



City of Crikvenica, Croatia

Report on Public Expenditure and Financial Accountability (PEFA)

(May 30, 2014)

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FISCAL YEAR

January 1 – December 31

EXCHANGE RATE

(28 May 2014)

Euro (€) 1 = 7.59715 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 Crikvenica 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 April 2nd, 2014. The present version of the report includes all the comments of the city of Crikvenica and comments provided by the PEFA Secretariat.

The present report is structured as follows:

A Summary Assessment;

Section 1: Introduction

Section 2: Background information on the city of Crikvenica

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 Crikvenica, and in particular to the Mayor, Mr. Damir Rukavina, 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.

May 30, 2014

Summary assessment

i) Integrated assessment of PFM performance

Predictability from higher levels of Government

Transfers to Crikvenica from higher levels of Governments were not consistent to Budget during 2011-2013 and the amounts provided by the central government under various headings differed substantially from Budget. 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 remain 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 the contingency vote are evidence of its ability to stick to its priorities. On the other side however aggregate expenditures and city's revenues are significantly different from the budget and these are two elements that weaken budget credibility (2011-2013).

Comprehensiveness and transparency

The classification system used for budget formulation, execution and reporting in Crikvenica is consistent with international standards. In addition the information included in budget documentation as submitted to the Council is satisfactory (fulfilling 6 of the 9 information benchmarks required by the methodology). Moreover there are no extra-budgetary operations and fiscal reports include income/expenditure information on the small number of donor-funded projects. Also and 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 Crikvenica 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 Crikvenica 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.

Detailed projections of budgeted activities are prepared each year for a 3-year period, but firm links between the multi-year estimates and the subsequent budget ceilings for particular activities have not yet been established in many cases.

In Crikvenica, plans for the development of programmes where activities have a steady pattern allow fully for both capital and current costs but there is as yet no overall strategy, or strategies for the development of particular services. Overall linkages between investment budgets and forward expenditure estimates are in Crikvenica weak.

Predictability and control in budget execution

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

In Crikvenica, 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 only be made to the Administrative Court.

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 Crikvenica represent on average about 90% of collections (2012-2013) and collection ratio are below 60%. As far as transfers of tax collections, the majority of the revenue dependent on the In Crikvenica'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 twice a year.

b) Cash flow forecast, cash balances and debt management

In Crikvenica, a cash flow forecast is prepared for the fiscal year and updated daily on the basis of actual cash inflows and outflows. In practice, budget entities within the city are provided with reliable information for one or two months in advance. In-year adjustments to budget allocations are occasional. They are carried out in a transparent and predictable way.

Crikvenica 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. Crikvenica'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 In Crikvenica has one bank account in HRK (with one sub-account in Euro) only, held at *Erste Steiermaerkische Bank* a 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 Crikvenica 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. The payroll is small, and subject to close supervision; no errors have been detected in the recent general financial audit.

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 Crikvenica 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 in Crikvenica is ineffective (it has recently been discontinued).

Accounting, recording and reporting

Account reconciliation in Crikvenica is regular and timely and information on all resources received by service delivery units is available. In-year budget reporting is of fair quality but timely. Annual financial statements are complete and submitted within the required timescale to the City Council and the State Audit Office. In addition, national accepted accounting standards are applied for the statements (not consistent with IPSAS).

External Scrutiny and audit

Overall external audit in Crikvenica is of good quality, focusing on significant and systemic issues and adhering to auditing standards. But the absence of an audit every year weakens the overall function. In addition the city council carries out a thorough examination of the budget proposals as well as reviewing relevant audit reports.

Donors

The city of Crikvenica 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 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 good quality and timeliness of in-year budget reporting. Overall aggregate fiscal discipline remains fairly strong in Crikvenica although it is weakened by the expenditure and revenue out-turns persistently falling far short of the original approved budget (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 Crikvenica 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, the comprehensiveness of the budget documentation submitted to the city council, 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 systems of public procurement, external audit and the effective scrutiny of audit reports by the city council are all elements providing evidence of the delivery of efficient services to the city community. However, the unpredictability of some major revenue streams, and their earmarking for particular purposes which may not represent the most immediate priorities, are obstacles to medium-term fiscal planning, and so to the best provision of services. In addition the discontinued function of internal audit in Crikvenica could undermine the efficient delivery of services to the city community.

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 account 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 Crikvenica has fairly strong PFM systems with acceptable performance. There are some areas needing improvement, such as the significant differences between expenditure and revenue out-turn and budgeted revenue, the absence of costed sector strategies, significant revenue arrears and the absence of internal audit. The City Administration has indicated its desire to improve the performance of existing systems. A development strategy for the city is currently being prepared.

iii) Prospect for reforms

The City of Crikvenica does not yet have a clearly defined strategy to steer its development process. The three-year program budgeting projection prepared with each year's budget has not reflected any clear strategy for the economic development of the City. The City Administration is currently preparing a strategy for its development, which should help to create a clearer vision of its longer term future.

The City participated in one small EU-funded project in 2013, and is now preparing other projects for co-financing from EU funds; grant funds from other sources have so far been negligible.

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	D
PI-2	Composition of expenditure out-turn compared to original approved budget	C+
PI-3	Aggregate revenue out-turn compared to original approved budget	D
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	B
PI-7	Extent of unreported government operations	A
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	C+
PI-17	Recording and management of cash balances, debt and guarantees	A
PI-18	Effectiveness of payroll controls	B+
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	D+
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	D+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	A
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 (+)

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 Crikvenica, Labin, Koprivnica and Sisak.

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 headquarter (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 the region with significant economic activity (from Istria county) and one city from region with weak economic activity (from Sisak-Moslavina county)

The specific PEFA assessment of the city of Crikvenica 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.

Assuming that part of the problem in financial transactions relates to the legal framework and the relationship with the central government, based on the PEFA assessment, the Association of the Cities intends to prepare a summary of common problems and a proposal for addressing the problems and dealing with them (amending laws and regulations, changing proposal process, etc.). Recommendations will be made to ministries and state legislative bodies, and meetings/workshops structured around the PFM practice will be organized by the Association of Cities.

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:

Crikvenica
Labin
Sisak
Koprivnica
Kutina
Vinkovci
Virovitica

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

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 the evaluation of the city of Crikvenica (as well as for the city of Labin) took place in the period of March 17th through April 2nd, 2014³. Bodies and experts consulted are presented in annex.

Methodology

The 3 experts have carried out the PEFA evaluation of the city of Crikvenica 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.

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

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

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 Crikvenica 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 Crikvenica. These expenditures amounted to million 68.6 HRK in 2012 and to million 79.3 HRK in 2013 respectively.

In 2012 total Crikvenica expenditures represented 0.30% of total Local Government expenditures in Croatia and 0.047% of total consolidated General Government expenditures. In 2012 total Crikvenica revenue represented 0.35% of total Local Government revenue in Croatia and 0.061% of total consolidated General Government revenue.

Table 1.1: Crikvenica Total Expenditures (Absolute and relative)

	HRK millions				
	Crikvenica (1)	Local Government (2)	General Government (3)	Crikvenica (1) As Percentage of (2)	Crikvenica (1) As Percentage of (3)
2012	68.6	22,800.00	144,600.0	0.30%	0.047%
2013	79.3	--	--	--	--

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 Crikvenica. Data for 2013 are not available

Table 1.2: Crikvenica Total Revenue (Absolute and relative)

	HRK millions				
	Crikvenica (1)	Local Government (2)	General Government (3)	Crikvenica (1) As Percentage of (2)	Crikvenica (1) As Percentage of (3)
2012	81.4	22,900.00	133 200.0	0.35%	0.061%
2013	72.9	--	--	--	--

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 Crikvenica. 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 Istrian 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.

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)

⁵ Refer to map in annex 4

2.2 Central and Local Government Finance⁶

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 Gov. (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.

⁶ Refer also to Annex 1- Profile of Sub-National governments in Croatia

Table 2.3: Consolidated Central Government Fiscal Balance

HRK billion

	2010	2011	2012	2013
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. Gov. Guarantees as % of GDP	18.2	17.9	15.2	15.2
- Gen Gov. Foreign Debt as % of GDP		16.0	19.1	23.2
- Gen Gov. 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. 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 in 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

	HRK billion					
	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.

Crikvenica Revenue and Expenditure

Table 2.6: Crikvenica Revenue 2011-13

HRK thousands

	2011	2012	2013
Total revenue determined by central government	29,657.2	31,179.7	33,984.7
of which Share of income tax	14,932.1	19,809.2	20,827.6
Share of tax on property sales	7,363.4	6,861.7	6,752.7
Payments for decentralised services	4,044.7	3,841.6	3,602.5
Equalisation payments	2,928.3	2,596.6	2,109.1
Other central government grants	344.0	523.4	3,154.2
Total current revenue determined by City	35,826.6	50,163.7	9,004.3
of which Yield of Surtax on income tax	2,511.9	2,801.2	2,935.8
Holiday homes tax	3,252.0	3,880.2	3,899.0
Tax on consumption of beverages	793.5	910.6	1,415.1
Tax on business names	311.5	471.5	521.4
Community fees	11,939.0	12,540.5	12,669.8
Utility fees	8,812.5	15,269.5	6,358.6
Revenue from property holdings	6,509.6	8,287.8	8,764.3
Other fees, fines and charges	196.4	224.5	231.0
Donations (domestic)	1,411.4	305.8	516.4
External grants	65.0	-	201.5
Proceeds of asset sales	192.9	3,785.2	245.9
Total revenues	65,483.8	81,343.4	72,989.0

Note: Figures extracted from different tables provided by Crikvenica Department for Finance, Tourism and the Economy and may not be fully consistent. City Own Revenue figure derived by adding figures for tax and grant flows from central government, counties and municipalities, and deducting the sum of these from overall revenue totals as in aggregate revenue and expenditure table.

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

HRK thousands

	2011	2012	2013
Total Current Expenditure	51,312.1	54,969.5	50,722.7
of which Wages and salaries	17,636.3	18,274.2	17,292.7
Goods and services	23,362.1	24,585.5	22,066.0
Subsidies	120.0	193.4	237.0
Social grants	1,971.6	2,430.7	2,813.4
Grants to other General Government	1,439.6	971.7	70.4
Interest payments	714.5	700.8	533.2
Other expenditure	6,067.9	7,812.3	7,760.1
Gross investment in fixed assets	18,827.3	13,684.4	29,099.0
Total Current and Capital Expenditure	70,139.4	68,653.9	79,288.5
Net fiscal Balance	-4,655.6	12,689.5	-6,299.5

Source: Crikvenica Department for Finance, Tourism and the Economy. Note 2013 Total Expenditure figure (from summary Revenue and Expenditure table) is still slightly different from the corresponding figure in the functional expenditure table.

Table 2.8: CRIKVENICA ACTUAL BUDGETARY ALLOCATIONS 2011-13 (Out-turns)

I. MAIN SUB-FUNCTIONS	HRK thousands/% of total					
	2011	%	2012	%	2013	%
General Public Services	14,002.7	20.2	14,738.8	21.7	14,873.5	18.8
Public Order and Safety	3,385.6	4.9	3,693.0	5.4	3,274.6	4.1
Economic Affairs	8,076.0	11.6	13,873.0	20.4	24,957.8	31.5
Environmental Protection	1,010.0	1.5	1,567.4	2.3	461.0	0.6
Housing	10,507.2	15.1	10,428.7	15.3	10,001.3	12.6
Health	1,162.7	1.7	858.8	1.3	938.6	1.2
Sport, Recreation and Culture	19,064.0	27.5	7,814.8	11.5	7,976.7	10.0
Education	9,337.2	13.4	11,789.0	17.3	13,728.5	17.4
Social Protection*	2,879.7	4.1	3,189.5	4.7	2,909.8	3.7
TOTAL ALL SECTORS	69,425.1		67,953.1		79,118.6	

Source: Crikvenica Department for Finance, Tourism and the Economy

Only 9 of the COFOG main functions appear, because LGUs have no role in national defence. The table shows some sharp fluctuations from year to year for some functions; these were particularly marked for Economic Affairs and Sport, Recreation and Culture. Expenditure on Education increased steadily, while it stayed roughly constant for General Public Services, Housing, Public Order and Safety and Social Protection. Crikvenica's total expenditure per head of its 11,120 population is thus running at about 6600 HRK per year (averaged over the three years 2011-13), well above the average city expenditure of 4,000 HRK calculated for 2012.

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 program 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 program linked to their long term development strategies. *The Regulations on Financial Reporting in Budgetary Accounting (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). *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 Ministry of Public Administration is responsible for the enforcement of these arrangements, but in practice there are few restraints on the freedom Mayors have to appoint and dismiss staff.

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)* specify 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 Administration of Crikvenica⁷

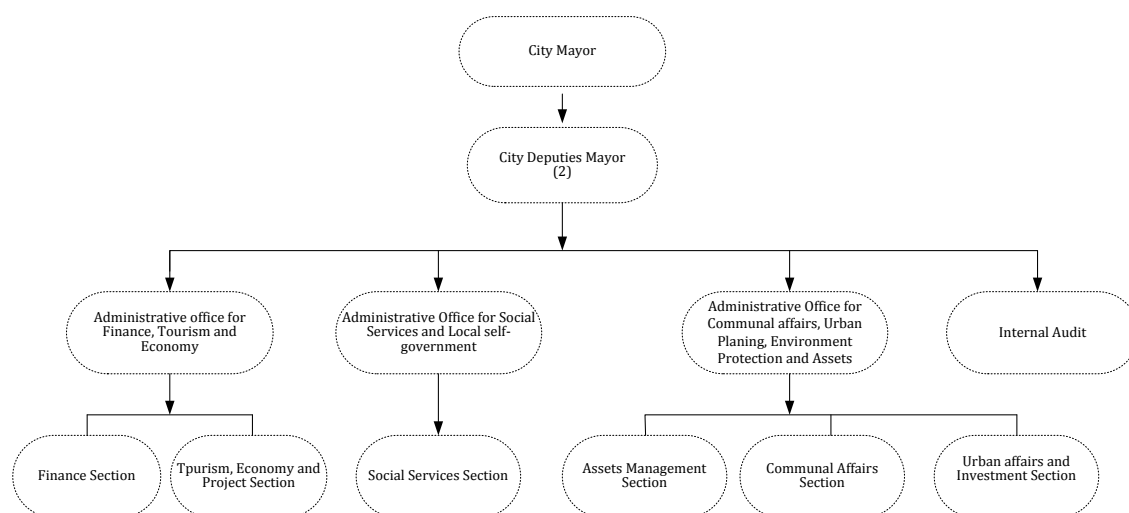
The Mayor and his two deputies run the City's administration. The role and responsibilities of the Mayor are regulated by the Local and Regional Self-Government Act and the Charter of the City of Crikvenica. The Mayor has authority to take decisions on City activities and to issue instructions and regulations governing those activities. The Mayor is required to submit semi-annual reports on the activities of the City administration to the City Council by 15 September each year for the January-June period, and by 1 March of the

⁷ Refer to map Annex 5

following year for the July-December period. The reports for 2010 and 2011, and for the first half of 2013, are currently available (April 2014) on the City's website⁸ but not those for 2012 and the second half of 2013.

The City administration is divided into three Departments: (1) the Department of Social Services and Local Government; (2) the Department of Finance, Tourism and the Economy; and (3) the Department of Utilities, Spatial Planning, Environment and Property. Different sections of each Department carry out particular tasks. Internal Audit was established reporting directly to the Mayor and his Deputies.

City of Crikvenica - Internal organisational structure



The Department of Social Services and Local Government looks after the functioning of the Council and its Committees, and general aspects of the City's administration (personnel and employment policy, procurement, office operations, vehicles, safety at work, City information and publicity). It is also responsible for pre-school and elementary education, cultural and sports activities, and social assistance.

The Department for Finance, Tourism and the Economy is divided into two sections: the first is responsible for planning, preparing and executing the Budget, including all financial and statistical reporting, while the section for business, tourism and projects is responsible for measures to develop the local economy (principally tourism), and for the preparation of projects to be submitted for co-funding by the EU.

The Department of the Municipal System, Spatial Planning, Environmental Planning and Property is divided into three sections responsible respectively for

⁸ www.crikvenica.hr/ustrojstvo-gradagradonacelnik/izvjesca-gradonacelnika

property management, the provision and operation of utilities, and regional planning and investment. The three sections work closely together in the preparation of projects, cooperation with utility companies, property management, spatial planning and determining liabilities to pay utility fees and the once-for-all community fees paid in respect of new developments.

Internal audit was organised as a separate function reporting directly to the Mayor and his deputies.

The City has seven budget users: Fire Brigade, Culture Centre, City Museum, City Library, Kindergarten and two primary schools. It wholly owns a utility company providing local environmental services, has a one third share in the local water company and in a centre for entrepreneurs, and holds shares in three other companies.

The City Council

The City Council is the City's representative body, with 17 councillors elected for a four year term. It has eight Committees dealing respectively with International Cooperation, Environment and Spatial Planning, Education including pre-school and Youth, Health and Welfare, Culture, Cooperation with other LGUs, Finance and Budget, and Statutes, Rules and Regulations. Two Commissions deal with Petitions and Complaints, and naming of Streets and Squares.

The City is divided into six areas, each with its own local Council: Jadranovo, Dramilj, Crikvenica West, Centre and East, and Selce. These Councils have some limited resources to devote to local amenities, and advise on developments, infrastructure and amenities in their areas, as well as participating in the preparation of the Budget. But they are dependent on the City for the execution of any expenditure they sponsor, which is paid directly from the City's Single Treasury Account.

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 Crikvenica 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.

c) Municipality special PFM features

In 2011, the city introduced a treasury system based on the SPI information system. The system operates through a centralized treasury and all spending comes out of a single treasury account, which is held in a commercial bank. The Treasury system is linked to other electronic systems covering payroll and procurement.

Section 3: Evaluation of PFM systems, processes and institutions

(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 Crikvenica from central government and other LGUs in respect of the services the City provides is shown in the following Table.

Table 3.1: Budgeted and actual receipts from central government and other levels of government 2011-13

HRK thousands

	2011		2012		2013	
	Budget	Out-turn	Budget	Out-turn	Budget	Out-turn
Total receipts	33,358.1	29,657.2	34,016.8	31,179.7	38,909.2	33,984.7
Out-turn as % of original budget		88.9%		91.8%		87.3%

Source: Crikvenica Department for Finance, Tourism and the Economy

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

The budget estimate and out-turn figures for each of the main streams of revenue Crikvenica received from central government, counties and municipalities 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 (the calculation is analogous to that used to measure the variance in the functional allocation of expenditure in PI-2 below). This PEFA dimension should be calculated by reference to the functional destination of each earmarked revenue stream (with the total unearmarked receipts from central government 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 88.9 % (2)	Out- turn (3)	Difference between (3) & (2) (4)
Share of income tax	19,588.1		14,932.1	
Share of tax on property sales	6,200.0		7,363.4	
Total un-earmarked receipts	25,788.1	22,925.6	22,295.5	630.1
Central Government payments for decentralized services	4,500.0	4,000.5	4,044.7	44.2
Earmarked CG grants	1,400.0	1,244.6	344.0	900.6
Payments from county	60.0	53.3	43.7	9.6
Payments from municipalities	-	-	-	-
Equalization receipts from CG	1,610.0	1,431.3	2,928.3	1,497.0
Total	33,358.1		29,657.2	3081.5
Column (4) as % of Column (3)				10.4%
2012		91.8% of Col (1)		
Share of income tax	15,756.8		17,008.0	
Share of tax on property sales	6,550.0	9	6,861.7	
Total un earmarked receipts	22,306.8	20,477.6	23,869.7	3,392.1
CG payments for decentralized services	4,500.0	4,131.0	3,841.6	289.4
Earmarked CG grants	3,445.0	3145.3	523.4	2,621.9
Payments from county	60.0	55.1	158.4	103.3
Payments from municipalities	-	-	190.0	190.0
Equalization receipts from CG	3,705.0	3,382.7	2,596.6	786.1
Total	34,016.8		31,179.7	7,382.8
Column (4) as % of Column (3)				23.7%
2013		87.3% of Col (1)		
Share of income tax	18,764.2		17,891.8	
Share of tax on property sales	7,200.0		6,752.7	
Total un earmarked receipts	25,964.2	22,666.7	24,644.5	1,977.8
CG payments for decentralized services	4,490.0	3,919.8	3,602.5	317.3
Earmarked CG grants	5,205.0	4,544.0	3,154.2	1,389.8
Payments from county	60.0	52.4	319.4	267.0
Payments from municipalities	-	-	155.0	155.0
Equalization receipts from CG	3,190.0	2,784.9	2,109.1	675.8
Total	38,909.2		33,984.7	4,782.7
Column (4) as % of Column (3)				14.1%

Source: Crikvenica Department for Finance, Tourism and the Economy Note: Actual Surtax receipts from fiscal equalization table deducted from share of income tax figures (both Budget and Out-turn). CG payments from Grants' Table

The variance percentages were 10.4 per cent, 23.7 per cent and 14.1 per cent respectively for the three years 2011-13. If this information were considered sufficient for scoring dimension (ii), the result would be D, since the variance exceeded 10 per cent in all three years.

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 Crikvenica'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	The out- turn was more than 10 per cent but less than 15 per cent below Budget in two of the last three years.
ii) Annual variance between actual and estimated of earmarked grants	NR	The total calculated additional variances were 10.4 per cent, 23.7 per cent and 14.1 per cent respectively for the three years 2011-13. However, since information about the functional destination of earmarked receipts could not be obtained, this dimension is not scored.
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 real 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 for 2011-2013

HRK thousands

Year	2011		2012		2013	
	Budget	Out-turn	Budget	Out-turn	Budget	Out-turn
Total Current Expenditure	58,308.4	51,312.1	59,835.4	54,969.5	66,434.2	50,722.7
Total Capital Expenditure	22,083.0	18,827.3	25,788.1	13,684.4	33,549.3	29,099.0
Less Interest	905.9	714.5	1,092.7	700.8	961.5	533.2
Less External Grants	65.0	65.0	-	-	201.5	201.5
Total Primary Expenditure	79,420.5	69,359.9	84,530.8	67,953.1	98,820.5	79,087.0
Out-turn as % of Budget		87.3%		80.4%		80.0%
Current Expenditure less interest	57,337.5	50,532.6	58,742.7	54,268.7	65,069.7	49,988.0
Out-turn as % of Budget		88.1%		92.4%		76.8%

Source: Crikvenica Department for Finance, Tourism and the Economy

Actual total expenditure fell consistently well short of the budgeted amount, partly because capital expenditure planned for 2012 was not executed until 2013. But current expenditure fell nearly 20 per cent below budget in 2013, as compared with an average shortfall of about 10 per cent in the two previous years.

Indicator	Score	Explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget		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)	D	Actual primary expenditure fell more than 15 per cent short of original budget in two of the three years 2011-13. Percentages were 87.3%, 80.4%, 80.0% 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 actual expenditure 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 17.3 per cent, 13.2 per cent and 9.6 per cent respectively for the three years 2011-13.

Table 3.4: Variance in Expenditures for 2011-2013

HRK thousands

	2011				2012				2013			
	Budget (1)	Budget x out-turn 87.3 % (2)	Out-turn (3)	(3) minus (2) (4)	(1)	(2) 80.4%	(3)	(4)	(1)	(2) 80.0%	(3)	(4)
General Public Services	17,515.2	15,290.8	14,002.5	1,288.3	16,948.4	13,626.5	14,467.9	841.4	18,637.2	14,909.8	14,873.5	36.3
Public Order and Safety	3,357.8	2,931.4	3,385.6	454.2	1,483.0	1,192.3	3,693.0	2,500.7	4,426.8	3,541.4	3,274.6	266.8
Economic Affairs	13,490.0	11,776.8	8,076.0	3,700.8	19,657.5	15,804.6	13,873.0	1,931.6	28,332.0	22,665.6	24,957.8	2,292.2
Environmental Protection	1,820.0	1,588.9	945.0	643.9	1,915.0	1,539.7	1,567.4	27.8	1,810.0	1,448.0	461.0	987.0
Housing	12,016.0	10,490.0	10,507.2	17.2	12,407.0	9,975.2	10,428.7	453.5	11,470.0	9,176.0	10,001.3	825.3
Health	1,319.0	1,151.5	1,162.7	11.2	885.0	711.5	858.8	147.3	903.0	722.4	938.6	216.2
Sport, Recreation, Culture	15,571.0	13,593.5	19,064.0	5,470.5	10,662.2	8,572.4	7,814.8	757.6	12,660.7	10,128.6	7,976.7	2,151.9
Education	11,166.9	9,748.7	9,337.2	411.5	12,437.6	9,999.8	11,789.0	1,789.1	17,558.2	14,046.6	13,728.5	318.1
Social Protection	3,329.6	2,906.7	2,879.7	27.0	3,329.6	2,677.0	3,189.5	512.5	3,023.1	2,418.5	2,909.8	491.3
Total	79,585.5		69,359.9	12,024.6	82,875.9		67,939.4	8,961.5	98,820.5		78,917.1	7,585.1
Additional Variance as % of out-turn				17.3%				13.2%				9.6%

Note: Calculations deduct interest payments from General Public Services line, GIZ grant (65,000 HRK in 2011 for work on the port) from Environmental Protection and EU Grant (Europe for Citizens 201,500 HRK in 2013) from Sport, Recreation and Culture.

Source: Crikvenica Department for Finance, Tourism and the Economy

(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. Crikvenica did 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	C+	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	C	The variance in the composition of primary expenditure exceeded the global deviation in primary expenditure by more than 15 per cent of actual expenditure in only one of the three years.
(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. 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	68,556.4	65,290.9	74,229.5	77,558.2	85,362.8	72,743.1
Less Receipts from General Gov. (HLG-1)	33,358.1	29,657.2	34,016.8	31,179.7	38,909.8	33,984.7
Less External Grants	65.0	65.0	-	-	201.5	201.5
Own current revenue	35,133.3	35,568.7	40,212.7	46,378.5	46,252.4	38,556.9
Current revenue out-turn as % of original budget		101.2%		115.3%		83.4%
Receipts from asset sales	3,885.0	192.9	7,520.0	3,785.2	7,320.0	245.9
Total own revenue	39,018.3	35,761.6	47,732.7	50,163.7	53,572.4	38,802.8
Total own revenue (% of original budget)		91.7%		105.1%		72.4%

Source: Crikvenica Department for Finance, Tourism and the Economy

Current own revenue was close to original budget in 2011, and significantly higher than budget in 2012, but fell substantially short in 2013. Because actual capital receipts were only a small fraction of budget in 2011 and 2013, and only about 50 per cent in 2012, only in 2012 were total receipts higher than budget. For 2013 total receipts were less than 75 per cent of budget.

Indicator	Score	Explanation
PI-3 Deviations in aggregate revenue out-turn compared with the original approved budget	D	M1 Scoring Method
(i) Real collection of domestic income in comparison with estimates in the original approved budget	D	Actual revenue was 91.7%, 105.1% and 72.4% for the three years 2011-13. Thus in two of the three years revenue was below the 92% required for C.

PI-4 Stock and monitoring of expenditure payment arrears

The city of Crikvenica had no liquidity issues in 2011 & 2012, and there were very few arrears. They were generated for technical reasons (incomplete documentation during procurement) rather than by the inability of the city to pay. All expenditure not paid by 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) is automatically considered to be an arrear.

For 2013 expenditures arrears as a percentage of total real expenditures increased but they were a little more than 2% (from 0.04% in 2011 and 0.13% in 2012), implying that there were minor liquidity issues during the same year. These results are summarized below:

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

(In 000 of HRK and in Percent)

Year	Total Expenditures	Amount of Arrears as of December 31	Arrears as a % of total Expenditures
2013	79821.7	1827.2	2.29%
2012	72464.1	96.9	0,13%
2011	73175.9	29.6	0,04%

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

Data on the stock of expenditures arrears with an age profile are available daily (in real time) in the FMIS, SPI (*Sistem poslovnih informacija* or Business Information System) an integrated software covering budget planning, budget execution, payroll, payments, treasury, procurement and property registry.

Table 3.7: Age Profiles of Arrears for 2011-2013

(In HRK)

Expenditure arrears by day	2011	2012	2013
0-60	16 819	15 436	1 766 059
61-180	12 761	20 406	--
181-360	--	61 123	--
Above 360	--	--	61 123
TOTAL	29 580	96 965	1 827 182

(i) Stock of expenditure payment arrears

The stock of arrears represented 2.29% 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 2.29% 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 calls for an organizational (administrative), economic, functional and program budget classification⁹. The same legislation also calls for a budget classification according to sources of financing and location.

In the city of Crikvenica, 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-functions¹⁰ (see following table).

TABLE 3.8 :BUDGET CLASSIFICATION-FUNCTIONS AND SUB-FUNCTIONS

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 sub-programs. There are about 40 programs and over 100 sub-programs.

In addition to the above advanced classifications, preparation, execution and reporting of the budget are also carried out according to the administrative and economic classifications¹¹.

⁹ State Budget Act (Consolidated Text), 2009, Art. 21; Ordinance on Budget Accounting and Chart of Accounts (Official Gazette, no. 27/05 and 127/07)

¹⁰ City Budget 2013, Budget execution Reports 2013

¹¹ This is explicitly required by law (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 Min Fin. It is also included in the draft budget of the city. (Draft budget 2014)
2. Fiscal deficit.	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 (Draft budget 2014)
3. Deficit financing	YES	Loans are indicated in the budget and can be identified as the amounts to finance the "fiscal deficit" (Draft budget 2014)
4. Debt stock.	YES	Data on debt stock available (Draft budget 2014)
5. Financial Assets.	YES	Shares in 6 companies and bank balances are indicated in budget documentation. (Draft budget 2014)
	YES	Results of previous budget exercise available

6. Results of previous budget exercise		(Draft budget 2014)
7. Results of the current year's budget	NO	(Draft budget 2014)
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	(Draft budget 2014)
9. Explanation of the budget implications of new policy initiatives.	YES	Explanation of the budget implications of new policy initiatives available (Draft Budget 2014)

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

Recent budget documentation fulfils 6 of the 9 information benchmarks

Indicator	Score	Explanation
PI-6 Comprehensiveness of information included in budgetary documentation	B	M1 Scoring method
(i) Proportion of information mentioned above and contained in the most recent budgetary documentation published by the central government.	B	Recent budget documentation fulfils 6 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 budgeted¹². This is the case. In addition all revenue collected by schools is reported. The PEFA team has not identified any extra-budgetary operations.

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

¹² Refer to: State Budget Act (2009), *Universality principle*, Art. 9

Crikvenica received two external grants during the period 2011-13: 65,000 HRK in 2011 from GIZ (Germany) for work on the port, and 186,560 HRK in 2013 from the European Commission for the project *Skrinjica* for the promotion of the City's cultural heritage. Crikvenica also received technical assistance from the World Bank with the objective of improving PFM. There were no transfers of funds involved. Only training and travel tickets were provided. The German and EU grants are included in fiscal reports (and they are not extra-budgetary).

Indicator	Score	Explanation
PI-7 Extent of unreported government operations	A	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.	A	The level of unreported extra-budgetary expenditure (other than donor funded projects) is nil.
(ii) Information on income and expenditure relating to projects financed by donors that is included in fiscal reports.	A	The grants received in 2011 and 2013 were included in the budget and fiscal reports of the city of Crikvenica

PI-8 Transparency of inter-governmental fiscal relations

The city of Crikvenica has 6 Neighbourhood Councils, *Jadranovo, Dramalj, Selce, Crikvenica-Centar, Crikvenica-Istok & Crikvenica-Zapad*. The neighbourhood councils are at first sight sub-national entities of a lower level that function with elected councils for four years (5 members that are volunteers, paid by the city of Crikvenica based on their presence only).

The neighbourhood councils do not collect revenues and receive all their resources from the city. The vertical transfers from the city are equally distributed to the neighbourhood councils. The latter do not have their own budget but they can make proposals to the city on how the amounts of funds transferred to them have to be spent. The city has to approve the details of the spending.

The amounts available and to be spent by the neighbourhood councils are included in the budget of the city of Crikvenica. 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

The city of Crikvenica has a *Museum*, a *Cultural Centre* and a *Library*. These entities are not autonomous because their expenditures are met in full by the city and do not have their own budget. They are part of the city budget and they operate as if they were city departments with all their related expenditures (salary, operating costs, etc.) are covered by the city.

The city of Crikvenica has shares in 6 companies. These shares are valued at: 30 million HRK on December 31, 2013:

1. Utility company (*Murvica*)¹³, 100% owned by the city being in charge of: water, drainage, parking and environmental activities;
2. Water supply company (*Vodovod Zrnovnica*)¹⁴, 34% owed by the city (the remaining shares being owned by 2 other nearby cities);

¹³ www.murvica.hr

¹⁴ www.vodovod-zrnovnica.hr

3. Radio DJ (75% ownership by the city);
4. Rijeka Airport¹⁵ (4% owned by the city);
5. Jadran Hotel and Tourist company (0,125% owned by the city);
6. *Poduzetnicki Centar* -Entrepreneurial Centre (33% owned by the city).

It should be noted that Radio DJ and *Produzetnicki Centar* receive subsidies from the city.

All the above mentioned companies forward semi - annual and annual reports to the city. The utility company (*Murvica*) and the water supply company (*Vodovod*) forward audited financial reports yearly.

The city does not elaborate a consolidated overview on fiscal risk (report)

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 Crikvenica. 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	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	--

¹⁵ www.rijeka-airport.hr

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 3.10: 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 November 14, 2013. (Department for Social Affairs and local self-government, City of Crikvenica; www.crikvenica.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 on the city website about 20 days within completion Budget Law (2009), Art 12 (3); Department for Finance, Tourism and the Economy; www.crikvenica.hr)
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	NO. 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 for Finance, Tourism and the Economy)
(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 19 th 2013 audit reports completed (for 2012) August 30 th 2013 posted on the web site (www.crikvenica.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 kindergarten and the 2 elementary schools in Crikvenica (with city coverage) are available in the city budget as well as in the city's budget execution report. There are no primary health centres under the city coverage in Crikvenica (City budgets 2013 and 2014, www.crikvenica.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 5 of the 6 listed types of information

Subsection 3.4: Policy-Based Budgeting

PI-11 Orderliness and participation in the annual budget process

(i) Existence and observance of a fixed budget calendar

TABLE 3.11: 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	City Finance Dept. issues instructions to other City Dept. and Budget Users. Actual Date 25 October
15 September 2013	City Finance Dept. invites applications for subsidies from voluntary organisations (sports clubs, etc.)
15 September 2013	Budget users submit proposals to City Finance Dept. Actual date 8 November
15 October 2013	Finance Dept. submits consolidated draft Budget to Mayor. Actual date 13 November
15 November 2013	Mayor submits draft Budget to City Council
15-27 November 2013	Discussion of proposals by Council Committees, and public consultation
31 December 2013	Council approves revised Budget proposals. Actual date 27 November
By 15 January 2014	City Finance Dept. sends approved Budget to Ministry of Finance

Source: State Budget Act, Articles 25-40; Department for Finance, Tourism and the Economy

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 Crikvenica 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 Department for Finance, Tourism and the Economy 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 by the Department for Finance, Tourism and the Economy, which are agreed with the Mayor. These instructions include ceilings within which the City's Departments and budget users must work. This process works satisfactorily despite some short timescales, and there is full communication at every stage between the Department for Finance, Tourism and the Economy, 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 3.12: DATES FOR BUDGET APPROVAL BY COUNCIL (2012 through 2014)

Fiscal Year	Date of Approval
2012	22 December 2011
2013	19 December 2012
2014	27 November 2013

Source: Department for Finance, Tourism and the Economy

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, 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.
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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 Crikvenica 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. But the unpredictability of major revenue streams and the fact that some of them are earmarked for particular types of expenditure make it difficult to prepare strategic plans which remain stable from one year to the next. The City is currently working on a strategic plan which should help to establish clearer links between medium-term fiscal projections and subsequent years' budget proposals. There are no links between the multi-year estimates and the subsequent setting of annual budget ceilings – for example, many of the 2014 figures presented with the 2013 Budget bear little relation to their counterparts in the actual 2014 Budget.

(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 PGU-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 keep within this limit, it already provides 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. Crikvenica has two outstanding loans which together amount to about 15 million HRK, on which debt service costs currently amount to about 6 per cent of annual revenue. Reports

are made every six months to the Council. Since the city's debt is small, this dimension is considered Not Applicable.

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

Crikvenica showed that where its activities follow a relatively stable and predictable path over time, the figures in its projections of the costs of providing its services include the ongoing current expenditures required to make use of new investments. But Crikvenica has not yet produced its overall development strategy within which sectoral strategies could be fitted, nor have strategies been adopted for the development of particular services.

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

The unpredictability of the revenues (communal 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	Crikvenica's total debt service costs are only about 6 per cent of revenue. Since there is no question of the city's debt becoming unsustainable, this 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 there is as yet no overall strategy, or strategies for the development of particular services.
(iv) Links between investment budgets and future 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. Crikvenica 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 3.13: OWN TAX and FEE REVENUE COLLECTION, 2013

Taxes	Executed HRK thousands	% relative to subtotal	% relative to total
Direct taxes	2,935.8		8.9%
Surtax on personal income tax	2,935.8		
Indirect Taxes	5,835.5		17.7%
Tax on consumption of beverages	1,415.1	24.2%	4.3%
Tax on holiday houses	3,899.0	66.8%	11.8%
Tax on business names	521.4	8.9%	1.6%
Administrative fees	24,157.9		73.4%
Community fees	6,538.6	27.1%	19.9%
Utility fees	12,669.8	52.4%	38.5%
TOTAL OWN REVENUE	32,929.2		

Source: Crikvenica Department for Finance, Tourism and the Economy

(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 discretion by revenue collectors. Thus the City, TA and taxpayers know what their liabilities are. The legislation governing the amounts of the community fees charged in respect

of new developments and the annual utility fees payable on all properties is well understood by all those liable to pay them. 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. In the case of the community fees there is inevitably some element of negotiation concerning these once-for-all payments.

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

The assessment notices sent to those liable to pay the three taxes and the annual utility fees make clear the basis on which the payments are calculated. The amounts of community fees are specifically calculated whenever 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, but such appeals were stated to be extremely rare. In practice LGUs are reliant on the Administrative or Bankruptcy Courts to collect unpaid fees, while those liable to pay the fees can equally appeal to the Court.

Indicator	Score	Explanation
PI-13 Transparency of taxpayers' obligations and liabilities	B	M2 scoring method
(i) Clarity and comprehensiveness of tax liabilities	B	The legislation governing the taxes and utility fees for which LGUs are responsible is clear, and the administrative procedures straightforward, although there may be scope for error in the measurement of chargeable areas. In the case of the community fees payable in respect of new developments, there is inevitably some element of negotiation.
(ii) Access by taxpayers to information about responsibilities and administrative procedures in relation to taxes.	B	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 utility and community fees to be made to a body appointed by the county concerned, but such appeals were stated to be extremely rare.

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 population of Zagreb may be underestimated, since people living there have an incentive to retain their registrations elsewhere in order to avoid its 18 per cent surtax. However, the incentive to misrepresent a taxpayer's residence will be less significant in Crikvenica where the surtax is only 10 per cent. 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. However, the requirement for businesses to keep electronic Fiscal Registers (important for the collection of VAT) provides the City with reasonable assurance that most amounts due from businesses will be received. However, the TA stated that it does not use

information in electronic registers about those liable to other taxes in collecting taxes on behalf of LGUs. Receipts of holiday houses tax, which are relatively significant in Crikvenica, 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. However, 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. The absence of any links between the TA and LGU databases considerably weakens control and enforcement.

(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), 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 thereafter may initiate action for foreclosure. For poor users the city provides for the utility charge and contribution to be paid from the budget, from the item social care. The city often writes off claims for utility charge as a part of bankruptcy procedure. The City's claims for charges and contributions must be secured within three years. The Office for the Communal affairs employs one person who deals with the decisions for charges and contributions. Another person, from the Budget and Finance Office, takes care of registering the payments. The payers of the utility fee mostly accept the decisions of the city. In the case of the community contribution, the city may take a charge on the property of the payer.

(iii) Planning and control of tax auditing programmes

Since the taxes and fees for which Crikvenica is responsible do not involve any element of self-assessment, no question arises of arranging risk-based tax audit programmes of the kind to which this dimension refers. This dimension is therefore considered Not Applicable.

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	Crikvenica 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	Sanctions have little importance in the enforcement of LGU taxes and fees.
(iii) Planning and control of tax audit programmes	NA	The taxes and fees for which Crikvenica is responsible do not involve any element of self-assessment. This dimension is therefore Not Applicable.

PI-15 Effectiveness in collection of tax payments

A recent performance audit by the State Audit Office has drawn attention to the widespread problem of arrears of LGU revenues, and urged that more effort be devoted to their collection. LGUs have sought to respond positively to the recommendations, but point out that in many cases the costs of the recovery action can outweigh any possible benefits, as is the case when the debtors are bankrupt, or have no resources.

(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 Crikvenica 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. Information is not available in the precise form for which PEFA looks: rather is assumed that amounts collected from each taxpayer will be set against his/her oldest outstanding tax or fee debt. The position is summarised in the following table.

Table 3.14: Tax arrears and amounts collected each year, 2011-13

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	5,186.0	3,252.0	4,157.6	3,880.2	3,950.7	3,899.0	3,186.4
Consumption	695.0	793.5	728.1	910.6	749.4	1,415.1	769.3
Business names	1,502.8	311.5	1,380.1	471.5	1,283.2	521.4	1,172.5
Communal fees	2,715.9	6,538.6	4,114.3	15,269.5	2,715.9	8,812.5	3,993.5
Utility fees	13,405.8	12,669.8	13,817.2	12,540.5	13,405.5	11,939.0	12,988.8
Total	23,505.5	23,565.4	24,197.3	33,072.3	22,104.7	26,587.0	22,110.5
Arrears as % of collections during year			102.7%		66.8%		83.2%

Source: Crikvenica Department for Finance, Tourism and the Economy

As the table shows, total arrears remained broadly steady during the period 2011-13. As a percentage of collections arrears fell to 66.8 per cent in 2012, reflecting higher assessments and collections. The percentage increased again in 2013, as collections fell back. Arrears of the tax on holiday houses declined each year, reducing from 5,186 thousand HRK at the beginning of 2011 to 3,186 thousand HRK at the end of 2013. There was a comparable improvement in the collection of business names tax, where arrears fell from 1,502.8 thousand HRK at the beginning of the period to 1,172.5 thousand HRK at the end. But arrears of utility fees, the largest own revenue stream for the City, remained obstinately high, exceeding total annual amounts collected. Because total arrears amount to more than 80 per cent of the annual revenue flow, and there is no clear downward trend overall, the debt collection arrangements cannot be considered satisfactory. In any case the debt collection ratio must be below 60%.

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

All revenue is paid into the Crikvenica's Single Treasury Account, either directly by fee payers, or monthly by TA in respect of the three small taxes. Less than 20 per cent of revenue is transferred to the Treasury on a monthly basis with the remainder being paid in daily.

(iii) Frequency with which the Treasury completely reconciles accounts reflecting tax valuations, payments, records of late returns and income

Crikvenica carries out 6-monthly reconciliations of the arrears, new assessments and collections from its individual fee payers with its Treasury records.

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 which Crikvenica is responsible amount to more than a third of total annual receipts. The debt collection ratio is below 60%
(ii) Effectiveness in the transfer of recovered taxes to the Treasury by the revenue administration	B	The majority of the revenue dependent on Crikvenica's own decisions is paid immediately into the City's Single Treasury Account, with only the minor revenue from the small taxes received monthly from 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 carried out every six months.

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

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

A yearly cash flow forecast and/or a commitment plan is prepared every year for Crikvenica at the beginning of the fiscal year (early January). The forecast is based on historical information (expenditure of previous years) and revenue forecast. It covers a twelve month period and is broken down into four (4) quarters. It is updated monthly on the basis of cash inflows and outflows.

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

The yearly cash flow forecast is updated daily on the basis of cash inflow and outflow. In fact the update focuses in practice on the quarter in which the update is made and on the upcoming three months. This allows spending units of the city to plan expenditure at the very most three months in advance. In most cases though spending units receive information to plan expenditure less than three months in advance.

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

In 2013, there were 2 amended budgets (supplementary budgets), which modified the original approved budget significantly. In one case, an unexpected

surplus of the budget for 2012 had to be taken into consideration. In the second case, the city incurred major unforeseen capital expenditures. The amendments/adjustments that were not predictable were reviewed and approved by the City Council in a transparent way¹⁶.

Indicator	Score	Explanation
PI-16 Predictability of availability of funds for commitment of expenditure	C+	M1 scoring method
(i) Degree to which cash flow forecasting and monitoring is carried out	A	A cash flow forecast is prepared for the fiscal year, and is updated daily on the basis of actual cash inflows and outflows.
(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 or two months in advance.
(iii) Frequency and transparency of the adjustments made to the budgetary allocations available at a level higher than MDA administrations	B	Significant adjustments take place twice a year. They are carried out in a transparent (predictable) way.

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

As of time of this assessment (March 2014) the city of Crikvenica had two (2) domestic loans, the first one of about Euro 1,5 million with *Unicredit Bank*, a private commercial bank, and a second one of about Euro 1,3 million with *Erste Steiermaerkische Bank* also a private commercial Bank. Payments for the first loan have to be made during the period 2008-2015, and for the second loan during the period of 2011-2026. Debt management is carried out by the Finance Department.

i) Quality of debt data recording and reporting

Given the limited number and amounts of loans, reconciliation of data is carried out regularly comparing statements received from the banks and the city's books. *Unicredit Bank* issues monthly statements whereas *Erste Steiermaerkische Bank* issues quarterly statements, allowing monthly and quarterly reconciliations respectively as well as updating of the data. As a result debt data are of very good

¹⁶ For 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.

quality. In addition, internal and external auditors (visiting the city) never raised any issue regarding the quality of the data.

Twice a year the Department for Finance, Tourism and the Economy elaborates comprehensive debt reports sent to the city council. Four times per year the same entity elaborates reports sent to the Ministry of Finance.

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

The city of Crikvenica has one bank account only, held at *Erste Steiermaerkische Bank* a 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 a print out from the bank with the balance available. The city (Finance Department) 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 law¹⁷. 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 a loan (or in applying for a guarantee) the total annual liability of the city may amount up to 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	Crikvenica contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.

¹⁷State 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

Crikvenica has 41 employees in the City administration, and 50 working in the services for which it is responsible (Kindergarten, Fire Service, cultural and adult education activities). All payments are 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 City's Department of Social Services and Local Government, with all decisions on appointments and promotions approved by the Mayor. The payroll is the responsibility of the Department for Finance, Tourism and the Economy, with the monthly pay for each individual calculated automatically by the *Libusoft* IT system on the basis of input (hours worked, holidays, etc.) by the Finance Department. 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 responsible Department. The Director of the Department for Finance, Tourism and the Economy reviews the payroll each month. 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 for Finance, Tourism and the Economy without delay, so that correct amounts can be paid each month. There have been no recent instances of retrospective 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 Department of Social Services and Local Government, 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 Finance Department. There is always a clear audit trail.

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

The operation of the payroll has been reviewed as part of the annual audit of the City's activities and Financial Statements by the State Audit Office (SAO), including the testing of some salary payments. The most recent such audit covered the year 2012. SAO reports have not included any observations about errors or weaknesses in the payroll. In addition the City's internal auditor reviewed

the operation of the payroll in 2013, and made recommendations for strengthening the electronic links between the personnel and payroll records.

Indicator	Score	Explanation
PI-18 Effectiveness of payroll controls	B+	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 Finance Department. There is no record of any need for retrospective adjustments to the pay of individuals.
(iii) Internal control of changes to the staff register and payroll.	A	There are firm controls over both personnel records and the payroll, and changes always leave a clear audit trail.
(iv) Payroll auditing to identify weaknesses and/ or ghost workers.	B	The operation of the payroll was the subject of an internal audit in 2013.

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 Crikvenica officials have received the necessary certification from the Ministry of Economy for preparing tender documents and supervising contract awards. One of these has the responsibility to prepare the annual Procurement Plan which is published on the City's website after the Budget has been approved

TABLE 3.15: 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 information: <i>government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.</i>	Yes	Each contracting authority must publish its procurement plans, tender opportunities and contract awards, and the Ministry of Economy maintains a central database of all this information. The State Commission's rulings are published on the Commission's website. http://www.dkom.hr

All the six benchmarks are met,

(ii) Use of competitive procurement methods

The following table summarises Crikvenica's procurement expenditure for 2012 and 2013.

Table 3.16: Procurement Summary: 2012-13

HRK thousands

Procurement Type	Goods		Works		Services		Total	
	Value	Number	Value	Number	Value	Number	Value	Number
Open Proc.	2,697.4	6	1,850.7	5	366.3	2	4,914.4	13
Negotiation			632.3	1	24.8	1	657.1	2
Total above threshold	2,697.4	6	2,483.0	6	391.0	3	5,571.4	15
Framework contract	1,136.3		-		116.5		1,252.7	-
Below threshold	253.5				675.2		928.7	
Total 2013	4,087.2	6	2,483.0	6	1,182.7	3	7,752.9	15
Open Proc.	574.8	2	27,552.7	7	2,066.4	10	30,194.0	19
Negotiation			728.6	2	237.4	2	966.1	4
Total above threshold	574.8	2	28,281.3	9	2,303.9	12	31,160.1	23
Framework contract	-		-		-		-	
Below threshold	291.6		790.1		1,245.8		2,327.5	
Total 2012	866.4		29,071.4		3,549.7		33,487.6	23

Source: Crikvenica Department of Finance, Tourism and Economy

Open competition accounts for the large majority of expenditure on contracts above the national thresholds: 88.2 per cent in 2013, and 96.9 per cent of the much larger programme in 2012. Where for a small proportion of the expenditure negotiated procedures have been used, this reflected particular circumstances which justified a less competitive approach in accordance with the Procurement Law. Full information has to be provided to the Ministry of Economy in all such cases. Crikvenica's procurement has not given rise to any intervention by the Ministry; in one recent case the City was ordered by the State Commission not to award a contract to the lowest bidder, on the ground that sufficient documentation had not been provided to demonstrate the bidder's ability to fulfil the contract.

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

Crikvenica's Procurement Plans, tender opportunities and contract awards are all published on the City's website. The State Commission's decisions on complaints are all published on the Commission's website¹⁸.

(iv) Existence of an adequate administrative procurement complaints system

Complaints are heard by the independent 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 appointed by the Parliament, and have no links to the Government. Thus the Commission is entirely independent; moreover it 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

¹⁸ <http://www.dkom.hr>

500,000 HRK rising to 9,000 HRK 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 or the award of a contract 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 3.17: COMPLAINTS SYSTEMS

<p>(i) Complaints are reviewed by a body comprised of experienced professionals, familiar with the legal framework for procurement. This body includes members drawn from outside government. Yes:</p> <p>(ii) Is not involved in any capacity in procurement transactions or process leading to contract award decisions; Yes</p> <p>(iii) Does not charge fees that prohibit access by concerned parties; Yes While the minimum fee of 3,000HRK may discourage complaints against the award of small value contracts, the fees are not large in relation to more substantial contracts.</p> <p>(iv) Follows processes for submission and resolution of complaints that are clearly defined & publicly available; Yes</p> <p>(v) Has the authority to suspend the procurement process; Yes</p> <p>(vi) Issues decisions within the timeframe specified in the rules/regulations; Yes and</p> <p>(vii) Issues decisions that are binding on both parties. Yes</p>
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Responses are all affirmative.

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. Contracts above the thresholds not let by open competition have accounted for only a small proportion of Crikvenica's procurement expenditure.
(iii) Public access to complete, reliable and timely procurement information	A	There is full public access on the City website to Crikvenica's Procurement Plans, tender opportunities and contract awards. If there had been any recent complaints, the results would have been published on the State Commission's website.

(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.
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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. Crikvenica is not among 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

Crikvenica 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 outside the approved plan. Public procurement contracts are registered in the system when they are signed; they would 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 Finance Department 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. Crikvenica 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 an Internal Control document, and are generally understood and respected. Procedures are in place for verifying on the spot a sample of payments in order to test whether the funds have been properly used and accounted for (e.g. that funds for a sports club have been correctly spent and accounted for).

(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 Finance Department. Crikvenica's 2012 Financial Statements were qualified by the State Audit Office (SAO) because not all assets were recorded in the Balance Sheet. Action was taken to correct this omission, which was not related to the processing of transactions. Apart from this SAO has never made any criticism of Crikvenica's procedures.

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	A	Internal control rules and procedures are generally understood and observed. Separation of duties is correctly practised, [and ex post facto checks are made of a sample of payments].
	A	

(iii) Degree of compliance with the regulations for processing & registering transactions.		Rules and procedures for registering transactions are generally observed.
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PI-21 Effectiveness of Internal Audit

(i) Scope and quality of internal audit function

Internal Audit (IA) had been functioning in Crikvenica for seven years, with the work being done by a fully qualified internal auditor. IA procedures consistent with those of the International Institute of Internal Auditors were defined in an internal rule book approved by the Mayor. The auditor prepared a Strategic Plan for three years which then forms the basis for annual plans. An Annual Report was produced on the previous year's activities, which was sent to the CHU at the Ministry of Finance. The audit work focused on the performance of systems across all the City's Departments and budget users in ensuring that programmes were realistically planned, correctly executed, and achieved the intended results. As noted above in relation to PI-18, a 2013 audit concerned the operation of the payroll; the report made recommendations for improving the electronic links between personnel records and the payroll. Other recent audits concerned the records of the city's assets, and the decision process in cases of social assistance. However, a reorganisation of the City's administration in January 2014 resulted inter alia in the discontinuance of internal audit work, and the reassignment of the auditor to other duties.

(ii) Frequency and distribution of reports

The auditor aimed to complete up to four reports a year, in addition to the preparation of annual and longer term plans, annual reports and educational work within the City's services. Reports were sent to the Heads of the Departments concerned as well as to the Head of the Finance Department, and reviewed by SAO in the course of its annual audits. The Ministry of Finance CHU that received an annual report on the work (see (i) above), could request copies of individual audit reports.

(iii) Management response to internal audit findings

There has been a constructive management response to audit findings and recommendations, with most recommendations being accepted. Changes were often made during the course of the audit although where changes in IT systems are contemplated the time-scales are inevitably longer. The Mayor and Heads of Department approved 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 should be reflected in the documentation supporting the Statement. Given the Mayor's recent decision to discontinue internal audit work, it is difficult to justify a high rating for this dimension, even if in the past the management's response was adequate.

Indicator	Score	Explanation
PI-21 Effectiveness of Internal Audit	D+	M1 scoring method
(i) Scope and quality of internal audit function	D	A wide range of work was undertaken in accordance with professional standards, and focused on the performance of systems But the Internal Audit function has recently been discontinued.
(ii) Frequency and distribution of reports	A	Up to four reports were made each year, which were sent to the heads of the Departments concerned and taken into account by SAO in the course of its annual audit work.
(iii) Management response to internal audit findings	C	Most findings and recommendations were accepted. The auditor should also contribute to the documentation supporting the annual Statement of Fiscal Responsibility, but this will no longer be possible.

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 Crikvenica has one bank account. Reconciliation of this account takes place daily. For this exercise, bank balances forwarded by the bank are compared with the city's books.

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

There are few advances or suspense accounts in Crikvenica. Reconciliation of both is made on a monthly basis within 2 weeks after the end of the month. Outstanding balances are fully cleared at the end of the year (with no balances brought forward).

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 suspense accounts and advances take place monthly, within a month from end of period and with no balances brought forward.

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 is one (1) kindergarten, which depends on the city of Crikvenica. It is composed of one main building (with a director) and of three branches. The city finances the totality of

the costs of this kindergarten, including the salaries of the teachers. In addition there are two (2) elementary schools also composed of a main building (with a director) and of three branches. The city pays everything for these schools except the teachers' salaries that are paid by the Central Government. Neither kindergarten nor elementary schools receive any in-kind resources.

The kindergarten and the elementary schools are basically like departments of the city. All payments are made through the city account and are registered in the city's book and information system. The directors of both the kindergarten and the elementary schools keep track on all resources received by the entities under their supervision. The accounting for resources received by the entities is carried out at the Department for Finance, Tourism and the Economy of the city. This information is available in the annual 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 primary schools across the city's boundaries. The information is compiled into reports at least annually.

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

The city of Crikvenica issues 3 types of in-year execution report:

- A monthly report Every month the Department for Finance, Tourism and the Economy elaborates an in-year execution report to the mayor;
- A quarterly report sent to the Ministry of Finance, State Audit Institution and Financial Agency (FINA)¹⁹.
- A Semi-annual report that are sent to the Official gazette (more detailed than the monthly)

The elaboration of the quarterly and semi-annual execution reports is required by law²⁰.

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

¹⁹ FINA 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

²⁰ State Budget Act (2009), Art 91, 108 & 109

For all the three above mentioned reports comparison to budget (not the original but the adjusted budget) is possible only for main functional and economic headings. The semi-annual report is more detailed. For all the 3 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 requirement²¹ and this deadline is respected. For monthly reports there is no legal obligation on the timing of issuing the reports. However these are finalised 20 days at the latest after the period covered.

(iii) Quality of information

Budget execution data used in the reports originate from the IFMIS, SPI (*Sistem poslovnih informacija* or Business Information System), an integrated software covering budget planning, budget execution, payroll, payments, treasury, procurement and property registry. The SPI was introduced in 2010. The internal auditors (the function is currently in abeyance) at the city regularly reviewed SPI processes. In addition the company that manages SPI is Libusoft Sicom, which has an ISO certificate of good quality²². All these elements provide confirmation of the good performance of the system; nor has external audit detected any inaccuracies in recent years.

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	A	There are no material concerns regarding data accuracy.

²¹ Budget Act (2009, Art 81 (9);

²² www.spi.hr

PI-25 Quality and timeliness of annual financial statements

(i) *Comprehensiveness of financial statements*

Yearly financial statements in Crikvenica 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 legislation²³.

(ii) *Timeliness in the presentation of financial statements*

For 2012 and 2013, the annual statements 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 26th, 2014.

(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.

²³ 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 which 240 are qualified auditors; about 80 per cent of the staff works 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)

Crikvenica's most recent annual audit concerned 2012. In addition to the review of financial performance the audit included reviews of the robustness of control systems across all the City's Departments and budget users, respect for revenue earmarking, and respect for the rule limiting total payroll costs to 20 per cent of total expenditure. The report was qualified on account of the omission of certain assets from the Balance Sheet. Crikvenica was also covered by the recent performance audits of the collection of revenue and the maintenance of unclassified roads, where LGUs have been advised to clarify and document the ownership of the roads concerned, and plan more rigorously for their maintenance. Despite the good quality of the audit work, and its compliance with legal requirements, the requirement under the current PEFA methodology for an audit every year of the Financial Statements for any score higher than D means that D has to be applied in the case of Crikvenica.

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

The report for 2012 was received by the City in mid-July 2013, and submitted to the Council before the end of August, i.e. about 6 months after the Financial Statements were submitted to the SAO..

(iii) Evidence of follow up on audit recommendations

It was explained to the City Council that the weakness in the system which had resulted in the Qualification for 2012 had already been corrected before the audit took place. The City is currently preparing its response to the recommendations in the recent audit of road maintenance; in this case the City's ability to implement the recommendations will be limited by the resources available, while identifying and registering the ownership of all minor roads can only be achieved over an extended period of time. The City also sought to respond to the SAO recommendations concerning the collection of revenue, but found that many of the outstanding small amounts were in practice impossible to collect.

Indicator	Score	Explanation
PI-26 Scope, nature and follow-up of external audit	D+	Scoring method M1
(i) Scope/nature of the audit carried out (including adherence to audit standards).	D	Audits cover aspects of performance in addition to financial and compliance audits. International standards are respected. But the absence of an audit every year of the Financial Statements prevents a higher score from being recorded.
(ii) Timeliness in the presentation of auditing reports to the Legislature	B	Audit reports are presented to the City Council within a few weeks of their receipt by the Administration. In 2013 this was about 6 months after the Financial Statements were submitted to the SAO.
(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.

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 new 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 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. This requirement is respected. The Budget should then be approved before the end of the year. In Crikvenica the next step after submission to the Council is the organisation of discussions in the six Neighbourhood Councils and a public consultation meeting. The Budget, subject to any revisions and reallocations arising from the Council's and the Neighbourhood Councils' examination and the public consultation, is then approved by the Council before the end of December. These arrangements have been consistently 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 the Council's own procedures resulted in decisions being taken in a much shorter timescale for the 2014 Budget. In the previous two years the Budget was approved shortly before Christmas (see PI-11-iii). Thus the whole period from 15 November to the end of the year would be available if the Council chose to make use of it, as it did for the two previous Budgets.

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. Crikvenica has not used this margin of flexibility: instead the approval of the Council is sought for a revised Budget reflecting any changes, and such revisions may be undertaken more than once a year.

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, although for 2014 it chose to take decisions more quickly.
iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	A	Crikvenica does not use the flexibility the Administration has to make limited reallocations without reference to the Council. Instead revised Budgets are put forward whenever changes need to be made.

PI-28 Legislative scrutiny of external audit reports

External audit reports are made on the affairs of small cities only intermittently. Where reports concern only the 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 a small 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 annual audit Report for 2012 was delivered to the City Council at its meeting on 30 August 2013, within 6 weeks of its receipt from SAO. In the cases of the recent performance audit reports on revenue collection and the maintenance of unclassified roads, the Council questioned the officials concerned, endorsed the recommendations, and called for reports in due course on the action taken to implement the recommendations.

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

Where audit criticisms and recommendations for improvement have in the past been received from SAO, the Heads of Department concerned have explained the circumstances and the remedial action taken. In the cases of the recent reports on revenue collection and road maintenance, the Council held discussions with the officials concerned, as noted in PI-26(iii) above.

(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. The normal procedure in force under the Public Internal Financial Control Act is that LGU administrations will implement audit recommendations to the extent possible. In these arrangements there is hardly room for the Council to address separate recommendations to its Administration. In Crikvenica the Administration's normal approach is to seek the Council's approval for the action it takes in response to audit recommendations. This shows that there is active involvement of the Council in following up audit recommendations.

Indicator	Score	Explanation
PI-28 Legislative scrutiny of external audit reports	A	Scoring method M1
(i) Timeliness in the examination of audit reports by the Legislature (reports received within the past three years).	A	Audit reports are submitted to the Council within a few weeks of their receipt by the Administration, and discussion by the Council is then normally completed within a short timescale..
(ii) Scope of the hearings held by the Legislature into the main conclusions	A	The Council discusses the responses to audit recommendations with the City officials concerned.
(iii) Measures recommended by the Legislature and implementation of these by the Executive	A	The Administration seeks the Council's approval for the action taken in response to audit recommendations.

Subsection 3.7: Donor Practices

D-1 Predictability of Direct Budget Support

Crikvenica 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

Crikvenica received two external grants during the period 2011-13: 65,000 HRK in 2011 from GIZ (Germany) for work on the port, and 186,560 HRK in 2013 from the European Commission under the programme Europe for Citizens.

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

External grants have hitherto been very small in relation to Crikvenica's expenditure, with minimal 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 Crikvenica introduced a Single Treasury Account in 2011, which substantially improved financial control and reporting. City officials who demonstrated good performance in discharging administrative responsibilities were given a significant role in the operation of the system. As a result the different Departments of the City Administration are now able to work together better in ensuring the continuing soundness of the City's finances. However there remains additional scope to exploit more of the functionalities of the IT system in cash management, public procurement and internal audit. Making better use of the system will require considerable further staff training.

Since 2002 the City has had a strong tradition of publishing information on the budget and ensuring citizen participation in the debate on the content of the budget. The city regularly publishes a Budget in Brief, in order to inform citizens about the budget plans for the following year. In 2012 the City was a part of the research on Transparency and Openness of Local government Units in Croatia carried out by NGO GONG in cooperation with the Association of Cities of the Republic of Croatia. This covered all 576 units of local and regional self-government. Crikvenica came out in fifth place. In 2012-13 representatives of the city participated in the World Bank *City to City Dialog* aimed at improving the financial management of local government units in the countries of South Eastern Europe. As part of the project the City's Deputy Mayor gave a presentation on the transparency of management of the City's finances at a conference in Vienna in February 2013.

The city does not have any specific rules prescribing the Mayor's powers and responsibilities. Nor do the employees of the administrative departments have any specific rules governing the way they work. The focus of work of the Finance Department is more on the accounting records than on financial management. The City does not yet have a clearly defined strategy to steer its development process; the three-year program budgeting projection prepared with each year's budget has not hitherto reflected any clear strategy for the economic development of the City. The City Administration is currently preparing a strategy for its development, which should help to create a clearer vision of its longer term future.

The City has so far received only one small EU grant. It is currently participating in the preparation of projects for co-financing from EU funds. Grant funds from other sources have so far been negligible. Overall, the City has until now been in a relatively comfortable financial position. But the high and persistent revenue arrears, particularly those arising from community contributions and utility fees, remain a source of concern.

4.2 Institutional Factors Supporting the Planning and Implementation of Reforms

The Mayor and his deputies have had relatively little involvement recently in the technical processes of financial management. This situation reflects the absence of clear links between decision-making on local public policy issues and their implications for the achievement of financial goals. In 2013 the City changed its internal organization with the objective of achieving cost savings and increasing the efficiency of employees. This has not, however, resulted in any reduction in total numbers employed, although internal audit work has been discontinued. The changes in the internal organization of the city administration in 2013 did not reflect any the changes in the organization and structure of the City Council committees, which continue to be based on the previous administrative organization of the City.

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 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	C	NR	A	--
PI-1 (M1)	D	D	--	--	--
PI-2 (M1)	C+	C	A	--	--
PI-3 (M1)	D	D	--	--	--
PI-4 (M1)	C+	C	A	--	--
B. KEY CHARACTERISTICS OF ALL STAGES: Comprehensiveness and transparency					
PI-5 (M1)	A	A	--	--	--
PI-6 (M1)	B	B	--	--	--
PI-7 (M1)	A	A	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)	C+	A	C	B	--
PI-17 (M2)	A	B	A	A	--
PI-18 (M1)	B+	B	A	A	B
PI-19 (M2)	A	A	A	A	A
PI-20 (M1)	B+	B	A	A	--
PI-21 (M1)	D+	D	A	C	--
C (iii) Accounting, recording and reporting					
PI-22 (M2)	A	A	A	--	--
PI-23 (M1)	A	A	--	--	--
PI-24 (M1)	C+	C	A	A	--
PI-25 (M1)	C+	A	A	C	--
C (iv) External scrutiny and audit					
PI-26 (M1)	D+	D	B	A	--
PI-27 (M1)	B+	B	A	B	A
PI-28 (M1)	A	A	A	A	--
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 for:	position	contact
Damir Rukavina		City mayor	00385 051/455-404
Martina Tomašić	Social services and local self-government	Head of section for social services, human resources and public procurement	00385 051/ 455 407
Snježana Sikirić	Department for Finance, Tourism and the Economy	Head of section for economy, tourism and projects	00385 051/ 455 408
Nina Tus	Department for Finance, Tourism and the Economy	Associate for accounting, wage calculation, clearing payments	00385 051/ 455 425
Jasna Perhat	Department for Finance, Tourism and the Economy	Head of administrative office	00385 051/ 455 421
Melanije Milat Družić	Social services and local self-government	Expert associate for local self-governments and public relations	00385 051/ 455 405
Silvio Ratković	Communal affairs, urban planning, environment protection and assets	Head of asset management section	00385 051/ 455 466
Denisse Mandekić	Department for Finance, Tourism and the Economy	Expert associate for economy, tourism and projects	00385 051 / 455 409
Ana Novak Rupčić	Tax administration, Crikvenica tax office		

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Annex 5: Map Crikvenica (Croatia)

