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UŽICE



Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

May, 2020





City of Užice - Serbia

Public Expenditure and Financial Accountability (PEFA)
Performance Assessment Report

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

PEFA Secretariat,

January 29, 2021

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Abbreviations and acronyms

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

Executive summary

Background

1. Užice is an economically well-developed city in Western Serbia with a total population of about 78,000 (including its subordinate municipality Sevojno). It has a broad industrial base including iron and steel, non-ferrous metals, construction, wood-processing and textiles, much of which is focused on exports. About 50 per cent of city revenue accrues through its share of nationally collected taxes, with a further 10 per cent coming from central government budget transfers. This repeat PEFA assessment reflects the situation as in 2018; it is based as appropriate on fiscal data for the period 2015-17. Where applicable, the cut-off date is end-December 2018. The assessment is based on the revised PEFA criteria issued in 2016, and thus provides a baseline against which future changes in public financial management performance can be measured. It also provides an indication of changes since the previous 2014 assessment which was based on fiscal statistics for the period 2011-13: comparisons are based on the previous 2011 PEFA criteria in force at the time of the previous assessment.

The assessment has been commissioned by the State Secretariat for Economic Affairs (SECO) which has supported efforts to improve public financial management (PFM) in sub-national governments (SNGs) through the “Implementation of the SECO Local Government Finance Reform Program in Serbia” (RELOF). The management of the assessment has been undertaken by RELOF. The assessment has been coordinated by RELOF and was overseen by a team co-chaired by SECO and RELOF. The other members of the Oversight Team were representatives of the Ministry of Finance, the State Audit Institution, the six Subnational Governments, the Standing Conference of Towns and Municipalities and UNDP. The assessment is conducted in six Serbian sub-national governments – Knjaževac, Osečina, Paraćin, Sremska Mitrovica, Vranje and Užice. All Performance Indicators as set out in the 2016 PEFA criteria have been evaluated.

A. Integrated analysis of PFM performance

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

1. Reliability of the Budget

3. Most central government (CG) funding for Užice comes through the city’s share of income and other CG taxes, where the yield was slightly underestimated when budgets were prepared (HLG-1.1). CG transfers were less than 20 per cent of total receipts from CG and were underestimated because targeted transfers were not known at the time budgets were prepared. The underestimates of revenue accruing from CG were sufficient to offset the shortfall in receipts of own revenue (PI-3.1) to the extent that overall expenditure fell less than 5 per cent short of the budget in two of the three years 2015-17 (PI-1). The functional breakdown of expenditure was relatively stable apart from substantial shortfalls on housing, particularly in 2015 and 2016 (PI-2.1), which is consistent with the variance of expenditure by economic classification being mainly the result of investment falling far short of the budget in all three years 2015-17 (PI-2.2). No expenditure was charged to contingency during 2015-17.

2. Transparency of public finances

4. The Treasury system through which all municipal revenue and expenditure pass contains enough information to enable comparisons between budget and out-turn by reference to administrative, functional and economic classifications (PI-4). (However, the Government does not produce such comparisons for local government spending as a whole.) Information given to the Assembly as part of

budget proposals could be improved by giving more of the context with summary comparisons covering the preceding, current and budget years on all three classifications (PI-5). Revenue and expenditure of utility companies providing services on behalf of the city are fully covered by published reports (PI-6). Financing of the subordinate municipality of Sevojno is transparent (PI-7). Reporting of performance against targets established for each of the programmes into which SNG expenditure has to be fitted has been initiated, but the formulation of the objectives requires improvement. There have been no independent evaluations of public service performance, although it should be acknowledged that the limited nature of SNG responsibilities makes performance difficult to measure and evaluate (PI-8). Information for the general public is satisfactory (PI-9).

3. Management of assets and liabilities

5. Full financial reports are published for the city's utility and other service companies, but no consolidated reports, or analyses of the fiscal risks faced by the city, have been published (PI-10). Investment planning is relatively unsophisticated, but progress is regularly monitored and reported (PI-11). COEs are effectively monitored, as are the city's holdings of nonfinancial assets, but the asset register is incomplete and valuations are lacking. Asset disposals are subject to competition, but details of sales are not published (PI-12). Debts are relatively unimportant (interest paid in 2017 was less than 0.5 per cent of expenditure in 2017), and are fully reconciled and reported, but there is no debt management strategy (PI-13).

4. Policy-based fiscal strategy and budgeting

6. The stability of financing from central government contributes substantially to medium-term fiscal and expenditure planning, and revenue and expenditure are projected in detail for the three years ahead (PI-15 and PI-16). Budget preparation is orderly, although central government guidance on economic assumptions is only provided months after the statutory deadline; as a result, time is very limited for the administration to finalise its proposals and the Assembly to consider them in time for enactment before year-end (PI-17 and PI-18).

5. Predictability and control in budget execution

7. Good progress has been made in expanding the property tax base, and arrangements are in place to encourage compliance and to check the validity of tax declarations. Tax arrears remain a problem, much of it inherited in 2009 when responsibility was transferred from central to local government, with write-offs discouraged by the need to maintain the city's claims in bankruptcy proceedings (PI-19). Aggregate revenues are reported and reconciled monthly, and individual taxpayer accounts updated as revenue is received (PI-20). New IT software ensures that commitments cannot be undertaken without the assurance of available funds (PI-25.3), while cash flow planning enables budget users to commit their budget allocations at any time (PI-21). There are no expenditure arrears (PI-22). Payroll controls are effective, and there is an annual external inspection to ensure that all staff positions are authorised, and all employees correctly paid according to their qualifications, responsibilities and length of service (PI-23). The management of procurement by the city administration appears satisfactory, but it much expenditure on goods and services is not subject to competition (PI-24). Internal control arrangements work well (PI-25), and internal audit functions effectively throughout the city administration and indirect budget beneficiary institutions (PI-26).

6. Accounting and reporting

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

7. External scrutiny and audit

9. Serbian SNGs are subject to a thorough audit to international standards by the State Audit Institution (SAI) every three or four years. In other years a limited financial audit is undertaken by a commercial audit firm. Užice's 2017 financial statements were accordingly audited by the SAI. COEs are also within the ambit of the SAI, but coverage of them is more limited. There is clear evidence of follow-up where recommendations are made by the SAI, but other audits have not given rise to significant findings. The resources available to the SAI are controlled and restricted by the Government (PI-30). There has been little substantial involvement of the Assembly in audit follow-up (PI-31).

B. Effectiveness of the internal control framework

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

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

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

13. Internal controls in the city administration appear to work satisfactorily, including internal audit, which – exceptionally in Serbia – has been functioning effectively for several years. External audit by the SAI, most recently for 2017, has not found serious problems in the city's financial management, which has benefitted from the stability of experienced staff in the finance function. Monitoring the performance of service delivery is still in the process of development, with the first (unpublished) reports of performance against targets having been submitted to central government in September 2018.

C. PFM strengths and weaknesses

Aggregate financial discipline

14. The restraints on borrowing, and the sanctions against local authorities failing to pay invoices within 45 days, mean that the risks of uncontrolled overspending are low. Užice has managed to keep the spending in aggregate and on most services close to budget (see PIs-1 and 2 above), although investment has fallen short of the city's ambitions.

Strategic allocation of resources

15. Užice is relatively advanced in terms of medium-term budgetary planning. Allocations to the main functions – Education, Housing, Culture – are reasonably stable from one year to the next, although public investment planning is adversely impacted by central government control and the absence of any medium-term planning of targeted transfers on which much SNG investment depends. New arrangements at central government level to improve the planning of public investment have yet to be finalised but will have little impact at SNG level because most SNG projects will fall below the threshold costs above which the new arrangements are to apply.

Efficient use of resources for service delivery

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

Performance changes since 2015

17. Užice has been relatively advanced among Serbian SNGs in developing medium-term fiscal planning and internal audit. In common with other SNGs it has made a start on results-oriented budgeting associated with performance indicators, although so far only the targets have been published. The property tax base has been considerably increased and enforcement and collection have been improved. Commitment control has been strengthened, and cash management made more flexible. The deterioration in budget reliability seems mainly to be a result of the difficult fiscal climate for SNGs with central government reducing their share of revenues.

Approach to PFM reform

18. Serbia is engaged in an ambitious and wide-ranging Public Administration Reform (PAR) programme with the objective of meeting the standards required for admission to the European Union. Different elements cover the functioning of the economy and the working of the judicial system, as well as government operations and the provision of public services. Within this framework, the Government is implementing a PFM Reform programme, with technical assistance from OECD/SIGMA, IMF, SECO and others. The specific objectives are (1) to improve the quality of economic and fiscal projections; (2) to improve medium-term fiscal planning and budgeting; (3) improvements in public procurement legislation and practice; (4) the embedding of Public Internal Financial Control (PIFC) arrangements on the EU model (through a development strategy and action plan for the period 2017-20); the further development of TSA business practices and reporting; and (5) enhancement of the work of the SAI. The SECO-supported RELOF Programme is contributing to these efforts, which are led by the Ministries of Finance, Economy, and Public Administration and Local Self-Government. Over the period since 2015 these efforts have been largely focused on central government operations, with relatively less attention paid to SNGs.

5.2 Institutional considerations

19. RELOF is supporting the corresponding PFM improvements also at local government level, focusing on (1) improvement of Financial Management and Control (FMC); (2) the introduction and development of Internal Audit; (3) improvements in budget planning, execution, and reporting, including the medium-term dimension; and (4) improving tax administration and tax yields. RELOF is also supporting the improvement of financial management in utility and other companies owned by

local authorities on which much of the delivery of public services depends. Užice has made progress in all these areas, but there remains much scope for improvements in public investment planning and the further development of programme budgeting. These processes could be substantially enhanced if the central government facilitated public investment planning through the provision of targeted transfers on a rolling three-year basis (as has operated for general transfers) instead of demanding fresh bids every year from all SNGs. At the same time, SNGs need greater flexibility in recruiting the staff they need to implement these PFM improvements than they have had during 2015-17.

Table 1: Summary of scores

PFM Performance Indicator		Scoring method	Dimension score				Overall score
			1	2	3	4	
Pillar 1	Budget reliability						
HLG-1	Transfers from Central Government	M1	A	NA	A		A
PI-1	Aggregate expenditure out-turn	M1	A				A
PI-2	Expenditure composition out-turn	M1	C	C	A		C+
PI-3	Revenue out-turn	M2	D	D			D
Pillar 2	Transparency of public finances						
PI-4	Budget classification	M1	A				A
PI-5	Budget documentation	M1	D				D
PI-6	Municipal operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to subordinate governments	M2	A	C			B
PI-8	Performance information for service delivery	M2	B	B	A	D	B
PI-9	Public access to fiscal information	M1	B				B
Pillar 3	Management of assets and liabilities						
PI-10	Fiscal risk reporting	M2	B	A	NA		B+
PI-11	Public investment management	M2	C	C	B	B	C+
PI-12	Public asset management	M2	B	D	D		D+
PI-13	Debt management	M2	A	A	D		B
Pillar 4	Policy-based fiscal strategy and budgeting						
PI-14	Macroeconomic and fiscal forecasting	M2	NU	B	D		C
PI-15	Fiscal strategy	M2	A	B	D		B
PI-16	Medium-term perspective in expenditure budgeting	M2	A	D	B	D	C+
PI-17	Budget preparation process	M2	B	C	D		C
PI-18	Legislative scrutiny of budgets	M2	B	A	A	A	B+
Pillar 5	Predictability and control in budget execution						
PI-19	Revenue administration	M2	A	A	C	D	B
PI-20	Accounting for revenue	M1	A	A	A		A
PI-21	Predictability of in-year resource allocation	M2	A	B	A	A	A
PI-22	Expenditure arrears	M1	A	A			A
PI-23	Payroll controls	M1	B	A	A	A	B+
PI-24	Procurement	M2	C	D	C	A	C+
PI-25	Internal controls on non-salary expenditure	M2	A	A	A		A
PI-26	Internal audit	M1	A	A	A	A	A
Pillar 6	Accounting and reporting						
PI-27	Financial data integrity	M2	A	NA	C	B	B
PI-28	In-year budget reports	M1	A	A	B		B+

PI-29	Annual financial reports	M1	B	B	A		B+
Pillar 7	External scrutiny and audit						
PI-30	External audit	M1	D	B	A	C	D+
PI-31	Legislative scrutiny of audit reports	M2	C	C	D	A	C+

Chapter 1: Introduction

1.1 Rationale and purpose

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

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

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

1.2 Assessment management and quality assurance

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

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

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

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

BOX 1.1: Assessment management and quality assurance arrangements

PEFA assessment management organisation

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

Review of the concept note and/or terms of reference

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

Review of the assessment report

- Date(s) of reviewed draft report(s): May 5, 2020.
- Invited reviewers: PEFA Secretariat, Thomas Stauffer (SECO), Ana Jolović and Georgios Chatzigiagkou (RELOF2), Darko Komnenić (Ministry of Finance), Iva Vasilić (State Audit Institution), Mirjana Drndarević (City of Užice)
- Reviewers who provided comments: Iva Vasilić, SAI [June 10, 2020.], Mirjana Drndarević, City of Užice [May 20, 2020.], Ana Jolović and Georgios Chatzigiagkou, RELOF [May 14, 2020] and Thomas Stauffer, SECO [May 26, 2020].

1.3 Assessment methodology

6. The assessment covers the cities Sremska Mitrovica, Užice and Vranje, and the municipalities Paraćin, Knjaževac and Osečina, and includes all their subordinate institutions. It also covers, to the extent required by the PEFA criteria, the utility and other companies owned by the six SNGs through which a substantial proportion of public services are provided. It uses the revised methodology and criteria issued by the PEFA Secretariat in 2016, and in order to provide a measure of changes since the previous assessments in 2014-15 also applies the 2011 PEFA criteria to the evidence collected. The assessments were preceded by a capacity building workshop for the SNGs concerned held in May 2018.

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

Chapter 2: Country background information

2.1 Economic performance

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

2. These fiscal improvements are the result of measures designed to both cut expenditures and increase revenues, coupled with favourable external factors, such as declining oil and gas prices, falling interest rates across Europe, and economic recovery in the EU, which Serbia maintains close ties with through exports and foreign direct investments (FDIs). An increase (of some EUR 700mn) in public revenues between 2015 and 2017 can be ascribed to higher economic growth than had been envisaged under the consolidation programme. The structural increase in public revenues was also promoted by efficient tax collection (which accounted for some EUR 500mn) and measures that targeted the informal economy. The remaining unforeseen increase in public revenues in 2017 (of some EUR 600mn) was the result of a number of special factors. Nearly half of this figure came from

¹ Source: www.mfin.gov.rs.

unusually high amounts collected in corporation tax, due to greater profitability in the manufacturing sector in 2016. In the same year, indirect taxes made up 40.6 per cent of consolidated public revenues, whilst salaries and pensions accounted for more than half of all public expenditures (51.2 per cent). At 63.2 per cent, the tertiary (services) sector accounted for most of the GDP, followed by industry with 23.5 per cent and agriculture at 12.7 per cent.

Table 2.1: Economic Developments 2015-18

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

*Data for January-august 2018

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

3. Serbia's improved investment climate and better credit ratings (BB, assigned by both Standard and Poor's and Fitch Ratings) have allowed the country to attract FDIs amounting to nearly EUR 2bn annually (6% of GDP IN 2017), exceeding the current account deficit. General government debt as a percentage of GDP is still high compared to some EU Member States. Nevertheless, there have been positive developments in this regard as well. Public debt stood at 70 per cent of GDP at year-end 2015, only to decline to some 57.9 per cent in 2017 and 56.2 per cent of GDP at the end of November 2018.

2.2 Fiscal and budgetary trends

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

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

	2015	2016	2017
Central government budget	784 (19.4)	759 (17.8)	784 (17.6)
Pension fund	537 (13.3)	536 (12.6)	537 (12.0)
Other insurance funds	245	242	245
PE Roads	38	60	38
Local government	281 (7.0)	302 (7.1)	317 (7.1)
General government expenditure	1,844 (45.6)	1,900 (44.6)	1,921 (43.0)
% of GDP (% of GGE)			
Central government budget	19.4(42.5)	17.8(40.0)	17.6(40.9)
Pension fund	13.3(29,2)	12.6(28.3)	12.0(27.9)

Other insurance funds	6.1	5.7	5.5
PE Roads	0.9	1.4	0.9
Local government	7.0(15.4)	7.1(16.0)	7.1(16.5)
General government expenditure	45.6	44.5	43.0

Source: Ministry of Finance RS, 2018

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

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

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

Source: Ministry of Finance RS, 2018

2.3 Local Government Finance

6. Local government in Serbia is based on Part 7 of the 2006 Constitution, which provides for autonomous provinces, cities, and municipalities to have their own self-governing institutions. Detailed provisions are contained in the 2007 Law on Territorial Organisation and Local Self-Government, as subsequently amended. Table 2.4 below gives an overview of the subnational government structure in Serbia, as required by the standard model PEFA Report at sub-national level. According to the Constitution Kosovo and Metohija remain part of Serbia as an autonomous province. In practice, all the statistics and other information in this report exclude Kosovo and Metohija. Serbia, as described here, contains just one autonomous province (Vojvodina), the capital city Belgrade which has a special status, 28 cities and 117 municipalities. Vojvodina directly receives part of the revenue

accruing to central government and is guaranteed an amount at least equal to 7 per cent of the central government budget; it is responsible in its territory in Northern Serbia for delivery of the main public services - education, health, communications, strategic planning – which are the responsibility of central government elsewhere in Serbia. Cities and municipalities have essentially the same responsibilities for local infrastructure, urban and land use planning, housing and local amenities, nursery education, and sport, recreation, and culture. Cities generally have a population of around 100,000 and are able to establish subordinate municipalities on parts of their territory which take over some functions which are the responsibility of the city, with financing determined by the city concerned. Municipalities have populations of 60,000 or less (one has less than 2,000). Cities and municipalities may also establish Community Councils in different parts of their territory whose expenditures are met directly from the local government budget. Cities and municipalities in Vojvodina are financed in the same way and at the same level as those elsewhere in Serbia, but the central government element in their revenues accrues through the province.

Table 2.4: Overview of subnational government structure in Serbia

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

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

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

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

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

Source: Ministry of Finance, RS

8. Table 2.6 shows the breakdown of total local government revenue, and Table 2.7 the breakdown of expenditure by the main economic categories. For the local government as a whole, about two thirds of revenue are determined by the central government (share of income tax and central government transfers), with the remaining third accruing from property tax and non-tax revenues. More economically advanced local governments are mainly dependent on tax revenues, while the less advanced are heavily reliant on general fiscal transfers. Tax revenues account for about 55% of revenues, government transfers 23%, non-tax revenues 21% and grants the rest. Most transfers are general, i.e., to be spent at the discretion of the recipient local government, but a minority are targeted by central government Ministries to be spent for particular purposes – mainly public investment projects. The distribution of general transfers is based on a formula in which population size has 65 per cent of the weighting and geographical area 19 per cent, with the remainder dependent on school class numbers and the number of children needing protection; local governments receiving

less than 90 per cent of the average tax revenue per head of population qualify for additional compensatory transfers.

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

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

Source: Ministry of Finance RS, 2018

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

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

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

Source: Ministry of Finance RS, 2018

10. The normal structure of a PEFA report at sub-national level looks for a summary of the functional allocation of local government expenditure according to the ten main expenditure categories in the UN Classification of Functions of Government (COFOG). This analysis is not produced by the Government of Serbia, although all the information required for its production is held in the records of the Treasury Single Account managed by the Ministry of Finance (MoF). An OECD Profile of Serbia produced in 2016 jointly with the Serbian Standing Conference of Towns and Municipalities shows that expenditure in 2014 was allocated as follows:

- General Public Services – 20 per cent
- Economic Affairs – 21 per cent
- Environment Protection – 3 per cent

- Housing and Community Amenities – 19 per cent
- Health – 1 per cent
- Recreation, Culture and Sport – 11 per cent
- Education – 19 per cent
- Social Protection – 6 per cent.

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

2.4. Applicable Legislation

11. **The Law on Local Self-Government**² provides for local populations to manage affairs of direct, shared, and common interest through freely elected representatives; it provides for local authorities to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population. In the exercise of its rights and the discharge of its duties in connection with meeting the needs of the local population, **a local authority may establish enterprises, institutions, and other organisations that provide public services**, as envisaged by Law and its articles of association. Much of service delivery – road maintenance, street cleaning, minor construction, etc. – is carried out by corporatised entities owned by local authorities. Until recently authorities retained discretion to have some of this work done directly by municipal administrations. However, the central government required that as from 1 December 2016 all such work should be assigned to utility companies. As noted in paragraph 6 above, in order to meet the general, shared, and day-to-day needs of particular local populations, local authorities may establish **local community councils** or other sub-local governments. **Local authorities perform the following duties** through their bodies as envisaged by the Constitution and Law:

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

12. **Some powers of public administration may be devolved on all or some local authorities by the central government**, where doing so allows members of the public to exercise their rights and perform

² Law on Local Self-Government (*Official Gazette of the Republic of Serbia*, Nos. 129/2007, 83/2014, 101/2016, and 47/2018).

their duties more efficiently and effectively and ensures their needs can be met more appropriately. Funds for the exercise of devolved public administration powers are provided from the central budget in proportion to the type and extent of such powers. These devolved duties consist of some aspects of inspection oversight in education, healthcare, environmental protection, mining, trade in goods and services, agriculture, water management, forestry, and other areas as envisaged by Law.

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

14. In the period 2014-2018, the priority was on fiscal consolidation and rationalisation, and thus the ultimate goal of the Government of Serbia to establish the strategic framework for decentralisation and deconcentration did not materialise³. The Ministry of Public Administration and Local Self-Government (MPALSG) recognises the need for strategic planning of further reform of the local self-government system and the process of decentralisation in the context of a Decentralisation Strategy or a programme of reform of local self-government⁴. It remains to be seen whether the MPALSG will manage to effectively engage and/or lead in strategic planning of decentralisation efforts, co-ordinate ministries, and supervise the transfer of new functions and the required financial arrangements onto the local level.

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

16. Serbia operates a decentralised **public procurement system**; public procurement rules are governed by the Public Procurement Law⁵. Local authorities pursue procurement procedures independently but must notify the central-level Public Procurement Office of all tenders advertised and contracts awarded. In 2017, local authorities and their wholly-owned companies together

³ Ministry of Public Administration and Local Self-Government, *Annual Report 2015-2017 on the implementation of the Action Plan for implementing the Public Administration Reform Strategy for RS for the period 2015-2017*, 6 March 2018, http://www.mduls.gov.rs/doc/PAR%20Report_eng_mar2018.pdf

⁴ *ibid*

⁵ Public Procurement Law (*Official Gazette of the Republic of Serbia*, Nos. 124/2012, 14/2015 i 68/2015)

accounted for one-third of the aggregate value of public procurement in Serbia (17 per cent was spent by public utility companies, whilst town/city and municipal administrations spent 15 per cent).

17. Serbian **local authorities enjoy fiscal autonomy**: they are able to **introduce and collect local taxes, fees, charges, and other public revenues**. The Tax Administration has been decentralised and local tax administrations have been created. That said, the ability of local authorities to set property tax rates is restricted by a cap imposed through central-level legislation. The Property Tax Law stipulates maximum property tax rates to protect taxpayers from unreasonable local taxation, so as to uphold the principles of fairness and predictability. Under the Budget System Law⁶, the local executive is responsible for fiscal policy and management of public assets, revenues and receipts, and expenditures and outlays. The Law provides accountability mechanisms in the form of general fiscal accountability principles, procedures, and rules that also apply to local authorities. The Budget System Law caps **fiscal deficit**: a local authority may incur a fiscal deficit only for public investments, this may not exceed 10 per cent of its revenue for the year in question.

18. Cities/towns and municipalities may **borrow** in the financial market, subject to approval by MoF. Local authorities may freely compare offers available in the market and choose either to borrow from banks or issue municipal bonds. The Public Debt Law⁷ prevents local authorities from issuing guarantees. This piece of legislation stipulates that borrowing decisions are made by the appropriate body of the local government. Local authorities may borrow in Serbia or abroad. Short-term borrowing is permitted only to finance temporary liquidity issues, whilst capital projects require long-term borrowing. The legal framework imposes some restrictions on borrowing by local governments: short-term borrowing to overcome current liquidity constraints may not exceed 5 per cent of aggregate local revenue for the preceding year; local authorities may not incur short-term debt to finance capital investments; total long-term debt may not exceed 50 per cent of total current revenue in previous year, excepting where the repayment period for such long-term borrowing is greater than five years; aggregate costs associated with long-term capital borrowing may not exceed 15 per cent of aggregate local revenue for the preceding year, excepting where two-thirds of the current revenue surplus amount to more than 15 per cent of such aggregate revenue. Under Serbian law, the central government (through the Ministry of Finance) is able to grant or withhold permission for borrowing by local authorities and so exercises control over this process.

19. Local authorities have not been fully **autonomous in terms of their hiring practices** since the recent entry into effect of the Law on the Manner of Determining the Maximum Number of Employees in the Public Sector⁸. This piece of legislation requires local governments to register all staff whose salaries are paid from the local budget with the Ministry of Finance. A provision of this Law continuing in effect in 2018 obliges local authorities to seek approval for any new open-ended hiring from a Government Commission through the Ministry of Public Administration and Local Self-Government. From the standpoint of local authorities, it appears that this provision has been applied arbitrarily without regard to the need to replace staff who move or retire; this inevitably causes greater problems where individual authorities were efficiently run than for authorities which employed relatively more staff. As well as controls over staff numbers, the central government maintains close control over local government pay. All permanent employees must be placed within a salary grid which determines their pay by reference to their qualifications, experience and responsibilities. Pay has been frozen for most of the period covered by this assessment.

⁶ Budget System Law (*Official Gazette of the Republic of Serbia*, Nos. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13 – amendment, 108/13, 142/14, 68/15, 103/15)

⁷ Public Debt Law (*Official Gazette of the Republic of Serbia*, Nos. 61/2005, 107/2009, 78/2011 i 68/2015)

⁸ Law on the Manner of Determining the Maximum Number of Employees in the Public Sector (*Official Gazette of the Republic of Serbia*, Nos. 68/2015 and 81/2016)

City/municipality background information

2.5 General information

20. The city of Užice is an industrial and commercial center in Western Serbia and is one of the most economically developed cities in Serbia. It is one of the few cities that has a surplus in foreign trade. The most important industries are iron and steel, processing of non-ferrous metals, textiles, construction and wood processing. The city consists of 29 local communities. There is also a subordinate municipality - Sevojno. The responsibilities of Sevojno are regulated by its statute and the statute of the city of Užice. Information in this report about city revenue and expenditure is derived from the consolidated budget and financial reports for Užice as a whole, including the subordinate municipality.

2.6 Revenue and expenditure

21. Budget planning is essentially focused on what can be financed from the city's share of national taxes and general transfers from central government, together with the city's own revenues from property taxes and other locally determined charges, from payments for goods and services, and from the exploitation of city property. While the city's development strategy may in the long run add to tax revenues accruing from central government, in the short run increases in revenue are most readily achieved by increasing the efficiency of property tax collection. Table 8 shows the overall fiscal balance for each of the years 2015-17, Table 2.9 provides details of revenue, and Tables 2.10 and 2.11 show functional and economic analyses of expenditure. Revenue figures in all cases exclude the proceeds of new loans, and expenditure figures in all cases exclude capital repayments.

Table 2.8: Fiscal Balance 2015-17

RSD thousands

	2015	2016	2017
Total revenue	2,205,555	2,297,945	2,318,624
Total expenditure	2,106,625	2,313,324	2,448,962
Fiscal balance	98,930	-15,379	-130,338

Source: Užice Finance Department

Table 2.9: Municipal revenues 2015-17

RSD thousands

	2015	2016	2017
Income tax	1,173,338	1,251,159	1,300,197
CG transfers	272,991	312,954	259,687
Other shared CG rev.	44,072	60,711	53,675
Total from CG	1,490,401	1,624,824	1,613,559
Property tax	241,225	237,003	217,293
Tax on goods & servs.	63,358	68,559	71,971
Trade name fee	34,039	37,418	38,488
Property revenue	76,390	100,373	63,777
Sales revenue	70,703	119,228	134,746
Fees and Fines	49,727	28,074	23,818
Other revenue	58,590	58,795	38,649
Asset sales	110,499	23,671	116,323
Total own revenue	704,531	673,121	705,065
Overall total revenue	2,194,932	2,297,945	2,318,624

Source: Užice Finance Department

22. Table 2.9 shows the great importance of the city's share of income tax revenue, which accounts for about half the total revenues. Together with revenues from taxes on property transfers, etc., tax revenue collected by central government accounts in most years for well over half of total revenue. Property tax accounts for about a tenth of total revenue, somewhat less than receipts of transfers from central government.

Table 2.10: Functional analysis of expenditure 2015-17

RSD thousands

	2015	2016	2017
General public services	409,076	480,615	580,012
Public order, etc.	5,937	6,040	6,086
Economic affairs	448,552	482,301	560,241
Environ. protection	143,777	140,975	115,331
Housing, amenities	371,877	417,125	298,328
Health	9,894	4,989	182
Culture, sport, recr.	266,635	271,915	277,406
Education	362,064	434,426	544,518
Social protection	50,963	50,739	52,202
Total	2,068,774	2,289,125	2,434,307

Source: Užice Finance Department

23. The figures in Table 2.10 exclude debt repayments and interest payments, which have been deducted from the city's figures for General Public Services. It appears that the significant changes in spending for some functions as between one year and the next are to a great extent the result of fluctuations in investment.

Table 2.11: Economic breakdown of expenditure 2015-17

RSD thousands

	2015	2016	2017
Employment costs	471,976	548,751	550,970
Goods & services	833,374	787,518	932,363
Interest paid	37,851	24,199	15,964
Subsidies	59,571	59,877	50,613
Transfers to subordinate bodies, etc.	255,742	246,878	239,149
Social benefits	66,635	68,464	69,137
Other expenditure	113,692	182,559	203,367
Capital expenditure	267,784	395,078	387,398
Total expenditure	2,106,625	2,313,324	2,448,962

Source: Užice Finance Department

24. Debt repayments are excluded from Table 2.11, but interest payments are included. As the Table shows, employment costs increased between 2015 and 2016, but thereafter remained stable, while expenditure on goods and services fell between 2015 and 2016, but then increased considerably in 2017. Capital expenditure increased between 2015 and 2016 but fell far short of the budget in all three years (see Chapter 3, PI-2.2 below).

2.7 Municipal organisation

25. **Establishment of the subordinate Municipality of Sevojno.** The City Assembly, or 10% of voters who are resident in the territory of the part of the city to which the change relates, may initiate the procedure for the establishment, removal and change of the territory of the city. The city can change the area of the existing subordinate municipality and create a new one. A new subordinate municipality is formed on the condition that its area represents a geographically and economically connected unit with its seat as the social and economic centre of gravity. The subordinate municipality performs tasks within the jurisdiction of the parent city specified by its statute. The administrative

bodies of the subordinate municipality are: the assembly, the president, the council and the administration. The municipal Assembly has 15 members. Members of the subordinate municipal Assembly are elected for four-year terms in the same way as members of the parent city Assembly. The Assembly elects its own Speaker and Deputy Speaker in the same way as the parent city Assembly, and appoints the President, Deputy President, and municipal councillors to manage the affairs of the subordinate municipality. Funds for the subordinate municipality are allocated by the city which approves Sevojno's budget. Its revenue and expenditure are fully integrated into the statistics for the city as a whole.

26. A local community council has the status of a legal entity and is an indirect budget beneficiary, with all its revenue and expenditure passing through the city's account in the Treasury Single Account. The expenditure plans of local communities are approved by the city Assembly as part of the city budget.

27. The city has established 10 nursery schools (with 242 employees) and owns 11 elementary and 6 secondary school; it also supports sports clubs and numerous associations. In addition to the schools, there are additional 11 public institutions that have the status of indirect budget users who employ 172 employees. They are listed in Table 12 below.

28. As well as bodies directly included in the city budget, the city wholly or partially owns 10 companies which provide different public services. The managers of these companies are approved by the city Assembly, which also approves their strategic and annual business plans and receives regular financial reports (with annual financial statements to be submitted by 30 April of the following year). Employee numbers and revenues of these bodies are given in Tables 13 and 14 below. 802 employees are employed in those enterprises.

Representative body

29. The City Assembly has ultimate responsibility for the functions of local government in Užice. The Assembly has 67 members elected on party lists for four-year terms. It elects its own Speaker and Deputy Speaker; the Speaker convenes and presides over its sessions. It enacts its Statute and Rules of Procedure adopts the annual city budget and the subsequent final account and determines the rates and other conditions of city taxes and charges, including fees for land development and construction. It has ultimate authority over the activities and staffing of the services, public enterprises, institutions and organisations established in accordance with the statute of the city. It has established eight specialised Committees to prepare recommendations about different issues to be considered in plenary sessions; the membership of the Committees reflects the political composition of the Assembly as a whole. There are a further four standing Committees with responsibility for monitoring the Code of Ethics, public service standards, youth affairs and gender equality.

Management

30. The city's executive bodies are the Mayor and the City Council. The Mayor, Deputy Mayor and 11 city councillors are appointed by the Assembly for terms of four years. Assembly members are barred from service as city councillors or employees of the city administration. The activities of the city of Užice are managed by the Mayor and City Council.

31. The Mayor represents the city, prepares proposals for decision by the Assembly, supervises the execution of the budget, and ensures the control of the use of budget funds. Within limits set by central government, the Mayor controls the staffing structure and numbers employed by the city administration and indirect budget beneficiaries. He/she directs the work of the city administration,

manages the exploitation and use of city property and other assets (subject in some cases to the consent of the Property Directorate of the Republic of Serbia), and informs the public about the work of the city.

Municipal council

32. The City Council consists of: Mayor, Deputy Mayor and a maximum of 11 (eleven) members. The Mayor is the President of the City Council, and the Deputy Mayor is a member of the Council *ex officio*. The City Council proposes the Statute, the budget and other decisions and acts to be adopted by the Assembly; directly executes and takes care of execution of decisions and other acts of the City Assembly and supervises their execution. The Council may decide on temporary financing if the Assembly fails to approve the budget before the beginning of the fiscal year.

Municipal administration and administrative departments

33. The functions of the city are discharged by the city Administration under the direction of the Mayor. The Administration is made up of five Departments (see Chart 1 below): Department for Administrative and Social Affairs; Department for Urban Planning, Construction and Property Legal Affairs; Department of Finance; Department of Inspection and Communal Police; and Department for Infrastructure and Development. There are also three independent offices responsible for budget inspection, internal audit and work of the public attorney. 135 people are employed in the city administration.

Chart 1: Administrative organisation of City of Užice

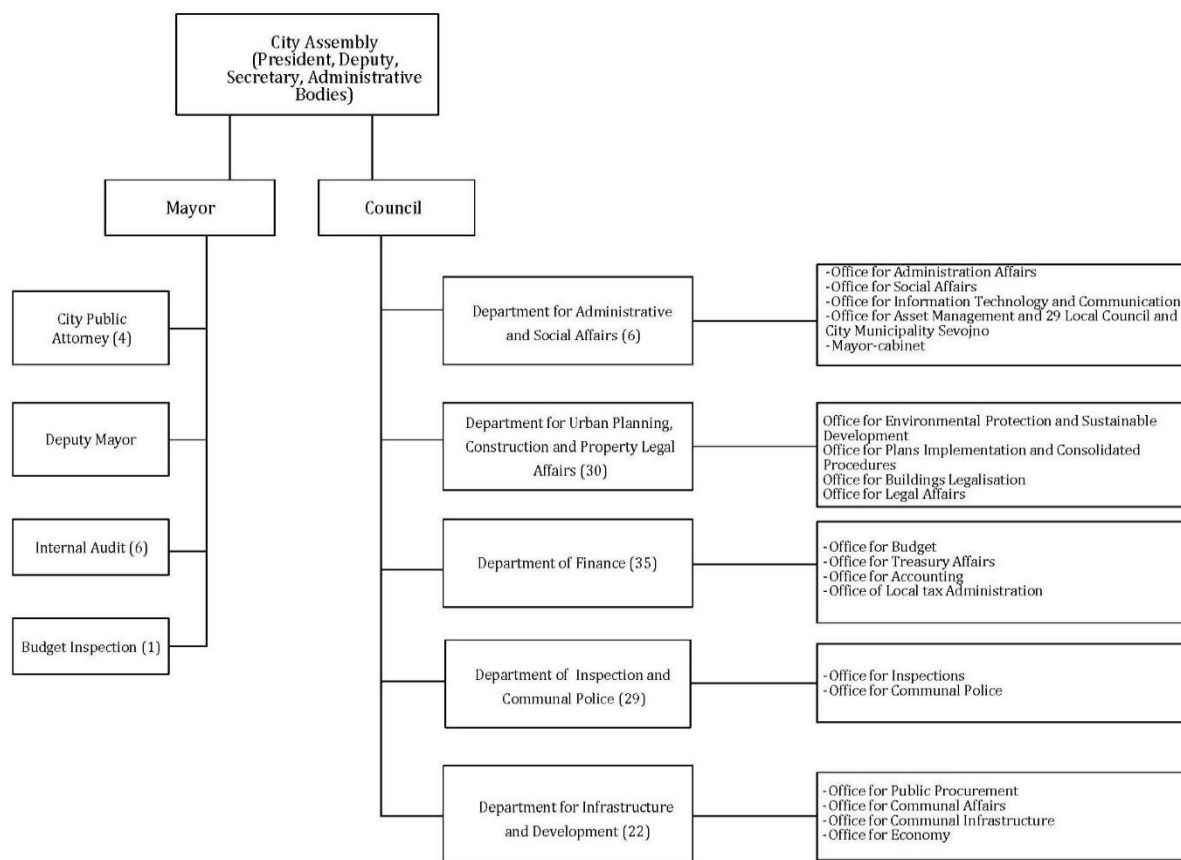


Table 2.12: Number of employees of public institutions- indirect budgetary users – September 2018

	Public Institutions	Indirect budget user	Functions	No. of employees
1	Narodno pozorište	theatre	culture	44
2	Narodni muzej	museum	culture	35
3	Narodna biblioteka	library	culture	22
4	Gradski kulturni centar	culture	culture	4
5	Istorijski arhiv	history archive	culture	13
6	Gradska galerija	city gallery	culture	2
7	Dečije odmaralište Zlatibor	youth vocational hotel	tourism	19
8	Turistička organizacija Zapadne Srbije	tourist office of west Serbia	tourism	1
9	Turistička organizacija Užice	tourist office	tourism	4
10	Centar za socijalni rad	welfare	welfare	25
11	Regionalni centar za profesionalni razvoj osoba u obrazovanju	professional education	education	3
12	Kindergartens		education	242
	Total			414

Source: City of Užice, 2018

Table 2.13: Public companies owned by the City of Užice in September 2018

	Company name	Activities	% of ownership	No. of Employees	Assets value, in RSD
1	JKP Vodovod	Water supply	100	157	1,628,394,533
2	JKP Gradska toplana	Heating	100	68	532,376,000
3	JKP Bioktoš	Garbage collection, maintenance of green areas	100	224	220,810,346
4	JKP Niskogradnja	Road maintenance	100	112	47,269,800
5	JKP Duboko Užice	Regional centre for waste management	23,91	84	1,383,642,000
6	JKP Užice razvoj	Public transport	100	28	705,094
7	Užice gas	Gas supply	30	13	744,135,518
8	JP Veliki park	Maintenance of sport facilities	32	62	77,774,000
9.	JP Stan	Maintenance of building and business spaces	100	50	499,447,220
10.	Aerodrom	Not in function	100	4	6,841,133,000

Source: City of Užice, 2018

Table 2.14: Financial dependency of City of Užice public companies on the local budget in 2017

No.	Public companies	Total revenues of public companies, without revenues from the city budget	Total public companies' revenue from the city budget	Total public companies' revenue	Public companies' revenue from the budget as % of total revenue
		1	2	3 (1+2)	2/3
1.	JKP Vodovod	329,321,465	7,367,520	336,688,985	2.2
2.	JKP Gradska toplana	436,857,814	35,175,586	472,033,400	7.5
3.	JKP Bioktoš	313,712,342	86,203,135	399,915,477	21.6
4.	JKP Niskogradnja	54,925,052	213,228,022	268,153,074	79.5
5.	JKP Duboko Užice	209,839,021		209,839,021	0
6.	JKP Užice razvoj	425,667	45,025,667	45,451,334	99.1
7.	Užice gas	325,434,931	325,574,301	651,009,232	50.0
8.	JP Veliki park	22,036,000	88,508,000	110,544,000	80.1
9.	JP Stan	107,020,010	15,375,963	122,395,973	12.6
10.	Aerodrom	5,235,000	12,935,000	18,170,000	71.2

Source: City of Užice, 2018

Chapter 3: Assessment of PFM performance

Pillar 1 Budget reliability

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

HLG-1 Transfers from central government

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

HLG-1.1 Out-turn of transfers from central government

The three main streams of revenue accruing from central government are shown in Table 3.1 below. Cities receive 77 per cent of personal income tax paid by their residents (the share was reduced from 80 per cent in 2016). Amounts are paid throughout the year as funds are received by central government. General transfers are based on a formula designed to enable comparable levels of service to be provided throughout the country and may be spent at the city's discretion; they are paid in twelve equal instalments. Targeted transfers may be spent only on the purposes for which they have been provided – generally specific investment projects. Targeted transfers are never notified until well after the beginning of each fiscal year; thus, they can only be taken into account with certainty in budget-setting where a project extends beyond the first year and funds have been committed by central government for the second year.

Table 3.1: Transfers from central government

RSD thousands

	2015 budget	2015 out-turn	2016 budget	2016 out-turn	2017 budget	2017 out-turn
Share of income tax	1,140,000	1,173,338	1,195,000	1,251,158	1,167,000	1,300,197
Share of other CG taxes	36,000	44,072	45,000	60,711	53,000	53,675
General transfers	228,114	248,114	230,000	228,114	228,114	233,114
Targeted transfers	-	24,877	-	84,840	-	26,573
Total transfers	1,404,114	1,490,401	1,470,000	1,624,823	1,448,114	1,613,559
Out-turn as % of budget		106.14%		110.53%		111.42%

Source: Užice Finance Dept.

Since transfers in each of the three years were more than 95 per cent of the amount originally budgeted, score is A.

HLG-1.2 Earmarked grants out-turn

As noted above, municipalities must bid after the beginning of each fiscal year for new targeted grants. If they are successful, the budget Law permits the additional amounts to be spent without any need for a budget revision. Total targeted transfers during 2015-17 amounted to about 3 per cent of total transfers (including income tax share) from central government. Since there is no satisfactory basis for measuring differences between budget and out-turn, this dimension is Not Applicable.

HLG-1.3 Timeliness of transfers from central government

Funds are received from central government in a steady and predictable stream through the year. General transfers are paid in 12 equal instalments, while tax revenue is transferred daily as it is

received by central government. The timing of payment of targeted transfers is determined when the amounts are notified to the municipalities concerned. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
HLG-1 (M1)	A	
1.1 Transfers from Central Govt (CG)	A	Transfers exceeded budget in all 3 years
1.2 Conditional transfers out-turn	NA	SNGs have very little information about transfers at time of budget enactment
1.3 Timeliness of transfers from CG	A	Transfers are paid in a steady and predictable stream

PI-1 Aggregate expenditure out-turn

This Indicator measures the overall difference between originally budgeted expenditure and the actual out-turn. The score for this PI is based on the aggregate differences between originally budgeted total expenditure and actual out-turns over a three-year period. Table 3.2 below shows original budget and actual out-turn totals for the years 2015-17.

Table 3.2: Budgeted and actual total expenditure 2015-17

RSD thousands

	2015		2016		2017	
	Budget	Out-turn	Budget	Out-turn	Budget	Out-turn
Current expenditure	1,879,965	1,868,841	1,951,747	1,948,246	2,026,867	2,062,872
Capital expenditure	384,435	237,784	478,183	365,078	488,063	387,398
Total expenditure	2,264,400	2,106,625	2,429,930	2,313,324	2,514,930	2,450,270
Out-turn as % of budget		93.0%		95.2%		97.4%
Interest payments	34,400	37,851	29,930	24,199	25,700	15,964
Total less interest expenditure	2,230,000	2,068,774	2,400,000	2,289,125	2,489,230	2,434,306
As % of budget		92.8%		95.4%		97.8%

Source: Užice Finance Dept.

Since out-turn was between 95% and 105% of original budget in two of the three years, score is A.

PI-2 Expenditure composition out-turn

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

2.1 Expenditure composition out-turn by function

Interest payments and expenditure from a contingency reserve are excluded from the amounts considered. The calculations assume that debt repayments, interest payments and contingency reserves are all classified as General Public Services in the statistics provided by the City. The detailed calculations are shown in the PEFA spreadsheet at Annex 5. The largest variances arose in the areas of housing, where expenditure fell short, and economic affairs, where it increased, apparently as a result of changes in investment plans. The calculated variances were 12.3 per cent, 14.9 per cent, and

8.0 per cent for the three years 2015-17 respectively. Since the variance was less than 15 per cent in each of the three years 2015-17, score is C.

2.2 Expenditure composition out-turn by economic type

Contingency amounts are excluded from the expenditure considered here, but interest payments are included. (Repayments of debt are excluded as elsewhere in PI-1 and PI-2.) The detailed calculations are shown in Annex 5. Generally current expenditure on pay and on goods and services remained close to budget, while investment expenditure as a whole fell short. The calculated variances were 14.0 per cent, 13.9 per cent and 12.5 per cent for the three years 2015-17 respectively, resulting in the score C.

2.3 Expenditure from contingency reserves

An A score is given for this dimension if the amounts actually charged to a contingency reserve were on average less than 3 per cent of the original budget. Although a reserve of 15 m RSD was included in the original budgets for each of the three years 2015-17, no expenditure was charged to the reserve in any year. The score is therefore A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-2 (M1)	C+	
2.1 Expenditure composition out-turn by function	C	Variance was less than 15% of out-turn in all three years 2015-17
2.2 Expenditure composition out-turn by economic type	C	Variance was less than 15% in all three years 2015-17
2.3 Expenditure from contingency reserves	A	No expenditure was charged to contingency reserves in the years 2015-17

PI-3 Revenue out-turn

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

3.1 Aggregate revenue out-turn

Own revenue out-turn was 86.4 per cent, 75.6 per cent and 75.0 per cent of original budget for the three years 2015-17 respectively. The figures are shown in Annex 5. Since the out-turn was outside the range 92% - 116% in two of the three years 2015-17, score is D.

3.2 Revenue composition out-turn

There was considerable volatility in the different revenue streams, with the proceeds of assets sales falling far short of budget in 2015 and 2016. The detailed calculations are shown in Annex 5. As a result of this volatility the calculated variances were high, amounting to 33.6 per cent, 40.8 per cent and 34.4 per cent of own revenue out-turn for the three years 2015-17 respectively. The overall impact on expenditure of the own revenue shortfalls was somewhat offset by transfers from central government, which provided two thirds of Užice's total revenue in 2015-17, exceeding the amounts originally budgeted. Since the variance substantially exceeded 15 per cent in all three years 2015-17, score is D.

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

Pillar 2: Transparency of public finances

This Pillar contains six Performance Indicators. PI-4 assesses the extent to which the classifications of revenue and expenditure in budget and out-turn statements meet international standards. PI-5 assesses the comprehensiveness of information provided to the municipal Assembly together with the budget proposals for the following year. PI-6 measures the extent to which revenue and expenditure controlled by the municipality are reported municipal financial reports. PI-7 assesses the transparency and timeliness of transfers from a higher to a lower level of government. PI-8 reviews the extent of performance information for service delivery. PI-9 assesses the comprehensiveness of fiscal information available to the general public.

PI-4 Budget formulation, execution and reporting

Užice City provides consistent information broken down by administrative, economic (consistent with GFS), functional (COFOG) and programme/activities classifications. All classifications are used in budget formulation, execution and reporting. This is in compliance with the Rulebook on Classification⁹, which specifies that SNG should use economic, administrative, functional and programme classifications in budget formulation, execution and reporting.

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

PI-5 Budget Documentation

Basic elements:

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

Additional elements:

5. Deficit financing: Yes (for 2017 there was some small net borrowing, after taking into account repayments of previous loans)
6. Macroeconomic assumptions: LGs are not in a position to make independent forecasts, so NA

⁹ Rulebook on Classification (*Official Gazette of the Republic of Serbia*, Nos. 6/2016, 49/2016, 107/2016, 46/2017, 114/2017, 20/2018, 36/2018, 93/2018, 104/2018, 14/2019, 33/2019, 68/2019 and 84/2019)

7. Debt stock: Yes

8. Financial assets: No

9. Summary information on fiscal risks, including contingent liabilities: although there are no guarantees or PPPs there are City-Owned Enterprises (COEs) which could pose risks. These are not discussed in budget documentation: No

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

11. Documentation on medium-term fiscal forecasts: some explanation provided: Yes

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

The annual budget documentation can be found on <http://uzice.rs/javne-ustanove/gradska-uprava-za-finansije/>.

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

PI-6 Government operations outside financial reports (M2)

6.1 Expenditure outside financial reports

Expenditure from own revenue collected by indirect budget beneficiaries (such as libraries, sports and cultural institutions) is included in the city budget. The central government is responsible for the main education and health services where significant revenues typically arise from service users. In case of schools, hospitals, and similar where part of the expenditure is covered by the city according to the relevant law (such as Health Protection Law), all expenses are fully included in the budget. Apart from the city's enterprises which are considered in PI-10 below there are no bodies controlled by the city whose operations are not fully reflected in the budget. Score A.

6.2 Revenue outside financial reports

Apart from revenue collected by the city's enterprises, all revenue accruing to city-controlled bodies, including indirect budget beneficiaries, is included in the city budget. Score A.

6.3 Financial reports of extrabudgetary units

Since the municipal enterprises (see Tables 2.13 and 2.14 above) are all established as corporate entities in accordance with Government policy and legislation, they are all considered under PI-10.1 below. Thus, there are no extra-budgetary units. Score NA.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-6 (M2)	A	
6.1 Expenditure outside financial reports	A	All expenditure of bodies controlled by the City other than its COEs is included in budgets and financial reports.
6.2 Revenue outside financial reports	A	All revenue of bodies controlled by the City other than its COEs is included in budgets and financial reports.
6.3 Financial reports of extra-budgetary units	NA	There are no extra-budgetary units.

PI-7 Transfers to subnational governments

Most Serbian SNGs have a network of Community Councils representing different geographical areas. These may be given allocations of budgetary funds to be spent on infrastructure or other purposes within their neighbourhoods. In these cases, all transactions pass through the City's account in the Single Treasury Account under the control of the city finance department. However, there is provision

for cities to establish subordinate municipalities which directly manage their affairs through the STA. Užice has one such subsidiary municipality, Sevojno. Consolidated annual financial statements covering both the city and the subordinate municipality must be submitted to MoF by 15 July each year.

7.1 System for allocating transfers

Užice has adopted a city ordinance which allocates to Sevojno for 2018 certain local revenue streams (e.g., trade name fee, fee for the use of public space), specified shares (1.5-2.0%) of income tax revenue. Since the basis for these allocations is wholly transparent, score is A.

7.2 Timeliness of information on transfers

The amount of the annual allocations is set annually, once the City's allocations from CG have been determined, as part of the City's budget process. This normally takes place in mid-December, so that Sevojno has only a short time to finalise its own budget before the beginning of the fiscal year. Score C.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-7 (M2)	B	
7.1 System for allocating transfers	A	The allocation of all transfers is transparent and rules-based.
7.2 Timeliness of information on transfers	C	The amount of transfers is only notified less than two weeks before the beginning of the fiscal year.

PI-8 Performance information for service delivery (M2)

8.1 Performance plans for service delivery

Since the introduction of Programme Budgeting in 2015, budget proposals include objectives to be achieved by each programme specified as performance indicators. Thus, information is published annually on programme objectives, key performance indicators, outputs to be produced, or outcomes planned. All expenditure by all budget users has to be fitted within 17 programmes specified by MoF, which do not always correspond to local circumstances. Objectives are for the most part defined in terms of outputs rather than outcomes. Score B.

8.2 Performance achieved for service delivery

Performance reports for 2017 and the first half of 2018 were submitted for the first time to MoF by 1 September 2018. Performance reporting was not required (according to Ministry of Finance instructions) in the period observed. However, the information on quantity of outputs is published every 6, 9 months and annually as a part of budget execution reports even before the Ministry introduced performance reports (for example in the budget execution reports published during 2018 for the 2017 budget). Since the information on outcomes is not published, the score is B.

8.3 Resources received by service delivery units

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

8.4 Performance evaluation for service delivery

There have been no independent evaluations. Score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-8 (M2)	B	
8.1 Performance plans for service delivery	B	Programme objectives and targets in terms of outputs are included in budget documentation.
8.2 Performance achieved for service delivery	B	The information on quantity of outputs is published every 6, 9 months and annually as a part of budget execution reports
8.3 Resources received by service delivery units	A	Full information is available about resources received by nursery schools, cultural institutions, etc.
8.4 Performance evaluation for service delivery	D	There have been no independent evaluations.

PI-9 Public access to fiscal information

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

Basic information

1. Annual budget proposal documentation: published immediately on city website <http://uzice.rs/javne-ustanove/gradska-uprava-za-finansije/>.- Yes
2. Enacted budget: published immediately on city website – Yes
3. In-year budget execution reports: published monthly and in detail at half year and 9 months – Yes
4. Annual budget execution report: published by 30 June – No. The annual budget execution report is published by 30 June, but does not include narrative explanation of deviations from original budget.
5. Audited annual financial report: budget execution report includes commercial auditor’s report in years when City is not audited by SAI (see PI-30below). When there is an audit by SAI audited report is available within 12 months of year-end – Yes

Additional elements

6. Prebudget statement: not issued – No
7. Other external audit reports: there are none – NA
8. Summary of budget proposal: Citizens’ budget not issued for 2017 and 2018. It is issued for 2019 and 2020 – No
9. Macroeconomic forecasts: not relevant at LG level – NA

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

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

Pillar 3: Management of assets and liabilities

This Pillar contains four Performance Indicators. PI-10 assesses fiscal risk reporting. PI-11 looks at different aspects of the planning and management of public expenditure. PI-12 assesses the

management and monitoring of financial and nonfinancial assets, and the transparency of asset disposal. PI-13 assesses debt management.

PI-10 Fiscal risk reporting (M2)

10.1 Monitoring of public corporations

Užice's 10 partly or wholly owned COEs make quarterly and annual financial reports to the Council and the Assembly, which are available to the public. The annual financial and programme plans and reports are published on City's website for each COE (for example, <http://uzice.rs/javne-ustanove/jkp-deponija-duboko/>). Additionally, audited annual financial reports are also publicly available on Serbian Business Register database (www.apr.gov.rs). The Assembly formally approves the audited annual financial statements before the end of June each year. Consolidated quarterly and annual reports are submitted to the Ministry of Economy, but no consolidated overview has been published. Score B.

10.2 Monitoring of subnational governments

Sevojno's budget is effectively controlled by the city. It makes monthly reports to the city administration. Its audited annual report is published within 9 months of year-end. Score A.

10.3 Contingent liabilities and other fiscal risks

Užice has no exposure to PPPs, or any other explicit contingent liabilities. No formal guarantees are given for COE borrowing, while contingent liabilities from their operations are covered by monitoring under 10.1 above. No information has been published about the City's exposure to implicit contingent liabilities and other fiscal risks, including possible currency risks on its outstanding loans. Since this dimension is scored by reference only to explicit contingent liabilities, score is NA.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-10 (M2)	B+	
10.1 Monitoring of public corporations	B	Audited annual financial reports are published by end June each year, but no consolidated overview is published.
10.2 Monitoring of subordinate governments	A	The audited annual report on Sevojno is published within 9 months of year-end.
10.3 Contingent liabilities and other fiscal risks	NA	Užice has no explicit contingent liabilities.

PI-11 Public investment management (M2)

11.1 Economic analysis of investment proposals

A recent MoF Order requires the economic appraisal of projects costing more than 0.5m Euro, but the promised software to be used for this purpose has not been provided. In any event very few municipal projects are large enough to fall within the ambit of this Order. Otherwise, there are no applicable national guidelines for the assessment of projects, nor any requirement for an independent assessment of projects. The Council recognises that strategic planning of public investment requires improvement. Meanwhile, the only major investment project (costing more than one per cent of annual city expenditure) during the period 2015-17 was the water treatment plant 'Petar Antonijević', which is 400 million RSD investment jointly financed by the central government and the city (40 million RSD). This project was subject to an economic analysis by the institute 'Jaroslav Černi', and the results were published. However, in the absence of any more general guidelines concerning economic analysis, score is C.

11.2 Investment project selection

There are no published or unpublished standard criteria for project selection, but the selection put forward by the Mayor as head of the city Executive must be approved by the city Council. Score C.

11.3 Investment project costing

The capital costs of investment projects and any associated current expenditure in the budget year and the two following years are included in budget documentation. Further examination of the documentation has confirmed that the full capital costs of each are also given. Score B.

11.4 Investment project monitoring

The total cost and physical progress of projects is monitored by the city services. An annual report on public investment is produced for the Assembly and published as a part of budget execution report. The following departments are involved for internal reporting to the top management: Department for Urban Planning, Construction and Property Legal Affairs, Department of Finance; Department for Infrastructure and Development and Office for Public Procurement. Reporting interval depends on the capital project and stage of the implementation. Usually, the reporting is done weekly, monthly, or quarterly. In cases when it is needed, the reporting is done more often. Score B.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-11 (M2)	C+	
11.1 Economic analysis of investment proposals	C	The only major investment project undertaken during 2015-17 was the subject of independent economic analysis which was published. But there are no generally applicable guidelines concerning the economic analysis of investment projects, whether decided at central or city level.
11.2 Investment project selection	C	Projects are prioritised by the City Council.
11.3 Investment project costing	B	The full capital costs of investment projects are included in budget documentation, together with amounts – capital and current - to be spent over the next 3 years.
11.4 Investment project monitoring	B	The costs and physical progress of projects is regularly monitored, and an annual report on public investment is submitted to the Assembly and published.

PI-12 Public asset management (M2)

12.1 Financial asset monitoring

The City publishes the financial reports of its COEs each year, including balance sheet valuations of all assets at historical cost (but not fair or market value). Score B.

12.2 Nonfinancial assets monitoring

The City has recently received details of assets returned to it by central government, but registration of all the City's assets in the national cadastre is incomplete and valuation lacking. The national cadastre is open but there is no consolidated publication of the City's holdings. Since the register is not complete, score is D.

12.3 Transparency of asset disposal

Sales of city property require the agreement of the central government Property Directorate as well as the city Council and are subject to competitive bids. But original purchase costs, disposal value and successful tenderers are not included in any budget documents, financial reports, or other reports. They are however, disclosed at a meeting of the city Assembly which is open to the public. Score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-12 (M2)	D+	
12.1 Financial asset monitoring	B	Financial reports of all COEs are published annually, with assets valued at historical cost.
12.2 Nonfinancial asset monitoring	D	The register of the City's assets is incomplete.
12.3 Transparency of asset disposal	D	Prices and successful tenderers are not published.

PI-13 Debt management (M2)

13.1 Recording and reporting of debt and guarantees

Records maintained by the Finance Department are complete, and all details of amounts outstanding, interest paid, and repayments of principal are reconciled and reported monthly to the City's top management and the MoF. The Public Debt Law (Article 37) requires local governments to submit to the Ministry monthly the data by the type of borrowing, interest rate and amount of interest paid, amount of principal repaid, and amount outstanding. Thus, the debt records are complete, accurate, updated and reconciled monthly, and comprehensive management and statistical reports are produced monthly. Additionally, the information is published annually and half-yearly as a part of Budget Execution Report (<http://uzice.rs/javne-ustanove/gradska-uprava-za-finansije/>). In the reports, the detailed management and statistical reports are provided for the public, including details per every loan (name of the bank, interest rate, purpose, outstanding amounts, etc.). According to the regulation (Law on Public Debt, Article 34), the local government cannot issue guarantees. Score A.

13.2 Approval of debt and guarantees

The main documented policies and procedures that provide guidance for authorisation to borrow and issue new debt, as well as for undertaking other debt-related transactions are Budget System Law, Public Debt Law and City's announced policy. Under the Public Debt Law (Article 33), a competent local government body decides on local government borrowing, after it has obtained the opinion of the Ministry of Finance. The Ministry will issue the opinion within fifteen days from the day when the request for opinion has been submitted. Management of municipal debt is the responsibility of the Finance Department.

The approval of the municipal Assembly must be obtained before consent for borrowing is sought from the Minister of Finance. Any borrowing by COEs requires the approval of the city Assembly and is included in quarterly reports by the Finance Department to CG. SNGs are forbidden to give guarantees for COE borrowing. The total outstanding debt must be kept within a limit of 50 per cent of the previous year's revenue (Public Debt Law, Article 36, see 13.3 below). Score A.

13.3 Debt management strategy

The City's announced policy is that total debt should not exceed 25 per cent of revenues (the limit specified by the Public Debt Law is that total debt should not exceed 50 per cent of the previous year's expenditure) and that interest payments should not exceed 8 per cent of revenues. Interest payments in 2017 were less than one per cent of total revenue, and not much more than two per cent of revenue collected directly by the City. However, no debt management strategy has been published with objectives in terms of debt maturity, interest rates or the extent of exposure to foreign currency risks. In the absence of such a published strategy, score is D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-13 (M2)	B	
13.1 Recording and reporting of debt and guarantees	A	All records of amounts outstanding, interest paid and principal repayments are complete and up to date.

13.2 Approval of debt and guarantees	A	All borrowing requires the approval of both MoF and city Assembly.
13.3 Debt management strategy	D	No debt management strategy has been published.

Pillar 4: Policy-based fiscal strategy and budgeting

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

PI-14 Macroeconomic and fiscal forecasting (M2)

14.1 Macroeconomic forecasts

Since the city relies on central government forecasts, the dimension is Not Used.

14.2 Fiscal forecasts

Budget documentation covers the details of revenue (by type) and expenditure for the budget year and the two subsequent years, including the underlying assumptions (supplied by CG), but does not include an explanation of differences from the previous year's forecasts. Score B.

14.3 Macrofiscal sensitivity analysis

There has been no analysis of the implications for the City of alternative future economic scenarios. Score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-14 (M2)	C	
14.1 Macroeconomic forecasts	NU	The city relies on macroeconomic forecasts supplied by CG.
14.2 Fiscal forecasts	B	Forecasts are published for 3 years ahead, but without any explanation of changes from the previous year's forecasts.
14.3 Macrofiscal sensitivity analysis	D	No consideration has been given to alternative fiscal scenarios.

PI-15 Fiscal strategy (M2)

15.1 Fiscal impact of policy proposals

The city's projections for the second and third year are based on its expectations about the share of different revenue streams in the total, and the allocation of resources to the different expenditure programmes. The expenditure relativities take into account the action plans prepared within the framework of the city's Sustainable Development Strategy 2012-20, which include detailed costed investment plans. The projections are submitted to the Assembly alongside the budget proposals for the year immediately ahead. Score A.

15.2 Fiscal strategy adoption

Budget documentation includes quantified fiscal objectives for the three years ahead, with details of revenue and expenditure plans underlying them. We consider that this amounts to a fiscal strategy. Score B.

15.3 Reporting on fiscal outcomes

Budget documentation has not included an explanation of any deviation from current year targets (i.e. changes in the 2017 figures explained with the 2018 budget), and no internal reports have been made about progress against the intended fiscal stance. Score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-15 (M2)	B	
15.1 Fiscal impact of policy proposals	A	Budget documentation includes fiscal impact of all changes in revenue and expenditure for the next three years.
15.2 Fiscal strategy adoption	B	Budget contains quantified fiscal objectives for next three years.
15.3 Reporting on fiscal outcomes	D	Budget documentation does not explain deviations from current year targets.

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

16.1 Medium-term expenditure estimates

The budget as presented provides estimates of expenditure for the budget year and the two following years broken down by administrative, economic, functional and programme classifications. The budget and all relevant documents are regularly published on <http://uzice.rs/javne-ustanove/gradska-uprava-za-finansije/>. Score A.

16.2 Medium-term expenditure ceilings

The Finance Department sets the ceilings in the Budget Circular without any prior official discussion with the Council. Score D.

16.3 Alignment of strategic plans and medium-term budgets

The city has published its Sustainable Development Strategy 2012-20, and the Action Plans to give effect to it, including costed investment plans for 5 years ahead. Strategic plans refer to all city departments. These Plans also include current expenditure on the development of different services. The Budget Circular instructs all budget users to plan their expenditure in accordance with the Action Plans. At the same time, the majority of expenditure policy proposals in the budget align with the strategic plans, as some of the policy proposals are not part of the strategies and are additionally included due to different needs. Score B.

16.4 Consistency of budgets with previous year's estimates

Budget documentation does not contain any explanations of deviations from previous year's figures for the same periods. Score D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-16 (M2)	C+	
16.1 Medium-term expenditure estimates	A	The annual budget presents figures for the budget year and two subsequent years allocated by economic, administrative, functional and programme classifications.
16.2 Medium-term expenditure ceilings	D	The Finance Department sets the expenditure ceilings for budget users without any reference to the city Council.
16.3 Alignment of strategic plans and medium-term budgets	B	There are links between the City's strategic development plan and medium-term budgets for majority of expenditures
16.4 Consistency of budgets with previous year's estimated	D	Budget documentation does not contain any explanation of deviations from the previous year's figures for the same period.

PI-17 Budget preparation process (M2)

17.1 Budget calendar

There is a clear annual budget calendar fixed by the Budget System Law, which is respected by the City. This requires the issue of the budget circular to budget users by August 1 each year. Submissions are then required by 1 September. MoF Guidance on economic assumptions about overall GDP growth, inflation and public service pay should be received by August 1. But in practice this has been provided much later – for 2018 budget on 21 November. The City budget circular has thus been issued on time, using the previous year’s assumptions. Although the final MoF Guidance is not received in the required timescale, budget users are able to complete most of their work within the specified timescale. Score B.

17.2 Guidance on budget preparation

Annual budget ceilings are issued by the Finance Department to each Department and indirect budget user without prior discussion with the Council. Total budget expenditure is covered for the full year. They are officially reviewed and approved by the Council only after the estimates have been completed in every detail. Score C.

17.3 Budget submission to the Assembly

The budget proposals were submitted to the Assembly on 9 December 2015, 14 December 2016, and 6 December 2017 for 2016, 2017 and 2018 budgets respectively. Since the Assembly has less than one month each year to consider the proposals, score is D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-17 (M2)	C	
17.1 Budget calendar	B	Budget users are able to complete most of their work within the required timescale.
17.2 Guidance on budget preparation	C	Budget proposals are reviewed by the Council only after they have been completed by the Administration.
17.3 Budget submission to the Assembly	D	Budget proposals have been submitted to the Assembly less than a month before year-end for the last three budgets.

PI-18 Legislative scrutiny of budgets (M1)

18.1 Scope of budget scrutiny

During the period 2015-17 the Assembly’s discussions covered fiscal policies and aggregates as well as details of revenue and expenditure for the year ahead, since some modest additional borrowing was proposed each year. But no attention was paid to the medium term. Score B.

18.2 Legislative procedures for budget scrutiny

There are standard procedures followed by the Assembly, which include review by its Budget and Finance Committee which meets in advance of the plenary discussion. If the Committee issues a negative opinion, the proposals are returned to the Council to be reconsidered. Public consultation meetings were held before submission of the draft budget to the Assembly in each of the last three years (2015-17). Draft proposals were published on the city website, and the Mayor invited comments from citizens which were considered by the Council before the proposals were finalised. From 2018 public consultation is required under the Law on Local Self-Governments. Score A.

18.3 Timing of budget approval

The Assembly approved the three most recent budgets on 17 December 2015, 22 December 2016 and 15 December 2017 respectively. Score A.

18.4 Rules for budget adjustments by the executive

Virements of up to 10% of the amounts for each activity within a programme can be made subject to approval by the Council. Larger reallocations or reallocations between programmes require a supplementary budget. These limits are respected. Annual budget laws have not imposed further restrictions on reallocations. Budget revisions by the Assembly have been made only once or twice a year. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-18(M1)	B+	
18.1 Scope of budget scrutiny	B	Assembly reviews fiscal aggregates and revenue and expenditure details for the year ahead, but does not consider the medium-term forecasts.
18.2 Legislative procedures for budget scrutiny	A	Assembly has well-established procedures, including study by a specialised committee. There are also arrangements for public consultation.
18.3 Timing of budget approval	A	The budget has been approved before the beginning of the next fiscal year in each of the last three years.
18.4 Rules for budget adjustments by the executive	A	There are clear rules limiting the extent to which the Council can make budget adjustments without the approval of the Assembly.

Pillar 5: Predictability and control in budget execution

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

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

PI-19 Revenue administration (M2)

19.1 Rights and obligations for revenue measures

Full information is provided to domestic and business payers of property tax about the basis on which their liabilities is calculated. The same applies to public utility charges on new constructions, charges for the use of public space and charges for the display of business names. Domestic property tax amounts are notified by the city, but business taxpayers must self-assess using instructions provided. There are public announcements on radio and television reminding people of their obligation to pay property and other taxes, and written reminders are sent to people who owe more than 10,000 RSD. Taxpayers can access the amounts they owe on the city's website. There are not many (less than 100 per year) complaints against property tax assessments. Notifications to domestic taxpayers and instructions to businesses make clear that if the city's response to a complaint is not accepted, it may be taken to MoF Regional Office through a procedure which is not fully independent and transparent. Taxpayers are fully informed about the redress processes and procedures. Notification provided by

the City to the domestic taxpayers has thorough instructions on how to seek redress. The information for business and domestic taxpayers can also be obtained by telephone or by visiting the local tax authority office. Information is also provided on the City's web page <http://uzice.rs/provera-obaveza-po-osnovu-javnih-prihoda-koje-administrira-lpa/>. In addition, the Ministry of Finance and its relevant sector (<https://www.mfin.gov.rs/o-ministarstvu/sektor-za-drugostepeni-poreski-i-carinski-postupak/>) provide information both over the phone and directly in four main cities in Serbia. Score A.

19.2 Revenue risk management

The Tax Department which collects some 50 per cent of the city's own revenues uses a comprehensive, structured and systematic approach to major revenue risks associated with property taxes which account for about 80 per cent of tax revenue collected by the city. Non-registration of property is addressed through a continuous effort to increase the number of taxpayers through aerial surveys and cross-referencing with other registers, including those covering businesses and bank accounts. Thus, the number of domestic taxpayers has been increased from 16,000 in 2009 to 31,000 in 2018. To ensure the complete and accurate reporting of information in declarations, the 400 business taxpayers who accounted for over 40 per cent of assessments in 2017 are all examined in some detail. Score A.

19.3 Revenue audit and investigation

A compliance improvement programme must be in operation for any score of C and above. The effort to identify additional taxpayers, the requirement to provide a tax clearance certificate in order to participate in public procurement, and the willingness to negotiate the rescheduling of payments all represent elements in such a programme. 2,000 individual assessments are audited every year, in accordance with previously established plans. The 3 staff assigned to enforcement prioritise the collection of larger amounts of arrears. Since the compliance improvement activities are not all consolidated in a single document, but the majority of planned audits and investigations are completed, the score is C.

19.4 Revenue arrears monitoring

In common with other SNGs, Užice inherited a substantial amount of arrears when the City became responsible for property tax collection in 2009. Much of these were attributable to failed businesses and deceased property owners. Unpaid property and other taxes accrue interest as long as they are outstanding. A partial waiver of interest charges may be allowed when a taxpayer makes and complies with a payment rescheduling arrangement, but failure to comply results in the full restoration of the interest liability. Movements in tax arrears since the beginning of 2016 are shown in table 3.6 below.

Table 3.3 Tax collections and arrears, 2016-17

RSD thousands

	Arrears at 1.1.16	Assessments 2016	Collections 2016	Arrears at 1.1.17	Assessments 2017	Collections 2017	Arrears at 1.1.18
Property tax							
Businesses	109,297	109,481	105,594	138,816	97,296	98,272	143,603
Individuals	261,393	113,895	134,526	249,762	138,211	122,288	285,608
Environment contribution	11,641	12,639	19,763	13,706	12,492	20,564	14,752
Trade name display charge	46,343	39,197	37,388	44,391	35,948	38,393	49,821
Public space usage charge	15,569	11,058	6,995	19,053	7,542	9,064	20,613
Overall total	444,243	286,270	304,266	465,728	291,489	288,581	514,397

Source: Užice Dept. of Finance

For a score above D the stock of revenue arrears must not exceed 40 per cent of collections in the previous year, and those over 12 months old must be less than 75 per cent of total arrears. As the figures show, collections exceeded assessments in 2016, as a result of an enforcement campaign, and arrears grew only moderately. Užice appears generally successful in collecting the large majority of revenue assessed each year, and even in reducing the principal amounts owed as collections in many cases exceeded assessments. But the overall amounts owed have continued to increase because of compound interest on old debts. The persistence of total amounts outstanding is an indication that only relatively small amounts of arrears at the beginning of each year are collected during that year, although exact information on this point is not available. A large proportion of the arrears must be considered uncollectable, but they cannot readily be written off because of the City's need to maintain its claims against insolvent businesses which may eventually be turned into equity stakes. Since the arrears at the end of 2017 were 178 per cent of collections during the year, score is D.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-19 (M2)	B	
19.1 Rights and obligations for revenue measures	A	A variety of different means are used to notify revenue payers of their obligations.
19.2 Revenue risk management	A	There is a continuing effort to minimise revenue risks arising from local property taxes which provide more than 75% of tax revenue under city control.
19.3 Revenue audit and investigation	C	There are compliance improvement activities covering most revenues, and audit plans are implemented, but these are not all consolidated in a single document.
19.4 Revenue arrears monitoring	D	Arrears at end-2017 were 178 per cent of 2017 collections.

PI-20 Accounting for revenue (M1)

20.1 Information on revenue collections

All revenue is paid into the city's account at the MoF-administered TSA. The system collects full details of each receipt. The Finance Department makes a monthly report broken down by revenue type to the Council and MoF. Score A.

20.2 Transfer of revenue collections

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

20.3 Revenue accounts reconciliation

A full monthly reconciliation is made within 4 weeks of month-end of assessments, collections, arrears and payments into TSA. Individual taxpayer accounts in the city records are updated and reconciled as payments are received. Score A.

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

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

21.1 Consolidation of cash balances

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

21.2 Cash forecasting and monitoring

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

21.3 Information on commitment ceilings

The Budget department sends quarterly cash allocations to the budget users (one quarter in advance) which allow relatively more expenditure in the second half of the year. The IT system allows full control of the budgetary users' expenditures against those vs budgetary ceilings. The city's financial reserves enable it to assure budget users that all approved budgetary allocations for the year may be committed at any time, although budget users must ensure that the timing of payments conforms to the cash allocations. Thus, the relevant budgetary provision is the commitment ceiling in each case. Score A.

21.4 Significance of in-year budget adjustments

Revised budgets are approved by the Assembly twice a year with full transparency. (A revised budget is not needed for the spending of targeted transfers not notified before the beginning of each fiscal year.) There were two budget revisions in 2017, in June and October. Score A.

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

PI-22 Expenditure arrears (M1)

22.1 Stock of expenditure arrears

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

22.2 Expenditure arrears monitoring

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

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

PI-23 Payroll controls (M1)

23.1 Integration of payroll and personnel records

Central government sets an overall ceiling for city employees, including those in the city's COEs. Only the 550 staff in the Administration and indirect budget beneficiary institutions (including the city's kindergartens) are paid from the city budget on the basis of approved staff lists. Thus, the staff hiring and promotion is controlled by a list of staff positions approved by the Mayor within the central government ceiling on staff numbers. Personnel and payroll records are not directly linked, but all changes in personnel records are subject to close control, and no changes are made to the Administration payroll unless authorised by HR management at senior level which specifically controls the salaries to be paid. Indirect budget beneficiaries are responsible for their own staff management, and for instructing the Finance Department about changes to their payrolls. Operation of the payroll for both direct and indirect budget beneficiaries is supervised by the Head of Finance and it is reconciled monthly by reference to changes since the previous month. The payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Score B.

23.2 Management of payroll changes

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

23.3 Internal control of payroll

As explained in 23.1 above, there is close hierarchical supervision of changes to personnel and payroll records, and there is always an audit trail. Only three officials have access to the payroll. The SAI audited a sample of payroll transactions in 2018 and made no recommendations for any changes in the system. Score A.

23.4 Payroll audit

The personnel records of all SNGs are subject to external inspection every year organised by central government, to confirm that all employees hold the required qualifications, that their pay is correctly assessed in accordance with their grade and length of service, and that all posts are authorised by central government. A recent internal audit report recommended that all staff should sign their own payslips to provide greater assurance that funds are reaching their intended recipients. Score A.

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

PI-24 Procurement (M2)

PI-24.1 Procurement monitoring

Records covering the city Administration and indirect budget beneficiaries are stated to be complete and accurate. But they apparently exclude budgetary payments to the city's COEs (of the order of 800m RSD per year, see Table 2.14 above). Total annual expenditure on goods and services and capital investment in 2017 was of the order of 1,300m RSD (see Table 2.11 above). The total value of contracts concluded in 2017 (see Table 3.4 below) corresponds to about half the difference between total expenditure on goods, services and capital investment, and annual payments to COEs. Thus, there remains some doubt whether the database covers more than half of payments other than payments to COEs. Score: C.

24.2 Procurement methods

Procurement in 2016 and 2017 directly financed from the city budget is summarised in Table 3.4 below. No contracts were placed through direct approaches to a single supplier. Low value procurements were all advertised on City and the central government Public Procurement Portal. However, the divergence between the annual value of contracts, and total expenditure on goods and services and capital investment, suggests that less than 60 per cent of such expenditure is subject to competition, resulting in the score D.

Table 3.4 Public Procurement 2016-17

RSD thousands

2016	Goods (Number of contracts)	Services (Number of contracts)	Works (Number of contracts)
Open procedure	9,145 (4)	42,300 (14)	177,764 (74)
Low value procurement	13,404 (12)	2,381 (5)	7,258 (6)
Total	22,549 (16)	44,681 (19)	185,022 (80)
2017			
Open procedure	6,040 (3)	35,884 (12)	117,105 (88)
Low value procurement	22,877 (15)	36,056 (20)	18,765 (14)
Restricted tender	-	-	2,364 (2)
Total	28,917 (18)	71,940 (32)	138,234 (104)

Source: Užice Dept. of Finance

24.3 Public access to procurement information

5 of 6 key elements of information are accessible to the general public (legal and regulatory framework, city procurement plans, bidding opportunities, contract awards, data on resolution of procurement complaints). Procurement plans, bidding opportunities and contract awards are all published on the Public Procurement Portal and the municipal website without delay, while the results of any procurement complaints are published by the Republican Commission (see 24.4 below). As explained in 24.1 above, it is doubtful whether information about procurement plans, bidding opportunities and contract awards is complete, but more than half of procurement appears to be covered. Although there is no publication of annual procurement statistics enough information is published about the majority of procurement operations to justify the score C.

24.4 Procurement complaints management

The Republican Commission which judges complaints satisfies all 6 criteria: it is not involved in any way in procurement decisions, its fees are not such as to prohibit access, it follows defined procedures, it exercises authority to suspend the procurement process, it issues decisions within the prescribed timescale, and its decisions are binding on all parties (although they do not preclude a subsequent appeal to the Administrative Court). Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-24 (M2)	C+	
24.1 Procurement monitoring	C	The recorded value of procurement contracts corresponds to about half the city's expenditure on goods, services and capital investment other than payments to COEs.
24.2 Procurement methods	D	Much procurement is not subject to competition.
24.3 Public access to procurement information	C	Five of six elements of information are published, but not annual procurement statistics. Although the information about procurement plans, bidding opportunities and contract awards appears incomplete, it covers more than half of procurement operations.
24.4 Procurement complaints management	A	The complaint system meets all six criteria.

PI-25 Internal controls on nonsalary expenditure (M2)

25.1 Segregation of duties

The MoF Rulebooks on the Organisation and Systemisation of Workplaces and on Accounts and Budgetary Accounting prescribe appropriate arrangements for ensuring segregation of duties. Effect is given to this through the city Decision on the Organisation of the City Administration. The SAI report on 2017 found no problems in this area. Score A.

25.2 Effectiveness of expenditure commitment controls

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

25.3 Compliance with payment rules and procedures

The Treasury system will only make payments if the orders are in the correct form supported by two signatures and documentary evidence of the justification for the payment. The 2017 audit by the SAI

did not identify any problems in this area. Thus all Payments are properly authorised and justified, without any exceptions. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-25 (M2)	A	
25.1 Segregation of duties	A	Appropriate segregation is ensured by the city's standing instructions.
25.2 Effectiveness of expenditure commitment controls	A	The new controls prevent commitments from being undertaken unless budgetary provision and cash are available.
25.3 Compliance with payment rules and procedures	A	All payments are properly authorised and justified.

PI-26 Internal audit (M1)

26.1 Coverage of internal audit (IA)

Internal audit has operated in Užice since 2013. There are two professionally qualified internal auditors and three other staff who are being trained. IA functions throughout the city administration and indirect budget beneficiaries, and also – through a separate charter agreed with the Mayor - covers the water utility. Since all budgeted revenue and expenditure is within the coverage of the unit, score is A.

26.2 Nature of audits and standards applied

Audits focus on the performance of systems and are carried out in accordance with international professional standards, with full consultation with auditees before reports are finalised. 2017 audits were mainly directed towards the management of public procurement and the work of the cultural centre. Score A.

26.3 Implementation of internal audits and reporting

There is a 3-year strategic plan within which an annual audit plan is prepared for approval by the Mayor. A 20 per cent margin of capacity is reserved for the immediate priorities of the Mayor. The 2017 plan to undertake 5 audits had been executed in full, with the reports having been submitted to the Mayor, the Central Harmonisation Unit at MoF, and the auditees. Score A.

26.4 Response to internal audits

A timetable for the implementation of recommendations is agreed with auditees, and progress is checked by the IA Unit. Of the 104 recommendations made in 2017, 85 had been implemented by October 2018, with action on the remainder scheduled for the following year. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-26 (M1)	A	
26.1 Coverage of internal audit	A	All budgeted expenditure is covered.
26.2 Nature of audits and standards applied	A	Audits are directed at the performance of systems and carried out in accordance with international professional standards.
26.3 Implementation of internal audits and reporting	A	Audit plans are implemented, and reports given to auditees, Finance Department, MoF Harmonisation Unit as well as the Mayor.
26.4 Response to internal audits	A	A timetable is agreed with auditees for the implementation of recommendations.

Pillar 6: Accounting and reporting

The three Performance Indicators within this Pillar assess financial data integrity (PI-27), in-year financial reporting (PI-28), and annual financial reporting (PI-29).

PI-27 Financial data integrity (M2)

27.1 Bank account reconciliation

All city transactions, including those of indirect budget beneficiaries, take place through the TSA with daily reconciliations with city records. Score A.

27.2 Suspense accounts

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

27.3 Advance accounts

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

27.4 Financial data integrity processes

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

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

PI-28 In-year budget reports (M1)

28.1 Coverage and comparability of reports

The Treasury system contains all the information needed to produce reports of revenue and expenditure on all classifications at any time. Monthly reports are produced and published on the economic classification, with full coverage of indirect budget beneficiaries. Reports with the same detail as the original budget are produced and published after 6 and 9 months. Monthly reports with full detail on administrative, economic, functional and programme classifications are sent to MoF within 15 days of month-end in accordance with the MoF Rulebook on reporting. Score A.

28.2 Timing of in-year budget reports

Reports are produced by the city's Finance Department within 15 days of month-end. Score A

28.3 Accuracy of in-year budget reports

There are no material concerns about data accuracy. A detailed analysis of budget execution is produced 6-monthly, but commitments are not reported. Score B.

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

PI-29 Annual financial reports (M1)

29.1 Completeness of annual financial reports

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

29.2 Submission of reports for external audit

Articles 78 and 79 of the Budget System Law require audited financial reports covering the city and its subordinate municipality to be adopted by their Assemblies and a consolidated report to be submitted to the MoF by 1 July. Užice met this timetable for the 2015 and 2016 audits (financial reports were submitted for external audit in the first week of April in 2015 and 2016) which were audited by commercial auditors. Reports include the balance sheet and financing as well as revenue and expenditure, and reconciliations should be provided between the different statements as well as notes on accounting policies. Budget execution reports for the year can be finalised after all direct and indirect budget users submit their report (by 31 March), and these represent the starting point for the audit. SAI decides by 15 April whether it will audit each SNG; if it does not decide to audit, SNG must appoint commercial auditors before the end of April to carry out a financial audit within a very short space of time, in order to comply with the required timetable. If SAI decides to audit, timetable is relaxed. In all cases full financial reports are available for audit within 4 months of year-end. The SAI began its 2017 audit on February 7, 2018 on the basis of provisional budget execution figures. The full financial report including the balance sheet and cash flow reconciliation was provided shortly before the end of April 2018. Score B.

29.3 Accounting standards

Annual financial statements are prepared in accordance with MoF Regulations issued in 2006. Užice complied with the requirements of Article 79 of the Budget System Law in its financial report on 2017. This is confirmed in the SAI Report. Accounting standards applied to financial reports are consistent with all the country's legal framework's requirements. The financial reports are presented in the consistent format and follow the standards disclosed in *Rulebook on Method of Preparation*,

*Compiling and Submission of Financial Statements of Budget Beneficiary, Mandatory Social Insurance and Budgetary Funds*¹⁰ and *Government Order on Budgetary Accounting*¹¹. Score A.

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

Pillar 7: External scrutiny and audit

This Pillar reviews the work of external audit (PI-30) and the work of the city Assembly in relation to external audit reports (PI-31).

PI-30 External audit (M1)

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

30.1 Audit coverage and standards

In most years SNGs are subject to a limited financial audit by commercial auditors which pays little attention to the functioning of systems or compliance with legal requirements. However, Užice's 2017 financial statements were audited by the SAI according to ISSAI standards. This included examinations of the functioning of systems and control risks and did not find issues of major importance. For a score of C the 2016 criteria require that more than half of total expenditure over the three year period 2015-17 was subject to effective audit in line with international standards. Since the work of the commercial auditors done in 2015 and 2016 does not meet these standards, coverage over the three years is less than 50 per cent, resulting in the score D.

30.2 Submission of audit reports to the legislature

Commercial audit reports for 2015 and 2016 were submitted to the Assembly within three months of the auditor receiving the draft financial statements (reports for both years are submitted to commercial audit in April, while the audited reports were submitted to the Assembly in May). The SAI report for 2017 was finalised on 20 October 2018, when it became available to the Assembly. For 2017 receipt of the report, taking into account the responses of the city Administration, was within six months of receipt of the draft financial statements. Score B.

30.3 External audit follow-up

¹⁰ Rulebook on Method of Preparation, Compiling and Submission of Financial Statements of Budget Beneficiary, Mandatory Social Insurance and Budgetary Funds, *Republic of Serbia's Official Gazette Nos. 18/2015 and 104/2018*

¹¹ Government Order on Budgetary Accounting, *Republic Serbia's Official Gazette Nos. 125/2003 and 12/2006*.

The SAI audit of 2017 identified errors in the recognition and valuation of property in the balance sheet (omission of some properties, absence of information on acquisition values, wrong application of depreciation). The errors were corrected, and the city established a Commission to progress the registration of properties so far omitted from the cadastre. The city administration's response to the 2017 audit shows clearly that close attention is paid to SAI findings, and that effective action is taken in response to them, although resource limitations may delay the implementation of some recommendations. Score A.

30.4 Supreme Audit Institution (SAI) independence

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

Indicator/Dimension	2018 score	Justification for 2018 score
PI-30 (M1)	D+	
30.1 Audit coverage and standards	D	Audit by the SAI meets international standards, but only one of the three years 2015-17 was substantively audited.
30.2 Submission of audit reports to the legislature	B	The SAI report on 2017 was submitted to the city Assembly within 6 months of the receipt of the financial statements by the auditor.
30.3 External audit follow-up	A	There is clear evidence of a substantial response by the city to the SAI report on 2017.
30.4 SAI independence	C	The President and Members of the SAI Council are appointed by the National Assembly, and the SAI is independent of the executive in the conduct of its work. But its budget is ultimately controlled by MoF.

PI-31 Legislative scrutiny of audit reports (M2)

31.1 Timing of audit report scrutiny

Commercial financial audit reports are submitted to the Assembly with the annual financial statements. Any consideration of the reports must be completed quickly, given the requirement to transmit the audited financial statements adopted by the Assembly to MoF by 15 June. In practice, the Assembly's involvement is essentially formal, and there is no substantive discussion. By contrast, in the case of the SAI report on 2017 the Assembly was actively involved in implementing the decisions required to give effect to the audit recommendations. In the case of 2015 and 2016, the financial reports audit was finalised in May and submitted to the Assembly, while the Assembly discussed it in June. In the case of 2017 financial report audited by the SAI, the SAI finalised the audit on 20 October 2018, while the Assembly discussed it in June 2019. The Assembly completed its work on the 2017 report within 9 months of its receipt. Score C.

31.2 Hearings on audit findings

In the case of commercial audits, the Assembly takes formal note. There was a full discussion by the Assembly of the 2017 SAI audit and the city administration's response in June 2019, in which the Mayor, Deputy Mayor, City Councillors and heads of City Departments took part. Score C.

31.3 Recommendations on audit by the Assembly

The Assembly has not addressed any recommendations to the Council based on audit reports. Score D.

31.4 Transparency of legislative scrutiny of audit reports

The Assembly's discussion of the 2017 SAI report was open to the public in the same way as all other meetings of the Assembly, which are broadcast in the media and available on the city webpage. Užice has e-register of all decisions made by the Assembly <http://uzice.rs/elektronski-registar-skupstinskih-odluka/>, as well as YouTube channel where they post all videos from every Assembly meeting <https://www.youtube.com/channel/UCyV8srXA440bwxgQTh7GJ8A/featured>. In addition, the meetings of the Assembly are broadcast in the real time on the local TV. Score A.

Indicator/Dimension	2018 score	Justification for 2018 score
PI-31 (M2)	C+	
31.1 Timing of audit report scrutiny	C	. The largest delay between receipt of the audit report and completion of the scrutiny was less than 9 months.
31.2 Hearings on audit findings	C	The Assembly held a full discussion of the 2017 SAI audit.
31.3 Recommendations on audit by the Assembly	D	No recommendations have been issued.
31.4 Transparency of legislative scrutiny of audit reports	A	The Assembly's discussion of the 2017 audit was open to the public in the same way as all other meetings of the Assembly.

Chapter 4: Conclusions of the analysis of PFM systems

4.1 Integrated analysis of PFM performance

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

4.1.1 Reliability of the Budget

2. Most central government funding for Užice comes through the city's share of income and other CG taxes, where the yield was slightly underestimated when budgets were prepared (HLG-1.1). CG transfers were less than 20 per cent of total receipts from CG, and were underestimated because targeted transfers were not known at the time budgets were prepared. The underestimates of revenue accruing from CG were sufficient to offset much of the shortfall in receipts of own revenue (PI-3.1) to the extent that overall expenditure fell less than 5 per cent short of budget in two of the three years 2015-17 (PI-1). The functional breakdown of expenditure was relatively stable apart from substantial shortfalls on housing, particularly in 2015 and 2016 (PI-2.1), which is consistent with the variance of expenditure by economic classification being mainly the result of investment falling far short of budget in all three years 2015-17 (PI-2.2). No expenditure was charged to contingency during 2015-17.

4.1.2 Transparency of public finances

3. The Treasury system through which all municipal revenue and expenditure pass contains enough information to enable comparisons between budget and out-turn by reference to administrative, functional and economic classifications (PI-4). (However, the Government does not produce such comparisons for Local government spending as a whole.) Information given to the Assembly as part of budget proposals could be improved by giving more of the context with summary comparisons covering the preceding, current and budget years on all three classifications (PI-5). Financing of the subordinate municipality of Sevojno is transparent (PI-7). Reporting of performance against targets established for each of the programmes into which SNG expenditure has to be fitted has been

initiated, but the formulation of the objectives requires improvement. There have been no independent evaluations of public service performance, although it should be acknowledged that the limited nature of SNG responsibilities makes performance difficult to measure and evaluate (PI-8). Information for the general public is satisfactory (PI-9).

4.1.3 Management of assets and liabilities

4. Full financial reports are published for the city's utility and other service companies, but no consolidated reports, or analyses of the fiscal risks faced by the city, have been published (PI-10). Investment planning is relatively unsophisticated, but progress is regularly monitored and reported (PI-11). COEs are effectively monitored, as are the city's holdings of nonfinancial assets, but the asset register is incomplete and valuations are lacking. Asset disposals are subject to competition, but details of sales are not published (PI-12). Debts are relatively unimportant (interest paid in 2017 was only about 0.6 per cent of expenditure in 2017), and are fully reconciled and reported, but there is no debt management strategy (PI-13).

4.1.4 Policy-based fiscal strategy and budgeting

5. The stability of financing from central government contributes substantially to medium-term fiscal and expenditure planning, and revenue and expenditure are projected in detail for the three years ahead (PI-15 and PI-16). The assurance from central government of stable medium-term financing for investment would support improvements in investment planning (PI-11) and the progressive improvement in the delivery of public services (PIs 8 and 16). Budget preparation is orderly, although central government guidance on economic assumptions is only provided months after the statutory deadline; as a result, time is very limited for the administration to finalise its proposals and the Assembly to consider them in time for enactment before year-end (PI-17 and PI-18).

4.1.5 Predictability and control in budget execution

6. Good progress has been made in expanding the property tax base, and arrangements are in place to encourage compliance and to check the validity of tax declarations. Tax arrears remain a problem, much of it inherited in 2009 when responsibility was transferred from central to local government, with write-offs discouraged by the need to maintain the city's claims in bankruptcy proceedings (PI-19). Aggregate revenues are reported and reconciled monthly, and individual taxpayer accounts updated as revenue is received (PI-20). New IT software ensures that commitments cannot be undertaken without the assurance of available funds (PI-25.3), while cash flow planning enables budget users to commit their budget allocations at any time (PI-21). There are no expenditure arrears (PI-22). Payroll controls are effective, and there is an annual external inspection to ensure that all staff positions are authorised, and all employees correctly paid according to their qualifications, responsibilities and length of service (PI-23). The management of procurement by the city administration appears satisfactory, but much expenditure on goods and services is not subject to any form of competition. (PI-24). Internal control arrangements work well (PI-25), and internal audit functions effectively throughout the city administration and indirect budget beneficiary institutions (PI-26).

4.1.6 Accounting and reporting

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

4.1.7 External scrutiny and audit

8. Serbian SNGs are subject to a thorough audit to international standards by the State Audit Institution (SAI) every three or four years. In other years a limited financial audit is undertaken by a commercial audit firm. COEs are also within the ambit of the SAI, but coverage of them is more limited. There is clear evidence of follow-up where recommendations are made by the SAI, but other audits have not given rise to significant findings. The resources available to the SAI are controlled and restricted by the Government (PI-30). The Assembly pays full attention to SAI audits (PI-31).

4.2 Effectiveness of the internal control framework

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

10. The control environment depends on the legal and regulatory framework, and the way it is applied in practice. The Budget Systems Law (2009) sets out how internal audit and internal financial control (including inspection) should operate (Articles 80-89). Other relevant legislation is the law on local self-government (2007), the Public Debt law (2005), the Public Procurement law (2013) the law on Determining the Maximum Number of Employees in the Public Sector (2015), and the State Audit Institution law (2005). In the local government context, the performance of the city will depend on the integrity of management and staff, the management styles of the organisation, the organisational structure (including appropriate segregation of duties and reporting arrangements), the management of human resources, and the professional skills of the staff. It is the responsibility of the Mayor to set the tone of the city organisation, and to adopt a strategy to minimise the risks of damage to the provision of good services. Užice receives good scores on tax administration (PI-19) and on almost all the Indicators of predictability and control in budget execution (PIs 20-26).

11. The main risks faced by Užice are that revenue from the city's own taxes will not be collected, that revenue producing developments will not take place, and that procurements will not secure best value. The assessment suggests that the city should focus more strongly on ensuring that all its procurement expenditure is so far as possible subject to effective competition (PI-24). A continued focus on maximising local revenues will be important in sustaining the services which are the responsibility of the city.

12. Internal controls (PI-25) in the city administration appear to work satisfactorily, including internal audit (PI-26), which – exceptionally in Serbia – has been functioning effectively for several years. External audit by the SAI (PI-30), most recently for 2017, has not found serious problems in the city's financial management, which has benefitted from the stability of experienced staff in the finance function. Monitoring the performance of service delivery (PI-8) is still in the process of development, with the first reports of performance against targets having been submitted to central government in September 2018. Meanwhile Užice unlike other SNGs had already begun to publish information about outputs and activities as elements in its budget execution reports.

4.3 PFM strengths and weaknesses

4.3.1 Aggregate financial discipline

13. The restraints on borrowing, and the sanctions against local authorities failing to pay invoices within 45 days, mean that the risks of uncontrolled overspending are low. Užice has managed to keep the spending in aggregate and on most services close to budget (see PIs-1 and 2 above), although investment has fallen short of the city's ambitions.

4.3.2 Strategic allocation of resources

14. Užice is relatively advanced in terms of medium-term budgetary planning. Current expenditure on pay and goods and services is reasonably stable from one year to the next, although public investment planning is adversely impacted by central government control and the absence of any medium-term planning of targeted transfers on which much SNG investment depends. New arrangements at central government level to improve the planning of public investment have yet to be finalised but will have little impact at SNG level because most SNG projects will fall below the threshold costs above which the new arrangements are to apply.

4.3.3 Efficient use of resources for service delivery

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

4.4 Performance changes since 2015

16. Užice was already ahead of other SNGs in developing medium-term fiscal planning and internal audit at the time of the 2015 assessment. The city has also benefitted from a stable and experienced finance management team. A bare comparison of the 2015 and 2019 scores would be misleading, since there are questions about the way that some of the criteria were evaluated in the previous assessment. The apparent deterioration of some of the scores relating to budget reliability is probably mostly a reflection of the difficult fiscal climate experienced by SNGs with reductions in central funding. Cash management has become more flexible and commitment controls have improved. Internal audit is now in full operation. More experience has been gained in results-oriented budgeting based on the planning of expenditure by programmes. The property tax base has been substantially enlarged, and more effort devoted to collecting the revenue due to the city.

Chapter 5: Government PFM reform process

5.1 Approach to PFM reform

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

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

5.2 Institutional considerations

2. RELOF is supporting the corresponding PFM improvements also at local government level, focusing on (1) improvement of Financial Management and Control (FMC); (2) the introduction and development of Internal Audit; (3) improvements in budget planning, execution and reporting, including the medium-term dimension; and (4) improving tax administration and tax yields. RELOF is also supporting the improvement of financial management in utility and other companies owned by local authorities on which much of the delivery of public services depends. In addition to the development of internal audit and medium-term fiscal planning, Užice has made good progress in developing its property tax base with the help of RELOF. Meanwhile, there remains much scope for improvements in fiscal and expenditure planning and the further development of programme budgeting. These processes could be substantially enhanced if the central government facilitated public investment planning through the provision of targeted transfers on a rolling three-year basis (as has operated for general transfers) instead of demanding fresh bids every year from all SNGs. At the same time SNGs need greater flexibility in recruiting the staff they need to implement these PFM improvements than they have had during 2015-17.

Annex 1: Performance indicator summary

PI	Indicator/Dimension	Score	Justification for score
HLG-1	Predictability of transfers from Higher Level of Government (M1)	A	
1.1	Difference between planned and actual transfers	A	Transfers exceeded budget in all three years 2015-17.
1.2	Conditional grant composition variance	NA	Conditional transfers are not notified before budget is enacted.
1.3	In-year timeliness of transfers from central government (CG)	A	Transfers are paid in a steady and predictable stream.
PI-1	Aggregate expenditure out-turn	A	Out-turn was between 95% and 105% of budget in two of the three years 2015-17.
PI-2	Expenditure composition out-turn (M1)	C+	
2.1	Expenditure composition out-turn by function	C	Variance was less than 15% in all three years 2015-17.
2.2	Expenditure composition by economic classification	C	Variance was less than 15% in all three years 2015-17.
2.3	Expenditure from contingency reserves	A	No expenditure was charged to contingency reserves in 2015-17
PI-3	Revenue out-turn (M2)	D	
3.1	Aggregate revenue out-turn	D	Revenue fell below 92% of budget in all three years
3.2	Revenue composition out-turn	D	Variance of revenue composition exceeded 15% in all three years
PI-4	Budget classification	A	Consistent information is presented, broken down by administrative, economic, functional and programme classifications.
PI-5	Budget documentation	D	Only two of the basic elements are satisfied
PI-6	Operations outside financial reports (M2)	A	
6.1	Expenditure outside financial reports	A	All expenditure of the city is reported and published.
6.2	Revenue outside financial reports	A	All revenue of the city is reported and published.
6.3	Financial reports of extra-budgetary units	NA	There are no extra-budgetary units.
PI-7	Transfers to lower tier governments(M2)	B	
7.1	System for allocating transfers	A	The allocation of transfers to Sevojno is transparent and rules based.
7.2	Timeliness of information on transfers	C	The amount of transfers is only notified less than two weeks before the beginning of the fiscal year.
PI-8	Performance information for service delivery (M 2)	B	

8.1	Performance plans for service delivery	B	Output objectives for the programmes within which all SNG expenditure is fitted have been published since 2015.
8.2	Performance achieved for service delivery	B	The information on quantity of outputs is published every 6, 9 months and annually as a part of budget execution report
8.3	Resources received by service delivery units	A	Resources received by nursery schools and cultural institutions are fully reported in Budgets and out-turn statements.
8.4	Performance evaluation for service delivery	D	There have been no independent evaluations.
PI-9	Public access to fiscal information	B	Four basic elements are satisfied, and two others.
PI-10	Fiscal risk reporting (M2)	B+	
10.1	Monitoring of public corporations	B	COEs' audited financial reports are published by end-June but no consolidated overview is published.
10.2	Monitoring of subordinate governments	A	The audited annual report on the subordinate municipality is published within 9 months of year-end.
10.3	Contingent liabilities and other fiscal risks	NA	Užice has no explicit contingent liabilities.
PI-11	Public investment management (M2)	C+	
11.1	Economic analysis of investment proposals	C	The only project during 2015-17 costing more than 1% of annual expenditure was the subject of published independent economic analysis. But there are no generally applicable Guidelines governing the requirement for economic analysis.
11.2	Investment project prioritisation	C	Projects are prioritised the city Council.
11.3	Investment project costing	B	Projections of full capital costs of projects are included in budget documentation as well as amounts, capital and current to be spent during the next 3 years.
11.4	Investment project monitoring	B	Progress is systematically monitored, and an annual report to the city Assembly is published.
PI-12	Public asset management (M2)	D+	
12.1	Financial asset monitoring	B	Financial reports of all COEs are published annually, with assets valued at historic cost.
12.2	Nonfinancial asset monitoring	D	The register is incomplete.
12.3	Transparency of asset disposal	D	Prices realised and identity of purchasers are not published.
PI-13	Debt management (M2)	B	
13.1	Recording and reporting of debt and guarantees	A	Records of outstanding debts are complete and regularly reconciled

13.2	Approval of debt and guarantees	A	Incurrence of debt requires approval of both MoF and municipal Assembly.
13.3	Debt management strategy	D	No debt management strategy has been published.
PI-14	Macroeconomic and fiscal forecasting(M2)	C	
14.1	Macroeconomic forecasts	NA	The municipality relies on CG forecasts
14.2	Fiscal forecasts	B	Forecasts are published for 3 years ahead, but without explanation of changes from the previous year's forecasts.
14.3	Macrofiscal sensitivity analysis	D	No consideration has been given to alternative fiscal scenarios.
PI-15	Fiscal strategy (M2)	B	
15.1	Fiscal impact of policy proposals	A	Budget documentation includes the fiscal impact of all changes in revenue and expenditure for the next three years.
15.2	Fiscal Strategy adoption	B	Budget contains quantified fiscal objectives for the next three years.
15.3	Reporting on fiscal outcomes	D	Budget documentation does not explain deviations from current year targets.
PI-16	Medium-term perspective in expenditure budgeting (M2)	C+	
16.1	Medium-term expenditure estimates	A	Figures are presented for the next three years allocated by economic, administrative, functional and programme classifications.
16.2	Medium-term expenditure ceilings	D	The Finance Department sets the medium-term expenditure ceilings without reference to the Council.
16.3	Alignment of strategic plans and medium-term budgets	B	There are links between the city's strategic development plan and medium-term budgets for majority of expenditures.
16.4	Consistency of budgets with previous year's estimates	D	Budget documentation does not contain any explanation of deviations from the previous year's figures for the same period.
PI-17	Budget preparation process (M2)	C	
17.1	Budget calendar	B	Budget users are able to complete most of their work on budget submissions within the required timescale.
17.2	Guidance on budget preparation	C	The Council does not consider the expenditure ceilings until the draft budget proposals have been completed.
17.3	Budget submission to the Assembly	D	The Assembly has only a few days to consider the draft budget, if it is to be approved before year-end.
PI-18	Legislative scrutiny of budgets (M1)	B+	
18.1	Scope of budget scrutiny	B	The Assembly's scrutiny covers fiscal policies and aggregates as well as details of

			revenue and expenditure for the year ahead.
18.2	Legislative procedures for budget scrutiny	A	Proposals are reviewed by a specialised committee, and there are also arrangements for public consultation.
18.3	Timing of budget approval	A	The budget has been approved before the start of the year in each of the last three years.
18.4	Rules for budget adjustment by the executive	A	There are strict limits to the extent of reallocations without the approval of the Assembly, which are fully observed.
PI-19	Revenue administration (M2)	B	
19.1	Rights and obligations for revenue measures	A	A variety of different means are used to notify revenue payers of their obligations.
19.2	Revenue risk management	A	There is a continuing effort to minimise revenue risks arising from local property taxes.
19.3	Revenue audit and investigation	C	There are compliance improvement activities covering most tax revenues, and audit plans are implemented, but these are not consolidated in a single document.
19.4	Revenue arrears monitoring	D	Revenue arrears at end-2017 were 178% of collections during that year.
PI-20	Accounting for revenue (M1)	A	
20.1	Information on revenue collections	A	A monthly report of revenue broken down by type is made to MoF and city Council.
20.2	Transfer of revenue collections	A	All revenue is paid daily into the city's account in the TSA.
20.3	Revenue accounts reconciliation	A	A full monthly reconciliation is made of assessments, collections, arrears and payments into the TSA. Taxpayer accounts are updated as payments are received.
PI-21	Predictability of in-year resource allocation (M2)	A	
21.1	Consolidation of cash balances	A	Cash balances are all held in the TSA and consolidated daily.
21.2	Cash forecasting and monitoring	B	A cash flow forecast is prepared at the beginning of the year and updated quarterly.
21.3	Information on commitment ceilings	A	Budget users may commit their whole allocations at any time during the year.
21.4	Significance of in-year budget adjustments	A	Revised budgets are approved by the Assembly once or twice a year, with full transparency.
PI-22	Expenditure arrears (M1)	A	
22.1	Stock of expenditure arrears	A	There are no expenditure arrears
22.2	Expenditure arrears monitoring	A	This is done automatically through the TSA with which all invoices are registered.

PI-23	Payroll controls (M1)	B+	
23.1	Integration of personnel records and the payroll	B	Payroll is only changed when authorised at high level by senior management.
23.2	Management of payroll changes	A	The payroll is updated monthly, and retroactive adjustments are very rare.
23.3	Internal control of payroll	A	There is close hierarchical supervision of all changes to personnel records and the payroll, which always leave an audit trail.
23.4	Payroll audit	A	There are systematic annual inspections of all personnel records to ensure that all posts have been authorised and that all staff are paid correctly based on their qualifications, responsibilities and length of service.
PI-24	Procurement (M2)	C	
24.1	Procurement monitoring	C	Recorded value of contracts corresponds to about half the city's expenditure on goods, services and capital investment other than payments to COEs.
24.2	Procurement methods	D	A large part of expenditure on goods and services is not subject to competition.
24.3	Public access to procurement information	C	5 of the 6 elements are available; only annual procurement statistics are lacking, although it is doubtful whether information is complete it appears that more than half of procurement operations are covered.
24.4	Procurement complaints management	A	The Republican Commission meets all 6 criteria.
PI-25	Internal controls on nonsalary expenditure (M2)	A	
25.1	Segregation of duties	A	Appropriate segregation is ensured by the city's standing instructions.
25.2	Effectiveness of expenditure commitment controls	A	A new IT system ensures that commitments cannot be undertaken unless budgetary provision and cash are available.
25.3	Compliance with payment rules and procedures	A	There are no exceptions requiring justification.
PI-26	Internal audit (IA) (M1)	A	
26.1	Coverage of internal audit	A	All budgeted expenditure is covered.
26.2	Nature of audits and standards applied	A	Audits are directed at the performance of systems and carried out in accordance with international professional standards.
26.3	Implementation of audits and reporting	A	Audit plans are implemented, and reports given to auditees, Finance Department, MoF Harmonisation Unit as well as the Mayor.
26.4	Response to internal audits	A	A timetable is agreed with auditees for the implementation of recommendations.
PI-27	Financial data integrity (M2)	B	

27.1	Bank account reconciliations	A	Budgetary transactions through the TSA are reconciled daily.
27.2	Suspense accounts	NA	No use is made of suspense accounts
27.3	Advance accounts	C	Advances to contractors are cleared in accordance with contractual terms, and reconciled at least annually.
27.4	Financial data integrity processes	B	Access and changes to records are restricted and recorded, and leave an audit trail.
PI-28	In-year budget reports	B+	
28.1	Coverage and comparability of reports	A	Monthly reports to MoF are broken down by administrative, functional, economic and programme classifications.
28.2	Timing of in-year budget reports	A	Reports are made to MoF within 15 calendar days of month-end.
28.3	Accuracy of in-year budget reports	B	There is no reason to doubt the accuracy of the figures, but commitments are not reported (as required for an A score).
PI-29	Annual financial reports (M1)	B+	
29.1	Completeness of annual financial reports	B	Reports contain full details of revenue and expenditure, assets and liabilities, and a cash flow statement. But tangible assets are not covered.
29.2	Submission of reports for external audit	B	Reports are submitted within 4 months of year-end.
29.3	Accounting standards	A	Reports are consistent from one year to the next and consistent with all the country's legal requirements.
PI-30	External audit (M1)	D+	
30.1	Audit coverage and standards	D	Substantive audit covered only one of the three years 2015-17.
30.2	Submission of audit reports to the legislature (Assembly)	B	The audit report for 2017 was submitted to the Assembly within 6 months of the receipt of the financial statements by the SAI.
30.3	External audit follow-up	A	The Administration has made a full response to the SAI report for 2017.
30.4	SAI independence	C	Appointments to the SAI are made by the National Assembly, and the SAI is independent in determining its work. But its budget is ultimately controlled by the executive.
PI-31	Legislative scrutiny of audit reports (M2)	C+	
31.1	Timing of audit report scrutiny	C	The largest delay between receipt of the audit report and completion of the scrutiny was 9 months.
31.2	Hearings on audit findings	C	The Assembly held a full discussion of the SAI report on 2017.

31.3	Recommendations on audit by the Assembly	D	No recommendations have been issued.
31.4	Transparency of Assembly's scrutiny of audit reports	A	The discussion of the 2017 audit was open to the public in the same way as all other meetings of the Assembly.

Annex 2: Summary of observations on the Internal Control Framework

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude towards internal control throughout the organisation	The city administration is run by experienced staff who maintain a well-functioning operation. Internal audit has been functioning since 2013. (PI-26)
1.2 Commitment to competence	The staff are well-qualified and competent.
1.3 The “tone at the top”	The Mayor gives an appropriate lead to the staff.
1.4 Organisation structure	The heads of the four main city departments report to the Mayor. (See Organisation chart in Chapter 2)
1.5 Human resources policies and practices	The city’s scope for initiative is drastically limited by the central government controls over appointments and conditions of service, and by the current freeze on new appointments. (Chapter 2) Staff pay is well managed (PI-23).
2. Risk assessment	
2.1 Risk identification	Risks are recognised of non-collection of property and other local taxes, and of failure to obtain best value in procurement. (PI-19, PI-24)
2.2 Risk assessment	Užice has made good progress towards the establishment of PIFC arrangements on the EU model (PI-26), with regular reports to MoF Central Harmonisation Unit on internal audit and internal control activities.
2.3 Risk evaluation	Reports on performance against objectives have only just begun to be produced, and have not yet been published (PI-8). There has been no publication of fiscal and other risks faced by the City (PI-10.3).
2.4 Risk appetite assessment	Užice has avoided commitment to investment projects until the necessary finance has been assured (PI-11, PI-22).
2.5 Responses to risk	Užice has developed and improved its tax assessment and collection operations. (PI-19)
3. Control activities	
3.1 Authorisation and approval procedures	New arrangements as part of the city’s interface with the Treasury Single Account ensure that commitments are not undertaken unless financial provision for them has previously been shown to be available (PI-21, PI-25).
3.2 Segregation of duties	Segregation of duties appears to work adequately. (PI-25)
3.3 Controls over access to resources and records	The budget, payment and accounting system includes controls over access to records (PI-27.4).
3.4 Verifications	Payroll and financial management systems include appropriate requirements for verifications before commitments are undertaken or payments made. (PI-23, PI-25)
3.5 Reconciliations	There are daily reconciliations of revenue and expenditure (PI-20, PI-27).
3.6 Reviews of operating performance	Reporting has only just been initiated, and results have not yet been published. There have been no external evaluations. (PI-8)
3.7 Reviews of operations, processes and activities	Systems reviews are undertaken when the city is subject to audit by the SAI, as recently in respect of 2017 financial statements. (PI-30)
3.8 Supervision	The structure of the administration provides appropriately for supervision (PIs 21, 23, 24, 25,27).

4. Information and communication	Reporting to MoF on the performance of internal audit and internal controls is already operational (PI-25, PI-26).
5. Monitoring	
5.1 Ongoing monitoring	Monitoring of the implementation of public investment projects is regularly undertaken, and an annual report is made to central government and the city Assembly (PI-11). Expenditure is continuously tracked against budget (PI-28).
5.2 Evaluations	No significant action hitherto.
5.3 Management responses	Internal audit findings are effectively addressed and followed up. (PI-26)

Annex 3: Sources of information

Annex 3A: Related surveys and analytical work

No	Institution	Document title	Date	Link (when available)
1	Ministry of Finance Republic of Serbia	Public financial management reform Programme 2016-20	2015	https://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/Public%20Financial%20Management%20Reform%20Program%202016-2010%20EN.PDF
2	OECD	Serbia Profile	9/2016	https://www.oecd.org/regional/regional-policy/profile-Serbia.pdf
3	IMF	Republic of Serbia: Request for a 30-Month Policy Coordination Instrument-Press Release; Staff Report; and Statement by the Executive Director for Serbia, IMF Country Report 18/237.	July 24, 2018	https://www.imf.org/en/Publications/CR/Issues/2018/07/23/Republic-of-Serbia-Request-for-a-30-Month-Policy-Coordination-Instrument-Press-Release-Staff-46118
4	IMF	Republic of Serbia: Eighth Review Under the Stand-By Arrangement-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Serbia IMF Country Reports 17/397.	December 21, 2017	www.imf.org/en/Publications/CR/Issues/2017/12/21/Republic-of-Serbia-Eighth-Review-Under-the-Stand-By-Arrangement-Press-Release-Staff-Report-45506
5	EU COMMISSION	STAFF WORKING DOCUMENT Serbia 2018 Report Accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 2018 Communication on EU Enlargement Policy, Strasbourg.	April 17, 2018	https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-serbia-report.pdf
6	Ministry of Public Administration and Local Self-Government	Public Administration Reform Report	3/2018	http://www.mduls.gov.rs/doc/PAR%20Report_eng_mar2018.pdf
7	Užice	Statut Grada Užice, Sl. list grada Užica", br. 16/2013 - prečišćen tekst	July 25, 2013	http://uzice.rs/wp-content/uploads/2019/06/Sluzbeni-list-16-iz-2013.pdf
8	Užice	Statut grada Užica ("Službeni list grada Užica", broj 11/08)	September 17, 2008	http://uzice.rs/wp-content/uploads/2019/08/Sluzbeni-list-11-iz-2008.pdf

9	Užice	Odluku o izmenama i dopunama Statuta grada Užica ("Službeni list grada Užica", broj 17/11)	July 25, 2013	http://uzice.rs/wp-content/uploads/2019/06/Sluzbeni-list-16-iz-2013.pdf
10	Užice	Odluku o izmenama i dopunama Statuta grada Užica ("Službeni list grada Užica", broj 11/12)	July 25, 2013	http://uzice.rs/wp-content/uploads/2019/06/Sluzbeni-list-16-iz-2013.pdf
11	Užice	Odluku o izmenama i dopunama Statuta grada Užica ("Službeni list grada Užica", broj 11/13)	July 25, 2013	http://uzice.rs/wp-content/uploads/2019/06/Sluzbeni-list-16-iz-2013.pdf
12	Užice	Odluka o budžetu Grada Užica za 2019. godinu	December 17, 2018	http://uzice.rs/wp-content/uploads/2018/12/Odluka-o-budzetu-Grada-Uzica-za-2019.-godinu.pdf
13	Užice	Izveštaj o izvršenju Odluke o budžetu grada Užica za period januar- septembar 2018. godine	November 27, 2018	http://uzice.rs/wp-content/uploads/2018/11/Izve%C5%A1taj-o-izvr%C5%A1enju-Odluke-o-bud%C5%BEtu-grada-U%C5%BEica-za-period-januar-septembar-2018.-godine.pdf
14	Užice	Odluka o izmenama i dopunama Odluke o budžetu grada Užica za 2018. god II	October 25, 2018	http://uzice.rs/wp-content/uploads/2018/10/Odluka-o-izmenama-i-dopunama-Odluke-o-budzetu-grada-Uzica-za-2018.-god-II.pdf
15	Užice	Izveštaj o izvršenju Odluke o budžetu grada Užica za period januar-jun 2018	September 20, 2018	http://uzice.rs/wp-content/uploads/2018/10/Izvestaj-o-izvršenju-Odluke-o-budzetu-grada-Uzica-za-period-januar-jun-2018.pdf
16	Užice	Odluka o izmenama i dopunama Odluke o budžetu grada Užica za 2018. godinu	June 27, 2018	http://uzice.rs/wp-content/uploads/2018/07/Odluka-o-izmenama-i-dopunama-Odluke-o-budzetu-grada-Uzica-za-2018.-godinu.pdf
17	Užice	Odluka o završnom računu budžeta Grada Užica za 2017. godinu	June 7, 2018	http://uzice.rs/wp-content/uploads/2018/06/Odluka-o-zavr%C5%A1nom-bud%C5%BEtu-Grada-U%C5%BEica-za-2017.-godinu.pdf
18	Užice	Odluka o budžetu grada Užica za 2018. godinu	December 15, 2017	http://uzice.rs/wp-content/uploads/2017/12/Odluka-o-budzetu-grada-Uzica-za-2018-godinu.pdf

19	Užice	Izveštaj o izvršenju Odluke o budžetu grada Užica za period januar-septembar 2017. godine	November 28, 2017	http://uzice.rs/wp-content/uploads/2017/11/Izvestaj-o-izvršenju-odluke-o-budzetu-grada-Uzica-za-period-januar-septembar-2017.godine.pdf
20	Užice	Odluka o izmenama i dopunama odluke o budžetu grada za 2017. godinu II	October 12, 2017	http://uzice.rs/wp-content/uploads/2017/10/ODLUKA-O-IZMENEMA-I-DOPUNAMA-ODLUKE-O-BUDZETU-GRADA-UZICA-ZA-2017-II.pdf
21	Užice	Izveštaj o izvršenju Odluke o budžetu grada Užica za period januar-jun 2017. godine	September 6, 2017	http://uzice.rs/wp-content/uploads/2017/09/Izvestaj-o-izvršenju-Odluke-o-budzetu-grada-Uzica-za-period-januar-jun-2017.-godine.pdf
22	Užice	Odluka o završnom računu budžeta Grada Užica za 2016. godinu	June 15, 2017	http://uzice.rs/wp-content/uploads/2017/06/ODLUKA-ZAVRSNI-RACUN-2016-GRAD.pdf
23	Užice	Odluka o izmenama i dopunama Odluke o budžetu Grada Užica za 2017. godinu	June 15, 2017	http://uzice.rs/wp-content/uploads/2017/06/ODLUKA-O-REBALANSU-I-2017.pdf
24	Užice	Odluka o budžetu Grada Užica za 2017. godinu	December 22, 2016	http://uzice.rs/wp-content/uploads/2017/06/Odluka o budzetu za 2017_1812.pdf
25	Užice	Odluka o utvrđivanju prosečnih cena kvadratnog metra odgovarajućih nepokretnosti za utvrđivanje poreza na imovinu za 2018. godinu na teritoriji grada Užica	November 28, 2017	http://uzice.rs/wp-content/uploads/2017/12/Odluka-o-utrdjivanju-prosecnih-cena-kvadratnog-metra-odgovarajucih-nepokretnosti-za-utrdjivanje-poreza-na-imovinu-za-2018.-godinu-na-teritoriji-grada-Uzica.pdf
26	Užice	Odluka o stopi amortizacije za utvrđivanje poreza na imovinu	November 25, 2014	http://uzice.rs/wp-content/uploads/2017/06/Odluka-o-stopi-amortizacije-za-utrdjivanje-poreza-na-imovinu.pdf
27	Užice	Odluka o određivanju zona i najopremljenije zone na teritoriji grada Užica	November 25, 2014	http://uzice.rs/wp-content/uploads/2017/06/Odluka-o-odredjivanju-zona-i-najopremljenije-zone-na-teritoriji-grada-Uzica.pdf

28	Užice	Odluka o visini stope poreza na imovinu u gradu Užicu od 01.01.2016.	November 13, 2015	http://uzice.rs/wp-content/uploads/2017/06/Odluka-o-visini-stope-poreza-na-imovinu-u-gradu-Uzicu-od-01.01.2016..pdf
29	Užice	Odluka o visini stope poreza na imovinu u gradu Užicu za 2015. godinu	November 25, 2014	http://uzice.rs/wp-content/uploads/2017/06/Odluka-o-visini-stope-poreza-na-imovinu-za-2015.-godinu.pdf
30	Užice	Odluka o lokalnim komunalnim taksama 2017.	2016	http://uzice.rs/wp-content/uploads/2017/06/Odluka-o-lokalnim-komunalnim-taksama-2017..pdf
31	Užice	Odluka o lokalnim komunalnim taksama 2016.	December 23, 2015	http://uzice.rs/wp-content/uploads/2017/06/Odluka-o-lokslnim-komunalnim-taksama-2016..pdf
32	Užice	Odluka o koeficijentima za utvrđivanje poreza na imovinu za nepokretnosti obveznika koji ne vode poslovne knjige koje se nalaze na teritoriji grada Užica	December 2, 2013	http://uzice.rs/wp-content/uploads/2017/06/Odluka-o-koeficijentima-za-utvrđivanje-poreza-na-imovinu-za-nepokretnosti-obveznika-koji-ne-vode-poslovne-knjige-koje-se-nalaze-na-teritoriji-grada-Uzica.pdf
33	Užice	Odluka o koeficijentima za utvrđivanje poreza na imovinu za nepokretnosti obveznika koji vode poslovne knjige u gradu Užicu	November 25, 2014	http://uzice.rs/wp-content/uploads/2017/06/Odluka-o-koeficijentima-za-utvrđivanje-poreza-na-imovinu-za-nepokretnosti-obveznika-koji-vode-poslovne-knjige-u-gradu-Uzicu.pdf
34	Užice	Odluka o utvrđivanju prosečnih cena kvadratnog metra odgovarajućih nepokretnosti za utvrđivanje poreza na imovinu za 2017. godinu na teritoriji grada Užica	November 17, 2016	http://uzice.rs/wp-content/uploads/2017/06/Odluka-o-utvrđivanju-prosecnih-cena-kvadratnog-metra-odgovarajucih-nepokretnosti-za-utvrđivanje-poreza-na-imovinu-za-2017.-godinu-na-teritoriji-grada-Uzica.pdf
35	Užice	Odluka o utvrđivanju prosečnih cena kvadratnog metra odgovarajućih nepokretnosti za utvrđivanje poreza na imovinu za 2016. godinu na teritoriji grada Užica	November 13, 2015	http://uzice.rs/wp-content/uploads/2017/06/Odluka-o-utvrđivanju-prosecnih-cena-kvadratnog-metra-odgovarajucih-nepokretnosti-za-

				utvrđivanje-poreza-na- imovinu-za-2016.-godinu- na-teritoriji-grada- Uzica.pdf
36	Užice	Odluka o utvrđivanju prosečnih cena kvadratnog metra odgovarajućih nepokretnosti za utvrđivanje poreza na imovinu za 2015. godinu na teritoriji grada Užica	November 25, 2014	http://uzice.rs/wp- content/uploads/2017/06 /Odluka-o-utvrđivanju- prosecnih-cena- kvadratnog-metra- odgovarajucih- nepokretnosti-za- utvrđivanje-poreza-na- imovinu-za-2015.-godinu- na-teritoriji-grada- Uzica.pdf
37	Užice	Uputstvo za pripremu odluke o budžetu lokalne vlasti za 2019 godinu i projekcija za 2020 i 2021 godinu		http://uzice.rs/javne- ustanove/gradska- uprava-za-finansije/
38	Užice	Uniformni programi i programske aktivnosti JLS		http://uzice.rs/wp- content/uploads/2018/11 /Uniformni-programi-i- programske-aktivnosti- JLS.pdf
39	Užice	Prilog 1- Pregled broja zaposlenih i sredstava za plate za 2019 godinu		http://uzice.rs/javne- ustanove/gradska- uprava-za-finansije/
40	Užice	Ciljevi programa i programskih aktivnosti i lista indikatora		http://uzice.rs/wp- content/uploads/2018/11 /Ciljevi-programa-i- programskih-aktivnosti-i- lista-indikatora.pdf
41	Užice	Dodatno uputstvo za izradu budžeta za 2019.god.	November 6, 2018	http://uzice.rs/wp- content/uploads/2018/11 /Dodatno-uputstvo-za- izradu-budzeta-za-2019.- god.pdf
42	Užice	Grafički prikaz organizacije lokalne jedinice u 2018.		
43	Užice	Javne nabavke Grada Užice od 2015. do 2017.		http://uzice.rs/clanci/obj ave/javne-nabavke/
44	Užice	Funkcionalna klasifikacija rashoda Grada Užice 2015. do 2017.		http://uzice.rs/javne- ustanove/gradska- uprava-za-finansije/
45	Užice	Administrativna/organizacijska klasifikacija/ rashoda po korisnicima Grada Užice od 2015. do 2017.		http://uzice.rs/javne- ustanove/gradska- uprava-za-finansije/
46	Užice	Programska klasifikacija rashoda Grada Užice od 2015. do 2017.		http://uzice.rs/javne- ustanove/gradska- uprava-za-finansije/
47	Užice	Prihodi po ekonomskoj klasifikaciji Grada Užice od 2015. do 2017.		http://uzice.rs/javne- ustanove/gradska- uprava-za-finansije/

48	Užice	Rashodi po ekonomskoj klasifikaciji Grada Užice od 2015. do 2017.		http://uzice.rs/javne-ustanove/gradska-uprava-za-finansije/
49	Užice	Autonomni budžetski prihodi/fiskalna autonomija Grada Užice od 2015. do 2017.		http://uzice.rs/javne-ustanove/gradska-uprava-za-finansije/
50	Užice	Stanje budžetske rezerve Grada Užice od 2015. do 2017.		http://uzice.rs/javne-ustanove/gradska-uprava-za-finansije/
51	Užice	Odobranja i amandmani na budžet Grada Užice od 2015. do 2017.		http://uzice.rs/javne-ustanove/gradska-uprava-za-finansije/
52	Užice	Potraživanja za porezne prihode Grada Užice od 2015. do 2017.		http://uzice.rs/javne-ustanove/gradska-uprava-za-finansije/
53	Užice	Potraživanja za neporezne prihode Grada Užice od 2015. do 2017.		http://uzice.rs/javne-ustanove/gradska-uprava-za-finansije/
54	Užice	Broj poreznih obveznika i obveznika sa dugom Grada Užice a od 2015. do 2017.		
55	Užice	Broj obveznika neporeznih prihoda i broj onih sa dugom po svakom od neporeznih prihoda Grada Užice od 2015. do 2017.		
56	Užice	Ovisnost finansiranja javnih i komunalnih preduzeća od sredstava iz budžeta u 2017.		
57	Užice	Indirektni budžetski korisnici, broj zaposlenih i vrednost imovine Grada Užice od 2015. do 2017.		
58	Užice	Godišnji i polugodišnji izveštaji o poslovanju javnih preduzeća Grada Užice od 2015. do 2017.		
59	Užice	Godišnji i polugodišnji izveštaji o poslovanju javnih preduzeća - dostavljenje opštini/gradu, učestalost objava Grada Užice od 2015. do 2017.		

Annex 3B: List of people interviewed

	Name and Surname	Department	Position
1	Mirjana Drndarević	Finance Department	Head
2	Ana Jovanović	Department for finance/budget section/	Budget analyst
3	Milomir Pantović	Internal audit	Internal Auditor
4	Sandra Ješić	Tax inspectorate	Inspector
5	Milica Nikolić	Public procurement	Advisor
6	Slađana Mitrović	Assembly	Deputy Secretary of Assembly
7	Ana Lapčević	Regional Chamber of Commerce	Director
8	Tihomir Petković	Mayors cabinet	City mayor
9	Nemanja Nešić	Mayors cabinet	Deputy mayor

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

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

13.1. Recording and reporting of debt and guarantees	
13.2. Approval of debt and guarantees	
13.3. Debt management strategy	
Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting	
14.1. Macroeconomic forecasts	Discussion with Užice officials
14.2. Fiscal forecasts	
14.3. Macro-fiscal sensitivity analysis	
PI-15. Fiscal strategy	
15.1. Fiscal impact of policy proposals	Discussion with Užice officials
15.2. Fiscal strategy adoption	
15.3. Reporting on fiscal outcomes	
PI-16. Medium-term perspective in expenditure budgeting	
16.1. Medium-term expenditure estimates	
16.2. Medium-term expenditure ceilings	Discussion with Užice officials
16.3. Alignment of strategic plans and medium-term budgets	
16.4. Consistency of budgets with previous year's estimates	
PI-17. Budget preparation process	
17.1. Budget calendar	Discussion with Užice officials and specific information on relevant dates
17.2. Guidance on budget preparation	
17.3. Budget submission to the legislature	
PI-18. Legislative scrutiny of budgets	
18.1. Scope of budget scrutiny	Discussion with Užice officials and specific information on relevant dates
18.2. Legislative procedures for budget scrutiny	
18.3. Timing of budget approval	
18.4. Rules for budget adjustments by the executive	
Predictability and control in budget execution	
PI-19. Revenue administration	
19.1. Rights and obligations for revenue measures	Discussion with Užice officials and specific information on relevant dates
19.2. Revenue risk management	
19.3. Revenue audit and investigation	
19.4. Revenue arrears monitoring	
PI-20. Accounting for revenues	
20.1. Information on revenue collections	Discussion with Užice officials
20.2. Transfer of revenue collections	
20.3. Revenue accounts reconciliation	
PI-21. Predictability of in-year resource allocation	
21.1. Consolidation of cash balances	Discussion with Užice officials
21.2. Cash forecasting and monitoring	
21.3. Information on commitment ceilings	
21.4. Significance of in-year budget adjustments	
PI-22. Expenditure arrears	
22.1. Stock of expenditure arrears	Discussion with Užice officials
22.2. Expenditure arrears monitoring	
PI-23. Payroll controls	
23.1. Integration of payroll and personnel records	Discussion with Užice officials
23.2. Management of payroll changes	
23.3. Internal control of payroll	
23.4. Payroll audit	
PI-24. Procurement	
24.1. Procurement monitoring	Discussion with Užice officials, together with further information about the findings of the SAI audit on 2017 supplied by the City
24.2. Procurement methods	

24.3. Public access to procurement information	
24.4. Procurement complaints management	
PI-25. Internal controls on non-salary expenditure	
25.1. Segregation of duties	Discussion with Užice officials, together with further information about the findings of the SAI audit on 2017 supplied by the City
25.2. Effectiveness of expenditure commitment controls	
25.3. Compliance with payment rules and procedures	
PI-26. Internal audit	
26.1. Coverage of internal audit	Discussion with Užice officials
26.2. Nature of audits and standards applied	
26.3. Implementation of internal audits and reporting	
26.4. Response to internal audits	
Accounting and reporting	
PI-27. Financial data integrity	
27.1. Bank account reconciliation	Discussion with Užice officials
27.2. Suspense accounts	
27.3. Advance accounts	
27.4. Financial data integrity processes	
PI-28. In-year budget reports	
28.1. Coverage and comparability of reports	Discussion with Užice officials, and further specific information about the content of in-year reports
28.2. Timing of in-year budget reports	
28.3. Accuracy of in-year budget reports	
PI-29. Annual financial reports	
29.1. Completeness of annual financial reports	Discussion with Užice officials, annual financial statements, opinion of the SAI on compliance with IPSAS
29.2. Submission of the reports for external audit	
29.3. Accounting standards	
External scrutiny and audit	
PI-30. External audit	
30.1. Audit coverage and standards	Discussion with Užice officials, and further information about the results of the SAI audit of 2017
30.2. Submission of audit reports to the legislature	
30.3. External audit follow up	
30.4. Supreme Audit Institution independence	
PI-31. Legislative scrutiny of audit reports	
31.1. Timing of audit report scrutiny	Discussion with Užice officials
31.2. Hearings on audit findings	
31.3. Recommendations on audit by the legislature	
31.4. Transparency of legislative scrutiny of audit reports	

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

This annex provides a summary table of the performance at indicator and dimension level. The table specifies the scores with a brief explanation for the scoring for each indicator and dimension of the current and previous assessment.

Indicator/Dimension	Score previous assessment 2015	Score current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
A. PFM-OUT-TURNS: Credibility of the Budget				
HLG-1 Transfers from central govt	C+	A		
HLG 1.1 Out-turn of transfers	C	A	Transfers exceeded Budget in all 3 years	Performance improvement
HLG 1.2 Conditional transfers out-turn	NR	NA	Transfers only notified after budget	No change
HLG 1.3 Timeliness of transfers	A	A	Agreed timetable met	No change
PI-1 Aggregate expenditure out-turn compared to original approved budget	A	A	Out-turn was between 95% and 105% of budget in 2 of 3 years 2015-17	No change
PI-2 Composition of expenditure out-turn compared to original approved budget	A	C+		
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	A	C	Variance was less than 15% in all 3 years 2015-17	Performance deterioration
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A	A	No expenditure was charged to contingency	No change
PI-3 Aggregate revenue out-turn compared to original approved budget	D	D	Revenue was less than 92% of budget in all 3 years 2015-17	No change
PI-4 Stock and monitoring of expenditure payment arrears	D+	A		
(i) Stock of expenditure payment arrears and a recent change in the stock	D	A	There were no arrears in 2017	Performance improvement
(ii) Availability of data for monitoring the stock of expenditure payment arrears	A	A	Full information is available about timing of invoices	No change
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5 Classification of the budget	A	A	Formulation and execution of budget uses administrative,	No change

			economic, functional and programme classifications	
PI-6 Comprehensiveness of information included in budget documentation	B	B	4 of 8 applicable benchmarks (2,3,4,7) satisfied	No change
PI-7 Extent of unreported government operations	A	A		
(i) Level of unreported government operations	A	A	There were no unreported government operations	No change
(ii) Income/expenditure information on donor-funded projects	A	A	Any donor-funded projects are fully reflected in revenue and expenditure reports	No change
PI-8 Transparency of inter-governmental fiscal relations	NA	B		
(i) Transparency and objectivity in the horizontal allocation amongst Sub-national Governments	NA	A	Allocation to subordinate municipality Sevojno is fully transparent and rules-based	Sevojno not in operation 2011-13
(ii) Timeliness and reliable information to SN Governments on their allocations	NA	C	Information only available shortly before beginning of budget year	New situation
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	NA	A	Financial reports on Sevojno fully consolidated into those of city	New situation
PI-9 Oversight of aggregate fiscal risk from other public sector entities	C	A		
(i) Extent of central government monitoring of autonomous entities and public enterprises	C	A	Quarterly and audited annual reports are submitted by COEs and a consolidated report is made to Ministry of Economy	Performance improvement
(ii) Extent of central government monitoring of SN government's fiscal position	NA	A	Monthly reports are made by subordinate municipality	New situation
PI-10 Public access to key fiscal information	A	A	All 6 benchmarks met	No change
C. BUDGET CYCLE				
<i>C(i) Policy-Based Budgeting</i>				
PI-11 Orderliness and participation in the annual budget process	C+	B		
(i) Existence of, and adherence to, a fixed budget calendar	C	B	Budget users complete submissions	Some apparent improvement

				within required timescale	
(ii)	Guidance on the preparation of budget submissions	D	C	Council not consulted before expenditure ceilings issued	Probably no underlying change: Council had possibility to alter proposed allocations
(iii)	Timely budget approval by the legislature	A	A	Budget always approved before beginning of year	No change
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting		D	C		
(i)	Multiyear fiscal forecasts and functional allocations	D	C	Forecasts are produced for the budget year and 2 subsequent years on different classifications, but budget ceilings are set each year without regard to previous projections	Medium-term projections introduced since 2015
(ii)	Scope and frequency of debt sustainability analysis	NA	NA	Debt remains low	No change
(iii)	Existence of costed sector strategies	D	C	Although 3-year expenditure projections are produced, public investment planning remains rudimentary	Previously there were no medium-term expenditure projections
(iv)	Linkages between investment budgets and forward expenditure estimates	D	C	3-year projections are not anchored in costed strategic plans	Previously there were no medium-term expenditure projections
<i>C(ii) Predictability and Control in Budget Execution</i>					
PI-13 Transparency of taxpayer obligations and liabilities		B	B+		
(i)	Clarity and comprehensiveness of tax liabilities	B	A	Property tax liabilities very clear	Some improvement in property tax administration
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	B	A	Taxpayers clearly notified of liabilities	Some improvement in property tax administration
(iii)	Existence and functioning of a tax appeal mechanism	C	C	Appeals machinery not independent	No change

PI-14 Effectiveness of measures for taxpayer registration and tax assessment	D+	B+		
(i) Controls in the taxpayer registration system	C	B	There are continuing efforts to identify taxable properties but records are not yet complete	Performance improvement
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	D	B	Enforcement of compliance with tax obligations has improved	Performance improvement
(iii) Planning and monitoring of tax audit and fraud investigation programs	D	A	There is a full programme of tax audits	Performance improvement
PI-15 Effectiveness in collection of tax payments	D+	D+		
(i) Collection ratio for gross tax arrears	D	D	Arrears in 2017 were 178% of collections	No change
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	All revenue is paid immediately into Treasury Single Account	No change
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	A	A	There are complete monthly reconciliations	No change
PI-16 Predictability in the availability of funds for commitment of expenditures	B+	B+		
(i) Extent to which cash flows are forecasted and monitored	B	B	Cash flow forecast updated quarterly	No change
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	B	A	Budget users may commit allocations at any time	Previously amounts were issued quarterly
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	A	A	Revised budgets approved once or twice a year, with full transparency	No change
PI-17 Recording and management of cash balances, debt and guarantees	A	A		
(i) Quality of debt data recording and reporting	A	A	Data reported and reconciled monthly	No change
(ii) Extent of consolidation of the government's cash balances	A	A	All cash consolidated in Treasury Single Account	No change

(iii)	Systems for contracting loans and issuance of guarantees	B	B	Assembly controls incurrence of debt, but amounts not planned in accordance with announced fiscal targets	No change
PI-18 Effectiveness of payroll controls		B+	B+		
(i)	Degree of integration and reconciliation between personnel records and payroll data	A	B	No automatic links between personnel records and payroll, but payroll only altered when authorised at high level by personnel management	No underlying change. Absence of automatic links not considered in 2015
(ii)	Timeliness of changes to personnel records and the payroll	A	A	Records updated monthly, and retroactive adjustments very rare	No change
(iii)	Internal controls of changes to personnel records and the payroll	A	A	Changes always leave an audit trail	No change
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	B	A	There are annual independent staff inspections organised by central government	Annual inspections not considered in 2015
PI-19 Competition, value for money and controls in procurement		A	B		
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework.	A	A	Legal framework meets all 6 benchmarks	No change
(ii)	Use of competitive procurement methods	A	D	Exceptions to competition are justified according to the law but it is doubtful whether data are complete	Probably no underlying change: 2015 report contain no quantified procurement data.
(iii)	Public access to complete, reliable and timely procurement information	A	C	Public have access to procurement plans, bidding opportunities, contract awards and data on resolution of complaints. Although it is doubtful whether data on first three elements are complete, more than half of procurement operations appear to be covered.	Probably no underlying change: see 19(ii) above

(iv)	Existence of an independent administrative procurement complaints system	A	A	Arrangements meet all 7 benchmarks	No change
PI-20 Effectiveness of internal controls for non-salary expenditure		C+	A		
(i)	Effectiveness of expenditure commitment controls	C	A	New automatic commitment control introduced since 2015	Performance improvement
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/procedures.	A	A	Internal control procedures satisfactorily implemented	No change
(iii)	Degree of compliance with rules for processing and recording transactions	A	A	All transactions properly processed and recorded	No change
PI-21 Effectiveness of internal audit		C+	C+		
(i)	Coverage and quality of the internal audit function	A	A	Internal audit operates to professional standards covering all city functions	No change
(ii)	Frequency and distribution of reports	C	C	Reports produced according to an established plan and distributed to Dept of Finance, auditees and Ministry of Finance but not automatically to SAI	No change
(iii)	Extent of management response to internal audit function.	C	A	Management responds appropriately to reports	Internal audit now functioning more effectively
PI-22 Timeliness and regularity of accounts reconciliation		A	B+		
(i)	Regularity of bank reconciliation	A	A	There are daily reconciliations between city and bank records.	No change
(ii)	Regularity and clearance of suspense accounts and advances	A	B	There are no suspense accounts but advances to contractors may only be reconciled at year-end if not previously cleared.	Advances to contractors not considered in 2015

PI-23 Availability of information on resources received by service delivery units	A	A	Full information is available about resources received by primary service delivery units	No change
PI-24 Quality and timeliness of in-year budget reports	C+	C+		
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C	Reports are fully comparable with budget estimates, but only payments, not commitments, are covered.	No change
(ii) Timeliness of the issue of reports	A	A	Reports are made monthly within 2 weeks of month-end	No change
(iii) Quality of information	A	A	There are no doubts about the quality of information	No change
PI-25 Quality and timeliness of annual financial statements	A	A		
(i) Completeness of the financial statements	A	A	Full information is provided about revenue, expenditure and financial assets and liabilities	No change
(ii) Timeliness of submissions of the financial statements	A	A	Financial statements are available for audit within 6 months of year-end	No change
(iii) Accounting standards used	A	A	National standards are applied to all statements	No change
<i>C(iv) External Scrutiny and Audit</i>				
PI-26 Scope, nature and follow-up of external audit	A	D+		
(i) Scope/nature of audit performed (including adherence to auditing standards)	A	D	Less than 50% of 2015-17 expenditure was subject to comprehensive audit	The limited nature of the commercial audits undertaken when the SAI does not audit was not considered in 2015
(ii) Timeliness of submission of audit reports to the Legislature	A	B	Where the audit is undertaken by the SAI, it may take more than 4 months from the start of the audit before it is submitted to the Assembly	No underlying change
(iii) Evidence of follow up on audit recommendations	A	A	There was effective follow-up on the	No underlying change

			results of the 2017 SAI audit.	
PI-27 Legislative scrutiny of the annual budget law	D+	D+		
(i) Scope of the legislature scrutiny	C	C	The Assembly's review covers details of revenue and expenditure, but only the stage when detailed proposals have been finalised	No change
(ii) Extent to which the legislature's procedures are well established and respected	A	A	The Assembly's procedures are firmly established, and include study by a specialist Committee.	No change
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	D	D	The Assembly has only a few days to consider the proposals.	No change
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	A	Clear rules exist limiting the extent to which the Council can amend the budget, which are always respected	No underlying change: the 2015 report judged that the rules left significant scope for reallocation
PI-28 Legislative scrutiny of external audit reports	D	D+		
(i) Timeliness of examination of audit reports by the legislature	D	C	The Assembly's consideration of the 2017 report by the SAI was concluded within 12 months.	Situation different from that considered in 2015
(ii) Extent of hearing on key findings undertaken by the legislature	D	C	A hearing took place to consider the 2017 audit report, but no hearings were held in other years	Situation different from that considered in 2015
(iii) Issuance of recommended actions by the legislature and implementation by the executive	D	D	No recommendations have been issued by the Assembly.	No change

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

Data for year = 2015						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	417860	409076	390,204.0	18,872.0	18,872.0	4.8%
Public order & safety	6050	5937	5,649.6	287.4	287.4	5.1%
Economic affairs	404934	448552	378,133.5	70,418.5	70,418.5	18.6%
Environment protection	150000	143777	140,072.3	3,704.7	3,704.7	2.6%
Housing	504311	371877	470,933.2	-99,056.2	99,056.2	21.0%
Sport, recreation, culture	257759	266635	240,699.3	25,935.7	25,935.7	10.8%
Health	28500	9894	26,613.7	-16,719.7	16,719.7	62.8%
Education	400345	362064	373,848.2	-11,784.2	11,784.2	3.2%
Social protection	45642	50963	42,621.2	8,341.8	8,341.8	19.6%
allocated expenditure	2215401	2068775	2,068,775.0	0.0	255,120.4	
interests	34000	37851				
contingency	15000	0				
total expenditure	<u>2264401</u>	<u>2106626</u>				
aggregate outturn (PI-1)						93.0%
composition (PI-2) variance						12.3%
contingency share of budget						0.0%
Data for year = 2016						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	436693	480615	419,138.1	61,476.9	61,476.9	0.146675
Public order and safety	5860	6040	5,624.4	415.6	415.6	0.073887
Economic affairs	427874	482301	410,673.6	71,627.4	71,627.4	0.174414
Environment protection	148000	140975	142,050.5	-1,075.5	1,075.5	0.007571
Housing	587237	417125	563,630.3	-146,505.3	146,505.3	0.259932
Health	29500	4989	28,314.1	-23,325.1	23,325.1	0.823798
Sport, recreation, culture	254658	271914	244,420.9	27,493.1	27,493.1	0.112483
Education	448976	434426	430,927.4	3,498.6	3,498.6	0.008119
Social protection	46202	50739	44,344.7	6,394.3	6,394.3	0.144195
allocated expenditure	2385000	2289124	2,289,124.0	0.0	341,811.8	
interests	29930	24199				
contingency	15000	0				
total expenditure	<u>2429930</u>	<u>2313323</u>				
aggregate outturn (PI-1)						95.2%
composition (PI-2) variance						14.9%
contingency share of budget						0.0%
Data for year = 2017						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General public services	555813	580012	546,844.4	33,167.6	33,167.6	0.060653
Public order and safety	6431	6086	6,327.2	-241.2	241.2	0.038126
Economic affairs	524332	560241	515,871.4	44,369.6	44,369.6	0.086009
Environment protection	112000	115331	110,192.8	5,138.2	5,138.2	0.046629
Housing	358000	298328	352,223.3	-53,895.3	53,895.3	0.153015
Health	7000	182	6,887.0	-6,705.0	6,705.0	0.973574
Sport, recreation, culture	270768	277406	266,398.9	11,007.1	11,007.1	0.041318
Education	590906	544518	581,371.2	-36,853.2	36,853.2	0.063339
Social protection	48980	52202	48,189.7	4,012.3	4,012.3	0.083261
allocated expenditure	2474230	2,434,306.0	2,434,306.0	0.0	195,389.6	
interests	25700	15,964.0				

contingency	15000	0	
total expenditure	2514930	2450270	
aggregate outturn (PI-1)			97.4%
composition (PI-2) variance			8.0%
contingency share of budget			0.0%

Results Matrix			
year	for PI-1.1 total exp. Outturn	for PI-2.1 composition variance	for PI-2.3 contingency share
2015	93.0%	12.3%	
2016	95.2%	14.9%	0.0%
2017	97.4%	8.0%	

Data for year = 2015						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	479269	471976	448,928.4	23,047.6	23,047.6	5.1%
Use of goods and services	796875	833374	746,428.1	86,945.9	86,945.9	11.6%
Capital investment	422985	267784	396,207.5	-128,423.5	128,423.5	32.4%
Interest	34000	37851	31,847.6	6,003.4	6,003.4	18.9%
Subsidies	60110	59571	56,304.7	3,266.3	3,266.3	5.8%
Transfers to subordinate councils	293100	255742	274,545.0	-18,803.0	18,803.0	6.8%
Social benefits	67692	66635	63,406.7	3,228.3	3,228.3	5.1%
Other expenses	94969	113692	88,956.9	24,735.1	24,735.1	27.8%
Total expenditure	2249000	2106625	2,106,625.0	0.0	294,453.2	
composition variance						14.0%
Data for year = 2016						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	547875	548751	522,659.4	26,091.6	26,091.6	5.0%
Use of goods and services	783172	787518	747,127.0	40,391.0	40,391.0	5.4%
Capital investment	518183	395078	494,333.9	-99,255.9	99,255.9	20.1%
Interest	29930	24199	28,552.5	-4,353.5	4,353.5	15.2%
Subsidies	60110	59877	57,343.5	2,533.5	2,533.5	4.4%
Transfers to subordinate councils	318150	246878	303,507.3	-56,629.3	56,629.3	18.7%
Social benefits	68202	68464	65,063.0	3,401.0	3,401.0	5.2%
Other expenses	99308	182559	94,737.4	87,821.6	87,821.6	92.7%
Total expenditure	2424930	2313324	2,313,324.0	0.0	320,477.5	
composition variance						13.9%
Data for year = 2017						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	532613	550970	524,903.7	26,066.3	26,066.3	5.0%
Use of goods and services	869629	932363	857,041.6	75,321.4	75,321.4	8.8%
Capital investment	488063	387398	480,998.6	-93,600.6	93,600.6	19.5%
Interest	25700	15964	25,328.0	-9,364.0	9,364.0	37.0%
Subsidies	61110	50613	60,225.5	-9,612.5	9,612.5	16.0%
Transfers to subordinate councils	283815	239149	279,706.9	-40,557.9	40,557.9	14.5%
Social benefits	67980	69137	66,996.0	2,141.0	2,141.0	3.2%

Other expenses	156019	203367	153,760.7	49,606.3	49,606.3	32.3%
Total expenditure	<u>2484929</u>	<u>2448961</u>	2,448,961.0	0.0	306,269.9	
composition variance						12.5%

Results Matrix

year	for PI-2.2 composition variance
2015	14.0%
2016	13.9%
2017	12.5%

Data for year = 2015						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on property	275000	241225	237,467.0	3,758.0	3,758.0	1.6%
Taxes on use of goods	70500	63358	60,877.9	2,480.1	2,480.1	4.1%
			0.0	0.0	0.0	0.0
Other local taxes	40000	34039	34,540.7	-501.7	501.7	1.5%
Other revenue						
Donations	23000	50	19,860.9	-19,810.9	19,810.9	99.7%
Property income	7500	76390	6,476.4	69,913.6	69,913.6	1079.5%
Sales of goods and services	50750	70703	43,823.5	26,879.5	26,879.5	61.3%
Fines, penalties and forfeits	10000	12154	8,635.2	3,518.8	3,518.8	40.8%
Administrative fees	80000	37573	69,081.3	-31,508.3	31,508.3	45.6%
Other revenue	54136	58540	46,747.3	11,792.7	11,792.7	25.2%
Asset sales	205000	110499	177,020.9	-66,521.9	66,521.9	37.6%
Total revenue	<u>815886</u>	<u>704531</u>	704,531.0	0.0	236,685.5	
overall variance						86.4%
composition variance						33.6%
Data for year = 2016						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on property	253750	237003	191,915.7	45,087.3	45,087.3	23.5%
Taxes on goods and services	65000	68560	49,160.7	19,399.3	19,399.3	39.5%
Other local taxes	35000	37418	26,471.1	10,946.9	10,946.9	41.4%
Other revenue						
Donations	33000	140	24,958.5	-24,818.5	24,818.5	99.4%
Property income	108500	100373	82,060.5	18,312.5	18,312.5	22.3%
Sales of goods and services	133750	119229	101,157.5	18,071.5	18,071.5	17.9%
Fines, penalties and forfeits	13000	18847	9,832.1	9,014.9	9,014.9	91.7%
Administrative fees	0	9227	0.0	9,227.0	9,227.0	0.0
Other revenue	68000	58655	51,429.6	7,225.4	7,225.4	14.0%
Asset sales	180000	23671	136,137.2	-112,466.2	112,466.2	82.6%
Total revenue	<u>890000</u>	<u>673123</u>	673,123.0	0.0	274,569.5	
overall variance						75.6%
composition variance						40.8%

Data for year = 2017						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on property	222000	217293	166,535.5	50,757.5	50,757.5	30.5%
Taxes on goods and services	69000	71971	51,761.0	20,210.0	20,210.0	39.0%
			0.0	0.0	0.0	0.0
Other local taxes	35000	38488	26,255.6	12,232.4	12,232.4	46.6%
Other revenue						
Donations	36000	0	27,005.8	-27,005.8	27,005.8	100.0%
Property income	133586	63777	100,210.9	-36,433.9	36,433.9	36.4%
Sales of goods and services	228300	134746	171,261.6	-36,515.6	36,515.6	21.3%
Fines, penalties and forfeits	18000	18756	13,502.9	5,253.1	5,253.1	38.9%
Administrative fees	0	5062	0.0	5,062.0	5,062.0	0.0
Other revenue	80000	38649	60,012.8	-21,363.8	21,363.8	35.6%
Asset sales	118000	116323	88,518.9	27,804.1	27,804.1	31.4%
Total revenue	939886	705065	705,065.0	0.0	242,638.0	
overall variance						75.0%
composition variance						34.4%

Results Matrix

year	PI-3	PI-3
	total revenue deviation	composition variance
2015	86.4%	33.6%
2016	75.6%	40.8%
2017	75.0%	34.4%