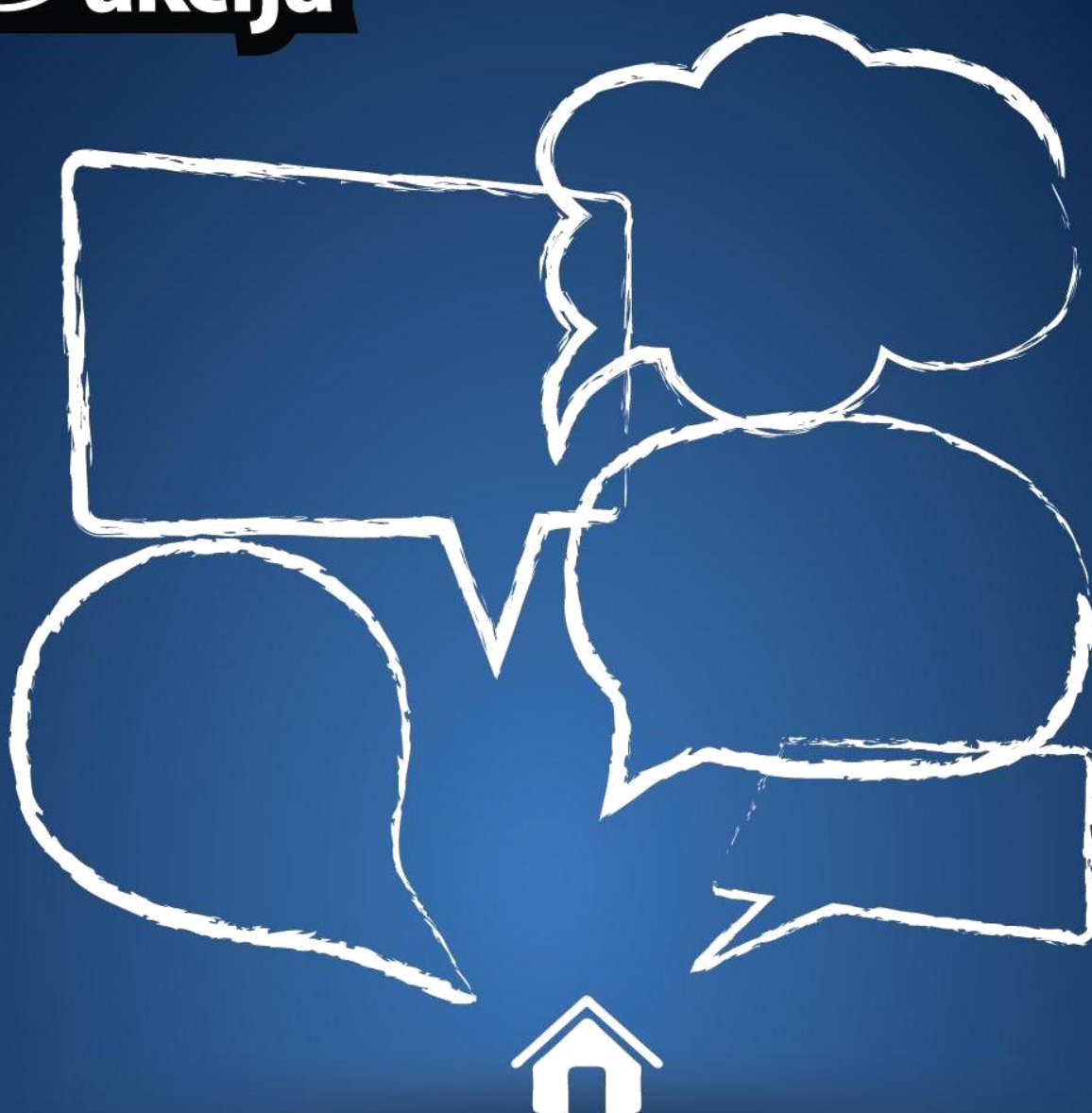


**Re:  
akcija**



# **ANALYSIS OF THE BUDGETARY POLICY AND BUDGET OF THE CITY OF BANJA LUKA**

- with a focus on citizen participation -

Ordered by:

Re:akcija – Građanska inicijativa za Banju Luku  
(Re:action – Citizens’ initiative for Banja Luka)

Author:

GEA – Center for Research and Studies

Reviewed by:

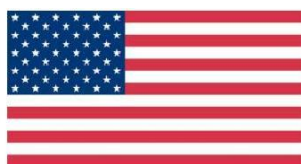
Mr. Aleksandar Draganić

English translation by:

Nikola Galić

Proofreading (English):

Pamela Kilpadi



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Banja Luka  
July 2013

## Re:action and the City of Banja Luka budget

In the spirit of its mission – to encourage public dialogue on important social processes -, the citizens' initiative for Banja Luka Re:action decided to focus its efforts on budgeting and conducted an expert analysis of the 2012 budget and budgetary policy of Banja Luka.

The main impetus for this initiative was citizens' obvious inability to comprehend the mechanisms employed by the city to determine budget priorities and expenses, as reflected in ineffective public hearings and the general lack of communication between the City Administration and citizens, i.e. local communities. This situation resulted in citizens' significant disinterest to take a more active role in budgeting, which became a process taking place beyond the public eye. The study aims to identify primary obstacles to the effectiveness and transparency of the budgeting process, and to propose solutions.

This analysis of public finance in Banja Luka is intended to be both analytical, and educational. We believe that this study will encourage numerous discussions on budgeting and contribute to not only to the creation of new proposals, but also new policies by the City that enable citizen groups and individuals in Banja Luka to better understand the process of managing public finance, so that they can enable more effective spending.

*Re:action is an informal coalition of ten civil society organizations from Banja Luka. Formed in 2011, it has the aim of encouraging individuals and groups to take social action and form critical opinions in Banja Luka.*

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## Summary

The findings of this analysis of the budgetary policy and budget of the City of Banja Luka for 2012 point to a lack of willingness on the part of City authorities to encourage significant involvement of citizens in the planning and preparation of the budget. Despite declaring their dedication to drafting the best possible budget with input from the public, the current practices of the City's administrative bodies demonstrates otherwise.

- *Less than 0.2% of registered voters in the City participated in the public hearings on the 2012 Draft Budget*
- *Citizens were provided only 2 days to familiarize themselves with the Draft Budget prior to the first session of public hearings.*
- *All public hearings on the 2012 Draft Budget in local communities were completed within 4 days.*
- *Out of a total of 57 local communities, only 5 held public hearings.*
- *Only 2 citizens submitted their written demands/initiatives to the City during the public hearings.*
- *0 reports detailing City budget expenditure have been published on the City's website.*
- *0 reports on the public hearings involving the participation of citizens have been made publicly available.*

Administrators are not taking full advantage of available tools for two-channel communication with citizens during the budget drafting process. The most basic form of direct communication – public hearings in local communities – do not involve the active participation of citizens. If organized at all, such events are poorly attended, short-lived and involve few local community members. Most importantly, presentations on the content of the draft budget are not adapted to the specific demands of residents of the local communities hosting the public hearings. On the contrary, the budget is presented in its general form, further discouraging citizens' participation.

Furthermore, public access to budgetary information is poor. Even basic documents such as the Report on the Budget Expenditure of the City or the Report on Implemented Public Hearings are not published on the City's website or made available to the public.

Therefore, the information made available to citizens during planning and realization of the budget is inadequate for acquainting citizens with relevant details so that they could meaningfully participate in the budgeting process.

At the same time, citizens also bear a share of the responsibility for their inactivity in the process of drafting the City budget. Initiatives and suggestions by citizens on budgetary planning are rare, lending the impression they are not interested in helping solve problems in their communities. It appears that many citizens lack a basic awareness of the potential importance that their role in city budget planning decision-making can play in the future development of the City.

In light of these results, this analysis offers a series of general and individual recommendations aimed at boosting citizen participation in the budgeting process and improving the budgeting policy of the City of Banja Luka.

## 1. Introduction

A local community budget is a systemized overview of planned funds and costs of a city or municipality for the next fiscal year. A budget represents a framework for spending the public funds gathered over the course of one year via various taxes, contributions, fees and other forms of public revenue paid by citizens, directly or indirectly. At the same time, the budget is a reflection of the goals and policies of a local community for the upcoming year. Virtually all activities necessary to realize those goals should be included in the budget. In other words, the budget is the place where goals become concrete activities and where promises – including those made during election campaigns – are fulfilled.

Knowing that **the budget is a reflection of politics**, it is clear why there is significant public interest surrounding budgets in countries with developed democratic cultures. Citizens want to know and make decisions about how their money will be spent. The basic precondition for citizen participation in the process of making decisions about the budget is adequate information. Therefore, it is the duty of the local authorities (working under the jurisdiction of the municipality or city) to conduct their work publicly and provide information on important issues related to the creation, adoption and execution of the budget. Public participation in budgeting is one of the basic principles of European policy promoting citizen participation in political decision-making. As stated in Recommendation number 19 of the Committee of Ministers of the Council of Europe “Participation of Citizens in Local Public Life” adopted in 2001, the provision of information represents the first pillar of direct citizen participation in the process of creating and making local policy decisions. The Recommendation urges greater transparency in the way local institutions and authorities work. They should make budgeting information easily accessible, invite public involvement in budget-related decision-making and clearly communicate the consequences of important political decisions made by authorized local self-government bodies.

In keeping with the goals of Recommendation 19, this research analyzes the existing legal framework and process for the creation, adoption and execution of the City of Banja Luka’s budget. Recommendations from this study – to be utilized in a public advocacy campaign – should contribute to more responsible, effective and transparent spending of public funds, with increased citizen participation in the budgeting process, both through individual engagement and action within local community councils or civil society organizations.

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<sup>1</sup> Recommendation Rec(2001)19 on the Participation of Citizens in Local Public Life

## 2. Methodology

The methodology adopted for this analysis was developed as part of a previous project commissioned by Re:action<sup>2</sup>. A team of authors from Center for Research and Studies - GEA<sup>3</sup> divided the project into an information-gathering research phase and an analytical phase to identify weaknesses in the City budgeting process and provide recommendations for greater transparency and citizen participation.

In June and July 2013, information and materials were gathered from actors directly involved in the drafting of the 2012 budget of Banja Luka. The research team held a series of talks with the following interviewees:

- Authorities of the City Administration Finance Department;
- representatives of the Finance Committee from the last meeting of the City Assembly;
- City Assembly MPs;
- presidents of local community councils;
- budget users;
- representatives of civil society organizations operating in the City.

Representatives from Center for Research and Studies – GEA also participated in a public hearing held in the Cultural Center Banski Dvor in Banja Luka to discuss the City's 2013 draft budget rebalance document.

Research work also involved an overview of secondary sources and data; the gathering of relevant laws, regulations and information on the preparation of budget documentation; and a review of the official City website.

The analytical phase of the research included both a **functional analysis** of budgetary policy and a **quality analysis** of the budget process. The functional analysis provides a general review of the budgetary policy of the Administrative Service of the City of Banja Luka (ASBL) budgetary policy, including legal and institutional framework for creating and adopting the budget and monitoring budget spending.

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<sup>2</sup>Re:action is an informal coalition of ten civil society organizations operating in Banja Luka.

<sup>3</sup>Center for Research and Studies – GEA is a *think tank* organization from Banja Luka performing analyses of public policies important for sustainable development

Materials from a recently published document analyzing local self-government budgetary policies (for Banja Luka among other cities) by Centers for Civil Initiatives were also used in the functional analysis section of this study.

The **Quality analysis** reviews the process of planning, adopting and realizing the 2012 City Budget and provides both targeted and systematic recommendations regarding:

- the availability of budgetary documents
- the clarity of the content of budgetary documents
- the openness of the budgetary process

The evaluations, recommendations and suggestions proposed here should not be viewed as an attempt to criticize the work of ASBL. On the contrary, they should be seen as an earnest effort to offer possible solutions to open questions and perceived drawbacks in the budgetary practices of the City of Banja Luka. This research represents a practical way to support the official efforts and devotion of City authorities in drafting the best possible budgets through better communication with citizens<sup>4</sup>.

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<sup>4</sup> See 'Instruction for the Preparation of the City of Banja Luka Budget for 2014' (Chapter III – Description of the planned policy of the City for 2014)



### 3. Legal framework analysis

The legal framework regulating the planning, approval and execution of the budget for the City of Banja Luka, including citizen participation in the process, consists of a set of laws and by-laws, the most important of which are the Law on Local Self-Government, the Law on the Budgetary System of the Republic of Srpska, and the Statute of the City of Banja Luka. Other legal documents regulating this process include the Rules of Conduct of the Banja Luka City Assembly, the Rulebook on Budgetary Classifications, the receipt content and application of the chart of accounts for users of budgetary revenues of the Republic, municipalities, cities and funds. A brief overview of these regulations is included below.

**The Law on Local Self-Government** allows a municipality or a city to collect and charge its own income and manage city property, i.e. provides the authority to pass the budget and final budget account through the city assembly – the body deciding and creating city policy. The law also defines the obligations that units of local self-government have to inform the public about their employees, the activities carried out under their jurisdiction etc. Units of local self-government must submit public annual reports outlining planned program objectives and achieved results. The Law requires basic forms of direct citizen participation in local self-government, such as referenda, citizens' initiatives, public meetings of citizens, local community gatherings, panel discussions, proposal presentations, 'citizen hours' in municipality assemblies etc.

**The Law on the Budgetary System of the Republic of Srpska** regulates the budgetary system – the preparation, planning, drafting, passage and execution of city and municipality budgets, as well as issues related to their debt and debt settlement, accounting, reporting and budget control.

**The Rulebook on Budgetary Classifications** regulates the receipt content and application of the chart of accounts for users of budgetary revenues of the Republic, municipalities, cities and funds, and determines budgetary classifications for budget users in line with the Law on the Budgetary System of the Republic of Srpska.

**The Statute** of the City of Banja Luka defines the tasks of the City as a territorial unit of local self-government, including both tasks under City authority and tasks undertaken by external units. Such tasks involve the drafting of legislation, city management, service provision and any issues of local interest falling under its jurisdiction.

**The Rules of Conduct** of the Banja Luka City Assembly determine, among other things, procedures for passing acts and granting public access to the work of the City Assembly.

### **3.1. Regulations governing the planning and adoption of the budget at the local community level**

The Law on the Budgetary System of the Republic of Srpska defines the most important steps in the process of planning and adopting the budget. The 'budgetary system' of the Republic of Srpska consists of the budget of the Republic, the budgets of municipalities and cities, and the financial plans (budgets) of funds. The system is unified by a common legal framework, classifications, budget drafting and accounting documentation, criteria for budgetary control and principles on budgetary procedure.

The starting point for the preparation and creation of the draft budget is the Document of the Framework Budget (DOB). The DOB is an act containing macroeconomic projections and predictions of budgetary funds and costs for the next year and two successive fiscal years. The Government passes the DOB after receiving feedback and budget proposals from municipalities and cities and preparing the draft version. The drafting proceeds as follows<sup>5</sup>:

- The municipal or city finance authorities deliver the draft budget to the executive authorities;
- if necessary, the executive authorities request additional information or clarification on the draft budget from the finance authorities;
- the executive authorities deliver the reviewed draft budget to the Ministry;
- the Ministry provides recommendations on the draft budget;
- the executive authorities deliver the draft budget to the municipal or city assembly;
- the assembly reviews the draft budget;
- the executive authorities deliver the reviewed budget to the Ministry, along with recommendations;
- the Ministry approves the city budget proposal;

<sup>5</sup> Law on the Budgetary System of the Republic of Srpska, Official Gazette of the RS, number 121/12, Article 31.

- upon approval by the Ministry, the assembly adopts the budget for the next fiscal year.

The city assembly can change the proposed budget along according to the following principles:

- Proposals on increasing budgetary expenditure must contain measures for increasing available budgetary funds or decreasing other budgetary items in an equal amount, and
- any budgetary increase must be aligned with the general macroeconomic framework.

If the assembly makes changes to the draft budget approved by the Ministry, the city is obligated to provide a detailed explanation for each of the changes along with a general clarification to the Ministry. Upon the recommendation of the city's executive authorities (the mayor), the assembly approves the draft budget. The assembly also passes a 'budget rebalance' to ensure the harmonization of funds and expenditures at various levels of government that are in line with the new budget. Information about the newly approved budgets are published in official municipality and city newspapers.

City budgets cover a period of one fiscal year and are passed before the year begins. If the budget is not approved before the start of the next fiscal year, on recommendation of the mayor the assembly may pass a decision on temporary financing between the period from the first of January to June 30 of the ongoing fiscal year. If a decision on temporary financing is not agreed before the first of January, temporary financing amounting to one quarter of the budget adopted for the previous fiscal year enters into force automatically. The maximum amount of temporary financing permitted equals the total city income received over the same period during the previous fiscal year, minus the amount of grants received over that period. The structure and types of costs incurred during temporary financing must correspond to the structure and types of costs incurred during the same period in previous year.

**The preparation and adoption of municipality and city budgets is conducted according to the following budget calendar<sup>6</sup>:**

**Picture 1: Budget calendar**

<b>July 5</b>
Municipalities and cities analyze the DOB
<b>July 20</b>
Finance authorities instruct budget users to prepare draft budgets for the next fiscal year
<b>September 15</b>
Budget users deliver budget requests for the next fiscal year to finance authorities
<b>October 15</b>
Finance authorities prepare the draft budget in accordance with the guidelines contained in the DOB
<b>November 1</b>
Executive authorities approve the draft budget and deliver it to the Ministry for recommendations
<b>November 15</b>
Assemblies review and approve the draft budget in accordance with recommendations by the Ministry
<b>November 20</b>
Executive authorities submit their budget proposal to the Ministry for approval
<b>December 5</b>
Ministry approves the budget proposal that executive authorities delivers it to the assembly for a vote
<b>December 15</b>
Assembly passes the budget for the next fiscal year
<b>December 24</b>
Ministry receives the new budget and formally approves the adoption and execution of the budget in the next fiscal year

<sup>6</sup> Ibid, Article 28

Per the Law on the Budgetary System of the Republic of Srpska, if executive authorities fail to prepare and deliver a budget proposal to the city assembly for a vote by March 31, the assembly can prepare and adopt the budget on its own. If a budget is not adopted by June 30, city funds cannot be used until a budget is passed.

In emergency cases, the assembly can be instructed by the mayor or authorized authority to undertake an extraordinary procedure to unilaterally adopt a budget without authorization from the assembly. The assembly must vote on whether an emergency procedure is justified.

### **3.2. Regulations defining the content of the budget document**

When interpreting the budget, it is important to understand how revenues and expenses are categorized. All revenues and expenses are categorized according to a standard classification methodology that is intended to be clear not only to politicians and finance experts but also to the general public.

According to the Law on the Budgetary System of the Republic of Srpska, budgets are broken down into standard categories of expenses such as organizational, economic, functional and program (project) expenses and drafted, adopted and executed based on these classifications.. The Minister of Finance adopts the bylaw defining standard budget classifications (the Bylaw on Budget Classifications, Accounts Content and the Implementation of the Chart of Accounts for the Budget Revenue Users of the Republic, Municipalities, Cities and Funds).

Three primary budget categories – economic, functional and organizational funds – dominate the budgets of cities and municipalities in the Republic of Srpska.

**Functional** budget categories focus on the purpose of the expenditures, such as general public services, defense, economic affairs, natural environment protection, healthcare, education, social welfare, culture, etc.

**Economic** budget categories outline revenues and expenses. Codes from the Standard Classification Framework and Chart of Accounts show different types of revenues or taxes, expenses or wages, financing, etc. Functional and economic categories intertwine. In the general section of the budget, expenses are sorted into economic categories. In the detailed section of the budget, they are divided into economic and functional categories, with itemization according to budget users.

**Organizational** budget categories provide information on the expenditures of organizations using the budget.

### **3.3. Legal framework for budget drafting and reporting**

While the budget is a plan of how the city's funds will be collected and spent, the budget settlement statement is drawn up at the end of each budget year to show how the planned revenues have been raised and spent. It is, therefore, extremely important for citizens to understand the procedure for drafting the budget settlement statement.

The budget settlement statement provides a final overview of budget operations, usually covering the period from January 1 to December 31. It provides a complete socio-economic snapshot of planned revenues and expenses, in terms of both scope and structure. It includes information on income budget and expenses budget, as well as on the purpose of spending. This report provides information on the purposes for spending and details on surplus or deficits. Finally, it provides relevant details required for planning the next budget. A budget year ends with the budget settlement statement.

When it comes to **budget preparation and execution** – which is carried out in accordance with the Decision on Budget Execution passed by the city assembly – city finance authorities rely on proposals from budget users, drafted in accordance with their drafting instructions and quarterly financial plan framework amounts. Budget users prepare and deliver their proposals, including quarterly financial expenditure plans, to the city finance authorities, who approve the plans and register them in the main book of Treasury. Budget users are restricted to the funding amounts approved in the quarterly financial plans, which contain further details about contract obligations. Operational financial plans for budget execution help ensure budget liquidity by providing overviews of planned funds and expenses over periods shorter than one fiscal year. The Law on Treasury of the Republic of Srpska states that local treasuries are responsible for ensuring compliance with the approved financial plans, in accordance with the Law on Annual Budget Execution. If legal conditions are met for including specific funds and expenses in the next year's budget, they can be accessed after the fiscal year budget ends on December 31, but not after the deadline for the submission of annual financial reports.

If expenses increase or decrease over the course of a fiscal year, city finance authorities can authorize executive authorities to temporarily halt budget spending for a period of no longer than 45 days. Budget suspensions apply to all budget users. A Decision on the Temporary Suspension of Budget Execution can:

- suspend the fulfillment of certain short-term obligations,
- postpone contract payment deadlines,
- suspend the approval of contracts under negotiation,
- suspend the planned transfer of funds for a designated time period.

City budget users must submit annual spending reports – including details of completed work – to city authorities. Local treasuries determine realistic quarterly budget plans of revenues and expenses. If changes arise in the plans, the treasuries must inform city finance authorities and recommend corrective measures. If budget cuts are necessary, city finance officials are authorized to determine budget spending priorities.

The city mayor – who reports to the assembly on budget spending every six months – is responsible for executing the budget. Reports on budget spending are drafted by an internal auditor and delivered by city finance authorities to the Finance Ministry every three months, within 15 days of their adoption. The city assembly analyzes and approves the budget spending reports.

In the case of the City of Banja Luka, apart from introductory and organizational notes, two key documents – the Instruction for the Creation of the Work Program and the Report on the Work of the Administration Service of Banja Luka (ASBL) – determine the procedures for drafting and submitting the annual city Work Program. The annual and semi-annual Report on the Work of the Organizational Units of ASBL contains an overview of the tasks and assignments completed within each Administrative Service's jurisdiction. Along with a clear overview of the assignments and tasks performed by each unit, it also contains comparable data on the completion of tasks for the previous year's reporting period and earlier. It also provides details on tasks and assignments that had been planned in the Work Program but were not implemented, as well as tasks that were implemented but had not been planned.

The city assembly annual Report on the Work of ASBL and the Mayor is submitted to the city assembly decides on the creation of. The organizational units of ASBL deliver the annual Work Program Report for the previous year to the mayor by no later than January 15<sup>th</sup>. Six-month reports on the work of the organizational units are delivered to the mayor no later than 15 days after the end of each reporting period.



When requested by the mayor, organizational units are obligated to deliver work reports for shorter periods (monthly or every three months). The mayor and city authorities must integrate information from these unit reports into the Report on the Work of ASBL and the Mayor for the previous fiscal year by February 15. This annual report is discussed and approved by the city assembly.

There are a number of **penalties** for regulating the budgeting process included in the Law on the Budget System of the Republic of Srpska. According to the legislation, nothing more serious than fines or counts of misdemeanors can be imposed for budgetary infractions, and the legal basis for such penalties is unspecified. Fines range from 300 to 1500 BAM (for overexpenditure by budget users, for example, regardless of the amount of overexpenditure), compared with 100 to 20,000 Euros for the same violations in Serbia. If a budget user of the City of Banja Luka overspends on funds from the Republic of Srpska budget the city, as founder, is responsible for these financial obligations. Such a situation could lead to blocked city bank accounts.<sup>7</sup>

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<sup>7</sup> Ibid

### **3.4. Evaluation – is the current legal framework an obstacle to greater budget transparency in local communities?**

A basic precondition for budget transparency is public accessibility to the budget and budgetary documents. The Law on Free Access to Information defines procedures for accessing public information. Various laws and local acts define budget accessibility requirements at the local level. Individual acts passed by local government bodies are published in local official gazettes, in accordance with the Law on Local Self-Government<sup>8</sup>. Documents are considered 'publicly available' if they are available to the public free-of-charge and downloadable from the internet, for example, or available upon request from the relevant department for a minimal administrative fee. Unless a government publication is free-of-charge, available in a public library, or available upon request for a minimal fee, however, documents published in special government publications are considered to be publicly unavailable.

The Law on Free Access to Information requires that public budget documents be made available upon request. Every physical and legal body has the right to access information controlled by public authorities, and every public authority has the responsibility to publish such information. The Law on the Budget System of the RS requires that municipal and city budgets be published in official their gazettes, once adopted.

The law does not specify a timeframe for such publication, nor does it require that any other budget-related documents be published, however (Article 37). Narrative budget clarifications and periodical, semi-annual and annual budget reports do not require publication. Furthermore, internationally acknowledged good budgeting practices such as the publication of information briefs and other documents adapted to help citizens to make sense of the budget, are not required by either cities or the ASBL. Therefore, current legal provisions on obligatory budget reporting do not appear to be sufficient in enabling citizens and legislative authorities to adequately oversee the drafting of the budget.

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<sup>8</sup> Law on Local Self-Government of the Republic of Srpska, Article 75, Official Gazette of the RS, No. 101/2004

The legislation allows for exceptions to providing publicly accessible official information, thereby imposing certain limitations on the right to access information. If it is deemed to be in the public interest authorities may be required to publish official information, however, regardless of exceptions made in accordance with the law. Such provisions partially limit the scope of possible action that citizens, organizations and various stakeholders can take to promote greater budget transparency in the Republic of Srpska.

Furthermore, although public budgets should serve the public interest and be prepared with significant input from citizens, not a single article of the Law on the Budget System touches upon the issue of civic participation in the budgetary process. Various models of civic participation in government decision-making are successfully used around the world, with some of them standardized (for example the quality management system in keeping with international norm ISO 9001:2000). Although not implemented consistently, civic participation in budgeting is defined in legislation in Bosnia and Herzegovina, for example.

Existing models are not implemented because citizens are not familiar with budgetary processes and the possibilities available to them to participate in these processes. Authorities have largely failed to inform and motivate the population about getting involved in budgeting issues.

The work of city authorities is public, however, and authorities are obliged to report on their work and familiarize the public about their performance. Article 76 of the Law on Local Self-Government states: “Local self-government units enable public access to their work via the regular release of information through the media, press conferences, **publication of data on the number of employees in each category of personnel**, and providing uninterrupted information on the tasks and scope of tasks performed and any organizational or administrative changes undertaken within its jurisdiction.

Unless a local self-government assembly specifically adopts a decision on withholding certain information from the public, forbidding the publication of official reports is illegal.

Local self-government authorities are required to submit public annual reports that compare achieved results with planned program objectives.”

### **Legal framework assessment summary**

- ② *The Republic of Srpska poorly defined legislative framework regarding the participation of citizens, organizations and stakeholders in budgetary decision-making has limited, but not entirely disabled, the direct influence of citizens in the process of passing city budgets.*
- ② *Not a single provision of the Law on the Budget System of the Republic of Srpska states the possibility for the participation of citizens in budget creation. Only the representatives of legislative and executive authorities and budget users are mentioned in the law.*
- ② *The Law on the Budget System of RS does order the publication of municipality and city budgets in the official gazettes of municipalities and cities, but the legislation refers only to adopted budgets, and a time frame for publicizing the adopted budget is not specified.*
- ② *The legislation does not sufficiently specify that authorities publish budget documents in official gazettes or websites, with the exception of the adopted budget. All draft budget documents can be accessed by request per the Republic of Srpska’s Law on Free Access to Information; nevertheless this form of public access is insufficient.*
- ② *Budget reporting obligations defined by current laws do not ensure adequate supervision over budget decision-making processes by citizens and legislative authorities alike.*
- ② *The Law on the Budget System does not require the publication of narrative clarifications alongside adopted budget.*
- ② *Authorities are not obligated to engage in internationally acknowledged good budgeting practices, such as providing briefs or draft budgets intended to assist citizens to participate in budget decision-making processes.*
- ② *The Law on the Budget System does not require the publication of periodical, semi-annual and annual reports on budget processes.*

## 4. Budget practice in the City of Banja Luka

### 4.1. City revenues and expenses

Banja Luka's annual budget (its funds and expenses each year between January 1 and December 31) is divided into the city's **source revenues** and the republic's budget, which is shared with cities and municipalities within the Republic of Srpska. As specified in the Republic's Constitution, laws and statutes, all funds raised from a local self-government's own sources of revenue belong only to that local self-government's budget.

Cities and municipalities derive revenues from<sup>9</sup>:

- property tax,
- fines for violations determined by local legislation,
- municipality administrative fees,
- utility fees,
- special water fees or fees for flood protection,
- municipality fees for the use of natural and other resources of public interest,
- tax on lottery winnings,
- residence taxes,
- other revenues from grants, transfers and a legally determined percentage of revenues generated from various budget user activities.

Revenues shared between the budget of the Republic and those of cities, municipalities and other users are:<sup>10</sup>

- revenues from indirect taxes, shared in the following way:
  - ☐ budget of the Republic - 72%

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<sup>9</sup>Law on the Budget System, Official Gazette of the RS, number 121/12, article 11.

<sup>10</sup>Ibidem, article 9

- municipality and city budgets – 24%
- PC “Roads of the Republic of Srpska” (JP Putevi Republike Srpske) - 4%
- income tax
- agricultural land use fees
- leased land owned by the Republic
- concession fees for the use of minerals
- special water fees
- confiscated material gains and funds obtained from the sale of confiscated objects under the jurisdiction of the Inspectorate of the Republic of Srpska

Authorities agree on the percentages of revenues from indirect taxes that are allocated to cities and municipalities.<sup>11</sup> This decision determines the coefficients for the allocation of indirect tax revenues.

**Table 1: Coefficients for the allocation of revenues from indirect taxes for the City of Banja Luka (2009-2016)**

Municipality/ City	2009	2010	2011	2012	2013	2014	2015	2016
Banja Luka	0.234868	0.221078	0.207288	0.193499	0.179712	0.165921	0.152135	0.138350

Budget users access funds according to the priorities determined by the budget’s financial plan of operation, and are not permitted to exceed approved budget amounts. Budgetary principles of **rationality and saving** apply, with acceptable expenses including:

- current expenses and transfers between budgetary units
- expenses for nonfinancial assets
- expenses for financial assets and debt settlement

<sup>11</sup> Official Gazette of the Republic of Srpska, number: 104/09, page 23.

Budget reserve funds are also planned. These funds are not allocated in advance, but are based on special decisions by the Mayor and City Assembly, in line with the Law on the Budget System of the Republic of Srpska and the Decision on the Execution of the City Budget. Reserve funds can amount to no more than 2.5% of total annual revenues.

Budget reserve funds can be used for:<sup>12</sup>

- ☒ unplanned expenses not included in the budget,
- ☒ expenses that exceed the amounts budgeted,
- ☒ temporary coverage of under-budgeted expenses,
- ☒ expenses covering extraordinary decisions taken by the City Assembly

Budget reserve funds are spent based on an act adopted by the City Assembly.

Funds for settling principal debt, interest, service fees and warranties are also budgeted, along with funds received through new indebtedment.

#### **4.1.1. Structure of revenues and expenses**

Banja Luka City revenues for 2012 amounted to 127 million BAM with an additional 37.6 million BAM (or 30%) gained from indebtedment, adding up to a total figure of 164.4 million BAM.<sup>13</sup>

Most revenues came from income taxes (45%) – the primary source of revenue for all local communities in the Republic.

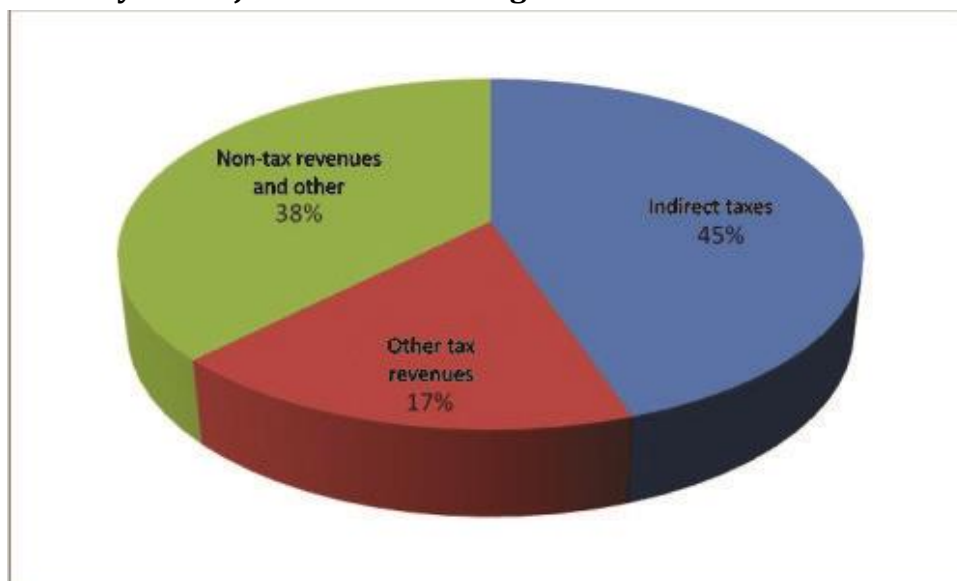
Revenues generated by other forms of taxes amounted to 17%, while non-tax revenues totalled 38% of the budget (see Graph 1).

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<sup>12</sup>Ibidem, article 43.

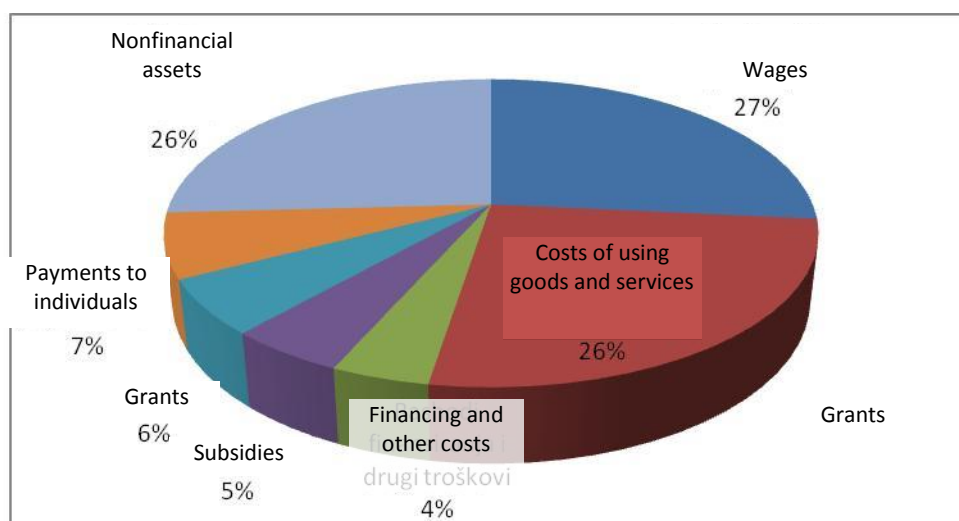
<sup>13</sup>Data on the execution of the City budget for 2012.

**Graph 1: The City of Banja Luka's 2012 budget**



On the expenditures side of the budget, 140.9 million BAM was spent, with 32.4 million BAM (or 23%) allocated for debt settlement. The following three items dominated budget expenditures (excluding debt settlement):<sup>14</sup> Wages 37.4 million BAM (27%), goods and services 36.7 million BAM (26%), and non-financial assets 36.5 million BAM (26%).

**Graph 2: Structure of the budgetary expenditure of the City of Banja Luka in 2012 (excluding debt settlement)**



<sup>14</sup> Separating the expenses of debt settlement from total budget expenses is in compliance with accepted EU and IMF practice. The same principle is used in the case of revenues, with direct revenues separated from indebtment.



Operational costs (wages, goods and services) made up 53% of budget expenditures – an average level for the Republic’s cities and municipalities in 2012<sup>15</sup>. Total wage expenditure was somewhat below the Republic’s 29.2% average, while the amount spent on goods and services was above average (23.5%). The City of Banja Luka is the largest local community in RS, however, raising the question: **Based on the principle of economies of scale, should the City’s operational costs be lower?** For example, the City of Belgrade spent only 10% of its budget on wages, while 37% was allocated for basics such as investment and maintenance<sup>17</sup>. Meanwhile, wage expenses at the City of Banja Luka Department of Finance amounted to 60.6% of total City wage expenses, signaling a relatively large number of employees there.

**The budgets of individual City budget users are characterized by high operating costs.** For example, operating costs make up 92.9% of the City Tourist Organization’s expenses (approximately 1 million BAM), with 62.8% spent on wages alone. Wages for the City Development Agency amount to 41.9% of its expenses.

**In that context, the number of employees working for the City appears to be too high.** The exact number is not publicly available.<sup>18</sup> However, Banja Luka spent 30.9 million BAM on the gross salaries of its employees in 2012, out of which 19.3 million BAM went to Administration Service employees and 11.6 million BAM to other City employees. Assuming that the average gross salary of employees in these institutions was comparable to the average gross salary in Sector L of the Republic’s administration (state administration, defense and obligatory social insurance) – or 1.816 BAM<sup>19</sup> – then it is possible to estimate that in 2012 the City of Banja Luka financed the salaries of 885 Administration Service employees and 531 other employees. This would equal one administrative worker for every 300 residents in Banja Luka. By comparison, EU countries strive to achieve the ratio of one administration worker per 1000 to 1500 residents.<sup>20</sup> This suggests that Banja Luka is facing a serious over-employment problem.

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<sup>15</sup>Data for municipalities and cities of the RS, per the Framework budget of RS 2014-2016.

<sup>16</sup> Economies of scale allows for the possibility of reducing average costs at a bigger business units.

<sup>17</sup>Citizens’ budget guide through the budget of the City of Belgrade for 2012

<sup>18</sup>When the authors of the Report on the Quality of Life in 2012/2013 in the City of Banja Luka asked for this information, they received an oral telephone response that the information is “classified” and given only to state institutions (The City of Banja Luka – Report on the Quality of Life in 2012/2013, Centers of Civil Initiatives, May 2013).

<sup>19</sup> Data for I-XII 2012. Source: Institute of Statistics of the Republic of Srpska

#### 4.1.2. Revenues and expenses – planning and trends

This section compares the City of Banja Luka's budgets for 2012 and 2009, with the aim of demonstrating changes to the budget since the economic crisis fully manifested itself in 2009. Analyzing which budgetlines suffered the deepest cuts offers insights into the budget policy and priorities of city authorities.

During the period between 2009 and 2012, the fall of revenues from indirect taxes,<sup>21</sup> property taxes and some non-tax revenues such as contribution fees for land development due to a drop in investments caused the city budget to shrink by 10.9%, while the city increased its level of debt. The 5.6 BAM boost in subsidies (1 million in 2009 compared with 5.8 million in 2012) is largely attributable to the Toplana a.d. city heating facility subsidies.<sup>22</sup> If we disregard revenues gained through debt, then the city's budget shrank by 28.1% (see Table 2).

Between 2009 and 2012, the City of Baja Luka's expenditures dropped by 6.15%. Taking into account the increased debt amount in 2012, however, **expenditures fell by 20.2% in 2012 when compared with 2009** (see Table 2). Funds for sports, culture and religion decreased by 44.8%. The largest budget cuts targeted nonfinancial assets, amounting to 26.3 million BAM or 41.9%, thereby significantly decreasing the level of investment in physical infrastructure despite great dissatisfaction among Banja Luka's residents with the state of existing infrastructure in 2012. According to a research by Center for Civil Initiatives, among the 14 B&H municipalities in which the research was performed, only the citizens of Mostar are less satisfied with state of their city's infrastructure.<sup>23</sup>

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<sup>20</sup> Source: City of Banja Luka – Report on the Quality of Life in 2012/2013, Centers for Civil Initiatives, May 2013.

<sup>21</sup> In 2012 the Republic of Srpska received more revenues from indirect taxes than in 2009, and the City of Banja Luka benefited from a Republic-wide reallocation of some of these revenues.

**At the same time, city operational costs decreased less than the average when compared with other budgetlines.** Expenses for the city's wages and goods and services fell by 9.1% and 8.3% respectively, amounting to 50% of the total 2012 budget expenditure.<sup>24</sup>

**In sum, the during the 2009-12 period the City of Banja Luka spent the bulk of its budget on administrative and operational costs than on socio-developmental projects. This data points to the problem of a disconnect between citizens' perceptions of city priorities and the city administration's budget priorities.**

After reviewing the Instruction for Preparation of the Budget for the City of Banja Luka for 2014, however, it does not appear that the city's budget policy will change in the near future. The document instructs budget users to "plan their expenses at 7% below 2013 budget levels" and that they should "prioritize legally contracted obligations (wages, allowances, concluded contracts, unpaid obligations, etc.)." The document does not suggest that budget users consider staffing cuts, which means that the portion of the city budget allocated to wages should increase. Although the document states at the outset that efforts will be made to "reduce administrative expenses" and that the city is dedicated to "using available funds primarily for financing social welfare, veteran and other categories, investment in employment and the advancement of economy and education," the actual budget suggests otherwise.

**Furthermore, in 2012 a significant budget deficit occurred (13.9 million BAM or 9.9% of total budget expenses)** as expenses exceeded available funds, forcing the need for further borrowing, either from banks or against future budgets.

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<sup>22</sup>The significant increase in debt settlement expenses largely relates to the city heating utility Toplana a.d. In 2012, 22 million BAM was spent servicing its loans.

<sup>23</sup> City of Banja Luka – Report on the Quality of Life in 2012/2013, Centers for Civil Initiatives, May 2013.

<sup>24</sup> This calculation does not include debt settlement expenses for either 2009 or 2012. Debt settlement expenses are represented as "below the line" costs.

**Table 2: Comparison of the City of Banja Luka's budgets for 2009 and 2012**

	Amounts in BAM		Structure in %		Change (2012/2009)	
	2009	2012	2009	2012	in BAM	in %
Indirect taxes	87,300,000	56,937,817	49.5%	44.8%	-30,362,183	-34.8%
Other tax revenues	24,889,000	22,310,157	14.1%	17.6%	-2,578,843	-10.4%
Non-tax revenues and other	64,283,870	47,720,804	36.4%	37.6%	-16,563,066	-25.8%
<b>Budgetary funds (excluding debt)</b>	<b>176,472,870</b>	<b>126,968,778</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-49,504,092</b>	<b>-28.1%</b>
Indebtmnt	8,140,000	37,590,796	4.6%	29.6%	29,450,796	361.8%
<b>Total budgetary funds</b>	<b>184,612,870</b>	<b>164,559,573</b>	<b>104.6%</b>	<b>129.6%</b>	<b>-20,053,297</b>	<b>-10.9%</b>
Expenses for wages	41,114,775	37,376,281	23.3%	26.5%	-3,738,494	-9.1%
Expenses for using goods and services	40,006,451	36,685,470	22.7%	26.0%	-3,320,981	-8.3%
Expenses for financing and other expenses	5,874,480	5,779,005	3.3%	4.1%	-95,475	-1.6%
Subsidies	1,303,000	6,950,218	0.7%	4.9%	5,647,218	433.4%
Grants	16,058,099	8,122,168	9.1%	5.8%	-7,935,931	-49.4%
Payments to individuals	9,476,260	9,579,496	5.4%	6.8%	103,236	1.1%
Expenses for nonfinancial assets	62,704,805	36,448,164	35.5%	25.9%	-26,256,641	-41.9%
<b>Budget expenditure (excluding debt)</b>	<b>176,537,870</b>	<b>140,940,801</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-35,597,069</b>	<b>-20.2%</b>
Debt settlement	8,075,000	32,360,519	4.6%	23.0%	24,285,519	300.7%
<b>Total budget expenditure</b>	<b>184,612,870</b>	<b>173,301,320</b>	<b>104.6%</b>	<b>123.0%</b>	<b>-11,311,550</b>	<b>-6.1%</b>
<b>Budget deficit</b>	<b>-65,000</b>	<b>-13,972,024</b>	<b>0.0%</b>	<b>-9.9%</b>	<b>-13,907,024</b>	<b>21395.4%</b>

Note: Data on the 2012 budget relates to budget execution. Data on the 2009 budget relates to the budget plan for that year, because the data on budget execution for 2009 was not available to the authors at the time of this study.

**Most worrisome is the inadequate planning of revenues in the city budget, especially in budget rebalances adopted over the course of a year.** Important data including information on budget revenue inflow was not sufficiently utilized when drafting the second rebalance of the City Budget for 2012, which was considered and adopted in December 2012. Despite the full availability of information that could have informed an accurate estimation of revenues to be collected by the end of the year, the revenue plan for all tax and non-tax revenues was simply copied from the previous rebalance. This was done despite significant deficits in budget revenue inflow for the most important revenue lines in 2012. Given that City Assembly councilors did not rely on objective information when adopting the second rebalance, this process can be characterized as non-transparent.

Why were revenues not planned realistically in the second budget rebalance? A realistic projection may have been avoided because that would have pointed to the need for simultaneous cuts in major budget expenditure lines, which were not made.<sup>25</sup> The following table compares the second 2012 budget rebalance to the actual budget execution, demonstrating just how far the 2012 revenue plans made in December were what actually transpired. For example, property tax revenues amounted to 65% less than planned in the second rebalance. Total tax revenues were almost 10% less than expected.

**Table 3: Comparison of 2012 budget revenue lines with the actual 2012 spending**

	Amounts in BAM		Change (execution/2 <sup>nd</sup> rebalance)	
	2 <sup>nd</sup> rebalance (Dec. 2012)	Execution for 2012	in BAM	in %
Tax revenues	87,981,500	79,247,974	-8,733,526	-9.9%
Indirect taxes	62,600,000	56,937,817	-5,662,183	-9.0%
Property tax	8,000,000	2,798,161	-5,201,839	-65.0%
Other tax revenues	17,381,500	19,511,996	2,130,496	12.3%
Non-tax revenues	43,101,500	39,871,135	-3,230,365	-7.5%
Other	8,747,490	7,849,669	-897,821	-10.3%
<b>Budgetary funds (excluding debt)</b>	<b>139,830,490</b>	<b>126,968,778</b>	<b>-12,861,712</b>	<b>-9.2%</b>
Debt	37,645,510	37,590,796	-54,714	-0.1%
<b>Total budgetary funds</b>	<b>177,476,000</b>	<b>164,559,573</b>	<b>-12,916,427</b>	<b>-7.3%</b>

Source: Report on 2012 Budget Execution for the City of Banja Luka

<sup>25</sup> Moreover, city administration expenses increased by 2% in the second rebalance, with the largest budget cuts made subsidies to Toplana a.d. (-22 million BAM) and investment in basic assets (-18.5 million BAM). At the same time, the second rebalance included 22 million BAM for settling Toplana a.d. debts.

## 4.2. The process of 2012 City Budget planning and approval

### 4.2.1. Realization of the budget calendar

The process of planning and approving the budget was described in detail in chapter 3.2. This process must be done in compliance with the approved budget calendar, which specifies dates from the initial phase of budgeting until the public announcement of the approved budget (picture 1 in chapter 3.1.)

The first step in this process (analysis of the framework budget document) is performed by city finance authorities within the timeframe scheduled in the calendar. Budget users preparing their requests often do not follow the guidelines from the Instruction for Draft Budget Preparation, however, or they do not meet the deadline, forcing a rescheduling. The following table shows the comparison between legal deadlines and the actual approval dates for the Draft Budget of the City of Banja Luka during the four-year period from 2009 to 2012.

**Table 4: Adoption of the City of Banja Luka Budget**

Overview of adherence to deadlines for adopting the draft budget		
Year	Deadline for budget approval according to law	Date of budget approval
2009	15 December	29 December
2010	15 December	29 December
2011	15 December	28 December
2012	15 December	27 December

The 2012 budget was adopted on December 27, 2011, meaning that budget calendar deadlines were missed, as in previous years. The Department of Finance of ASBL explained that budget users deliver their budget requests with delays up to 15 days<sup>26</sup> and that their requests sometimes require additional corrections and clarifications, resulting in the rescheduling of all succeeding budget calendar deadlines. The Department claimed that the problem of missed deadlines was minimal, preventing any need for temporary financing.

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<sup>26</sup> The deadline for budget users to deliver their requests for the next calendar year is September 15.

#### 4.2.2. Communication with citizens – public hearings

A rare practice of direct citizen participation in decision-making at the local level that is required in legal acts is public hearings on draft budgets. The Mayor passes the Program of Public Hearings to ensure the transparent and effective exchange of information between Banja Luka's city representatives and citizens, local communities, civil society organizations and other organizations actively participating in the budget drafting process. The hearings are publicized in the "Glas Srpske", press conferences and on the ASBL website.

In 2012, five public hearings on the draft budget were held in selected local communities. The Mayor decides on the number and location of public hearing sessions, which are planned and implemented in coordination with the Department of Finance. No clarification is provided in relevant official documents (the Program of Public Hearing Session Implementation and the Public Hearing Session Report) about the criteria used to determine the number and location of the public hearings. Although the Department of Finance maintains that equal participation of urban and rural populations is the main criterion for deciding on the number and location of public hearing sessions, this was very hard to confirm based on available official documents.<sup>27</sup>

Furthermore, according to the Department of Finance, some public hearings enjoyed very good attendance, such as the public hearing held in Cultural Center Banski Dvor, while other sessions had fewer participants. Citizens of all ages attended these public hearings (with minor deviations in different parts of the city). Still, there is no system for measuring and monitoring citizen participation at public hearings. Even information on the number of participants at public hearings is unknown. **The Department of Finance has not developed instruments for the evaluation of citizen participation in the budgeting process.**

On the other hand, according to councilors in the City Assembly, the opposition estimated that the number of successful initiatives accepted at public hearings did not exceed 2%.

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<sup>27</sup> For example, in 2011 public hearing sessions were held at: Banski Dvor – Cultural Center; Krupa na Vrbasu – premises of elementary school "Vojislav Ilic"; Piskavica – premises of Community House; Lazarevo – premises of elementary school "Borislav Stankovic" and Sports Hall "Obilicevo" – cinema hall.

**Although the implementation program stated that the 2012 City of Banja Luka Draft Budget public hearing was due to be held on November 11-21 of 2011, the actual timeframes for the sessions were a brief 4-5 days, leaving citizens largely unaware of the possibility to participate in these public hearings organized by the Department of Finance in coordination with the Department for Public Relations. Furthermore, the objectives of the public hearings were undefined, with little attention was paid to their preparation. The Draft Budget, which was published in the “Glas Srpske” newspaper prior to the public hearing, was not accompanied by documents to assist citizens interested in contributing to the budget-making process.**

The public hearings are conducted according to the following agenda: representatives of the Department for Finance explain the proposed draft budget in a brief presentation (up to 15 minutes), and then open the floor for discussion, where attendees can offer suggestions, objections and initiatives. No specific agenda or discussion points are provided, however, and ASBL officials do not appear to take consistent notes of the discussion. Reports of the public hearings focus on the accepted initiatives.

**Because there are no clear criteria for organizing and evaluating public meetings, it is nearly impossible to determine their effectiveness..**

Given the importance of the list of investment priorities that local community councils deliver to the ASBL during the budget-drafting process in determining annual investment in utility infrastructure and land development, it seems logical that every local community would be consulted about proposed priorities for the coming year. Unfortunately, that has not been the case so far.

No form of a ‘citizens’ budget’ – known internationally as one of the most important instruments for encouraging citizen participation in budget-making – have been utilized to help clarify budgetlines and priorities to citizens during the budget drafting process. Citizens’ budgets elaborate in clear terms how public funds will be spent, providing insight into planned expenditure for concrete investment projects and spending on, for example, utility costs, social welfare, education, youth, culture, sports, etc. Having insight into planned projects helps stimulate interest and participation in the budgeting process. Citizens’ budgets should be the basis for preparing and organizing public hearings.



Aside from public hearings, the Department for Finance invited written initiatives from citizens submitted via internet. Evidently only a small number of such initiatives were collected, however.

### **4.3. Budget document clarification**

Every budget is characterized by a unique categorization system of revenues and expenses over a certain period. A standard categorization framework provides a basis for organizing and registering all financial transactions by budget users in a clear and uniform way. Therefore, a precondition for understanding a budget document is a basic familiarity with the way the categorization of revenues and expenses are conceptualized.

As previously noted, the Law on the Budget System of the Republic of Srpska defines standard budgetary categories including organizational, economic, sub-economic (sub-analytical), functional, program (project), and funds. More detailed instructions on budget categories are provided in the Rulebook on Budgetary Classification and the chart of accounts for budget users of revenues of the Republic, municipalities, cities and funds, which thoroughly describes the budget classification system. Despite being listed as standard, however, the categories of sub-economic (sub-analytical) and program (project) are not defined in the Rulebook, meaning that **budget users can use and adapt them to their needs, but that they are not obliged to do so**. The 2012 City Budget Document contained three budget categories: economic, functional and organizational, thereby honoring budgetary classification regulations.

However, despite its consistency in applying relevant budget regulations, the 2012 budget employed poor quality data and lacked clarity. This is the subject of subsequent analysis in this report, beginning with a brief overview and explanation of the obligatory budgetary categories – economic, functional, and organizational.

**The ‘economic’ budget category** is determined by the budget users’ chart of accounts and defines numerical marks, chart names etc. that users are obliged to use when accounting for their property, financial obligations, sources, budgetary and extra-budgetary revenues and expenses, and final balance.

Revenues and expenses in the ‘economic’ budget category are groups according to the **type** of revenues and expenses involved. An analysis of codes from the Standard Classification Framework and chart of accounts provides further information on sources and types of revenues and expenses (for example: taxes, wages). This table provides a brief overview of the 2012 City of Banja Luka’s ‘economic’ budget category.

**Table 5: Brief overview of the city’s ‘economic’ budget category for 2012**

<b>Ec. code</b>	<b>Description</b>	<b>Amount</b>	<b>Ec. code</b>	<b>Description</b>	<b>Amount</b>
71	<i>Tax revenues</i>	<i>87,981,500</i>	41	<i>Current expenses</i>	<i>106,374,882</i>
72	<i>Non-tax revenues</i>	<i>43,101,500</i>	51	<i>Expenses for nonfinancial assets</i>	<i>38,270,673</i>
73	<i>Grants</i>	<i>33,820</i>	61	<i>Expenses for debt settlement</i>	<i>32,824,445</i>
78	<i>Transfers between budget units</i>	<i>2,220,500</i>	****	<i>Budget reserve</i>	<i>6,000</i>
81	<i>Inflows from nonfinancial assets</i>	<i>6,358,170</i>			
91	<i>Inflows from financial assets</i>	<i>135,000</i>			
92	<i>Inflows from indebtment</i>	<i>37,645,510</i>			
<b>TOTAL FUNDS</b>		<b>177,476,000</b>	<b>TOTAL EXPENDITURE</b>		<b>177,476,000</b>

Data for the ‘economic’ budget category is shown until the sub-group level. Charts for the “415 – Grants” sub-group show current and capital grants in the country or abroad, for example. Grants in the country (analytical chart no. 415200) include current and capital grants to nonprofit organizations and associations including those supporting political, charity, sports and youth, ethnic and religious groups; families and the protection of the rights of women, children, refugees and displaced persons, veterans and persons with disabilities; healthcare and social welfare, education, science and culture, economic and industrial cooperation etc. along with other current and capital grants in the Republic such as transfers to public and private financial and nonfinancial (for-profit) organizations and other such grants that cannot be characterized as subsidies.

In the 2012 City Budget Document, the amount of 8,226,860 BAM is itemized as “Grants in the country” with no further information on detailed expenditures for that budgetline.

Unlike the ‘economic’ budget category, the **‘functional’ budget category** primarily focuses on the function or purpose of city spending for general public services, the protection of the natural environment, healthcare, education, culture etc. The Rulebook on Budgetary Classification defines ten specific ‘functions’ and assigns a special code (functional code) to each.

**Table 6: Brief overview of the city’s ‘functional’ budget category for 2012**

<b>Functional code</b>	<b>Purpose</b>	<b>Amount</b>
01	<i>General services</i>	39,793,510
02	<i>Defense</i>	2,603,000
03	<i>Public order and security</i>	
04	<i>Economic affairs</i>	32,281,855
05	<i>Protection of natural environment</i>	10,029,350
06	<i>Residential joint affairs</i>	17,926,430
07	<i>Healthcare</i>	1,279,510
08	<i>Recreation, culture, religion</i>	7,068,760
09	<i>Education</i>	14,446,950
10	<i>Social welfare</i>	13,375,330
	<i>Budget reserve</i>	6,000
	<i>Other uncategorized expenses</i>	32,824,445
<b>TOTAL BUDGETARY EXPENDITURE</b>		<b>177,476,000</b>

Analyzing both ‘functional’ and ‘economic’ categories together can lend some insights into official budget spending objectives. What tends to concern citizens and experts alike most about public spending is the effectiveness of such spending, however, which requires detailed information on achievements for proper assessment. If we are to properly assess the impact of budget item 414100 “*Subsidies – 6,926,470 BAM*”, for example, then we would require further information detailing expected outcomes from such spending, and the potential impact on such outcomes when a budget rebalance decreases that item by 76.06%, as was the case in the 2012 city budget.

This information is not readily available even after analyzing the ‘**organizational’ budget category**. This category details the budget expenditures of each organization and end user. In the 2012 city budget document, the organizational budget category contains more detailed spending information than the other categories, because it cross-references data from the economic and functional categories while providing information on the types, purposes and places of budget expenditure.

**Table 7: Example of an ‘organizational’ budget item**

<b>Operational unit 1 – CITY ADMINISTRATION SERVICE</b>			
<b>Name of end user unit: Department for Public Relations</b>			
Number of end user unit: 2002123			
<b>Economic code</b>	<b>Functional code</b>	<b>Purpose</b>	<b>Amount</b>
412300	0111	<i>Expenses for technical papers, magazines and daily newspapers</i>	33,000

Therefore, although the 2012 Budget Document complied with legislation in its inclusion of the obligatory forms of budgetary classification and required information on the type, function and place of budgetary expenditures, **the budget failed to provide adequate information on the expected results of city spending and indicators of success in order to evaluate those results.** Without such information, citizens find it difficult to understand the usefulness of certain spending or to justify investment into certain projects. In general, the 2012 budget document does not contain information that helps inform citizens about the relationship between adopted policies and achieved results.

Budgeting program information and indicators of success would surely help citizens to better understand the budget and public spending priorities. Despite still not being obligatory, program budget classification represents a standard form of budgetary classification that was also recommended by the Republic's Ministry of Finance in its Instruction for Budget Users No. 1 from 2012.

One of the consequences of the absence of program budgeting (budgeting based on productivity) is that in budget documents there is no connection made between suggested budgetary expenditure and adopted policies for the time period in question. The Banja Luka City Assembly did adopt a medium-term development plan in 2008 for Banja Luka until 2015, which defined programs and strategic and operational objectives for that period, including financial projections for each program. A strategic program budgeting framework was thereby established—one of the basic preconditions for introducing program budgeting. Then in 2012, a detailed analysis of this strategic document was undertaken and an updated program-project action plan was included in the adopted Report on the Realization of the City Development Strategy.

City budget creators should be encouraged to continue this more strategic budgeting process and provide further information on the type, purpose and place of budgetary expenditures as well as information on the desired effects of spending. It is already possible to combine budget documents with budget execution reports containing some output and success indicators such as the number of kilometers of asphalted roads completed, percentage of housing units in rural areas of the city provided with regular access to fresh water, number of entries in civil register books, number of renovated schools, kindergartens, etc. There may be an opportunity now for the gradual development of a system of program budgeting and consequential introduction of program (project) budgetlines in the process of planning, reporting and implementing the Banja Luka city budget. The first step in improving the budget planning process could be the simple presentation of indicators of success in budget documents that correspond to defined programs and their strategic objectives. Data on anticipated and achieved objectives/results thereby become a part of the budgeting process, which contributes to citizens' better understanding of budget documents and encourages their engagement in the process.

Experiences from countries where program budgeting has become standard practice<sup>28</sup> demonstrate that initially, the demand for more robust systems of performance evaluation measuring the success of programs grew out of a need to move from linear budgeting processes based on inputs to outputs (programs) into more complex and developed systems of program budgeting. In every country that made such a move, the budget transition resulted in greater transparency, quality of budget data, and involvement of citizens in the budgeting process.

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<sup>28</sup> Source: Performance Budgeting in OECD Countries

As noted, the lack of a citizens' budget is another impediment to citizens' understanding of and involvement in the budgeting process. Current legislation allows for the creation more citizen-friendly budget documents that clearly explain how and why public budgets are drafted and spent. The creation of a citizens' budget makes even more sense when we know that local community councils deliver their lists of local investment priorities to the city Administration Service each year. Such a budget should be introduced into the budgeting process as soon as possible and discussed in public hearings by local community councils and citizens. In the meantime, it is possible to discuss some relevant projects addressed in the budget by combining data from the 'functional' budget category with programs of utility expenditure and land development.

#### **4.4. Budget execution and reporting**

The final step in the City of Banja Luka budgeting process involves the Report on Budget Execution. In line with the Law on the Budget System of the Republic of Srpska, article 46 (valid for municipalities, cities and funds), the Report on Budget Execution contains:

- overview of funds and expenses approved by the National Assembly during previous year,
- overview of actual expenses and revenues during the previous fiscal year, clearly showing the difference between approved and implemented budget,
- explanation of deviations,
- data on indebtedment and debt management,
- data on the use of budget reserves,
- data on warranties issued during the previous fiscal year,
- initial and final balance of unique accounts of the treasury and the special purposes account, and
- data on performed re-allocations.

In addition, the previous year's Report on Budget Execution must provide data on the initial and final balances of assets, obligations and fund sources.

The annual report must comply with the rulebook approved by the Republic of Srpska Minister of Finance determining the form and content of the budget and the Report on Budget Execution, called the Rulebook on Financial Reporting for Users of Budget Revenues of the Republic, Municipalities, Cities and Funds.<sup>29</sup>

Every Report on Budget Execution is prepared in two formats:

- the format required by the Law on Accounting and Revision of the Republic of Srpska (to be completed no later than March 31 of the current year for the previous fiscal year), and
- ☒ the format required for the Report on the Execution of the City of Banja Luka Budget, prepared for the City Assembly of Banja Luka and considered much later than March 31 of each year.

The Report the Execution of the City of Banja Luka for 2012 details the city's planned and realized total revenues and expenses from January 1 until December 31, 2012. The Report on the Execution of the City of Banja Luka Budget for 2012 was prepared before the March 31, 2013 deadline<sup>30</sup> – provided to the City Assembly for consideration and approval on April 9, 2013. The Work Program of the City Assembly of Banja Luka for 2013 (published in the "Official Gazette of the City of Banja Luka" number 02/2013) stated that the report was prepared in accordance with the Law on the Budget System of the RS, and that reports on execution of budgets of cities and municipalities are delivered to the authorized ministry of finance on a quarterly basis (every three months) for current the fiscal year, no later than 15 days from the day of their approval.

As previously noted, because program budgeting – budget planning and preparation based on programs focusing on output and final results – is not in use, information in the budget and the Report on Budget Execution does not address the question of ASBL's organizational effectiveness. The Budget of the City of Banja Luka is a linear budget. Linear budget itemization is a traditional and widely used form of budget preparation that does not enable the monitoring and analysis of the flow of funds to end users or the evaluation of concrete strategic objectives. It is difficult to review and analyze the scope and structure of funds based on a linear budget.

A linear budget will only reveal the amount of money spent on wages, with no information on hiring strategies for the year or even the number of people employed, for example.

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<sup>29</sup> Official Gazette of the Republic of Srpska numbers 16/11 and 126/11

<sup>30</sup> According to article 55 of the Law on the Budget System of RS, ministries, municipalities, cities and funds must prepare their consolidated annual financial reports and deliver them to an authorized institution of government no later than March 31 of the current year for the previous fiscal year.

We cannot determine if any progress was made toward the improvement of education, social welfare, healthcare, etc with the public funds utilized for these purposes.

The Law on the Budget System of the Republic of Srpska does not provide detailed instructions for budget users on how to prepare their budgeting requests for programs that would cover all of their activities. With support from the international community, ministries of finance are currently in the process of entering a second round of changes and amendments to budgeting laws, so that annual and mid-term budget planning is more comprehensive and better harmonized between different levels of B&H government.<sup>31</sup> Ministries of finance and budget users are currently receiving training and there are plans to draw up a budget annex with useful program budget information to be forwarded to the government and parliament.<sup>32</sup>

In addition to the Report of Budget Execution, the Mayor must submit the Report on the Work of the Mayor and the ASBL to the City Assembly of Banja Luka, in accordance with the Law on Local Self-Government in the Republic of Srpska,<sup>33</sup> the Statute of the City of Banja Luka,<sup>34</sup> and the Instruction for the Creation of the Work Program and Report on the Work of the ASBL<sup>35</sup> (which covers both the annual Work Program and six-month reports of the ASBL's units). The Instruction helps to determine the approximate amount of funds needed by the Administration Service.

The Work Report does not analyze the use of budgetary funds, but states that final consolidated data on the implementation of the city's budget must be compiled no later than March 31, and submitted to the City Assembly for consideration. In 2012, this consolidated financial report was delivered to the Ministry of Finance on April 5 (before the deadline).

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<sup>31</sup> The effects of introducing program budgeting on transparency and accountability of public sector in Bosnia and Herzegovina – A study of policy in practice, Final version – Program of Support to Public Policy Research in B&H 2006/2007, Naida Trkic, April 2007, page 22.

<sup>32</sup> Ibid, page 24.

<sup>33</sup> Official Gazette of the Republic of Srpska, numbers: 101/04, 42/05 and 118/05

<sup>34</sup> Official Gazette of the City of Banja Luka, numbers: 25/05, 30/07 i 17/12

<sup>35</sup> Official Gazette of the City of Banja Luka, number: 01/10



The role of the Administrative Service (ASBL) in revising the budget of Banja Luka does not differ from its role in revising the budget of the Republic of Srpska. However, local self-governments are not subject to all the budgeting requirements imposed on the Republic more broadly, and the Work Report is not clearly available to the public, like the Report on the Revision of the Republic of Srpska Consolidated Report on Budget Execution. Secondly, there is the role of internal revision, which has a significant function in the case of local self-governments and operates in accordance with the Law on Revision in Public Sector. Like the Main Service for Revision, they too issue recommendations, whose implementation is constantly being monitored.

At the end of every fiscal year, based on the Law on Internal Revision in the Public Sector of the Republic of Srpska, the report on the work of the internal revisor is submitted to the Mayor, the Main Service for the Revision of the Public Sector of the Republic of Srpska and the Central Unit for the Harmonization of Financial Management and Control within the Ministry of Finance.

**In sum, based on budget data made available in the republic's financial and work budget reports, no accurate evaluations can be made about the effectiveness of public spending.**

#### **4.5. Evaluation of budgetary practice in the City of Banja Luka**

This section contains the results of research and analysis into the following aspects of the City of Banja Luka's budgetary practices:

- public availability of information on the budget and related budget documents,
- clarity and relevance of the content of budget documents, and
- inclusion of citizens and openness of the process of preparing and monitoring the implementation of the 2012 City Budget.

##### **4.5.1. Evaluation of public availability of budget information**

The general impression is that existing channels of communication with the public during the planning, preparation and implementation of the budget are insufficient for ensuring a satisfactory level of knowledge about the budgeting process among citizens. A conclusion emerges that passive form of informing the public exists, and that local authorities tend to assume more passive than active positions when it comes to involving citizens in their activities and plans.

The official website of the City of Banja Luka – the key channel for publicizing budget documents and communicating with citizens – should be one of several tools and initiatives aimed at promoting citizen engagement in budget-making.

To make matters worse, **the official website of the City does not contain the Report on the Work of the ASBL and the Mayor or the Report on the Execution of the Budget for 2012.** These documents are also not published in the Official Gazette of the City.

**Furthermore, citizens cannot access information from the Report on Implemented Public Hearings,** which contains all suggested proposals and initiatives by local community councils, civil society organizations, budget users, councilors and citizens themselves.

A public hearing is defined in the Statute of the City as an obligatory channel of communication with citizens during the preparation and approval of the City Budget. Even though the Statute and Program of public hearings states that public hearings are to be held over the course of 30 days, presentations in local communities usually end in 5 to 10 days and are poorly attended, further contributing to citizens' weak knowledge about these sessions. Such public hearings tend to take place in only a few local communities.

#### **4.5.2. Evaluation of the clarity and relevance of the content of budget documents**

An analysis of the City's 2012 Budget Document shows that the document abides by the legal provisions of the Law on the Budget System of the Republic of Srpska and the Rulebook on Budgetary Classifications and that it provides basic information on type, function and place of budget expenditures. However, **the Budget Document does not contain program (project) budgetlines and therefore does not provide necessary information on the expected results and outcomes of budget expenditures.** Without this information citizens cannot give their assessment of the justifiability of investment or the usefulness of individual budgetlines. One can conclude that the budget **does not provide answers to key questions, such as why** certain public funds are being spent,

Given its lack of program budgeting, the 2012 budget makes no links between the adopted policies and suggested budget expenditures for the period in question. **Despite the fact that the City Assembly of Banja Luka adopted a City Development Strategy in 2008 which was updated in 2012 with a program-project action plan, the budget makes no connection between these defined strategic objectives and public spending.**

Furthermore, the simultaneous presentation of budgetlines in economic, functional and organizational categories – without an adequate narrative section describing them – complicates the presentation of the budget and makes it difficult for citizens to understand, discouraging them from submitting initiatives and proposals for changes to certain budgetlines.

The lack of budget briefs or so-called “**citizens’ budgets**” with content better adapted to the wider public also restricts the ability of citizens to understand and participate in the development of concrete projects in their local communities. Aside from citizens’ budgets, members of the public also do not have access to other relevant documents that should accompany the budget document, such as the Work Plan of the ASBL, Report on Budget Execution for previous year, utility expenditure program, program of land development, etc. It should come as no surprise, therefore, that for the most part citizens are not participating in the budget-making process and offering many comments, initiatives, and proposals despite the formal invitation to do so on the official website.

The 2012 Budget Document also displays a poor use of available budget data on issues including budget rebalancing and an **unrealistic planning of revenues**, thereby jeopardizing the transparency and quality of the entire budgeting process itself.

#### **4.5.3. Evaluation of public participation and openness in the budgeting process**

Although the Law on the Budget System of the Republic of Srpska does not demand the obligatory participation of citizens in the creation of budgets, the Law on Local Self-Government and the Statute of the City state that public hearings must be implemented prior to the annual approval of the budget. Therefore, the city adopted the 2012 Program of Implementing Public Hearings on the Draft Budget of the City of Banja Luka.

**Public hearings are evidently poorly planned and not developed** in the process of creating the budget.

**The only channels of two-way communication with citizens** about budget issues are the website of the City of Banja Luka and public hearings in local communities. The program clearly states that a public hearing organized in five local communities was to be held in 2011 from November 11-21. That deadline was then extended to 10 December, in order to abide by the rule of 30 days for a public hearing.

**There are no clear criteria for selecting local communities** to host public hearings.

**There are no clear criteria for evaluating citizen participation or outcomes in public hearings.**

**Public hearing sessions have low attendance** and the majority of civil initiatives are not approved in the budget. Active participants at public hearings are mostly presidents and members of local community councils and, rarely, representatives of non-governmental organizations.

**The public is at times unable to access the Report on Implemented Public Hearings** following an event, which summarizes all initiatives and proposals by citizens and others who attended the public hearing session.

Illustration from the report on a public hearing held on 11 November 2011 in Banski dvor:

Question *“Will everyone who asked a question receive a written answer?”*

Response: *“A report from the public hearing will be delivered to all councilors of the City Assembly and it will be considered as a special topic on the agenda in the session when the 2012 City Budget is to be adopted.”*

However, the public hearings report in question did not provide information on the initiatives and proposals recommended by stakeholders at the hearings.

The fact that citizens are asked to share their opinions only in the final stages of the budgeting process seriously impedes their ability to impact budgetary decision-making. **The practice of organized consultations in the early stages of budget-making – even before the creation of a draft budget – has not been introduced.** Citizens should have the opportunity to present their concerns and priorities to local community councils at an early stage in the process.

Given the inadequate level of information provided, **citizens lack a basic awareness** of their potential role in the process of planning, preparing and adopting the budget.

The Finance Commission – a working body of the City Assembly which, among other things, is involved in the drafting of the city budget and monitoring of its implementation – **does not have citizen representatives on its team.**

#### 4.6. Budgetary practice in numbers

- According to the Central Election Commission, in 2012 there were 181,530 registered voters in Banja Luka. Approximately 90,000 of them voted in the 2012 local elections. **Fewer than 300 citizens attended public hearings on the draft budget for 2012, or below 0.2% of the total number of constituents.**
- **Citizens were provided with only 2 days to familiarize themselves** with the draft budget document from the time it was adopted until the first public hearing session that took place in Banski dvor on November 11, 2011.
- Public hearings on the 2012 draft budget in local communities were carried out **in only 4 days** (from November 11-14, 2011)
- Despite the fact that there are 57 local community councils act in Banja Luka, public hearings on the draft budget for 2012 took place in **only 5 local communities**, or nearly **every 11<sup>th</sup> local community** within the city.
- The 23 local community councils that delivered their proposals in written form during public hearings on the 2012 draft budget represented **only 40% of the total number of councils.**
- **Only 5 citizen associations/civil society organizations** delivered written proposals, demands or initiatives during the public hearing sessions on the 2012 draft budget.
- **Only 3 public institutions** delivered their [written proposals, demands or initiatives during the public hearing sessions on the 2012 draft budget.
- **Only 2 citizens and 2 councilors** delivered their written proposals, demands and initiatives to the Department of Finance during the public hearing sessions on the 2012 draft budget.
- The 2012 budget proposal was adopted **13 days** after the deadline defined by law.

- **The amount of revenues planned in the 2012 budget was nearly 13,000,000 BAM more** that what was estimated by the last budget rebalance adopted in December 2012, based on budget data from the same year.
- In 2012 a full 37.4 million BAM or **27% of all budget expenses (not including debt settlement) was spent on wages.**
- **0 representatives from the non-governmental sector** participated in the work of the Finance Commission, which assists in the budget decision-making process.
- **0 work reports and reports on 2012 budget execution were made available to the public on the city's official website.**

## **5. Recommendations**

### **Secure a clearer, more accurate legal framework aimed at greater transparency and openness in the budgeting process at local level.**

- Introduce a provision in the Law on the Budget System of RS stating that all relevant budget documents are to be published in due time in local official gazettes and on the internet (on the websites of cities and municipalities).
- Require the inclusion of narrative explanations of budgets and budget implementation reports.
- Define the content of the budget and periodical budget implementation reports more precisely. The Law on the Budget System of RS and relevant rulebooks should include more specific narrative sections, in line with international good practice.
- Introduce program budgeting that clarifies the relation between program objectives and budgetlines.
- Specify the obligation and the major elements of public hearings on the draft budget with the aim of further opening up the budgeting process to citizens. Consider introducing an additional round of early public hearing sessions.
- Oblige all municipalities and cities to provide citizens' budgets and simplified budget overviews that are understandable to the wider public.
- Expand the timeframe for considering budget proposals.
- In the Law on Local Self-Government, elaborate in greater detail the obligation of local self-government units to "publicly submit annual reports comparing program objectives and achieved results." Determine a minimum standard of information that must be included in the annual reports.

### **Improve the content and quality of city budget documents**

- A special document adapted for the information of citizens should be used when presenting the draft budget. A simple, easy-to-understand "citizens' budget" could be drawn up to accompany the budget that would summarize budget allocations and planned investments for local communities.

- Present budgetlines that correlate with local community programs in the citizens' budgets provide for discussion at public hearings, including levels of investment and the specific projects planned for each community for that budget year.
- Introduce a system of program budgeting as soon as possible along with the program (project) classification of budgetlines in the planning, implementation and monitoring of the City of Banja Luka Budget. The first step should be to compile relevant data available in other documents (eg. The Program on Joint Utility Expenditure, Program on Land Development, Work Reports for the previous year, etc.).
- Bring budget planning procedures into line with the city's approved strategic development framework and objectives as defined in the Banja Luka Development Strategy 2007-2015.
- Utilize all available information in the budget drafting process, including relevant data on budget rebalance, to more accurately estimate revenues and other budgetlines.
- Harmonize budget costs and priorities in relevant city documents (development strategies, instructions for the preparation of the city budget, etc.). Decrease the level of city administration costs.
- Review the number of employees in the Administration Service and among budget users, and to make this data publicly available (in compliance with Article 76, Law on Local Self-Government).

#### **Provide the citizens of Banja Luka with access to budget information**

- Publish all current budget-related documents and those covering at least the past 5 years on the city website – the city budget, budget rebalances, reports on budget implementation, work reports, the program of joint utility expenditure (and report on its implementation), the program of land development (and report on its implementation).



- Improve and expand the city's online capacities (website) and increase its effectiveness in disseminating budgetary information via the Internet, including e-mail queries.
- Provide access to all relevant budget documents in each local city community.

### **Encourage citizens of Banja Luka to participate in the budget planning process**

- Define and adopt clear criteria for determining the program of public hearings (including the number of local communities and their selection) and for evaluating its success.
- Evaluate the success of public hearings and make that evaluation publicly available.
- Include the draft budget with information on planned projects and expenditures per each local community together with the invitation to citizens to attend public s on the budget.
- The program of public hearings in local communities must last at least three weeks.
- Extend the period between the adoption of the draft budget and the start of the public hearings program (7-14 days), thereby providing enough time for citizens to adequately familiarize themselves with the draft budget.
- Introduce additional ways to inform citizens of the possibility to participate in public budget hearings. Develop more web-based information tools and communication channels. For example, a system should be created to periodically provide citizens with information updates via e-mail, which they would be able to subscribe to free-of-charge, and a system of communication with citizens could be developed using social networks (for example, Facebook, Twitter, etc.).
- In addition to public hearings, actively promote ways to engage citizens in the budgeting process. For example, budget proposals could be delivered by post and e-mail, focus groups specializing in certain fields (economy, education, ecology, etc.) could be organized etc.
- Encourage local communities to play more active roles in informing citizens and inviting them to participate in public budget hearings, for example through previous communication with the presidents of housing unit owners associations in urban areas.

- Establish a system of information on the work of local self-government adapted to citizens' needs and aimed at strengthening a culture of participation. Consider organizing special educational programs in local communities on the budget and budgeting processes in advance of public budget hearings.
- Consider the introduction of an additional round of early public budget hearings held before the draft budget is developed.

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- Other acts and documents used:
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  - Report on the Work of the Mayor and ASBL for 2012,
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  - Program of Utility Expenditure for 2013,
  - Program of Land Development for 2013,
  - Instruction for the Preparation of the 2014 Budget of the City of Banja Luka,
  - Strategy of Development of the City of Banja Luka strategija razvoja grada Banjaluka,
  - Statute of the City of Banja Luka,
  - Rules of Conduct of the City Assembly of Banja Luka and Other City Regulations and Decisions.

## Internet sources:

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- [www.banjaluka.rs.ba](http://www.banjaluka.rs.ba)
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- [www.oecd.org](http://www.oecd.org)
- [www.imf.org](http://www.imf.org)



## Annex – Response from the ASBL on the demand for access to information

РЕПУБЛИКА СРПСКА  
ГРАД БАЊА ЛУКА  
КАБИНЕТ ГРАДОНАЧЕЛНИКА

Број: 12 -К-3053/2013  
Дана: 30.07.2013.године

РЕПУБЛИКА СРПСКА ГРАД БАЊА ЛУКА ГРАДОНАЧЕЛНИК - АДМИНИСТРАТИВНА СЛУЖБА			
Пријемно:	04 -07- 2013		
Стр. бр.	Служба	Почетак	Завршетак
12 -			

*Удружење ГЕА  
- институт информ*

УДРУЖЕЊЕ ГЕА – Центар за истраживања и студије  
Ул. Краља Петра I Карађорђевића бр.107  
БАЊА ЛУКА

**ПРЕДМЕТ:** Захтјев за приступ информацијама, одговор, доставља се

Поводом вашег захтјева за приступ информацијама којим сте се дана 04.07.2013.године обратили Кабинету градоначелника захтијевајући достављање Извјештаја о раду градоначелника и Административне службе града за период 01.01.-31.12.2012.године те Извјештаја о извршењу буџета града Бања Лука за период 01.01.-31.12.2012.године у електронској форми, обавјештавамо вас да ће исти у наредном периоду бити објављени на службеној интернет страници Града Бања Лука, те на тај начин доступни јавности.

С поштовањем,

Достављено:

- именованом,
- евиденцији,
- архиви



Сам. стр. сарадник за представке и притужбе

Мр Николина Рачић, дипл.правник

