



City of Sisak, Croatia

**Report on Public
Expenditure and Financial
Accountability (PEFA)**

(July 29th, 2014)

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- City of Sisak, Croatia -

FISCAL YEAR

January 1 – December 31

EXCHANGE RATE

(15th July 2014)

Euro (€) 1 = 7.5734 Croatian Kuna (HRK)

WEIGHTS AND MEASURES

Decimal Metric System

ABBREVIATIONS

AGA - Autonomous Government Agency
ASSC - Areas of Special State Concern

CG – Central Government
CHU – Central Harmonization Unit
COFOG - Classification of the Functions of Government

EB – Extra budgetary
EU – European Union

FINA Finance Agency
FMIS – Financial Management Information System

GFS – Government Financial Statistics
GDP – Gross Domestic Product
GIZ – Gesellschaft für Internationale Zusammenarbeit

HRK – Hrvatska Kuna (Croatian Kuna)
HLG – high level of government

IA – Internal Audit
IPSAS – International Public Sector Accounting Standards
IMF – International Monetary Fund

LG – Local Government
LGU – Local Government Units

NB – National Bank

OG - Official Gazette

PBZ - *Privredna Banka Zagreb*,
PD - Public Companies
PFM – Public Financial Management
PEFA - Public Expenditure and Financial Accountability

SAFE - Strengthening Accountability and the Fiduciary Environment
SAO – State Audit Office
SDDS - Special Data Dissemination Standard
SECO Swiss State Secretariat for the Economic Affairs
SN – Subnational
SPI – *Sustav poslovnih informacija* (Business information system)

TA - Tax Administration

VAT – Value Added Tax

PREFACE

The present report for the city of Sisak was prepared by the PEFA assessment team for Local Government (LG) in Croatia, composed of three experts, the team leader, Giovanni Caprio, the senior PFM expert John Wiggins and one local PFM expert, Anto Bajo. The project officially started on March 17th, 2014 and the field work ended on May 8th, 2014.

The present report is structured as follows:

A Summary Assessment;
Section 1: Introduction
Section 2: Background information on the city of Sisak
Section 3: Evaluation of PFM Systems, Processes and Institutions
Section 4: Reform Process
Annexes

The team members wish to express their appreciation to the city Administration of Sisak, and in particular to the Mayor, Kristina Ikić Baniček, and also to the World Bank, the European Union and the Swiss Cooperation (SECO) for the opportunity to conduct this assessment and for making it possible to accomplish the work within an extremely tight timeline.

We are particularly grateful to Mr. Dario Runtic, the Advisor of the Association of Cities of the Republic of Croatia who coordinated the assignment for his guidance and support.

July 29th, 2014

Summary assessment

i) Integrated assessment of PFM performance

Predictability from higher levels of Government

Transfers to Sisak from higher levels of Governments fell on average more than 10% short of Budget during 2011-2013 and the amounts provided by the central government under various headings showed significant variance. Receipts from overall transfers were spread evenly through the year.

Credibility of the budget

Stock of expenditure arrears exceeded 2% (2.19%) only in 2013 but overall arrears remained low during the period (2011-2013). This element and the appropriate monitoring of arrears in general are important and they confirm the City's ability to live within its means. In addition, the relatively low variances in expenditure composition as well as the absence of actual expenditure charged to a contingency vote are evidence of its ability to stick to its priorities. Moreover aggregate expenditures and the City's own revenues were not far below the original budgets. Overall the budget was therefore credible for the period 2011-2013.

Comprehensiveness and transparency

The classification system used for budget formulation, execution and reporting in Sisak is consistent with international standards. In addition there are no extra-budgetary operations. As far as transparency is concerned, the public has a very good access to key fiscal information. On the other hand, however, the city of Sisak has not made an overall assessment of the fiscal risks posed by the utility companies which it owns and which are responsible for the delivery of important public services.

Policy-based budgeting

The budget preparation process in the city of Sisak is satisfactory. If the earlier stages of the calendar have been subject to delays, the instructions to the city's entities include ceilings approved by the Mayor. In addition the last three budgets have been approved by the Council before the beginning of the fiscal year.

Plans for the development of programmes where activities have a steady pattern allow fully for both capital and current costs. But programmes with defined

objectives for service development account for only about 10 per cent of total expenditure.

Investment planning is rather uncertain because of the unpredictability of the revenue streams required to finance it, although the projections produced each year are consistent as between current and capital expenditure.

Predictability and control in budget execution

a) Taxpayer obligation, taxpayer registration & collection of tax payments

In Sisak, legislation governing the taxes and utility fees is clear and the administrative procedures straightforward, although there may be scope for error in the measurement of chargeable areas. Information on tax liabilities and administrative procedures is readily available at City offices and county offices of Tax Administration although no specific taxpayer education has been provided. Appeals against community and utility fees can be made to a review body appointed by the county, but such appeals were said to be very rare.

The property data base has been carefully prepared by the City Administration but has no links to other data bases of the Tax Administration. Overall penalties for non-compliance are ineffective.

Tax arrears in Sisak are high (2012-2013) and collection ratios are below 60%. As far as transfers of tax collections are concerned, the majority of the revenue dependent on Sisak's own decisions is paid immediately into the City's Single Treasury Account. Complete reconciliation of the position of individual fee payers with the City's Treasury records is carried out whenever the budget is revised during the year.

b) Cash flow forecast, cash balances and debt management

In Sisak, a cash flow forecast is not prepared for the fiscal year. In practice, budget entities within the city are provided with reliable information for one month in advance. In-year adjustments to budget allocations were made three times in 2013. They were carried out in a transparent (non predictable) way.

Sisak has no foreign debt. The domestic debt records of the city are complete, updated and reconciled quarterly. Domestic debt data are considered of good quality and the corresponding debt reports are comprehensive and elaborated quarterly. Sisak's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.

The city of Sisak has one bank account held at *Hypo Alpe Adria Banka* private commercial bank. Every day the city receives a print out from the bank with the balance available.

c) Payroll controls and controls for non-salary expenditures

Payroll controls in Sisak are effective. Although there are no direct links between personnel records and the payroll, there is full documentation of the way changes in personnel records are reflected in the payroll in practice. According to the City Administration there have not been any retroactive adjustments to the pay of individuals. All changes in the two data bases always leave a clear audit trail. An audit was carried out in the last three years.

Internal controls for non-salary expenditures are effective. In practice, controls are effective in preventing new commitments from being undertaken before the availability of finance has been assured. Other internal control rules and procedures are generally understood and observed.

d) Procurement system

The procurement system in Sisak meets the standards of the EU *acquis*. The legal and regulatory framework used is transparent and comprehensive. Open competitive procurement is the default method of procurement. The public has easy access to complete, reliable and timely procurement information, and there is an independent administrative complaints system.

e) Internal audit

Internal audit contributes effectively to improving the management of the City's services.

Accounting, recording and reporting

Account reconciliation in Sisak is regular and timely and information on all resources received by service delivery units is available. In-year budget reports are produced regularly, but there were inconsistencies between expenditure totals based on economic and functional classifications. Annual financial statements are complete and submitted within the required timescale to the City Council and the State Audit Office. Accepted accounting standards are applied for the statements (not consistent with IPSAS).

External Scrutiny and audit

The coverage of annual external audit in Sisak has hitherto been somewhat limited, although focusing on significant and systemic issues and adhering to auditing standards. Now that all operations are covered by the Single Treasury Account, the coverage of future audits will extend to all the budget users. The City Council carries out a thorough examination of the budget proposals. Audit reports are not examined.

Donors

The city of Sisak receives no budget support. Information from donors is not reported. National (Croatian) procedures are followed for procurement and payment, but special donor requirements apply to reporting and audit.

ii) Implications for budgetary outcome

Aggregate fiscal discipline is very well evidenced by the relatively low level of expenditure arrears as well as by the absence – apart from one exception - of extra-budgetary operations. It is also evidenced by the good quality of debt data recording and reporting, and by well controlled systems for contracting loans (made against transparent criteria and fiscal targets). The operation of satisfactory aggregate fiscal discipline is also confirmed (but to a lesser extent) by the timeliness of in-year budget reporting. Overall aggregate fiscal discipline remains strong in Sisak as is shown by the expenditure and own revenue out-turns not very far below the original approved budgets (2011-2013).

The extent of sub-national government responsibilities in Croatia is limited, with the central government retaining most of the responsibility for financing health and education services. Within this framework the strategic allocation of resources in Sisak is confirmed by the relatively small changes in the mix of expenditure as well as between budgets and out-turn. In addition budget classifications consistent with international standards, a good budget preparation process and good legislative (by the city council) scrutiny of the draft budget law are all indications that the process of allocating resources is satisfactory.

Overall, the good system of public procurement is an important element in ensuring the delivery of efficient services to the city community. Internal audit was shown to be contributing effectively to the efficiency of the City's operations.

The above three budgetary objectives, aggregate fiscal discipline, the strategic allocation of resources and the delivery of efficient services are positively influenced by the integrity of fiscal information. In fact the reconciliation of accounts is regular and timely, in-year budget execution is closely tracked, and full annual financial statements are produced within a very short timescale.

Overall, the city of Sisak has fairly strong PFM systems with acceptable performance. There are some areas needing improvement, such as the absence of costed sector strategies established in the context of an overall plan for the development of the City. The City Administration has confirmed its determination to improve the performance of existing systems.

iii) Prospect for reforms

The city is in the process of financial consolidation, which is reflected in the inclusion of schools in the treasury system, merging of utility companies, improving the City's asset registers and the assessment of the value of those assets. Future reform initiatives significantly depend on establishing strategic priorities. For now, the city administration is concentrating mainly on budget consolidation and preparation of a strategic development plan as a first step to better determine development priorities. As yet the City lacks a clear vision and strategy for economic and social development in the longer term.

PEFA PERFORMANCE INDICATORS (2014)¹

A. PFM OUT-TURNS: Credibility of the budget		Score
HLG-1	Predictability of transfers from Higher Level of Government	NR
PI-1	Aggregate expenditure out-turn compared to original approved budget	B
PI-2	Composition of expenditure out-turn compared to original approved budget	B+
PI-3	Aggregate revenue out-turn compared to original approved budget	B
PI-4	Stock and monitoring of expenditure payment arrears	C+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		Score
PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	C
PI-7	Extent of unreported government operations	C+
PI-8	Transparency of Inter-Governmental Fiscal Relations	NA
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C
PI-10	Public Access to key fiscal information	A
C. BUDGET CYCLE		Score
C (i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+
C (ii) Predictability & Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D+
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	D+
PI-17	Recording and management of cash balances, debt and guarantees	A
PI-18	Effectiveness of payroll controls	C+
PI-19	Competition, value for money and controls in procurement	A
PI-20	Effectiveness of internal controls for non-salary expenditures	B
PI-21	Effectiveness of internal audit	A
C (iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	A
PI-23	Availability of information on resources received by service delivery units	A
PI-24	Quality and timeliness of in-year budget reports	C+
PI-25	Quality and timeliness of annual financial statements	C+
C (iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	C+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	D+
D. DONOR PRACTICES		Score
D-1	Predictability of Direct Budget Support	NA
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D
D-3	Proportion of aid that is managed by use of national procedures	C

¹ Scoring is assigned based on best international practices and corresponds to a scale of four (4) points: A (best performance) to D, with the possibility of intermediate scoring (+)

- City of Sisak, Croatia -

- The PFM performance report -

1. Introduction

Background and objectives

The Association of Cities of the Republic of Croatia has applied for technical support from the World Bank in order to carry out a Public Expenditure and Financial Accountability (PEFA) assessment of Local Governments in Croatia. Funding was granted from the “*Strengthening Accountability and the Fiduciary Environment*” (SAFE) Trust Fund, administered by the World Bank on behalf of the European Commission and the Swiss State Secretariat for the Economic Affairs (SECO) and the project was executed by the Association of Cities of the Republic of Croatia and covered the evaluation of the cities of Sisak, Crikvenica, Labin and Koprivnica.

The State Audit Office in their reports have regularly emphasized the existence of a number of irregularities in the financial operations of local government and often given a qualified opinion on the financial operations of local governments. The Association of the Cities felt that the local government should carry out a PEFA assessment in order to objectively determine the performance in public finance management of local governments according to internationally accepted standards, assess who is responsible for such performance (local government, legislative framework, intergovernmental relations, or something else) and establish procedures for removing the causes of such operations.

Cities were selected using four criteria:

1. Two "small town" and two county headquarters (one of which is less than 35,000 inhabitants , and the other more than 35,000)
2. Two cities have to be engaged in the activities of the first phase of decentralization (took responsibilities for decentralized function of schools, and fire brigades) and two cities engaged in the activities of the first and second phase of decentralization (took over responsibilities for funding schools, fire brigades plus roads maintenance and construction)
3. Two cities that are based on the Adria coast, and two continental cities
4. Two cities from the regions with an average economic activity (from Primorsko-Goranska county and from Koprivnica -Krizevci county), a city from a region with significant economic activity (from Istria county) and one city from a region with weak economic activity (from Sisak-Moslavina county)

The specific PEFA assessment of the city of Sisak is part of this initiative.

The current report will be used to advise the city government and the State government on key challenges in the PFM sphere and provide a basis for developing policy and administrative reforms to overcome these challenges.

The specific objectives expected from the PEFA analysis are:

- To have an independent assessment of the PFM performance making use of thier standardized criteria. The result of this report will serve as a reference situation to measure the evolution of PFM performance.
- To identify key reform initiatives/provide policy advice to the beneficiaries in how best to revise their PFM strategy based on the findings of the PEFA evaluation.

Overall process and process at the city level

The overall evaluation process started with a one-day PEFA workshop in Zagreb on March 20th, 2014. The workshop covered methodological issues on evaluations at the SN level and included group works. About 30 participants from following entities were present:

Institutions:

Ministry of Finance (Central harmonization unit, State treasury)
Economics Institute Zagreb
GONG²
State Audit Office
Swiss Embassy
World Bank
Parliamentary Committee for Local Government
Ministry of Administration (deputy minister)
Transparency International
Ministry of Regional Development and EU Funds

Cities:

Sisak
Crikvenica
Labin
Koprivnica
Kutina
Vinkovci
Virovitica

The PEFA team was composed of Giovanni Caprio (team leader), John Wiggins, senior PFM expert and Anto Bajo, senior PFM expert (local). The field work for

² Gong is civic "watchdog organization". Started with election monitoring in 1998 and now does advocacy and research

the evaluation of the city of Sisak (as well as for the city of Koprivnica) took place in the period of April 21st through May 10th, 2014³.

Methodology

The 3 experts have carried out the PEFA evaluation of the city of Sisak following strictly the structure, methodology and guidelines of documents elaborated by the PEFA secretariat: *the PEFA Public Financial Management (PFM) Performance Measurement Framework* (PMF) of January 2011 and the *Guidelines for the application of the PEFA Framework at the Sub National Government level* (updated January 2013). In addition the experts have also consulted the *PEFA Field guide* (May 2012)⁴ extensively.

In the report, the experts have evidenced the scores. They have also specified the analysis, which was carried out by mentioning the information sources and documentation used.

Stakeholders' participation and quality Control

The Office of the World Bank in Zagreb has monitored the field work carried out by the experts but has not participated in the exercise. The advisor to the Association of Cities of the Republic of Croatia, Dario Runtic, participated in the first day of meetings in Crikvenica on March 24th, 2014.

Quality control was carried out by the Association of Cities of the Republic of Croatia, the World Bank and the PEFA Secretariat in Washington DC. The city of Sisak reviewed the draft report and checked the accuracy of the information used.

Scope

The present PEFA evaluation covers the total expenditures of the city of Sisak. These expenditures amounted to million 189.0 HRK in 2012 and 189.3 HRK in 2013.

In 2012 total Sisak expenditures represented 0.83% of total Local Government expenditures in Croatia and 0.13% of total consolidated General Government expenditures. In 2012 Sisak total revenue represented 0.78% of total Local Government revenue in Croatia and 0.13% of total consolidated General Government revenue.

³From a contractual point of view, a total of 150 man-days are allocated for the PEFA assessment of the four cities of Koprivnica, Crikvenica, Labin, and Sisak. In practice, it was expected that approximately 37.5 man days (25%) be used for the assessment of the city of Sisak

⁴All the 3 documents are accessible on the website of the PEFA Secretariat www.pefa.org.

Table 1.1: Sisak Total Expenditures (Absolute and relative)

HRK millions

	Sisak (1)	Local Government (2)	General Government (3)	Sisak(1) As Percentage of (2)	Sisak(1) As Percentage of (3)
2012	189.0	22 800,00	144 600,0	0.83%	0.13%
2013	189.3	--	--	--	--

Source: Ministry of Finance, Economic and Fiscal Policy Guidelines 2012-16; Calculations by the PEFA team from data of the Ministry of Finance of Croatia and the city of Sisak. Data for 2013 are not available

Table 1.2: Sisak Total Revenue (Absolute and relative)

HRK millions

	Sisak (1)	Local Government (2)	General Government (3)	Sisak(1) As Percentage of (2)	Sisak(1) As Percentage of (3)
2012	192.8	22 900,00	133 200,0	0.78%	0.13%
2013	179.4	--	--	--	--

Source: Ministry of Finance, Economic and Fiscal Policy Guidelines 2012-16; Calculations by the PEFA team from data of the Ministry of Finance of Croatia and the city of Sisak. Data for 2013 are not available

2. City background information

2.1 Economic Context

Croatia⁵ is a small country in south central Europe, with a population (2012) of 4.29 million, which has declined by about 2 per cent during the last decade. The country is divided into a flatter inland section south east of the capital, Zagreb, and the Istria peninsula and a long coastline stretch of the Adriatic Sea, with numerous islands. Industry and agriculture are mainly in the inland section, while tourism dominates activity in the coastal areas. GDP per head was about 10,500 Euro (78,500 HRK) in 2012. In recent years an annual deficit on visible trade of about 14 per cent of GDP has been largely offset by net receipts on services (largely tourism) leaving a current account deficit of about one per cent of GDP. During this period the exchange rate between the Euro and the Croatian Kuna (HRK) has been broadly steady at about 7.5 HRK to the Euro.

Croatia has been severely affected by the global recession which began in 2008. Real GDP fell by nearly 7 per cent in 2009, and the economy has contracted further in each subsequent year. In 2013 GDP was about 11 per cent lower than in 2008, and the IMF forecast a further small decline in 2014. Despite considerable efforts at fiscal consolidation, the fiscal deficit has remained obstinately high, increasing from a budgeted 3.5 per cent of GDP for 2013 to an out-turn of 5.5 per cent; the deterioration reflected the lower volume of economic activity and the requirement to meet the debts of public institutions in the health and financial sectors. The hope had been that economic activity would be stimulated by Croatia's accession to the European Union in mid-2013, particularly through inward investment flows, but these have yet to materialise. Meanwhile Croatia is paying its share of EU revenues, but the details of the EU regional and social programmes which should over time more than offset Croatia's contributions to the EU Budget have yet to be settled. The following table summarises main economic developments 2010-13.

⁵Refer to Annex, map 4.1

Table 2.1 Economic Developments 2010-13

Year	2010	2011	2012	2013
GDP (Euro millions)	44,864	44,896	44,625	46,693
Change in real GDP (%)	-1.4	0.0	-2.0	-0.6
Inflation (average % change in CPI)	1.0	2.3	3.4	2.4
Trade Balance (Euro million)	-5,991	-6,360	-6,329	-6,461
Current Balance (Euro million)	-582	-437	-591	-528
Domestic investment (% of GDP)	24.3	23.3	23.0	23.5
Unemployment (% labour force)	12.2	13.7	14.2	14.0

Sources: IMF Staff Report 12/302 and Ministry of Finance Economic and Fiscal Policy Guidelines 2012-16, adjusted roughly to reflect staff statement at the end of 2014 Article IV Consultations (Figures need revision)

2.2 Central and Local Government Finance

Croatia's General Government expenditure amounted to 43.8 per cent of GDP in 2012. Direct expenditure by the central government accounted for 82.8 per cent of the general government total, while local governments accounted for 15.8 per cent. The balance was expenditure of government-owned companies and other institutions, mainly for the provision of roads, water and environmental protection. General government revenue and expenditure is summarised in the following table.

Table 2.2: General Government Revenue and Expenditure 2012

	Central Government (HRK billion)	Extra-Budgetary (HRK billion)	Local Government (HRK billion)	Consolidated General Govt. (HRK billion)	CG as % of GDP	EB as % of GDP	LG as % of GDP	Consol. % of GDP
Total revenue	109.8	5.0	22.9	133.2	33.3	1.5	6.9	40.3
Current expenditure	118.7	3.9	19.3	137.4	36.3	1.2	5.8	43.8
Capital expenditure	1.1	2.7	3.5	7.3	0.3	0.8	1.1	2.2
Total expenditure	119.8	6.6	22.8	144.6	33.3	2.0	6.9	43.8
Fiscal Balance	-10.0	-1.5	0.1	-11.4	-3.0	-0.5	0.0	-3.5

Source: Ministry of Finance, Economic and Fiscal Policy Guidelines 2012-16

Central government revenue is dominated by indirect taxes and social contributions, which accounted for 53.2 billion HRK and 37.8 billion HRK respectively of total revenues of 109.8 billion HRK in 2012. Total revenue from

income tax amounted to about 9.0 billion HRK, of which nearly 90 per cent accrued to local government. Although personal income tax is progressive, with a rate of 40 per cent charged on taxable incomes over 8,800HRK per month, the amounts of the personal allowances for each family member (and in particular the increasing amounts of child allowances as the number of children increases) result in a relatively low overall yield by comparison with social security contributions where such exemptions do not apply. The largest central government expenditure is on pensions and social benefits, where the budget was 38.3 billion HRK for 2013. The other major expenditures on services were 19.7 billion HRK on health care and 11.0 billion on education. The following table shows the trend in the central government fiscal balance for 2010-13.

Table 2.3: Consolidated Central Government Fiscal Balance

	2010	2011	2012	2013
	HRK billion			
TOTAL REVENUE	111.1	110.8	113.2	111.0
- Current Revenue	110.8	110.4	112.9	110.7
- Capital Receipts	0.3	0.4	0.3	0.3
TOTAL EXPENDITURE	125.6	126.2	124.3	129.0
Current expenditure	122.6	122.4	120.9	125.3
Of which:				
- Interest	6.6	7.4	8.7	10.0
Capital expenditures)	3.0	3.8	3.4	3.7
AGGREGATE DEFICIT	14.5	15.4	11.1	18.0
As % of GDP	4.4	4.6	3.4	5.4
General Government Debt as % of GDP	42.2	47.2	53.7	56.6
Gen. Govt Guarantees as % of GDP	18.2	17.9	15.2	15.2
- Gen Govt Foreign Debt as % of GDP		16.0	19.1	23.2
- Gen Govt Domestic Debt as % of GDP		31.3	34.7	33.4

Sources: SDDS Tables, Ministry of Finance Economic and Fiscal Policy Guidelines, 2012-16

Local Government

As Table 2.2 above shows, local government accounts for about 17 per cent of General Government revenue, and about 16 per cent of expenditure. Although local government thus accounts for only a relatively small proportion of general government revenue and expenditure, it is nonetheless very fragmented. The country is divided into 20 Counties, 126 cities and 429 municipalities, plus the capital city, Zagreb, which has the status of both a city and a county. 50 per cent of all local government units (LGUs) have populations less than 3,000, and 80 per cent less than 7,000. Municipalities have only very limited administrative functions. The functions of cities and counties may overlap, but no group of LGUs is hierarchically superior to another. Counties are normally responsible for secondary education and health care facilities, economic development and the main transport infrastructure, while cities are responsible for primary education

facilities, fire service, utility services (the services are usually provided by local government-owned companies), local road maintenance and public lighting, housing and physical planning, pre-school education and social welfare. Apart from pre-school education, the salaries of people employed in the health and education services remain a charge on the central government. A much higher proportion of local government expenditure is for capital projects than is the case for the central government.

Arrangements for financing local government are very complex. According to the SDDS Tables covering the 53 largest local government units (LGUs) (Zagreb, 20 counties and the 32 largest cities) which together account for about two thirds of total local government revenue and expenditure, LGUs received 15.0 billion HRK current revenue in 2012, made up of 8.6 billion HRK from income tax, 2.5 billion HRK from administrative fees, 1.8 billion HRK from grants (mainly from central government), 0.9 billion from their own property revenue, 0.4 billion from tax on property sales, 0.8 billion from various small taxes, and 0.4 billion from other miscellaneous sources. They also received 0.3 billion HRK from sales of assets.

Only about 40 per cent of total revenue is under the control of the LGUs concerned. The 5 per cent tax on sales of property is collected by the central government Tax Administration (TA), with 40 per cent of the revenue going to the LGU concerned, and 60 per cent retained by central government. Income tax is collected by TA at centrally determined rates and almost all the revenue is then distributed to LGUs on the basis of various formulae. In 2012 the law on Financing LGUs provided for cities and municipalities to receive 56.5 per cent of receipts from their residents, and counties to receive 16 per cent. Cities taking responsibility for decentralised functions could receive up to a further 12 per cent (the amount depending on which responsibilities had been taken by each LGU), while 15.5 per cent was reserved to finance resource equalisation payments, mainly to LGUs in Areas of Special State Concern (ASSC – mainly places affected by the war in the 1990s), in hill and mountain areas and on the Adriatic islands. Thus the amount available for equalising the resources available to poorer LGUs in order to ensure at least a minimum level of service is limited by the yield from time to time of income tax rather than being dependent on any objective measure of need. The only income tax revenues dependent on LGU decisions were the yield of the surtax an LGU can impose as a percentage of the basic income taxes paid by its residents. Municipalities may impose a surtax of up to 10 per cent and cities up to 12 per cent; if a city's population exceeds 30,000 up to 15 per cent, and for Zagreb up to 30 per cent. In practice few LGUs charge the maximum (Zagreb, with the highest rate, charges 18 per cent).

The only tax revenues wholly dependent on LGU decisions are those arising from three small taxes: 3 per cent on sales of drinks by catering establishments, up to 15 HRK per square metre per year for holiday houses, and up to 2000 HRK per year for registered business names. An LGU can decide to collect these revenues itself, or can contract out collection to the county office of TA for a commission of 5 per cent. Even where an LGU has a relatively large number of taxable holiday houses, the yield of these three taxes would amount to only about 5 per cent of total revenue, while the yield of the surtax might amount to a further 5 per cent of

revenue for LGUs levying it at 10 per cent of basic tax payments. Administrative fees (the community fee charged on new developments and the annual utility fee) are determined by the LGUs, but the yields are earmarked for investing and maintaining the infrastructure.

Aggregate current and capital expenditure by the 53 largest authorities during the period 2008-13 is shown in the following Table.

Table 2.4: Gross current and Capital Expenditure of Largest LGUs

	2008	2009	2010	2011	2012	2013
Total current expenditure	13.7	14.0	13.1	12.7	13.3	10.9
Total capital expenditure	4.2	3.2	2.6	2.1	1.7	1.5

Source: SDDS Tables

As Table 2.4 shows, total current expenditure remained fairly flat from the beginning of the recession in 2008, until it fell back sharply in 2013, while capital expenditure has declined every year since 2008. These trends are the result of declining receipts of community fees and government grants earmarked for capital expenditure, while the fall in current expenditure in 2013 seems likely to be a reaction to the prolonged squeeze on tax revenues as GDP continued to contract.

The broad functional distribution of LGU expenditure in 2012 (current and capital combined) as between different functions and different types of LGU is shown in the following Table.

Table 2.5: Functional allocation of 2012 expenditure, by type of LGU

HRK billion

	Total	Counties (except Zagreb)	Municipalities	Cities	Zagreb
Population (million)	4.3	3,5	1.2	2.2	0.8
01 General Public Services	4.3	0,8	1.2	2.2	1.0
02 Defence	0,0	0,0	0,0	0,0	0,0
03 Public Order and Safety	0,6	0,0	0,1	0,4	0,1
04 Economic Affairs	3.3	0,4	0,6	1,2	1,1
05 Environmental Protection	0,7	0,1	0,2	0,4	0,0
06 Housing	4,1	0,1	0,8	1,6	1,6
07 Health	0,7	0,5	0,0	0,0	0,2
08 Recreation and Culture	2,5	0,2	0,2	1,3	0,8
09 Education	4,1	1,2	0,3	1,3	1,3
10 Social Protection	1,5	0,4	0,2	0,4	0,5
Total	22.8	3,7	3,6	8,8	6,6

Source: Ministry of finance RC, 2014

As Table 2.5 shows total LGU expenditure per head of population in 2012 was about 5,300 HRK. General Public services (administrative costs) accounted for about 20-25 per cent of expenditure at county and city level, while for municipalities and Zagreb the percentages were 33 per cent and 15 per cent respectively. About 1,000 HRK per head was spent by counties with education and health the largest amounts. Municipalities spent about 3,000 HRK per head, with housing and economic affairs the largest items. Cities accounted for the largest overall share of expenditure, with the largest expenditures on housing, recreation and culture, economic affairs (including infrastructure) and education; per head of population total expenditure was about 4,000 HRK. Zagreb, which also bears the costs of being the capital city, spent about 8,000 HRK per head, with priorities similar to those of the cities.

Sisak Revenue and Expenditure

Table 2.6: Sisak Revenue 2011-13

HRK thousands

	2011	2012	2013
Total revenue determined by central government	90,167.9	90,889.6	88,878.0
of which Share of income tax	71,559.1	72,102.0	69,813.1
Share of tax on property sales	2,183.7	2,866.6	2,580.5
Payments for decentralised services	10,680.4	9,886.9	9,012.4
Other central government grants	5,744.7	6,034.1	7,472.0
Total current revenue determined by City	96,445.9	93,237.9	88,828.8
of which Yield of Surtax on income tax	12,038.0	11,881.9	11,438.8
Holiday homes tax	20.4	26.2	18.6
Tax on consumption of beverages	515.1	501.4	733.3
Tax on business names	732.6	762.6	724.1
Budget users own revenues	1,238.1	1,028.5	1,254.9
Utility fees and Community contributions	62,325.9	62,804.5	58,706.1
Other statutory charges	11,957.2	11,186.3	11,341.0
Revenue from property holdings	4,842.0	4,266.9	3,598.0
Fines, etc.	2,069.3	518.4	425.4
Donations (domestic)	687.1	261.2	588.6
External grants	-	4,127.6	-
Proceeds of asset sales	5,877.0	4,563.0	1765.0
Total revenues	192,470.6	192,818.1	179,371.8

Source: Sisak Department of Finance and Budget

Table 2.7: Sisak: Economic Classification of Expenditure 2011-13

HRK thousands

	2011	2012	2013
Total Current Expenditure	172,006.1	178,834.6	167,235.3
of which Wages and salaries	58,124.6	60,214.8	59,316.7
Goods and services	65,728.3	69,674.0	66,378.3
Subsidies	14,738.6	9,413.1	11,021.3
Social grants	6,456.3	6,229.2	7,125.7
Grants to other General Government	152.0	50.0	50.0
Interest payments	898.2	1,421.5	774.8
Other expenditure	25,908.1	31,832.0	22,568.4
Gross investment in fixed assets	23,460.4	10,176.3	22,040.2
Total Current and Capital Expenditure	195,466.4	189,010.9	189,275.5
Net fiscal Balance	-2,995.8	3,807.2	-9,903.7

Source: Sisak Budget and FinanceDept.

Table 2.8: Sisak Actual Budgetary Allocations 2011-13 (Out-turns)

HRK thousands/% of total

I. MAIN SUB-FUNCTIONS	2011	%	2012		2013	%
General Public Services	31,799.5	16.6	31,445.5	18.5	30,616.6	17.7
Public Order and Safety	11,690.5	6.0	10,745.6	6.0	10,098.0	5.7
Economic Affairs	4,894.6	2.5	9,077.7	5.2	9,208.3	5.2
Environmental Protection	16,172.1	8.3	15,920.8	9.1	15,622.7	8.9
Housing	26,225.4	13.4	16,221.5	9.2	18,001.1	10.3
Health	-	-	-	-	-	-
Sport, Recreation & Culture	38,890.2	19.9	40,054.2	20.8	33,069.7	16.7
Education	42,971.0	22.0	43,307.9	19.0	52,005.5	24.0
Social Protection*	22,144.7	11.3	21,188.1	12.1	20,242.8	11.5
TOTAL ALL SECTORS	194,788.0	100.0	187,961.4	100.0	188,864.8	100.0

Sources: Sisak Department of Budget and Finance. Figures include interest and external grants. The totals are slightly different from the totals in table 2.7.

Only 9 of the COFOG main functions appear, because LGUs have no role in national defence. The table shows that the functional allocation of expenditure is broadly stable from year to year, with Education, Housing and Sport and Recreation showing the greatest variability from year to year, apparently reflecting changes in the level of investment in these services. Sisak's expenditure per head of its 47,750 population is thus running at about 3,650 HRK per year, somewhat below the average city expenditure of 4,000 HRK calculated for 2011. This reflects the effect on Sisak of declining revenues resulting from the economic difficulties faced by the region during the prolonged recession since 2008.

The development strategy of the City of Sisak

The City of Sisak does not yet have a development strategy or medium term development plan. In 2013 Sisak signed an agreement with a private consulting firm to prepare such a strategy. Meanwhile in determining development priorities the city rests on the existing County development strategy. The city will in 2014 put forward a strategic development program for the three-year period 2015-17. However, this program will not be based on strategic priorities for the development of the City in the longer term.

2.3 Description of the legal and institutional framework for PFM

a) Legal framework

The system of financial management at the local level is essentially determined by the *Budget Act (Official Gazette 87/08 and 136/12)* which governs the planning, development, adoption and implementation of the budget; asset and debt management; contracting of debt and issue of guarantees at state and local level; budgetary relations in the public sector; accounting, budgetary control and other issues related to the management of public finance. The Government's Economic and Fiscal Policy Guidelines issued each year set the framework for the budgets of local government units (LGUs) for the next three years. The annual Law on Execution of the Budget determines the limits on borrowing and the amounts of state aid allocated to local governments. *Rules of Procedure of borrowing and consent of the local (regional) self-government (OG 55 / 09 and 139 /10)* defines in detail the procedure for granting approval for local government borrowing, mandatory documentation, and reporting on government issued guarantees and approvals.

The Fiscal Responsibility Act (OG 139/ 10, 19 /14) establishes rules limiting spending by LGUs (as well as by all central government institutions), reasserts their responsibility for the legal, functional and purposeful use of budgetary resources, and strengthens the system of control and supervision in order to ensure responsible fiscal behaviour. LGUs must comply with the Fiscal Responsibility Act, which obliges all heads of central and local government operations (including mayors of cities and municipalities) to sign an annual statement attesting prudent use and management of budgetary resources

Regulations on the Budget Ledger (OG 114/2010 and 31/ 2011) define the bookkeeping documents, business records, bookkeeping organization, and content of the Chart of Accounts. This regulation prescribes budget classification by economic, functional, organizational categories, and by programs and projects. It also requires LGUs to identify the source of funding for each operation. The strategic planning process prescribed by the Budget Act requires LGUs according to programs linked to their long term development strategies. *The Regulations on Financial Reporting in OFB (OG 32/11)* establish the form and content of LGU financial statements and the deadlines for their submission.

The Law on Financing Local and regional self-government (OG 117 /93, 69/97 , 33 /00 , 73 /00 , 127 /00 , 59 /01 , 107 /01 , 117 /01 , 150 /02 , 147 /03 , 132 /06 , 26 /07 , 73 /08 , 25/12) regulates the sources (own revenues, shared taxes, grants from central and other local governments) and uses of funds by LGUs (counties, municipalities, cities). *The Utility Services Act (OG 36/95, 70/97, 128/99, 57 /00, 129 /00 , 59 /01, 26 /03, 82 /04, 110 /04, 178 /04, 38 /09, 79 /09, 153 /09 , 49 /11, 84/11 , 90/11 , 144/12 , 94 /13, 153/13)* defines the performance and financing of utility services provided to households and

businesses, and also the construction and maintenance of the infrastructure in the area of each LGU.

Regulations on Budgetary Control (OG 71/13) regulate the objectives, scope and content of budgetary surveillance and inspection, and the arrangements for its implementation. *The Law on Internal Financial Control (OG 141 / 06)* establishes the system of internal financial control in the public sector, including both financial management and control and also internal audit. The Act establishes the methodology, standards, relationships and responsibilities and authority of the Ministry of Finance and other bodies in the implementation of the system of internal financial control in the public sector. An *Ordinance of the Minister of Finance (OG 96 /2013)* sets the framework for the establishment and operation an independent audit function directly responsible to each budget head, including arrangements for quality assurance of internal audit activities

The Law on Civil Servants and Employees in Local and Regional Self-Government (OG 86/08, 61/11) regulates the appointment, rights, duties and responsibilities of officers and employees in administrative departments and agencies of local (and regional) self-government .*The Law on Salaries in local and regional self-government (OG 28/10)* lays down the criteria for determining the salary and benefits of county prefects, city and municipal mayors and their deputies, as well as the salaries of officers and employees in the administrative departments and offices of local and regional governments

The Public Procurement Act (OG 90/11, 83/13, 143/13, 13/14) regulates the planning and execution of public procurement throughout the public sector, including different types of contract which may be used in different circumstances to acquire goods, works or services, legal protection in connection with such activities and the jurisdiction of the State Commission body responsible for dealing with complaints about the operation of the public procurement system. *The Decree on the Supervision of the implementation of the Public Procurement Act (OG 10/12)* regulates the powers of the central state administration body responsible for public procurement system (Ministry of Economy), other matters related to supervision of the implementation of the Public Procurement Act, and the enactment of subordinate legislation in the area of public procurement. *Regulations on the list of entities bound to the Public Procurement Act (OG 19 /12)* specifies the list of contracting authorities subject to the Act (OG 90 /11)

The Act on Financial Transactions and Settlements not involving bankruptcy (OG 35/14, 108/12, 144/12, 81/13, 112/13) regulates the business environment, including setting deadlines for the fulfilment of financial obligations and the legal consequences of delay. These obligations are defined as the principal amount that should have been paid within the period provided by law or contract, including taxes and other compulsory payments specified in the bill or other appropriate request for payment

The Law on Public Private Partnerships (OG 78 /12) determines how such partnerships are to be established, implemented and monitored. *Concessions Act (Official Gazette 143 /12)* regulates the procedures for granting concessions (for

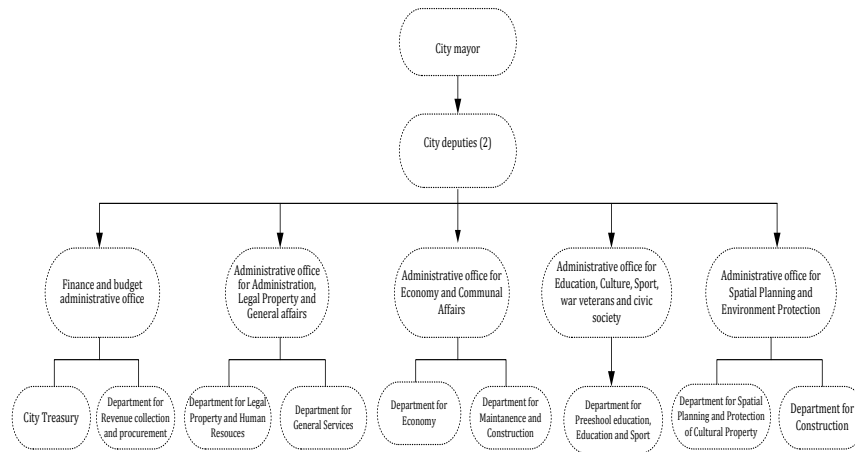
the provision of particular services, or the exploitation of particular public assets), including the concession agreement, the termination of the concession, and arrangements to ensure fairness in its operation.

b) Institutional framework

The City of Sisak's administration consists of the Mayor, two deputies, Council and five administrative departments: (1) Finance and Budget, (2) Administration, Legal property and General Affairs, (3) Economy and Communal Affairs, (4) Education, Culture, Sport, War veterans' and civic society (5) Communal Economy, Spatial Planning and Environment Protection. The City's Administration, in addition to its responsibilities for local government activities, also carries out central government functions (elementary education and fire service) which have been transferred to the City.

The City Mayor directs the Administrative Departments and oversees their work. The Administrative departments are managed by heads who are appointed by the mayor following a public competition. The internal organization of the administration of the City is governed by the Ordinance on the internal order issued by the mayor. Internal audit forms part of the city administration and is directly subordinated to the Mayor.

City of Sisak - Internal organisational structure



The Administrative Department for Budget and Finance has the overall responsibility for planning, preparing and executing the City budget, in consultation with the other Administrative Departments. It prepares semi-annual and annual reports on budget execution for submission by the Mayor to the City Council. The Department also monitors the execution of the budget and puts

forward any necessary measures to ensure the financial stability of the City. The City Treasury within the Budget and Finance Department manages cash and liquidity, and also debt and guarantees issued by the City. The revenue collection section keeps records of claims for all revenues, especially utility charges and contributions. The Department prepares regular reports for the Ministry of Finance, Tax Administration and the national statistical office.

The Administrative Office for Administration, Legal Property and General Affairs is responsible for most of the administrative tasks related to the activities and responsibilities of the elected Council, including the preparation and recording of decisions. The Office prepares legal documents, including draft regulations, monitors their implementation once approved, and gives legal opinions on questions submitted to the Council and working groups. It is responsible for office services including IT functions, public relations etc. It is also involved in the management of human resources and matters related to the rights and obligations of staff at all levels.

The Administrative Department for Economy and Communal System is responsible for all questions related to the City's infrastructure. It prepares the annual and long-term plans and programs for the maintenance and construction of the city's infrastructure, and supervises construction projects. It also determines the amounts of utility fees, utility contributions and other fees. The Department coordinates the work of the city's companies, monitors the prices charged by utilities, and provides support for small and medium sized enterprises, etc.

The Department for Education, Culture, Sports, Veterans and Civil Society Organizations supervises all the City's activities in the fields of preschool education, primary education, culture, sports, health and social welfare. It prepares the reports and other documents necessary for the functioning of all these services.

The Department of Physical Planning and Environment is responsible for issues related to physical planning and the city's environment. It is in charge of zoning for residential and business use, construction permits, building standards, planning and traffic regulations, and measures related to environmental protection. The Department keeps the register of all land and property within the territory of the City, and deals with issues concerning the protection of cultural property and illegally constructed buildings.

Sisakfunds 16 budget users (8 primary schools and 8 other institutions). The City owns 9 companies. It has 100% share in 6 utility companies (Komunalac, Gospodarenje otpadom, Gradska tržnica, Gradska groblja Viktorovac, Auto promet Sisak, and Sisak projekti), 96,57% in one Water supply company (Sisački vodovod) and 62,79% in a second water supply company (Vodoopskrba Kupa). The city has a minority stake in one company (Radio Sisak). The annual reports of company's majority owned by the City are submitted to and discussed by the City Council. The reports of companies in which the city has minority holdings are usually sent when requested, and the information is in any case publicly available.

The 2013 Budget provided financing for 29 programs and 65 activities.

City Council and Mayor

The role and conduct of the Mayor are regulated by the Law on Local and Regional Self-Government, the Charter of the City of Sisak, the Ordinance on the internal order of the City Administration and other regulations. In practice the Mayor enjoys a wide measure of discretion in managing the City and its staff, with little interference from the Ministry of Public Administration. The Mayor represents the city and is the holder of the executive power. The term of office is four years. The Mayor is responsible for putting forward the draft budget, and for the subsequent budget execution; for managing real estate and movable property rights owned by the City in accordance with the law and the Articles of Association; and for managing the revenues and expenditures of the City. The Mayor may decide on the acquisition of movable and immovable property of the City whose individual value does not exceed 0.5 % the amount of the City's revenue (excluding receipts from borrowing) the previous year. The Mayor puts forward Internal Rules and Regulations for governing bodies of the City, appoints and dismisses the heads of the administrative Departments, and also the internal auditor. The Mayor makes proposals for the development of the City including the Physical Plan and any necessary subsequent amendments, taking into account the views of businesses and persons concerned.

The City Council is the representative body which consists of 25 councillors elected at the regular election on 19 May 2013 for a term of four years. The City Council has a president and two vice-presidents (chosen from their ranks). Within the framework of the State Constitution and the laws applicable to LGUs, the Council determines its own rules of procedure for the conduct of business. The annual budget prepared by the Mayor requires the approval of the City Council, and the Council has the power to reject the Mayor's proposals if they take insufficient account of its views. However, in practice, the Sisak Council has always approved the budget following detailed discussions with the Mayor, in the course of which some amendments may be made to the original proposals.

The city of Sisak is divided into 43 local areas, each of which should elect a neighbourhood council; at present there are 41 functioning neighbourhood councils. These local councils have 4-7 members elected for four year terms, who participate in decision-making on matters of concern to their areas, including preparation of relevant sections of the City budget. They have some limited funds available from the City budget, but they do not have independent bank accounts, and all expenditure arising from their operations is paid directly from the City's Single Treasury Account.

c) Municipality special PFM features

- City of Sisak, Croatia -

The City has recently introduced a new treasury system based on the SPI information system used by about 160 LGUs in Croatia. The system operates through a centralized treasury and all spending including that by budget users now comes out of a single treasury account, which is held in a commercial bank. The Treasury system is linked to the electronic system covering payroll, and work is in progress to link it also to the system covering procurement. Further work will be needed to link the property register to the other electronic systems. The development of these systems is considered to have substantially improved financial management, as well as contributing to greater transparency.

Section 3: Evaluation of PFM systems, processes and institutions

HLG-1 Predictability of transfer from Higher Level of Government

(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget

The budgeted and actual total amounts of payments to Sisak from central government is shown in the following Table.

Table3.1: Budgeted and actual receipts from central government 2011-13

HRK thousands

	2011		2012		2013	
	Budget	Out-turn	Budget	Out-turn	Budget	Out-turn
Total receipts	99,336.3	90,167.9	102,685.2	90,889.6	101,191.3	88,749.3
Out-turn as % of original budget		90.8%		88.5%		87.7%

Source: Sisak Department of Budget and Finance

ii) Annual variance between actual and estimated transfers of earmarked grants

The budget estimate and out-turn figures for each of the streams of revenue Sisak received from central government for the provision of services for the period 2011-13 are shown in the following table. The rating should be calculated by reference to the sum of the differences between the actual out-turn for each element of earmarked revenue and the budgeted amount adjusted for the overall difference between budget and out-turn. This PEFA dimension should be calculated by reference to the functional destination of each earmarked revenue stream (with the total un-earmarked receipts counted as one revenue stream). In the event it proved impossible to obtain consistent data in the detail PEFA requires, so the variance has been calculated by reference only to the separate streams of revenue without regard to their functional destination.

Table 3.2: Budgeted and Actual Revenue Streams from Central and other Local Governments for the Provision of Services

2011	Budget (1)	Budget x Out-turn % (90.8%) (2)	Out-turn (3)	Difference between (3) and (2) (4)
.Share of income tax	79,880.0		71,559.2	
.Share of tax on property sales	2,490.0		2,163.3	
Total un-earmarked receipts	82,370.0	74,792.0	73,722.4	1,069.6
.Central Government payments for decentralized services	13,556.3	12,309.1	13,405.2	1,096.1
.Earmarked CG grants	3,410.0	3,096.3	3,040.3	56.0
Total	99,336.3		90,167.9	2,221.7
Column (4) as % of Column (3)				2.5%
2012		88.5% of Col (1)		
.Share of income tax	77,350.0		72,102.1	
.Share of tax on property sales	2,500.0		2,840.4	
Total un-earmarked revenue	79,850.0	70,667.3	74,942.5	4,275.3
.CG payments for decentralized services	20,625.2	18,253.3	12,840.3	5,413.0
.Earmarked CG grants	2,210.0	1,955.9	3,106.8	1,150.9
Total	102,685.2		90,889.6	10,839.2
Column (4) as % of Column (3)				11.9%
2013		87.7% of Col (1)		
Share of income tax	76,525.0		69,713.0	
Share of tax on property sales	2,200.0		2,561.9	
Total un-earmarked revenue	78,725.0	69,041.8	72,274.9	3,233.1
CG payments for decentralized services	16,410.5	14,392.0	12,363.4	2,028.6
Earmarked CG grants	6,055.8	5,310.9	4,111.0	1,199.9
Total	101,191.3		88,749.3	6,461.6
Column (4) as % of Column (3)				7.3%

Source: Sisak Department for Budget & Finance.

The variance percentages were 4.5 per cent, 11.9 per cent and 7.3 per cent for the three years 2011-13.

iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)

Tax receipts are shared out by FINA (the Government Agency which receives all central government revenue) as they are received from taxpayers. Other payments for decentralized services are paid monthly. Thus most of Sisak's receipts are distributed evenly through the year.

Indicator	Score	Explanation
HLG-1 Predictability of Transfers from Higher Level of Government	NR	Scoring method M1
i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the City for inclusion in the latter's budget	C	Transfers from Central and other Governments fell short of budget by more than 10 per cent in two of the last three years
ii) Annual variance between actual and estimated of earmarked grants	NR	Variance in receipts of different grant streams exceeded 10 per cent in only one of the last three years. But because information could not be obtained about the functional destination of each payment from central government, this dimension cannot be rated consistently with the PEFA methodology.
iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the City EFY	A	Receipts are spread evenly through the year.

Subsection 3.1: Budget Credibility

PI-1 Aggregate expenditure out-turn in comparison with the original approved budget

(i) *Difference between actual primary expenditure and originally-budgeted primary expenditure*

The following table shows budgeted and actual expenditure for the three years 2011-13.

Table 3.3 Budgeted and actual expenditures (2011-2013)

HRK thousands

Year	2011		2012		2013	
	Budget	Out-turn	Budget	Out-turn	Budget	Out-turn
Total Current Expenditure	174,805.1	172,226.1	183,114.6	183,334.2	170,081.4	167,599.4
Total Capital Expenditure	34,884.0	23,460.4	20,660.4	10,176.3	31,046.8	22,040.2
Less Interest	1,027.9	898.2	1,615.1	1,421.5	860.0	774.8
Less External Grants	-	-	-	4,127.6	2,100.0	-
Total Primary Expenditure	208,661.2	194,787.9	202,159.9	187,961.4	198,168.2	188,864.8
Out-turn as % of Budget		93.4%		93.0%		95.3%
Current Expenditure less interest and grants	173,777.2	171,327.9	181,499.5	177,785.1	166,583.4	166,824.6
Out-turn as % of Budget		98.6%		98.0%		100.1%

Source: Sisak Department of Budget and Finance

Actual total expenditure fell significantly short of the budgeted amount in 2011 and 2012. If only current expenditure were considered, the out-turn was closer to original budget in all three years. Thus the shortfall was mainly the result of capital expenditure falling short of budget.

Indicator	Score	Explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget	B	Scoring method M1
(i) Difference between actual primary expenditure and originally-budgeted primary expenditure (debt service charges and also expenditure on projects from external financing excluded)	B	Actual primary expenditure never deviated by as much as 10 per cent from original budget in any of the years 2011-13. Actual percentages were 93.4%, 93.0% and 95.3% respectively.

PI-2 Composition of expenditure out-turn compared to original approved budget

(i) Extent to which the variance in the composition of primary expenditure exceeded the aggregate variance (as defined in PI-1) in the past three years excluding contingency items

The variance is calculated by adjusting the budgeted expenditure for each of the nine main (COFOG) functions by the overall percentage difference between budgeted and actual primary expenditure. The difference between the expenditure out-turn on each function and these adjusted figures is then calculated, with the variance being the sum of the absolute differences as a percentage of aggregate primary expenditure. The variance calculated in this way was 8.3 per cent for 2011, 7.2 per cent for 2012, and 6.8 per cent for 2013.

Note: Calculations deduct external grants from Sport, Recreation and Culture.

Table 3.4: Primary Expenditures (2011-2013)

(HRK thousands)

	Budget (1)	Budget x out-turn 93.4 % (2)	Out-turn (3)	(3) minus (2) (4)	(1)	(2) 93.0%	(3)	(4)	(1)	(2) 95.4%	(3)	(4)
General Public Services	31,334.5	29,266.4	31,799.5	2,533.1	32,768.4	30,474.6	31,445.5	970.9	30,170.5	28,782.8	30,616.6	1,833.8
Public Order and Safety	12,177.4	11,373.7	11,690.5	316.8	11,115.0	10,336.9	10,745.6	408.6	10,463.7	9,982.4	10,098.0	115.6
Economic Affairs	5,612.5	5,242.1	4,894.6	347.5	9,223.9	8,578.2	9,077.7	499.5	9,516.9	9,079.1	9,208.3	129.2
Environmental Protection	16,316.0	15,239.1	16,172.1	933.0	16,000.0	14,880.0	15,920.8	1,040.8	15,732.5	15,009.8	15,622.7	613.8
Housing	36,468.9	34,062.0	26,225.4	7,836.6	23,896.1	22,223.4	16,221.5	6,001.9	22,286.2	21,261.0	18,001.1	3,259.9
Health	-	-	-	-	-	-	-	-	-	-	-	-
Sport, Recreation, Culture	40,132.3	37,483.6	38,890.2	1,406.6	41,131.2	38,252.0	35,926.6	2,325.4	31,909.2	30,441.4	33,069.7	2,628.3
Education	44,060.7	41,152.7	42,971.0	1,818.3	47,147.3	43,847.0	43,307.9	539.1	57,963.1	55,296.8	52,005.5	3,291.3
Social Protection	22,558.9	21,070.0	22,144.7	1,074.7	20,871.0	19,410.0	21,188.1	1,778.1	20,126.0	19,200.2	20,242.8	1,042.6
Total	208,661.2		194,787.9	16,266.6	202,159.9		187,961.4	13,564.3	198,168.2		188,864.8	12,914.5
Additional Variance as % of out-turn				8.3%				7.2%				6.8%

Source: Sisak Department of Budget and Finance; figures exclude debt interest and external grants

(ii) The average amount of expenditure charged to the contingency vote over the last three years

Article 56(4) of the State Budget Law restricts the amount of any Contingency Reserve to 0.5 per cent of revenues excluding capital receipts. Sisakdid not have any such reserve during the period 2011-13.

Indicator	Score	Explanation
PI-2 Deviations in composition of expenditure out-turn compared to the original approved budget	B+	Scoring method M1
(i) Degree to which the variation in composition of primary expenditure has exceeded the global deviation in primary expenditure (as defined in PI-1) in the past three years	B	The variance in the composition of primary expenditure did not exceed 10 per cent of the expenditure out-turn in any of the three years 2011-13. Variances were 8.2%, 7.5%, and 6.9% respectively.
(ii) The average amount of expenditure charged to the contingency vote over the last three years	A	No expenditure was charged to a Contingency Reserve during 2011-13.

PI-3 Aggregate domestic revenue out-turn compared to original approved budget

(i) Actual domestic revenue compared to domestic revenue in the originally approved budget

This Indicator is rated by reference to the difference between budgeted own revenue and actual out-turn. Out-turn was close to Budget in the first two years, but fell substantially short in 2013, with shortfall mainly the result of capital receipts amounting to only a small fraction of the amount budgeted. The calculations are shown in the following table.

Table 3.5: Own revenue out-turn compared with original budget, 2011-13

HRK thousands

	2011		2012		2013	
	Budget	Out-turn	Budget	Out-turn	Budget	Out-turn
Total current revenue	198,614.3	186,593.6	201,576.7	188,255.1	195,860.8	177,606.8
Less Receipts from General Govt. (HLG-1)	99,336.3	90,167.9	102,685.2	90,889.6	101,191.3	88,749.3
Less External Grants	-	-	-	4,127.6	2,010.0	-
Own current revenue	99,278.0	96,425.7	98,891.5	93,237.9	92,659.5	88,857.5
Current revenue out-turn as % of original budget		97.1%		94.3%		95.9%
Receipts from asset sales	6,152.2	5,877.1	5,880.6	4,563.0	2,338.7	1,765.0
Total own revenue	105,430.2	102,302.8	104,772.1	97,800.9	94,998.2	90,622.5
Total own revenue as % of original budget		97.0%		93.3%		95.4%

Source: Sisak Department of Budget and Finance

Indicator	Score	Explanation
PI-3 Deviations in aggregate revenue out-turn compared with the original approved budget	B	M1 Scoring Method
(i) Real collection of domestic income in comparison with estimates in the original approved budget	B	Actual revenue was 97.0%, 93.3% and 95.4% for the three years 2011-13. Thus actual revenue exceeded 94% of budget in two of the three years, the condition for the score B.

PI-4 Stock and monitoring of expenditure payment arrears

All expenditures not paid during the due date mentioned in the contract (or the due date mentioned in the payment order as a result of the verbal agreement between supplier and the city of Sisak) is automatically considered to be an arrear.

There were very few arrears in Sisakin 2011 & 2012 and the city had no liquidity issues during these two years: expenditure arrears represented 0.71% and 1.36% (table 3.6) of total expenditures respectively. They were generated for technical reasons (incomplete documentation during procurement) rather than by the inability of the city to pay.

For 2013 expenditures arrears as a percentage of total real expenditures increased to 2.31%. This still represented a relatively low percentage of expenditure with no liquidity issues.

These results on expenditure arrears are summarized below:

Table 3.6: Arrears in Percentage (%) of total Expenditures for 2011-2013

(In HRK and in Percent)

Year	Total Expenditures	Amount of Arrears as of December 31	Arrears as a % of total Expenditures
2013	189,275,534	4,052,078	2.14%
2012	189,010,883	2,381,601	1.26%
2011	195,466,428	1,378,418	0.71%

Source: Calculations by the PEFA team on data provided by the Department of Budget and Finance for 2011-2013

Data on the stock of expenditures arrears with an age profile are available daily (in real time) in the FMIS, SPI from Libusoft, an integrated software covering budget planning, budget preparation, execution, payroll, payments, treasury, and procurement.

Table 3.7: Age Profiles of Arrears for 2011-2013

(In HRK)

Expenditure arrears by day	2011	2012	2013
0-60	1,332,744	1,879,689	3,626,337
61-180	12,174	501,912	425,741
181-360	30,155	--	-
Above 360	3,345	--	-
TOTAL	1,378,418	2,381,601	4,052,078

Source: Calculations by the PEFA team on data provided by the Department of Budget and Finance for 2011-2013

(i) Stock of expenditure payment arrears

The stock of arrears represented 2.31% of total expenditure in 2013 as of December 31, 2013

(ii) *Availability of data to monitor the stock of expenditure payment arrears*

Reliable and complete data on the stock of arrears (including an age profile) is available daily

Indicator	Score	Explanation
PI-4 Stock and Monitoring of expenditure payment arrears	C+	M1 Scoring Method
(i) Stock of expenditure payment arrears	C	Stock of arrears was 2.14% of expenditure in 2013
(ii) Availability of data in order to monitor the stock of expenditure payment arrears	A	The existing system allows having complete and reliable data on arrears in real time (any time during the year) with an age profile.

Subsection 3.2: Comprehensiveness and Transparency

PI-5 Classification of the Budget

i) The classification system used to formulate, execute and report on the City budget.

The existing legislation that applies to the city of Sisak calls for an organizational (administrative), economic, functional and program budget classification⁶. The legislation also calls for a budget classification according to sources of financing and location.

In the city of Sisak, there is a functional and sub-functional classification for budget preparation, execution and reporting using GFS/COFOG standards. There are 9 functions and 22 sub-functions⁷ (see following table).

TABLE 3.8 :BUDGET CLASSIFICATION-FUNCTIONS & SUB-FUNCTIONS IN THE CITY OF SISAK

1 function. General public services (with 2 sub-functions);
2 function. Defence (does not apply at the SN level);
3 function. Public order and safety (with 1 sub-function);
4 function. Economic affairs (with 2 sub-functions);
5 function. Environment (with 3 sub-functions);
6 function. Housing (with 4 sub-functions);
7 function. Health (with 2 sub-functions);
8 function. Leisure, culture and religion (with 2 sub-functions);
9 function. Education (with 3 sub-functions);
10 function. Social Care (with 3 sub-functions).

Budget preparation, execution and reporting are also classified by programs and activities (there are no sub-programs). There are 29 programs divided in 65 activities in 2013.

In addition to the above advanced classifications, preparation, execution and reporting of the budget are also carried out according to the administrative and economic classifications⁸.

⁶State Budget Act (Consolidated Text), 2009, Art. 21; Ordinance on Budget Accounting and Chart of Accounts (Official Gazette, no. 27/05 and 127/07)

⁷ Budget of the city of Sisak (2013), Budget execution Reports of the city of Sisak(2013)

⁸ This is a legal requirement (State Budget Act, 2009, Art. 10)

Indicator	Score	Explanation
PI-5 Classification of the Budget	A	M1 Scoring method
(i) The classification system used to formulate, execute and report on the central government budget.	A	The budget formulation, execution and reporting is based on administrative, economic, sub-functional and program classifications.

PI-6 Comprehensiveness of information included in budget documentation

TABLE 3.9: INFORMATION CONTAINED IN BUDGET DOCUMENTATION

Documentary Requirement	Fulfilled	Document
1. Macroeconomic assumptions, including aggregate growth, inflation and exchange rate estimates, at the very least.	YES	This information is included in the guidelines for budget preparation provided by the Ministry of Finance. It is also included in the draft budget of the city. <i>(Draft budget documentation of the city of Sisak, 2014)</i>
2. Fiscal deficit defined according to GFS or other internationally recognized standard	NO	The principle of balance applies to the budget. That means that a budget should not show a deficit from a technical point of view (State Budget Act, 2009, Art. 7). On the other side the city is allowed to borrow (State Budget Act, 2009, Art. 86-89). The amount of the Loan in the budget corresponds to the "fiscal deficit". It is considered as a receipt to the budget (State Budget Act, 2009, Art. 48). This presentation is not consistent with the GFS standards <i>(Draft budget documentation of the city of Sisak, 2014)</i>
3. Deficit financing, describing anticipated composition	YES	Loans are indicated in the budget and can be identified as the amounts to finance the "fiscal deficit". The 2014 budget had 2 loans representing the deficit financing. <i>(Draft budget documentation of the city of Sisak, 2014)</i>
4. Debt stock, including details at least for the beginning of the current year	NO	Data on debt stock is not available <i>(Draft budget documentation of the city of Sisak, 2014)</i>
5. Financial Assets, including details at least for the beginning of the current year	NO	Shares in 9 companies and bank balances are not indicated in budget documentation. <i>(Draft budget documentation of the city of Sisak, 2014)</i>

6. Prior year's budget outturn, presented in the same format as the budget proposal.	NO	Results of previous budget exercise not available <i>(Draft budget documentation of the city of Sisak, 2014)</i>
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	NO	Revised budgets not presented. There were 3 revised budgets in 2013 <i>(Draft budget documentation of the city of Sisak, 2014)</i>
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	NO	<i>(Draft budget documentation of the city of Sisak, 2014)</i>
9. Explanation of the budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	YES	Explanation of the budget implications of new policy initiatives available <i>(Draft budget documentation of the city of Sisak, 2014)</i>

i) Share of the above listed information contained in the budgetary documentation most recently issued by the central government.

Recent budget documentation of the city of Sisak fulfils 3 of the 9 information benchmarks

Indicator	Score	Explanation
PI-6 Comprehensiveness of information included in budgetary documentation	C	M1 Scoring method
(i) Proportion of information mentioned above and contained in the most recent budgetary documentation published by the central government.	C	Recent budget documentation fulfils 3 of the 9 information benchmarks

PI-7 Extent of unreported city operations

i) *Level of extra-budgetary expenditure (not including projects financed by donors) that is not declared – in other words that does not appear in fiscal reports.*

According to the existing legislation all revenue and expenditure should be budgeted⁹. In Sisak there are 16 budget users' whose revenue and expenditure are fully integrated into the City's consolidated budget and execution statements. In addition there is one body,, a sports centre, which receives a subsidy but is otherwise excluded from the City budget and able to spend all its funds (including its own revenues) without any specific authorisation. It makes financial reports to the City twice a year. The expenditure of the sports centre in 2013 amounted to 11.2 million HRK, or 5.9 per cent of total consolidated City expenditure of 189.3 million HRK..

ii) *Information on income and expenditure in relation to projects financed by donors included in the fiscal reports.*

In 2013 the city of Sisak had an EU donor project funding. It was in the budget but there was no disbursement. The last disbursement of a EU grant was in 2012 (not mentioned in the 2012 budget).

Indicator	Score	Explanation
PI-7 Extent of unreported government operations	C+	M1 Scoring Method
(i) Level of extra-budgetary expenditure (as distinct from that for projects financed by donors) which is not declared, in other words does not appear in fiscal reports.	C	The level of unreported extra-budgetary expenditure (other than donor funded projects) in 2013 was 5.9% of total budget expenditure.
(ii) Information on income and expenditure relating to projects financed by donors that is included in fiscal reports.	A	The 2013 EU grant was in the budget.

PI-8 Transparency of inter-governmental fiscal relations

The city of Sisak has 41 Neighbourhood Councils. The neighbourhood councils are at first sight sub-national entities of a lower level that function with elected councils for four years (from 3 to 7 members that are volunteers).

⁹ Refer to: State Budget Act (2009), *Universality principle*, Art. 9

The neighbourhood councils do not collect revenues and have all their expenses covered by the city. Expenses are based on needs and are the results of proposals presented by the Neighbourhood Councils.

The amounts available and to be spent by the neighbourhood councils are included in the budget of the city of Sisak. The latter has to also approve all expenditures made by the neighbourhood councils that have no employees (with the city directly executing the various stages of spending).

On balance, the neighbourhood councils function as departments of the city and/or as deconcentrated units of the same.

- i) Transparent systems based on regulations governing horizontal allocations between sub-national governments of unconditional and conditional transfers from central government (budgeted and real allocations).NA*
- ii) Timely provision of reliable information to sub-national governments on the allocations to be made to them by Central Government for the following year. NA*
- iii) Degree to which consolidated general government fiscal data (at least on income and expenditure) is collected and made available, broken down by sectoral categories. NA*

Indicator	Score	Explanation
PI-8 Transparency of inter-governmental fiscal relations	NA	M2 Scoring Method
i) Transparent systems based on regulations regarding horizontal allocation between sub-national governments of unconditional and conditional transfers from central government (budgeted and real allocations)	NA	NA
ii) Punctual provision of reliable information to sub-national governments about the allocations to be made to them by central government in the coming year	NA	NA
iii) Degree to which consolidated fiscal data are gathered and made known (at least in terms of income and expenditure) relating to general government, broken down by sectoral categories	NA	NA

PI-9 Oversight of aggregate fiscal risk caused by other public sector entities

Entities

There are a museum, a gallery, a library, a cultural center, a fire brigade and 2 kindergartens. There are also nine (9) elementary schools. All these entities function as city departments. In addition the city has one sport center that reports twice annually to the Council (see PI-7(i) above).

City enterprises

The city of Sisak has shares in nine (9) enterprises. These shares are valued at: about HRK 245 million on December 31, 2013, as follows:

Table 3.10: Companies owned by the city of Sisak (2013)

	Name of Company	Type of Company	Activity of the Company	Percentage Ownership	Value in HRK
1	<i>Komunalac</i>	Limited liability company	Utility Company	100%	6 470 353
2	<i>Gospodarenje Otpadom</i>	Limited liability company	Garbage Management	100%	3.773.174
3	<i>Sisacki Vodovod</i>	Limited liability company	Water supply & drainage	96.57%	150.884.270
4	<i>Gradska trznica</i>	Limited liability company	City market	100%	34.701.159
5	<i>Gradska groblja Viktorovac</i>	Limited liability company	Cemetery	100%	-
6	<i>Auto promet Sisak</i>	Limited liability company	City transport	100%	16.988.998
7	<i>Sisakprojekti</i>	Limited liability company	Education-innovation	100%	315.791
8	<i>Vodoskrba Kupa</i>	Limited liability company	Water supply	62.79%	32.312.482
9	<i>Radio Sisak</i>	Limited liability company	Radio	100%	-
	TOTAL				245.446.226

Source: Department of Budget and Finance (2013)

All the above mentioned companies forward monthly reports to the city but no consolidated overview on fiscal risk (report) is elaborated.

i) Degree of city monitoring of the main autonomous public organisations and state companies.

All city companies (partially or fully owned) submit fiscal reports to the city at least annually but a consolidated overview is missing.

ii) Degree to which the city monitors the fiscal position of the sub-national governments.

There are no sub-national governments in Sisak. The dimension does not apply (NA)

Indicator	Score	Explanation
PI-9 Oversight of aggregate fiscal risk caused by other public sector institutions	C	M1 Scoring Method
(i) Degree to which the central government monitors the autonomous public organisms (AGAs) and public companies (EPs).	C	Autonomous entities submit quarterly fiscal reports to the city and the information is consolidated yearly. Companies controlled (partially or fully) by the city submit fiscal reports to the city annually but there is no consolidation of the data.
(ii) Degree to which the central government monitors the fiscal position of sub-national governments	NA	--

PI-10 Public access to key fiscal information

i) Number of the elements regarding public access to information, mentioned in table 3.5 that are used (an element can only be considered for the purposes of this evaluation if it fulfils all the requirements).

The city makes available to the public 5 of the 6 listed types of information

TABLE 3.11: INDICATORS OF PUBLIC ACCES TO KEY FINANCIAL INFORMATION

Key information	Situation of public access
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the city legislature.	YES. Publicly presented (to the public). Accessible on the web site. For the 2014 draft budget, the whole documentation of the budget was posted on the website on October 14, 2013. (City of Sisak; www.Sisak.hr)
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	YES. The city website publishes budget execution reports semi-annually. The first report (January-June) is available within 30 days (by July 30th). The second report (July-December) is available within 75 days (March 15 following year). In addition monthly execution reports are available in real time upon request in conformity with the, <i>Law on the Right of Accessing Information</i> (2012). When requested in person, they are immediately available. When requested in writing they are remitted within a maximum of 2 days.

	Budget Law (2009), Art 12 (3); Department of Budget and Finance, www.Sisak.hr
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	YES. Statements are published when they are finalized. There are no audited financial statements. The State Audit Office identifies issues that are to be dealt with the following year (Department of Finance & Entrepreneurship)
(iv) External audit reports: All reports on city consolidated operations are made available to the public through appropriate means within six months of completed audit.	YES, July 26 th 2013 audit reports completed (for 2012) September 13 th 2013 posted on the web site (www.revizija.hr)
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. is published at least quarterly through appropriate means.	YES Published on the Official Gazette and on the website of the official Gazette as soon as the official decision is made (there is a 30 day deadline for publication) (www.snpqz.hr)
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with city coverage (elementary schools or primary health clinics).	YES Resources available to the 2 kindergartens and the 9 elementary schools in Sisak (with city coverage) are available in the city budget. Resources received by the centers are available in the yearly execution reports. There are no primary health centres under the city coverage in Sisak (City budgets 2013 and 2014, www.Sisak.hr)

Indicator	Score	Explanation
PI-10 Public access to key fiscal information	A	M1 scoring method
Number of elements listed above regarding public access to information that is fulfilled.	A	The city makes available to the public 6 of the 6 listed types of information

Subsection 3.3: Policy-Based Budgeting

PI-11 Orderliness and participation in the annual budget process

(i) Existence and observance of a fixed budget calendar

TABLE 3.12: CALENDAR FOR THE BUDGET PREPARATION PROCESS (for 2014 budget)

Deadline	Activity
30 June 2013	Ministry of Finance sends guidelines for preparing 2014 Budget to Local Government Units. Guidelines actually issued in late September 2013.
30 August 2013	Sisak Department of Budget and Finance issues instructions to other City Depts. And Budget Users. Actual Date 25 October
15 September 2013	Sisak Department of Budget and Finance invites applications for subsidies from voluntary organisations (sports clubs, etc.)
15 September 2013	Budget users submit proposals to Sisak Department of Budget and Finance: Actual date 4 November
15 October 2013	Sisak Department of Budget and Finance submits consolidated draft Budget to Mayor. Actual date 13 November
15 November 2013	Mayor submits draft Budget to City Council
Mid-November – early December 2013	Finance and other Council Committees consider proposals
Mid-November - early December 2013	Neighbourhood Councils comment on proposals
31 December 2013	Council approves revised Budget proposals. Actual date 18 December
By 15 January 2014	Sisak Department of Budget and Finance sends approved Budget to Ministry of Finance

Source: State Budget Act, Articles 25-40; Sisak Department of Budget and Finance

As indicated in the Table above, the State Budget Act prescribes a calendar which Local Government Units (LGUs) should follow in the preparation of their Budgets. However, during the current period of financial stringency following the financial crisis of 2008-09, the Ministry of Finance has itself been unable to issue its Guidelines for Budget preparation in accordance with the prescribed timescale. As a consequence LGUs have been unable to issue their Budget instructions at the time stipulated. However, Cities are relatively small organisations with few budget users, and Sisak has been able in practice to produce consolidated Budget proposals by 15 November, so that discussion by the elected Council can

take place in an orderly way, with sufficient time allowed for detailed amendments before the Budget is approved by 31 December.

(ii) Guidance on the preparation of budget submissions

The City Budget and Finance Department works closely throughout the year with the other City Departments and the main budget users (elementary schools, kindergarten, fire service, etc.). The Heads of the City Departments and of the main budget users are analogous to the Cabinet of Ministers at central government level. Thus it is possible for budget submissions to be prepared within a very short time after the issue of final instructions, which the Department of Budget and Finance agrees with the Mayor, and which contain expenditure ceilings within which all Heads of Department and budget users have to work. This process works satisfactorily despite some short timescales, and there is full communication at every stage between the Department of Budget and Finance, the Mayor and the main budget users.

(iii) Timely approval of the budget by the Legislature

The Council has approved the Budget in each of the last three years before 25 December.

TABLE 3.13: DATES FOR BUDGET APPROVAL BY LEGISLATURE (2012 through 2014)

Fiscal Year	Date of Approval
2012	14 December 2011
2013	14 December 2012
2014	18 December 2013

Source: Sisak Department of Budget and Finance

Indicator	Score	Explanation
PI-11 Orderliness and participation in the annual budget process	B	M2 scoring method
(i) Existence and observance of a fixed budgetary calendar	C	The earlier stages of the calendar have been subject to considerable delays which were outside the control of LGUs.
(ii) Directives on the preparation of budgetary documents	B	Ongoing consultations between the Finance Department, the Mayor, the City Departments and the main budget users ensure that Budget proposals can readily be produced once the final instructions, which include expenditure ceilings approved by the mayor, have been given.
(iii) Timely approval of the budget by the Council	A	The City Council has approved the next year's Budget before 25 December in each of the last three years.

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

(i) Preparation of fiscal forecasts and multi-annual functional allocations

Article 33 of the State Budget Law requires each LGU's Finance Department to prepare a "development programme plan" for a three year period "on the basis of strategic documents intended for the development of the LGU". Article 34 requires the development programme plan to "contain goals and priorities of the development of the LGU linked with programme and organisational (i.e. administrative) classification of the budget". During 2011-13 Sisak has accordingly presented figures for the two subsequent years alongside its figures for the budget year immediately ahead. Where the shape of activities in future years can be foreseen with confidence (e.g. elementary schools, kindergarten, fire service), the figures take account of the impact of investment expenditures on future current expenditure. The shape of the budget has changed in recent years in response to declining revenues and changing political priorities, with relatively more now being spent on infrastructure and amenities and less on culture and sport. The shortage of funds has led to reductions in maintenance expenditure and more recently to reductions in staff numbers, while very little money has been available for investment. Overall total annual expenditure has fallen from some 280 million HRK in 2008 to about 190 million HRK in 2014. This is the unfavourable background against which Sisak is currently working on a strategic plan for the development of the City, which should be completed by mid-summer 2014. But the unpredictability of some major revenue streams, and the

uncertainty about the availability of central government funding for investments, make it difficult to prepare strategic plans which remain stable from one year to the next.

(ii) Scope and frequency of debt sustainability analyses

The Ministry of Finance keeps tight control of all LGU borrowing, which in all cases (including borrowing by LGU-owned utility firms) requires the Ministry's consent. The Budget Law (OG 87/08) requires that the annual debt service payments (interest and capital repayments) on all outstanding loans remain within a limit of 20 per cent of the previous year's revenue net of capital receipts. Provided LGUs comply with this limit, it already constitutes a considerable measure of assurance that they will always be able to service their debts. Article 75(3) of the State Budget law gives the Ministry of Finance power to further restrict overall LGU borrowing by annual Law on Budget execution. For the period 2011-13 the Ministry limited total new borrowing by LGUs and their utility service companies to 2,3 (in 2011) and 2.5 (2012 and 2013) per cent of the previous year's aggregate LGU revenue excluding central government grants. Sisak like most LGUs has relatively little outstanding debt, although it incurred deficits in two of the last three years. Thus far the amounts are small in relation to current annual revenue (total annual debt service costs in 2011-13 were in the range 6-7.5 million HRK, or less than 5 per cent of annual expenditure) so that this dimension can be considered Not Applicable.

(iii) Existence of sectoral strategies with multi-annual determination of current expenditure and investment costs

Sisak showed that where its activities follow a relatively stable and predictable path over time, the figures in its projections of the costs of the services concerned include the ongoing current expenditures required to make use of new investments. However, this is currently relatively unimportant, given the shortage of finance for investment. Although the budget is presented in terms of 29 programmes and 65 activities, the Budget and Finance Department considered that only about 10 per cent of expenditure was the subject of programmes with clearly defined objectives for the services concerned.

(iv) Links between the investments budget and future expenditure estimates

The unpredictability of the revenues (community fee paid in respect of new construction and central government grants) required to finance investments makes longer-term investment planning very difficult. The figures produced each year for the two years following the Budget year include the current expenditure impact of new investments included in the projection, so it is not possible to say that there is no connection between the planning of current and capital expenditure. But there are no real strategies determining future investment plans, and the unpredictability of the necessary revenues means that investment intentions have to be reformulated each year.

Indicator	Score	Explanation
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	M2 scoring method
(i) Multi-annual fiscal forecasts and functional allocations	C	Although detailed projections of budgeted activities are prepared each year for a three year period, firm links between multi-year estimates and subsequent budget ceilings for particular activities have not yet been established in many cases.
(ii) Scope and frequency of debt sustainability analyses	NA	Sisak's total annual debt service costs are less than 5 per cent of revenue. There is at present no question of the city's debt becoming unsustainable. In this situation the dimension is Not Applicable.
(iii) Existence of sectoral strategies with cost determination	D	Plans for the development of programmes where activities have a steady pattern allow fully for both capital and current costs. But programmes with defined objectives for service development account for only about 10 per cent of total expenditure.
(iv) Linkages between investment budgets and forward expenditure estimates	C	Investment planning is rather uncertain because of the unpredictability of the revenue streams required to finance it, although the projections produced each year are consistent as between current and capital expenditure.

Subsection 3.4: Predictability and Control in Budget Execution

PI-13 Transparency of taxpayers' obligations and liabilities

This Indicator considers tax and other revenue accruing to the city where payments are compulsory, and the rates charged are not directly related to the costs of providing any service. Sisak imposes a surtax of 10 per cent on the income tax payments of its residents, which is assessed by the Tax Authority (TA) and paid to the City as it is collected by the central government's Finance Agency (FINA) together with the City's share (64 per cent) of the basic income tax payments. There is also a 3 per cent tax on the consumption of beverages at catering establishments in the City, an annual charge of 2,000 HRK on each business operating in the City, and an annual tax based on the floor area of each holiday house. These tax revenues are collected by the county office of TA, and paid to the City each month. The most important own revenues are the Community fees charged in respect of new developments, and the annual utility fee charged on each property to meet the costs of upkeep of the City's infrastructure. The City directly collects these amounts.

TABLE 3.14: OWN TAX & FEE REVENUE COLLECTION, 2013

Taxes	Executed HRK thousands	% relative to subtotal	% relative to total
Direct taxes	11,438.8	100%	15.6%
Surtax on personal income tax	11,438.8	100%	15.6%
Indirect Taxes	1,476.0	100%	2.0%
Tax on consumption of beverages	733.3	49.7%	1.0%
Tax on holiday houses	18.6	1.3%	0.0%
Tax on business names	724.1	49.1%	1.0%
Administrative fees	60,606.5	100%	82.4%
Community fees	4,757.9	7.8%	6.5%
Utility fees	53,905.3	88.9%	73.3%
Other fees and charges	1,943.2	3.2%	2.6%
TOTAL OWN REVENUE	73,521.3		

Source: Sisak Administrative Department for Finance and Budget

(i) Clarity and comprehensiveness of tax liabilities

Surtax depends entirely on the central government for its assessment and collection, and therefore is not considered here. The taxes on the consumption of beverages, on holiday houses and business names are conceptually simple, and the legislation and administrative procedures are clear. The amounts payable are determined by objective factors, without there being scope for the exercise of discretion by officials of the TA. Thus the City, TA and taxpayers know what their liabilities are. The legislation governing the payment of the community fees in respect of new developments and the annual utility fees charged on all properties is well understood by all those concerned. The basis on which utility fees are charged is clear in principle, although there might be questions about the

accuracy of measurements of particular properties, where the records are kept by the City. There is inevitably some (but few) element(s) of negotiation concerning the amounts of the once-for-all payments of the community fees.

(ii) Access by taxpayers to information on their tax responsibilities and administrative procedures

The basis for the calculation of the amounts payable in respect of the different taxes and the annual utility fees is clearly stated on the accounts sent to those who are liable to pay them. Community fees are specifically calculated whenever chargeable developments are undertaken. Further information is readily available to tax and fee payers at City offices and county offices of TA, although no particular steps are taken to provide taxpayer education.

(iii) Existence and functioning of a tax appeals mechanism

Appeals against tax assessments are made initially to TA. If agreement is not reached, an appeal can be made to a specialised section of the Ministry of Finance. A further appeal is possible to the Administrative Court, which has a considerable backlog of undecided cases. It does not appear that the small taxes for which LGUs are responsible give rise to any significant incidence of disputes and appeals. There is provision in the law for appeals to be made against utility fees and the community fees charged on new developments to a "second instance" (i.e. after an initial appeal to the LGU making the assessment) consisting of an independent panel appointed by the county concerned. In Sisak about 50 appeals a year have been made to the City against utility fee assessments; it did not appear that any significant number of these had been taken to the second instance.

Indicator	Score	Explanation
PI-13 Transparency of taxpayers' obligations and liabilities	B	M2 scoring method
(i) Clarity and comprehensiveness of tax liabilities	B	Liability for payment of the taxes and fees for which LGUs are responsible is clearly defined in legislation, although there may be scope for error in the measurement of chargeable areas, and there is inevitably an element of negotiation in the case of the community fees.
(ii) Access by taxpayers to information about responsibilities and administrative procedures in relation to taxes.	B	Assessments make clear the basis on which amounts owing have been calculated. Information is readily available at local offices, although there are no particular efforts directed towards education of those liable to pay.
(iii) Existence and functioning of a tax appeals mechanism.	C	A special section of the Ministry of Finance deals with tax appeals. There is provision for appeals against city community and utility fees to be made to a body appointed by the county concerned, but there were apparently very few such appeals.

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

(i) Controls in the taxpayer registration system

Surtax is paid by the Government Agency FINA directly to the LGUs where taxpayers are registered. LGUs have no control over whether they receive the correct amounts, since they are told nothing about the identity of individual taxpayers. The City has the responsibility to identify businesses in its area liable to the business names and beverage consumption taxes, and also holiday houses, but collection and enforcement is in the hands of the TA which does not provide the City with a detailed account of payments by each taxpayer. Furthermore the TA stated that it did not make use of its electronic registers of those liable to other taxes in collecting the three taxes which are decided by LGUs. However, the requirement for businesses to keep electronic Fiscal Registers (important for the collection of VAT) provides the City with some measure of assurance that most amounts due from businesses will be received. Receipts of holiday houses tax, which are insignificant in Sisak, will be dependent on the LGU's effectiveness in collecting the necessary information. The assessment and collection of community and utility fees depends on the completeness of the City's records and the strength of its enforcement efforts. Countrywide the cadastral records are considered not to be of sufficient accuracy to support the collection of a property tax based on size or value, and TA does not release information to LGUs about the details of tax receipts arising from sales of property in their areas.

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

It appears that the main focus of TA's enforcement activity is on VAT, social contributions and income taxes, with relatively little attention to the minor taxes levied on behalf of LGUs. Penalties arising from the minor taxes are not significant. Failure to register a property in respect of which utility fees should be paid incurs a penalty of only 500HKR (less than US\$100), which the City considers to be completely ineffective, although once such properties are identified the city makes every effort to collect the amounts owed. Enforcement of community and utility fees has to be done through the Courts without the threat of substantial further penalties becoming payable in cases of non-compliance. The city sends notices to users who do not pay the utility charge and contribution within three months, and after the notice expires the city may start foreclosure. For poor users the city provides for the utility charge and contribution to be paid from the budget, from the item social care. Where amounts have been proved to be uncollectable they are written off in accordance with a strict procedure. Four inspectors are currently engaged (May 2014) on ensuring so far as possible that all property is correctly assessed. In the case of the community fees, the city may take a charge on the property of the payer.

(iii) Planning and control of tax auditing programmes

Sisak devotes substantial staff resources to the enforcement of community and utility fees, based on local intelligence. However, the taxes and fees for which LGUs are responsible do not involve self-assessment, so there is no question of a risk-based tax audit programme of the kind with which this dimension is concerned.

Indicator	Score	Explanation
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	D+	M2 scoring method
(i) Application of controls in the taxpayer registration system	C	Sisak devotes much effort to its property database. But there are no links with TA databases.
(ii) Effectiveness of sanctions for failure to register and declare taxes	D	Penalties for non-compliance are ineffective.
(iii) Planning and control of tax audit programmes	NA	The taxes and fees imposed by Sisak do not involve self-assessment.

PI-15 Effectiveness in collection of tax payments

(i) The collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years)

There are substantial arrears of the taxes and charges for which Sisak is responsible. Information is available at the beginning of each year about arrears of each tax or fee (and the amounts owed by each individual taxpayer), and also about the amounts collected in the course of the year. The position is summarised in the following table.

Table 3.15: Tax arrears and amounts collected each year, 2011-13

HRK thousands							
Tax/Fee	Arrears at 31.12.10	Amount collected in 2011	Arrears at 31.12.11	Amount collected in 2012	Arrears at 31.12.12	Amount collected in 2013	Arrears at 31.12.13
Holiday houses	20.7	20.4	18.3	26.2	14.7	18.6	8.3
Consumption	726.9	515.1	788.0	501.4	884.4	733.3	866.4
Business names	3,459.7	732.6	2,681.2	762.6	2,266.3	724.1	1,278.9
Communal fees	10,996.9	6,550.7	10,347.9	7,812.8	9,085.2	4,757.9	8,676.0
Utility fees	25,286.6	55,256.5	28,733.4	54,808.2	18,808.3	53,905.3	16,339.6
Total	40,490.8	63,075.3	42,568.8	63,911.2	31,058.9	59,406.0	27,169.2
Arrears as % of collections during year			67.5%		48.6%		45.7%

Source: Sisak Department of Budget and Finance

As the table shows, total arrears have fallen both absolutely and as a proportion of amounts collected since the end of 2011. The reductions in arrears apparently reflect on the one hand increased effort devoted to revenue collection and on the other the write-off of uncollectable amounts. The reductions have been particularly notable in the cases of the business names tax where arrears have fallen by nearly two-thirds, and utility fees where arrears have fallen by more than 40 per cent since the end of 2011. Arrears as a proportion of collections are smaller for the annual utility fees which the City itself collects itself than for the small taxes collected by TA and the one-off payments of communal fees. The continuing large amounts outstanding, despite action to write-off uncollectable amounts, suggests that the debt collection ratio is relatively low and in any case below 60%.

(ii) Effectiveness of the transfer of tax payments to the Treasury by the revenue administration

All revenue is paid into the Sisak's Single Treasury Account, either directly by fee payers, or daily by TA in respect of income and consumption taxes. Only the small amounts due in respect of business names and holiday homes are paid once a year by TA.

(iii) Frequency with which the Treasury completely reconciles accounts reflecting tax assessments, payments, records of arrears and transfers to Treasury

Sisak carries out detailed reconciliations of the arrears, new assessments and collections from its individual fee payers with its Treasury records each time the budget is revised during the year (normally 3 or 4 times each year).

Indicator	Score	Explanation
PI-15 Effectiveness of tax collection	D+	M1 scoring method
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	D	Arrears of the taxes and fees for which Sisak is responsible amount to more than 40 per cent of total annual receipts.
(ii) Effectiveness in the transfer of recovered taxes to the Treasury by the revenue administration	B	The majority of the revenue dependent on Sisak's own decisions is paid immediately into the City's Single Treasury Account, with only the minor revenue from the small taxes on business names and holiday houses paid over annually by TA.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and transfers to Treasury.	C	Complete reconciliation of the position of individual fee payers with the City's Treasury records is whenever the budget is revised during each year.

PI- 16 Predictability in availability of funds for commitment of expenditure

i) Degree to which cash-flow forecasts and monitoring are carried out

There is no cash flow planning carried out in Sisak although there is a timid attempt to do so but only for 30 days at the time.

ii) Reliability and time horizon of the information on maximum limits and payment commitments provided to the MDA during the year

In Sisak, spending units of the city plan expenditure one month in advance in accordance with budgeted appropriations. That has been the case in 2013 (and for 2011 and 2013 as well).

iii) Frequency and transparency of adjustments to budgetary allocations at a level higher than MDA administrations.

In 2013, there were 3 amended budgets (supplementary budgets) in Sisak, which modified the original approved budget¹⁰. The amendments/adjustments were

¹⁰With the first revision the (revised) budget amounted to 210 903 179 HRK; with the second to 209 064 776 HRK and to 209 082 444 HRK for the third (Source: Department of Budget and Finance)

reviewed and approved by the City Council¹¹. They were unpredictable but they were carried out in a transparent way.

Indicator	Score	Explanation
PI-16 Predictability of availability of funds for commitment of expenditure	D+	M1 scoring method
(i) Degree to which cash flow forecasting and monitoring is carried out	D	No cash flow forecast is prepared for the fiscal year.
(ii) Reliability and time horizon of the periodic information during the year providing the MDAs with information about maximum limits and payment commitments	C	Departments are provided reliable information for one month in advance in accordance with budgeted appropriations.
(iii) Frequency and transparency of the adjustments made to the budgetary allocations available at a level higher than MDA administrations	C	Adjustments took place three times per year. They are carried out in a transparent way.

PI-17 Registration and Oversight of Cash Balances, Debt and Guarantees

At the time of this assessment (May 2014) the city of Sisak had five (5) domestic loans. The original amount of the loans was HRK 42.16 million.. The lenders were OTP Bank Zadar, Privredna Banka Zagreb, Hypo Alpe Adria Bank and commodity lender Epsilon company, Zagreb. 17.8 million HRK remains outstanding. Repayments will continue until 2020. Debt management is carried out by the Department of Budget and Finance.

i) Quality of debt data recording and reporting

Reconciliation of data is carried out regularly comparing quarterly statements received from the *Privredna Banka Zagreb* and the city's books. As a result debt data are of very good quality. In addition, internal and external auditors (visiting the city) never raised any issue regarding the quality of the data.

Four times per year the Department of Budget and Finance elaborates financial reports including a detailed section on loan (covering debt service, stock and operations) sent to the Ministry of Finance.

¹¹For changes in the same group of budget items (which do not modify the total amount of the approved budget), reallocations are allowed. For all other cases City Council has to review and approve the amendments with the procedures being the same as for the original approved budget.

ii) Degree of consolidation of the government's cash balance

The city of Sisak has one bank account only, held at *Hypo Alpe Adria Banka* private commercial bank. This bank account is used for collecting revenues and for transfers from Central Government. It is also used for all payments. Every day the city receives an electronic print out from the bank with the balance available. Authorized staff in the city can also access the account electronically in real time.

iii) Systems for contracting loans and issuance of guarantees

The city may contract loans (as seen above) and issue guarantee. For the time being the city has not issued any guarantee. The conditions for contracting loans and issuing guarantees are indicated in the law¹². In both cases the city council has to approve the decision to borrow or to issue a guarantee. The government should give its consent on the proposal of the Minister of Finance. In requesting approval for a loan (or for providing a guarantee) the total annual liability of the city for debt service (interest and capital repayments together) must not exceed 20 percent of the revenues realized in the year prior to the year in which the borrowing is made (or the guarantee is issued).

Indicator	Score	Explanation
PI-17 Recording and Management of Cash balances, Debt and Guarantees	A	M2 scoring method
i) Quality of the records and reports presented on debt data.	B	Domestic debt records (there is no foreign debt) are complete, updated and reconciled quarterly. Data are considered of high standard. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced quarterly.
ii) Degree of consolidation of government cash balances	A	All cash balances are calculated daily
iii) Systems for contracting loans and issuance guarantees	A	Sisak contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.

¹²State Budget Act (2009), Art 88 ; Ordinance on the borrowing procedure of local and regional self-government units and on issuing guarantees of local and regional self-government units (Official Gazette, no. 55/04),

PI-18 Effectiveness of payroll controls

Sisak has 136 employees in the City administration, and 384 working in the services for which it is responsible (212 in the Kindergartens, 60 in the Fire Service, 42 in the City Library, 44 in the Culture House and City Gallery, and 26 in the City Museum). All payments are now made through an automated payroll from the City's Treasury account.

i) Degree of integration and reconciliation between personnel records and payroll data

Personnel records are kept by the Human Resources section of the City's Department for Administration, with all decisions on appointments and promotions approved by the Mayor. The payroll is the responsibility of the Department of Budget and Finance, with the monthly pay for each individual calculated automatically by the Libusoft IT system on the basis of input (hours worked, holidays, etc.) through the Finance and Budget Department. Until recently controls over the details of the monthly claims for each individual were weaker for the budget users than for the central administration, with the heads of the bodies concerned not involved in certifying their accuracy. The basic parameters for each individual (length of service, coefficient to be applied to basic amount in the negotiated collective agreement) are taken from the personnel records. Access to the payroll system is strictly limited, and changes made to basic parameters only when authorised by the Director of the Administration Department. The Director of the Department of Budget and Finance reviews the payroll each month. Thus although there is no direct link between electronic personnel and payroll systems, there is full documentation of the way in which changes in personnel records are reflected in the payroll system.

(ii) Timeliness in the introduction of changes to the personnel records and payroll

Changes to personnel records are notified to the Department of Budget and Finance without delay, so that correct amounts can be paid each month. There have been no recent instances of retroactive pay adjustments being required.

(iii) Internal control over changes to personnel records and payrolls data

Changes to personnel records are initiated by the Head of the responsible Department, endorsed by the Administration Department, and approved by the Mayor. The way in which changes in personnel records are taken into account in the payroll is closely supervised by the Director of the Department of Budget and Finance. There is always a clear audit trail. However, it was recently found that checks on the attendance records of some budget users were inadequate, resulting in unjustifiably high payments to staff. The controls have now been strengthened, and the heads of the bodies concerned have been reminded of their responsibilities.

(iv) Existence of payroll audits to identify control weaknesses and/ or ghost workers

The annual audits of Sisak's operations by the State Audit Office have hitherto covered only the central administration, with the budget users audited separately at longer intervals. SAO audits have included substantive testing of some of payments to individual employees, with no errors being detected. Questions raised by the Department of Budget and Finance about payments to individual employees in the Kindergartens led to an audit by the City's Internal Audit Department, and eventually to the prosecution of individuals involved in false claims for payments. As a result new procedures were introduced to ensure that the heads of each budget user take direct responsibility for the accuracy of the information (about hours worked, etc.) on which payment claims are based.

Indicator	Score	Explanation
PI-18 Effectiveness of payroll controls	C+	M1 scoring method
(i) Degree of integration and reconciliation between personnel registers and payroll data	B	Although there are no direct links between personnel records and the payroll, there is full documentation of the way changes in personnel records are reflected in the payroll.
(ii) Timeliness of changes to personnel records and the payroll	A	Changes in personnel records are notified immediately to the Department of Budget and Finance. There is no record of any need for retroactive adjustments to the pay of individuals.
(iii) Internal control of changes to the staff register and payroll	B	There are controls over both personnel records and the payroll, and changes always leave a clear audit trail. Controls over the way details of service records in the budget user's impact the monthly payments to individuals have recently been strengthened, following the discovery of malpractices.
(iv) Payroll auditing to identify weaknesses and/ or ghost workers	C	Partial payroll audit was carried out once in the last 3 years.

PI-19 Competition, value for money and controls in procurements

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework

Public Procurement legislation was substantially revised in 2011 in preparation for Croatia's accession to the European Union, with some further amendments in 2013. It applies to all levels of government as well as to all companies owned by central or local government. In Sisak the Head of the Public Procurement Department (part of the Department of Budget and Finance) has the necessary certification from the Ministry of Economy for preparing tender documents and supervising contract awards. She is responsible for preparing the annual Procurement Plan which is published on the City's website after the Budget has been approved. All tenders and contract awards – not just those above the Croatian Government's thresholds for the operation of open competition (200,000 HRK for goods and services, and 500,000 for works) – are published on the websites of the City and the Ministry of Economy, including all conditions, even for smaller contracts below the thresholds. Contract awards are initially notified to all bidders, but only signed and published after periods of 10 or 15 days (for smaller and large contracts respectively) to allow for complaints.

TABLE 3.16: LEGAL AND REGULATORY FRAMEWORK FOR PROCUREMENT

Documentary Requirement	Fulfilled	Explanation
1. Procurement legal framework is organized hierarchically and precedence is clearly established.	Yes	The Public Procurement Act and Regulations issued under it by the Ministry of Economy comprehensively cover all public procurement activities.
2. Procurement laws and regulations are freely and easily accessible to the public through appropriate means.	Yes	All relevant texts are freely available on the government website .http://www.javnabava.hr/default.aspx?id=3414
3. The legal framework applies to all procurement undertaken using government funds.	Yes	The law applies to all procurement by central and local government, and by companies owned by central or local government.
4. The legal framework makes open competitive procurement the default method of procurement and defines clearly the situations in which other methods can be used and how this is to be justified	Yes	The law conforms to the EU directive requiring justification for the use of less competitive methods than open tender.
5. The legal framework provides for an independent, administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Yes	Complaints can be made to the independent State Commission which has authority to suspend the contracting process. The Commission has hitherto given its rulings within 60 days; plans are in hand to reduce this time to 30 days.
6. The legal framework provides for public access to all of the following procurement	Yes	Each contracting authority must publish its procurement plans, tender opportunities and contract awards, and the Ministry of Economy maintains a

information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.	central database of all this information. The State Commission's rulings are also published on its website http://www.dkom.hr
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(ii) *Use of competitive procurement methods*

The following Table summarises Sisak's Procurement expenditure in 2012 and 2013.

Table 3.17: Sisak's Procurement expenditure (2012- 2013)

Procurement Type	Goods		Construction		Services		Total	
	Value	No.	Value	No.	Value	No.	Value	No.
Open Procedure	2,518.6	5	1,132.1	2	871.3	7	4,521.9	14
Negotiation above threshold	-	-	-	-	4,632.4	7	4,632.4	7
Total above threshold	2,518.6	5	1,132.1	2	5,503.7	14	9,154.3	21
Below threshold	455.6		2,116.5		1,787.8		4,359.9	
Framework contract	554.4	1	-		1,080.3	2	1,634.7	3
Total 2013	3,528.6	6	3,248.6	2	8,371.8	16	15,149.0	24
Open Procedure	786.9	5	1,567.6	9	3,220.3	7	5,574.8	21
Negotiation above threshold	-	-	-	-	387.4	1	387.4	1
Total above threshold	786.9	5	1,567.6	9	3,607.8	8	5,962.3	22
Below threshold	560.8		1,006.5		2,065.7		3,633.1	
Framework contract	391.8	1	-		3,973.9	3	4,365.7	4
Total 2012	1,739.5	6	2,574.1	9	9,647.4	11	13,961.1	26

Source: City of Sisak Budget and Finance Department

Open competition is the default method, but Sisak makes considerable use of framework contracts for the provision of standard goods and services, and faces a number of situations where only one provider is possible (e.g. provision of the IT system, provision of transport for the disabled where there is only one company with the necessary facilities). All the exceptions to the open procedure have been fully justified, and were in accordance with the EU acquis. Full reports were made to the Ministry of Economy. Sisak's procurement has not been subject to any criticism by the Ministry of Economy or SAO. The 2012 competition for the provision of telecommunications gave rise to a succession of complaints by the previous holder of the contract and by the preferred bidder, which had the effect of prolonging the previous supplier for a year until the State Commission finally ruled in favour of the City.

(iii) *Public access to complete, reliable and timely procurement information*

Sisak's Procurement Plans, tender opportunities and contract awards are all published on the City's website as well as on that of the Ministry of Economy. The State Commission's decisions on complaints are all published on <https://dkom.hr>.

(iv) Existence of an adequate administrative procurement complaints system

Complaints are heard by the State Commission of nine members, five of whom must be lawyers, and all of whom must have three years' experience of public procurement. The members of the Commission are independent professionals appointed by the Parliament, and have no links to the Government. Thus they may be considered as coming from civil society or the private sector. They are debarred from any active participation in politics for the duration of their appointments. The Commission is explicitly excluded from any involvement in the process leading to procurement award decisions. Recent experience indicates that some 30,000 contracts let each year give rise to about 2,000 complaints. Complainants must pay a fee of 3,000HRK for contracts valued up to 500,000HRK rising to 9,000HRK for contracts above 10,000,000HRK (i.e. about 0.25 per cent of the contract value). The lodging of a complaint suspends the tender process until the matter is resolved. The large majority of complaints are settled by the Commission, but about 50 per year result in further appeals to the Administrative Court which is currently considering cases from 2011.

TABLE 3.18: COMPLAINTS SYSTEMS

Complaints are reviewed by a body comprised of experienced professionals, familiar with the legal framework for procurement. This body, which includes members drawn from outside government:

(i) Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions; **Yes**

(ii) Does not charge fees that prohibit access by concerned parties; **Yes** While the minimum fee of 3,000HRK may discourage some complaints against the award of small value contracts, the fees are not large in relation to more substantial contracts, and it appears that a satisfactory balance has been struck between avoiding large numbers of trivial complaints, and not standing in the way of complaints when these are fully justified..

(iii) Has the authority to suspend the procurement process; **Yes**

(iv) Issues decisions within the timeframe specified in the rules/regulations; **Yes**

(v) Issues decisions that are binding on both parties. **Yes**

(vi) Issues decisions within the timeframe specified in the rules, regulations; **Yes**

(vii) Issues decisions that are binding on all the parties (without precluding subsequent access to an external higher authority). **Yes**

Indicator	Score	Explanation
PI-19 Competition, value for money and controls in procurements	A	M2 scoring method
i) Transparency, comprehensiveness and competition in the legal and regulatory framework	A	The legal and regulatory framework meets the requirements of the EU Directive on Public Procurement. It provides for transparency, comprehensiveness and competition covering all procurement by general government and government-owned companies.
ii) Use of competitive procurement methods	A	Where contracts above Croatian thresholds have been let other than by open competition, this has been justified in accordance with the Procurement Law.
(iii) Public access to complete, reliable and timely procurement information	A	There is full public access on the City website to Sisak's Procurement Plans, tender opportunities and contract awards. The results of all complaints are published on the State Commission's website (https://www.dkom.hr).
(iv) Existence of an adequate administrative procurement complaints system	A	The State Commission serves as an effective independent body charged with resolving complaints. It has authority to cancel a tender or a contract award where complaints are found to be justified.

PI-20 Effectiveness of internal controls on non-salary expenditure

Croatia has made considerable efforts in recent years to strengthen public financial management and control. The first step was the Public Internal Financial Control (PIFC) Act 2006. Ministries and larger local government units (Zagreb, counties, cities which are county centres and cities with populations over 35,000) are required to make annual reports on the operation of their financial management and control systems and on their internal audit function. These reports are submitted in a standardised format to the Central Harmonisation Unit (CHU) of the Ministry of Finance which has the responsibility to promote better financial management throughout central and local government. The reports cover the control environment (management structure and style, existence of strategic goals, reporting arrangements, development of human resources), risk management, specific control activities, information and communication (arrangements for collecting all information needed to measure achievement of objectives) and system monitoring and assessment (including responses to internal and external audit findings and recommendations). A further report is required about the operation of internal audit. Sisak as a county centre (and as a city with more than 35000 inhabitants) is one of the LGUs required to submit these reports. The Fiscal Responsibility Act 2010 further requires all heads of operations at every level of government to submit an annual statement confirming that funds have been used correctly and purposefully, and that the financial management and control system functions efficiently and effectively within the framework of resources defined by the budget. Heads of operations (including

the Mayors of each city) make this statement on the basis of answers to detailed questions about the functioning of every aspect of budget planning, execution, accounting and reporting, and the operation of public procurement. Where weaknesses are identified a plan for their elimination is to be submitted, as well as a report on action to correct weaknesses identified the previous year. The statement should also be accompanied by an internal auditor's certificate confirming those aspects of the statement which have been the subject of internal audit examination during the year in question, together with a summary of internal audit activities and recommendations.

i) Effectiveness of expenditure commitment controls

Sisak plans, executes, accounts for and reports its budget through the Libusoft electronic system used by many Croatian LGUs. This provides for expenditure to be tracked against the approved budget, and prevents payments from being made for which there is no provision. The IT system is currently being adjusted to provide for the registration of public procurement contracts when they are signed; the intention is that they should be rejected if they were not provided for in the Procurement Plan. Similarly a payment in respect of a contract which had not previously been registered would be rejected. The Department of Budget and Finance which must approve all contracts prevents any contract from being concluded until it knows that the necessary funds (usually central government grants, borrowing approvals or earmarked revenue from the communal fees paid in respect of new developments) will be available. Sisak has thereby avoided incurring any significant expenditure arrears. While the system does not provide for a separate commitment control covering all current expenditure before payments are made, the safeguards which ensure that new contracts or orders are not placed unless they are consistent with the Procurement Plan, and the necessary financing has been assured, constitute effective commitment controls.

(ii) Scope, relevance and understanding of other internal control regulations and procedures

There are clear instructions and procedures covering all aspects of budget planning, execution, public procurement, and separation of functions as between decision-making, payment and accounting in respect of each activity. These are set out in formal guidelines approved by the Mayor, and are generally understood and respected by all Departments in the City Administration and available on the city's Intranet. These procedures cover the preparation of the Budget, the collection of revenues, the receipt of invoices and the verification of supporting documents, the issuing of orders and the conclusion of contracts, the checking of accounting and payment records, and the separation of functions related to procurement decisions from the subsequent verification that performance has been satisfactory. The detailed rules and procedures apply both to the central administration and to all budget users. The rules currently require hard copy as well as electronic signatures of those involved. Officials of the Budget and Finance Department undertake a series of ex post checks of the correctness of payments of different types, including whether they are provided for in the budget, supported by all required documentation, financed from the correct sources,

correctly recorded in the accounts, and paid in time to avoid any late payment penalties.

(iii) Degree of compliance with regulations on the processing and registration of transactions

As noted in relation to PI-18 and PI-19, all aspects of transactions related to the payroll and public procurement are subject to rigorous and careful checks and procedures. Across the whole budget all invoices have to be certified by the responsible Department, and are only paid when signed by the Mayor or his deputy and the Director of the Department of Budget and Finance. Sisak's Financial Statements have in recent years been qualified by the State Audit Office (SAO) for a variety of reasons concerning for example the registration of property and accounting issues. These included the failure to record and document controls of budget users' expenditure, and inadequate transparency in accounting for the expenditure of the City sports organisation which alone among budget users does not operate through the Single Treasury Account. Procedures have been strengthened in response to these findings.

Indicator	Score	Explanation
PI-20 Effectiveness of internal controls on non-salary expenditure	B	M1 scoring method
(i) Effectiveness of controls on expenditure commitments	B	Although there is not a separate commitment control in place across the whole budget, controls are effective in preventing new commitments from being undertaken before the availability of finance has been assured.
(ii) Scope, relevance and understanding of other internal control regulations and procedures	B	Internal control rules and procedures are generally understood and observed, but may in some respects be unduly onerous. Separation of duties is correctly practised and ex post facto checks are made of a sample of payments.
(iii) Degree of compliance with the regulations for processing and registering transactions.	B	Rules and procedures for registering transactions are generally observed. But the SAO has criticised the inadequate documentation of control inspections, and insufficient transparency in accounting for payments by a budget user which remains outside the Single Treasury Account.

PI-21 Effectiveness of Internal Audit

(i) Scope and quality of internal audit function

Internal Audit (IA) has been functioning in Sisak for eight years, with the work being done by two fully qualified internal auditors reporting directly to the Mayor. IA procedures are defined in a manual issued by the Ministry of Finance Central Harmonisation Unit (CHU). Procedures are in accordance with those of the International Institute of Internal Auditors. The auditor prepares a Strategic Plan for three years which then forms the basis for annual plans. An Annual Report is produced on the previous year's activities, which is sent to the CHU. The audit work extends across all the City's Departments and budget users. It focuses on the performance of systems in ensuring that programmes are realistically planned, correctly executed, and achieve the intended results. Recent audits have concerned the kindergarten payroll (resulting in changes in supervision procedures), the financing of sports activities, subsidies to associations for handicapped people, the documentation of the City's property assets (resulting in improvements to the register), and the maintenance of the City's housing stock.

(ii) Frequency and distribution of reports

The auditors aim to complete 5-6 reports a year, in addition to the preparation of strategic and annual plans, annual reports and educational work within the City's services. Reports are sent to the Heads of the Departments concerned, and finalised in the light of their comments. Most reports are also sent to the Department of Budget and Finance, although this might not apply to staff management issues without any direct impact on expenditure. The reports are taken into consideration by the State Audit Office in the course of its annual audit work on Sisak. As noted above, the Annual Report on the previous year's activities is sent to the CHU at the Ministry of Finance.

(iii) Management response to internal audit findings

There is a generally constructive management response to audit findings and recommendations, with most recommendations being accepted, although the auditors consider that their role is not always correctly understood by auditees who sometimes resent their enquiries. Thus changes have been made in the way the City keeps track of its assets and maintains its housing stock, while more systematic arrangements have been made for the financing of sports activities and the provision of services to the handicapped. The Mayor and Heads of Department approve the action plans in response to IA reports. The Mayor, in signing the annual Statement of Fiscal Responsibility has to be able to show that proper account has been taken of IA recommendations, and this is reflected in the documentation supporting the Statement.

Indicator	Score	Explanation
PI-21 Effectiveness of Internal Audit	A	M1 scoring method
(i) Scope and quality of internal audit function	A	A wide range of work is undertaken in accordance with professional standards, and focused on the performance of systems.
(ii) Frequency and distribution of reports	A	5-6 reports are made each year, which are sent to the heads of the Departments concerned. Actions in response to recommendations are considered by the Mayor and all the Heads of Department. The reports are taken into consideration by the State Audit Office in the course of its work. The Annual Report on the previous year's activities is sent to the CHU at the Ministry of Finance.
(iii) Management response to internal audit findings	A	Most findings and recommendations are accepted. The auditors contribute to the documentation supporting the annual Statement of Fiscal Responsibility.

Subsection 3.5: Accounting, recording and reporting

PI-22 Timeliness and regularity of accounts reconciliation

i) Regularity of bank account reconciliations

As seen (PI-17 ii), the city of Sisak has one bank account. Reconciliation of this account takes place daily. The PFM software Libusoft has a module interface with the bank inside the IT program that carries out this reconciliation.

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

There are few advances accounts (and no suspense accounts) in Sisak. Reconciliation of advances are made on the spot when employees return (in the couple of days following the return). Balances are very rare and brought forward to next year.

Indicator	Score	Explanation
PI-22 Timeliness and regularity of accounts reconciliation	A	Scoring method M2
(i) Frequency of reconciliation of bank accounts	A	Reconciliation of the only bank account of the city takes place daily.
(ii) Frequency of reconciliation and clearance of suspense accounts and advances	A	Reconciliation and clearance of advances take place immediately when the employees return, within a couple of days from end of period (and rarely with balances brought forward next year).

PI-23 Availability of information on resources received by service delivery units

- i) Compilation and processing of information to show the resources effectively received (in money or in kind) by the majority of front-line service delivery units (with particular focus on primary schools and primary health care clinics) in relation to the resources made available by the relevant sector or sectors, regardless of the level of government responsible for the functioning and funding of these units.*

There are no health centres under the city's supervision. There are two (2) Kindergarten and nine (9) elementary schools, which depend on the city of Sisak. These entities are basically like departments of the city. All payments are made through the city account and are registered in the city's books and information system. The directors of the elementary schools keep track on all resources (cash and in kind) received by the entities under their supervision. The accounting for resources received by the entities is carried out at the Department of Budget & Finance of the city. This information is available in the annual financial statements. It is not explicitly compiled into specific reports but the needed information is accessible in the financial statements.

Indicator	Score	Explanation
PI-23 Availability of information on resources received by service delivery units	A	Scoring method M1
Compilation and processing of information to show the resources effectively received (in payment or in kind) by the majority of front-line service delivery units.	A	Routine data collection or accounting systems provide reliable information on resources received in cash by Kindergarten and primary schools across the city's boundaries. The information is accessible in the yearly financial statements.

PI-24 Quality and timeliness of in-year budget reports

The Mayor of Sisak as well as the Department Chief of Budget and Finance can enter the system and see execution in real time. But everyday information on budget execution is available. .

The city of Sisak issues 2 types of in-year execution report:

- A quarterly report sent to the Ministry of Finance, State Audit Office and Financial Agency (FINA)¹³.
- A Semi-annual report that is sent to the Council and to the Official Gazette.

The elaboration of the quarterly and semi-annual execution reports is required by law¹⁴.

(i) Scope of the reports in terms of coverage and compatibility with budget estimates

¹³FINA is a State funded Agency, which acts as mediator between the State and SN entities. FINA is coordinated by the State and receives data on SN entities

¹⁴State Budget Act (2009), Art 91, 108 & 109

For all the quarterly reports comparison to last year budget is possible only for main functional and economic headings. The semi-annual report is more detailed with columns comparing with the same period of the previous year (with original and revised). For all the 2 reports expenditure is captured at the accrual stage, and not at the stage of the original commitment.

(ii) Timeliness of report presentation

Quarterly and semi-annual in-year execution reports are finalised 10 days after the period covered. This is a legal requirement¹⁵ and this deadline is respected.

(iii) Quality of information

There are inconsistencies in the data. In fact tables show expenditure broken down by economic and functional classifications with slightly different totals when they should be the same. Other statistical tables concerning revenue and expenditure also show inconsistencies.

Indicator	Score	Explanation
PI-24 Quality and timeliness of in-year budget reports	C+	Scoring method M1
(I) Scope of reports in terms of coverage and compatibility with budgetary forecasts	C	Comparison to the adjusted budget is possible only for main functional and economic headings. Expenditure is captured only at the accrual stage, and not at the stage of the original commitment.
(ii) Timeliness in the presentation of reports	A	In-year execution reports are finalized within a maximum of 20 days after the period covered.
(iii) Quality of the information	C	Tables show expenditure broken down by economic and functional classifications with different totals when they should be the same. There are also inconsistencies in other revenue and expenditure data.

Commented [O1]: If they could give a good explanation, they could probably provide consistent data?

¹⁵ Budget Act (2009, Art 87 (9));

PI-25 Quality and timeliness of annual financial statements

(I) Comprehensiveness of financial statements

Yearly financial statements in Sisak include full information on revenues and expenditure, financial assets (bank balance and shares/equity in companies) and liabilities (internal debt) in conformity with the existing legislation¹⁶.

(ii) Timeliness in the presentation of financial statements

For 2012 and 2013, the annual statements (reports) were sent to the State Audit Office prior to February 2013 and 2014 respectively (the legal deadline) within 2 months from the period covered. In 2014, the 2013 annual financial statements were sent to the State Audit Office on February 28th, 2014 (received the same date by this entity).

(iii) Accounting standards used

National accounting standards consistent with IMF GFS and EU standards were used for the last three years (2011-2013). They are not consistent with IPSAS (modified accruals with no provision for depreciation).

Indicator	Score	Explanation
PI-25 Quality & timeliness of financial statements	C+	Scoring method M1
(i) Completeness of financial statements	A	Annual Financial statements include full information on revenue, expenditure, financial assets and liabilities.
(ii) Timeliness in the presentation of financial statements	A	The last annual financial statements (2013) were submitted for external audit on February 26 th , 2014, less than 2 months after the period covered.
(iii) Accounting standards used	C	National standards (not corresponding to IPSAS) were used for the last 3 years.

¹⁶ State Budget Act (2009), Art 105; Ordinance on Financial Reporting in the Budget Accounting (Official Gazette, no. 27/05 and 2/07),

Subsection 3.6: External Scrutiny and Audit

PI-26 Scope, nature and follow-up of external audit

The remit of the State Audit Office (SAO) covers all operations of central and local government, and all companies owned or majority controlled by bodies at any level of government. Until 2011 SAO was required to audit all 576 local government units (LGUs) every year, but it now has more flexibility in planning its work and no longer needs to audit well-managed smaller LGUs with this frequency. Zagreb, counties, county centres and cities with over 35,000 people are still audited every year. Audits have mainly focused on financial statements and compliance of LGUs with legal requirements, but SAO has recently extended its work to address aspects of performance, on which 24 auditors are engaged. Reports covering a number of LGUs have been made on the efficiency of revenue collection and the maintenance of unclassified roads. SAO has 280 staff, of whom 240 are qualified auditors; about 80 per cent of the staff work in offices of each of the counties. Audits are carried out in accordance with international (INTOSAI) standards.

SAO considers that LGU financial management has been improving: while only 3.3 percent of the reports on 2004 were unqualified, this figure rose to 21 per cent for 2011. Qualifications often related to respect for revenue earmarking restrictions and public procurement irregularities occasioned by frequent changes in legal requirements. 135 LGUs were audited in respect of 2011 and 81 for 2012; SAO plans to audit 122 LGUs for 2013, covering 70 per cent of total LGU expenditure. LGU internal audit reports are taken into consideration when SAO audits the LGUs concerned. In addition to audits of government units SAO audited 169 companies' 2012 financial statements.

(i) Scope/nature of the audit carried out (including compliance with auditing standards)

Sisak as a county centre and a large city is still subject to the requirement for an annual audit by SAO. These audits have hitherto covered only the City's central administration (including all payments to budget users, but not the payments by budget users for goods and services), with budget users being audited separately at longer intervals. For 2013 budget users' total expenditures amounted to 60.7 million HRK of total consolidated City expenditure of 189.3 million HRK, or 32.1 per cent. Thus the audit covered less than 70 per cent of final expenditure. Now that all Sisak's transactions go through the Single Treasury Account, future audits will cover all the City's operations, including budget users. The reports for the last 6 years have all been qualified on account of issues such as the recording of property assets and accounting arrangements for grants and subsidies to organisations and individuals. In addition to the review of financial performance, audits have included reviews of the robustness of control systems, respect for revenue earmarking, and respect for the rule limiting total payroll costs to 20 per cent of total expenditure. Sisak was also covered by the recent (2013)

performance audit of revenue collection where the City disagreed with the recommendation to take over the collection of tax revenue from the Tax Administration; in the view of the City the staff costs involved would more than outweigh the savings of 5 per cent of the proceeds currently paid to the TA.

(ii) Timeliness in submission of audit reports to the Legislature

While previous years' annual audit reports have been formally submitted to the Council, the most recent report (which is published on the web-site of SAO) was not subject to this procedure, by decision of the Mayor. The Council had shown no serious interest in previous years' reports which had no particular political significance.

(iii) Evidence of follow up on audit recommendations

According to the legislation, recommendations arising from annual audits are binding on auditees. Thus Sisak was obliged to follow a recommendation on how to fix the subsidy for transport for the handicapped with which it disagreed, although the same finding had been made in the cases of Rijeka and Pula, but without any binding recommendation. Other recommendations made in recent years following qualified audit reports were similarly acted on. Recommendations arising from performance audits are, by contrast, not binding, and could be ignored as in the recent case concerning responsibility for collection of tax revenues.

Indicator	Score	Explanation
PI-26 Scope, nature and follow-up of external audit	C+	Scoring method M1
(i) Scope/nature of the audit carried out (including adherence to audit standards).	C	Audits cover aspects of performance in addition to financial and compliance audits. International standards are respected. But annual audits hitherto have covered only the central administration with budget users (over 30 per cent of total final expenditure) being audited separately at longer intervals.
(ii) Timeliness in the presentation of auditing reports to the Legislature	C	Previously annual audit reports were submitted to the Council in July each year, within about 5 months of SAO receiving the financial statements. The most recent annual audit report (for 2012) was not submitted to or discussed by the Council.
(iii) Evidence of follow up of audit recommendations	A	The Administration addresses the recommendations, and normally implements them to the extent possible, given the resources and time required. In any case there is clear evidence of effective and timely follow up

PI-27 Legislative scrutiny of the annual budget law

i) Scope of examination by the Legislature

The Budget as submitted to the City Council by the Mayor takes into account the guidance from the Ministry of Finance on trends in the economy and prospects for revenue. Receipts and expenditures must be balanced (with authorised net additional borrowing, if any, counted as receipts for this purpose). Full information is presented about revenue and expenditure by administrative, economic and programme (functional) classification. The Council may propose reallocations of expenditure within the given total, but cannot propose any change which would require additional borrowing (Article 38 of the State Budget Act). Although figures are presented for the two years following the Budget year, the focus of the Council's discussion is on the details of the expenditure for the year immediately ahead.

ii) Degree to which legislative procedures are recognised and respected

The State Budget Act requires the Budget proposals for the following year to be submitted to the Council by 15 November each year. The Budget should then be approved before the end of the year. In Sisak draft proposals have in recent years been posted by the Mayor on the City's website around 15 October, so enabling informal consultation to begin, although this was not possible for the 2014 Budget because of delay in issuing instructions to Departments and budget users. Once formalised the proposals are considered first by the Council's Finance and other Committees, and the views of the Neighbourhood Councils are sought, before the Budget is approved, subject to any adjustments arising from the discussions, in plenary session towards the end of December each year. The Head of the Department of Budget and Finance may provide an informal briefing to explain detailed aspects of the Budget to interested councillors. These arrangements are well established and have been regularly followed in recent years.

iii) Adequacy of the time for the Legislature to provide a response to budget proposals

The timetable allows the Council to spend up to six weeks on its examination of the Budget before final decisions are taken. In practice however the Council has at least a month for its consideration of the proposals.

iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature

Article 46 of the State Budget Act permits the Mayor to reallocate up to 5 per cent of each Budget line without the prior approval of the Council. Any such reallocations must be notified to the Council in the half-yearly and annual reports on Budget execution. Any more extensive reallocations require a revised Budget approved by the Council through the normal procedure. In Sisak the normal

practice has been to have three or more revised budgets in the course of each year which are agreed by the Council. Reallocations within budget heads are reported to the Council after the event, but no use has been made of the Mayor's limited power to reallocate funds from one area to another.

Indicator	Score	Explanation
PI-27 Legislative scrutiny of the annual budget law	B+	Scoring method M1
i) Scope of examination by the Legislature	B	The Council's examination mainly focuses on the next year's revenue and expenditure. There is no scope at sub-national government level for any discussion of the appropriateness of the Government's fiscal stance, and not much attention is paid to fiscal planning in the medium term.
ii) Degree to which legislative procedures are recognised and respected	A	The arrangements for the Council's discussion of the Budget proposals are well established and regularly followed.
iii) Sufficiency of time for the Legislature to respond to the budgetary proposals.	B	The Council has at least a month to consider the Mayor's proposals.
iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	A	The State Budget Act sets a strict limit to the extent of reallocations which the Mayor may make without the prior approval of the Council. This is respected.

PI-28 Legislative scrutiny of external audit reports

Where reports concern only a particular City or other LGU, there would not normally be any discussion in the national Parliament, although the situation might be different in the case of a performance audit report concerning a particular aspect of the affairs of a number of different LGUs. It would not be expected that the Council of each city would establish special arrangements for the consideration of audit reports analogous to the arrangements in the national Parliament.

(i) Timeliness in examination of the audit reports by the Legislature (reports received within the past three years).

The Council has paid little attention to annual audit reports in recent years, although reports were submitted to it together with action required in response to the matters giving rise to Qualifications to the accounts. The report for 2012 was not submitted to it.

(ii) Scope of the hearings carried out by the Legislature into the main findings

No hearings have been held by the Council on audit reports in recent years.

(iii) Issuance of recommendations by the Legislature and their implementation by the Executive

The initiative in responding to SAO recommendations necessarily rests with the City Administration. No particular recommendations have been issued in recent years by the Council in response to audit recommendations.

Indicator	Score	Explanation
PI-28 Legislative scrutiny of external audit reports	D+	Scoring method M1
(i) Timeliness in the examination of audit reports by the Legislature (reports received within the past three years).	C	Audit reports for years up to 2011 were submitted to the Council without delay together with action taken in response to the matters which gave rise to Qualifications. The annual report for 2012 was not submitted to the Council.
(ii) Scope of the hearings held by the Legislature into the main conclusions	D	No hearings have been held by the City Council in recent years.
(iii) Measures recommended by the Legislature and implementation of these by the Executive	D	No recommendations have been issued by the Council in recent years.

Subsection 3.7: Donor Practices

D-1 Predictability of Direct Budget Support

Sisak has not received any direct Budget Support from any external donor. This Indicator is therefore Not Applicable.

D-2 Financial information provided by donors for budgeting and reporting on project and programme aid

Sisak received an EU grant of more than 4million HRK in 2012 towards expenditure on roads, which was not provided for in the budget. A grant of 2million HRK was included in the 2013 budget, but not received.

(i) Completeness and timeliness of budget estimates by donors for project support.

External grants have hitherto been small in relation to Sisak's expenditure, with not much impact on the City's budget. Decisions have been taken on an ad hoc basis, without regard to the budget cycle.

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support

Execution of projects is under the control of the City Administration rather than of the donors, so the flow of information is from the City to the donors, rather than the reverse. Score: Not Applicable

Indicator	Score	Explanation
D-2 Financial information from donors for budgeting and reporting on project aid	D	Method M1
(i) Completeness and timeliness of budget estimates by donors for project support	D	Decisions hitherto have been taken without regard to the budget cycle
(ii) Frequency and coverage of reporting by donors on actual donor flows	NA	Flow of information is from City to donors rather than the reverse.

D-3 Proportion of aid that is managed by use of national procedures

(i) Overall proportion of aid funds to City that are managed through national procedures

Procurement and payment systems conform to EU norms, and are therefore used in the case of donor-funded projects. Such projects are included in fiscal reports and subject to national public audit procedures. However, donors ask for separate reports and audit certificates. Under the PEFA criteria this means that national procedures are used in 50 per cent of cases.

Indicator	Score	Explanation
D-3 Proportion of aid managed through national procedures	C	Method M1
(i) Overall proportion of aid funds to the City managed through national procedures	C	National procedures are used in 50 per cent of cases.

4. Government reform Process

4.1 Description of Major PFM Reforms

The City of Sisak went through a difficult period during the war in the 1990s, which was followed by a process of economic transformation and privatisation of formerly publicly owned assets resulting in a substantial narrowing of the economic potential of the city. Today, the city owns large holdings of property which is neither fully documented nor valued. Current political and economic conditions in the City and the surrounding county make it difficult to set long-term strategic planning priorities. In such circumstances, the City does not have a long-term development strategy, while the development plan for the period 2014-2016 is still in process of preparation. For the time being the City mainly relies on the strategic priorities and objectives of the development strategy of the county.

After the last elections in 2013 the new city government is in the process of consolidating the internal administrative structure. The Administrative Departments of the city are mainly focused on the improvement and consolidation of financial management, aligning records and business processes, improving information systems, and identifying, tracking, and valuing city property. In 2014 the City will merge the two companies engaged in the water supply. The present financial information system of the Treasury represents good basis for increasing the operational efficiency of the city's services and ensuring sound financial management.

For the time being, in the absence of a strategic vision and long-term development plans, the City management mainly concentrating on improvements in internal administrative systems, including registering and managing the City's assets, and improving the register of all land and property throughout the City which constitutes the base for utility fees and other City revenues.

Rather than preparing a long-term strategy, the city is currently completing its Strategic Development Plan for the period 2014-2016. This strategic plan provides the rationale for the priorities to be incorporated in the next budget. It defines the main objectives and the indicators which will be used to measure progress towards those objectives. The city has defined five strategic goals and nine sub goals. The strategic goals are the improvement of infrastructure and transport systems, improving the quality of life, sustainable use and management of the entire space of the city, creating the conditions for stimulating business development, and protection of the environment.

Subsection 4.2: Institutional Factors Supporting the Planning and Implementation of Reforms

In 2013 the City introduced a new Treasury system based on the SPI information system. The system is based on a Single Treasury Accounting a commercial bank into which all the City's revenues are paid, and from which all payments are made. Thanks to the centralized system of financial management, the City is gradually developing and applying IT functionalities to other areas such as public procurement.

Along with the introduction of the IT information system, Sisak has mounted a continuing programme of education for all the staff of the administrative departments and other budget users. The City is planning to include the financial operations of the schools (which are now operating off the budget) in the budget and channel their cash flow through STA. The strategic plan of the City for the period 2014-2016 is more a preliminary outline than a document with clearly defined long term strategic priorities. The City has further work to do to improve fiscal and budget transparency and make budget data publicly available on the web site.

- City of Sisak, Croatia -

ANNEXES

Annex 1: Croatia- Profile of Sub National Governments

1. Overall sub-national government structure

Articles 133-138 of the Constitution of Croatia provide for the existence of counties (regions), cities (with more than 10,000 people), municipalities and the Capital City Zagreb which is both a city and a county. Apart from Zagreb, there are two tiers of sub-national government throughout the country; every citizen belongs to a county and to a city or municipality. The powers and responsibilities of different local government units (LGUs) are defined in the Law on Local and Regional Self-Government; there is considerable overlap between the counties and the cities/municipalities, with both permitted to provide education and health services and to build and maintain infrastructure. However, cities/municipalities are not subordinate to counties; both tiers depend directly on central government. All LGUs have elected councils to which elected Mayors (Prefects in the case of counties) are responsible. Mayors are in charge of the appointment of staff, subject to some accountability to the councils. The structure of sub-national government is summarised in the following table.

Table Annex 1: Overview of sub-national government structure in Croatia

Government level	Corporate Body	Own political Leadership	Own Budget	Number	Average population	% of Pub. Exp.	% of Pub. Rev.	% of Exp. paid by Govt. transfers
Central Govt.	Yes	Yes	Yes	1	4.3million	84.2%	93.1%	-
Counties	Yes	Yes	Yes	20	175,000	2.6%	6.9%	59.1%
Cities	Yes	Yes	Yes	126	17,500	6.1%	for all	for all
Municipalities	Yes	Yes	Yes	429	2,800	2.5%	LGUs	LGUs
Zagreb	Yes	Yes	Yes	1	0.8million	4.6%	together	together

Source: Ministry of Finance, RC

2. Sub-national fiscal systems

The financing of sub-national government is regulated by the Law on Local and Regional Self-Government, most recently updated in 2012. The largest revenue stream accruing to LGUs comes from the share of income tax paid by their residents: 56.5 per cent accrues to cities and municipalities and 16 per cent to counties. Cities which take responsibilities for decentralised services (mainly elementary education and fire services) may receive up to a further 12 per cent, while 15.5 per cent is reserved for equalisation payments to poorer LGUs in

remote areas or severely affected by the war in the 1990s. The next largest revenues are those from annual utility fees for the maintenance of local infrastructures which are charged by reference to the areas of properties, and the community fees charged on new developments to meet the additional infrastructure costs. Zagreb, cities and municipalities (but not counties) may levy a surtax on the income tax paid by their residents of up to 10 per cent (municipalities), 12 per cent (cities – and 15 per cent where the population exceeds 30,000), and Zagreb 30 per cent (18 per cent is currently charged). Cities and municipalities also receive 40 per cent of the 5 per cent national tax on the transfer of properties in their area. They further receive the revenue from three small taxes on holiday houses, the consumption of beverages and an annual charge on business names operating in their areas. LGUs may also receive grants from central government Ministries for particular purposes, most frequently for the provision of education, health or transport facilities. Labin and Crikvenica, with populations of about 11,000 and important tourism activities, are smaller than the average for all cities but spend about two thirds more per head of population than the average for all cities.

3. Main functional responsibilities of sub-national governments

Cities are typically responsible for the provision and maintenance of local infrastructures, sports and cultural facilities and activities, pre-school education, non-salary costs of elementary education, and fire services. (Counties have corresponding responsibilities for secondary education as well as providing some health services and co-ordinating transport infrastructures.) The main costs of education and health services – the salaries of teachers and health professionals – continue to be met by central government. The largest share of LGU expenditure is that of cities, which spend about 4,000HRK a year per head of population; counties spend only about 1,000HRK a year per head on their more limited responsibilities.

4. Sub-national budgetary systems

The budgetary systems of LGUs are regulated by the same State Budget Act which applies at central government level. LGUs are required to implement a budgeting process culminating in approval by the elected council, and to follow a budget calendar similar to those operating at central government level; they must also produce execution reports on a basis comparable to those produced by central government. LGUs must present balanced budgets (although the proceeds of permitted new borrowing are treated as revenue, and the repayment of debt as expenditure). Once approved, Budgets must be reported to the Ministry of Finance, but they are not subject to approval by the Ministry. Borrowing is strictly controlled by the Ministry of Finance, and total debt of LGUs is low (about one per cent of GDP, as against about 60 per cent of GDP for the central government). LGUs generally operate a Single Treasury Account in a commercial

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bank of their choice. The same Public Procurement Act applies to LGUs as to central government (and also to all publicly owned companies and utilities); LGUs' procurement activities must be transparent, and in accordance with the Act, but are not subject to any requirement for prior approval by any central government body.

Annex 2: Detailed score calculations

A. PFA RESULTS: Credibility of Budget					
Indicator/method	Score	D (i)	D (ii)	D (iii)	D (iv)
HLG-1 (M1)	NR	B	NR	A	--
PI-1 (M1)	A	A	--	--	--
PI-2 (M1)	B+	B	A	--	--
PI-3 (M1)	A	A	--	--	--
PI-4 (M1)	C+	C	A	--	--
B. KEY CHARACTERISTICS OF ALL STAGES: Comprehensiveness and transparency					
PI-5 (M1)	A	A	--	--	--
PI-6 (M1)	C	C	--	--	--
PI-7 (M1)	C+	C	A	--	--
PI-8 (M2)	NA	NA	NA	NA	--
PI-9 (M1)	C	C	NA	--	--
PI-10 (M1)	A	A	--	--	--
C. BUDGETARY CYCLE					
C (i) Policy-based budgeting					
PI-11 (M2)	B	C	B	A	--
PI-12 (M2)	D+	C	NA	D	C
C (ii) Predictability and control in budget execution					
PI-13 (M2)	B	B	B	C	--
PI-14 (M2)	D+	C	D	NA	--
PI-15 (M1)	D+	D	B	C	--
PI-16 (M1)	D+	D	C	C	--
PI-17 (M2)	A	B	A	A	--
PI-18 (M1)	C+	B	A	B	C
PI-19 (M2)	A	A	A	A	A
PI-20 (M1)	B	B	B	B	--
PI-21 (M1)					--
C (iii) Accounting, recording and reporting					
PI-22 (M2)	A	A	A	--	--
PI-23 (M1)	A	A	--	--	--
PI-24 (M1)	C+	C	A	C	--
PI-25 (M1)	C	A	A	C	--
C (iv) External scrutiny and audit					
PI-26 (M1)	C+	C	C	A	--
PI-27 (M1)	B+	B	A	B	A
PI-28 (M1)	D+	C	D	D	--
D. DONOR PRACTICES					
D-1 (M1)	NA	NA	NA	--	--
D-2 (M1)	D	D	NA	--	--
D-3 (M1)	C	C	--	--	--

Annex 3: List of contacts

Name and surname	Administrative office/department for:	position	contact
Vedran Brnić	Budget and Finance	head	vedran.brnic@sisak.hr phone: 00 385 44 510-107 Fax: 00 385 44 521-128
Kristijan Cvanciger	Budget and finance	Head of the city treasury	kristijan.cvanciger@sisak.hr
Gordana Sedmak Jednaček	Budget and finance department	Public procurement	--
Ankica Desnica	Tax administration – Sisak regional office	head	--
Marija Medved	Internal audit		marija.medved@sisak.hr

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Grad Sisak, Odluka o ustrojstvu i djelokrugu upravnih tijela Grada Siska

Grad Sisak, Izvješće o zaduživanju/jamstvu/suglasnoti IV 2014.

Grad Sisak, Proračunski kalendar 2012-2014

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Grad Sisak, Izvještaj jedinica lokalne područne (regionalne) samouprave o vlasničkim udjelima/neto imovini.

Grad Sisak, Javna nabava- ugovori po vrstama postupaka javne nabave od 2011. Do 2013.

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Annex 5: Maps Sisak (Croatia)

(1)



(2)

