0	11,505.0	11,505.0	0.083958
Education	283180	236593	253,346.0	-16,753.0	16,753.0	0.066127
Social protection	139300	132988	124,624.3	8,363.7	8,363.7	0.067112
allocated expenditure	1270152	1136337	1,136,337.0	0.0	72,352.6	
interests	13000	10744				
contingency	14815	0				
total expenditure	1297967	1147081				
aggregate outturn (PI-1)						88.4%
composition (PI-2) variance						6.4%
contingency share of budget						0.0%

Data for year =		2017				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	254626	238579	230,221.1	8,357.9	8,357.9	0.036304
Public order and safety	10000	13639	9,041.5	4,597.5	4,597.5	0.508482
Economic affairs	158868	147062	143,641.1	3,420.9	3,420.9	0.023815
Environment protection	52500	39522	47,468.1	-7,946.1	7,946.1	0.167398
Housing	138434	137526	125,165.6	12,360.4	12,360.4	0.098752
Health	42317	40393	38,261.1	2,131.9	2,131.9	0.05572

Sport, recreation, culture	182752	176986	165,235.9	11,750.1	11,750.1	0.071111
Education	286298	229335	258,857.5	-29,522.5	29,522.5	0.114049
Social protection	157200	136983	142,133.0	-5,150.0	5,150.0	0.036234
allocated expenditure	1282995	1,160,025.0	1,160,025.0	0.0	85,237.1	
interests	4000	4,331.0				
contingency	45363	0				
total expenditure	<u>1332358</u>	<u>1164356</u>				
aggregate outturn (PI-1)						87.4%
composition (PI-2) variance						7.3%
contingency share of budget						0.0%

Results Matrix

year	for PI-1.1 total exp. Outturn	for PI-2.1 composition variance	for PI-2.3 contingency share
2015	87.5%	10.6%	
2016	88.4%	6.4%	0.0%
2017	87.4%	7.3%	

Data for year = 2015						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	250538	222330	222,849.2	-519.2	519.2	0.2%
Use of goods and services	395470	345304	351,763.7	-6,459.7	6,459.7	1.8%
Capital investment	154823	94917	137,712.4	-42,795.4	42,795.4	31.1%
Interest	20000	13832	17,789.7	-3,957.7	3,957.7	22.2%
Subsidies	18500	10133	16,455.4	-6,322.4	6,322.4	38.4%
Transfers/Grants	272142	285398	242,065.6	43,332.4	43,332.4	17.9%
Social benefits	22300	18203	19,835.5	-1,632.5	1,632.5	8.2%
Other expenses	76227	86157	67,802.6	18,354.4	18,354.4	27.1%
Total expenditure	<u>1210000</u>	<u>1076274</u>	1,076,274.0	0.0	123,373.6	
composition variance						11.5%

Table 3

Data for year = 2016						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	237941	225531	212,708.7	12,822.3	12,822.3	6.0%
Use of goods and services	434015	350326	387,990.2	-37,664.2	37,664.2	9.7%
Capital investment	128325	100733	114,716.9	-13,983.9	13,983.9	12.2%
Interest	13000	10744	11,621.4	-877.4	877.4	7.6%
Subsidies	6000	13844	5,363.7	8,480.3	8,480.3	158.1%
Transfers/Grants	349591	337925	312,518.9	25,406.1	25,406.1	8.1%
Social benefits	27900	17906	24,941.4	-7,035.4	7,035.4	28.2%
Other expenses	86380	90072	77,219.9	12,852.1	12,852.1	16.6%
Total expenditure	<u>1283152</u>	<u>1147081</u>	1,147,081.0	0.0	119,121.6	
composition variance						10.4%

Table 4

Data for year = 2017						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent

Compensation of employees	238950	228723	216,180.2	12,542.8	12,542.8	5.8%
Use of goods and services	482082	436368	436,143.9	224.1	224.1	0.1%
Capital investment	95359	58911	86,272.1	-27,361.1	27,361.1	31.7%
Interest	4000	4331	3,618.8	712.2	712.2	19.7%
Subsidies	6300	6348	5,699.7	648.3	648.3	11.4%
Transfers/Grants	355836	323172	321,928.0	1,244.0	1,244.0	0.4%
Social benefits	18800	13479	17,008.5	-3,529.5	3,529.5	20.8%
Other expenses	85668	93024	77,504.6	15,519.4	15,519.4	20.0%
Total expenditure	1286995	1164356	1,164,356.0	0.0	61,781.4	
composition variance						5.3%

Results Matrix

year	composition variance
2015	11.5%
2016	10.4%
2017	5.3%

Data for year = 2015						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	per cent
Tax revenues						
Taxes on property	175000	190157	145,709.0	44,448.0	44,448.0	30.5%
Vehicle, environmental charges, etc	58500	58461	48,708.4	9,752.6	9,752.6	20.0%
Trade name fee	30000	35092	24,978.7	10,113.3	10,113.3	40.5%
Property income	73050	53659	60,823.1	-7,164.1	7,164.1	11.8%
Sales of goods and services	6500	6174	5,412.0	762.0	762.0	14.1%
Fines, penalties and forfeits	6400	6174	5,328.8	845.2	845.2	15.9%
Administrative fees	55000	12386	45,794.2	-33,408.2	33,408.2	73.0%
Other revenue	12200	13951	10,158.0	3,793.0	3,793.0	37.3%
Asset sales	35000	0	29,141.8	-29,141.8	29,141.8	100.0%
Total revenue	451650	376054	376,054.0	0.0	139,428.2	
overall variance						83.3%
composition variance						37.1%

Data for year = 2016						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	per cent
Tax revenues						
Taxes on property	235000	191261	182,453.4	8,807.6	8,807.6	4.8%
Vehicle, environmental charges, etc	49500	49786	38,431.7	11,354.3	11,354.3	29.5%
Trade name fee	35000	32187	27,173.9	5,013.1	5,013.1	18.4%
Property income	59550	61821	46,234.5	15,586.5	15,586.5	33.7%
Sales of goods and services	6500	19822	5,046.6	14,775.4	14,775.4	292.8%
Fines, penalties and forfeits	6400	7441	4,968.9	2,472.1	2,472.1	49.8%
Administrative fees	50500	16768	39,208.1	-22,440.1	22,440.1	57.2%
Other revenue	22200	16605	17,236.0	-631.0	631.0	3.7%
Asset sales	45000	0	34,937.9	-34,937.9	34,937.9	100.0%

Total revenue	<u>509650</u>	<u>395691</u>	395,691.0	0.0	116,018.0	
overall variance						77.6%
composition variance						29.3%
Data for year = 2017						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	per cent
Tax revenues						
Taxes on property	205000	194202	151,459.0	42,743.0	42,743.0	28.2%
Vehicle, environmental charges, etc	53500	52864	39,527.1	13,336.9	13,336.9	33.7%
Trade name fee	35000	36864	25,858.9	11,005.1	11,005.1	42.6%
Property income	76300	34181	56,372.3	-22,191.3	22,191.3	39.4%
Sales of goods and services	41000	33012	30,291.8	2,720.2	2,720.2	9.0%
Fines, penalties and forfeits	6500	6627	4,802.4	1,824.6	1,824.6	38.0%
Administrative fees	26000	9317	19,209.4	-9,892.4	9,892.4	51.5%
Other revenue	32100	10835	23,716.3	-12,881.3	12,881.3	54.3%
Asset sales	75000	28747	55,411.8	-26,664.8	26,664.8	48.1%
Total revenue	<u>550400</u>	<u>406649</u>	406,649.0	0.0	143,259.7	
overall variance						73.9%
composition variance						35.2%

Results Matrix

year	total revenue deviation	composition variance
2015	83.3%	37.1%
2016	77.6%	29.3%
2017	73.9%	35.2%