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Qeveria e Kosovës / Vlada Kosova / Government of Kosovo
Ministria e Financave / Ministarstvo za Finansije / Ministry of Finance
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Nr. Prot. 06
Br. Prot. 1171
Data Datum 08/08/2019
Mr. i logova Broj stranica No. pages: 1
Dolosa PRISHTINËJA



Republika e Kosovës
Republika Kosova-Republic of Kosovo
Qeveria - Vlada-Government

Ministria e Financave / Ministarstvo za Finansije / Ministry of Finance
Departamenti i Buxhetit / Departamentat Budzeta / Budget Department

DATE:	07.08.2019
REFERENCË:	
PËR/ZA/TO:	Mayors, Directors of Municipal Departments, Chief Financial Officers
PËRMES/PREKO/THROUGH:	Mr. Naim Baftiu, Secretary General, MF
NGA/OD/FROM:	Salvador Elmazi, Director of Budget Department, MF
TEMA/SUBJEKAT/SUBJECT:	Budget Circular 2020/02 for Municipalities

Honored Mayors,

We are forwarding you the Budget Circular 2020/02 for Municipalities whereby we notify on instructions on the expenditure structure for 2020 and projections for 2021-2022, based on the funding municipal ceilings provided in Budget Circular 2020/01 dated 15 May 2019, and in accordance with applicable fiscal rules.

This circular is issued in accordance with legal powers of the Ministry of Finance, pursuant to Article 20 of the Law on Public Finance Management and Accountability (LPFMA). The instructions given in this circular on expenditure structure are based on the Mid-Term Expenditure Framework 2020-2022 (MTEF), which defines the level and structure of revenues and mid-term expenditure for the general Budget of Republic of Kosovo.

Please bear in mind the instructions given in this circular for the preparation of budget-proposal for your municipality for 2020 and mid-term projections 2021-2022. As you're aware, the Ministry of Finance has organized forums and consultation meetings during July 2019 with all municipalities for the development of municipal budget process.

For additional information or assistance related to any elements of this circular, please contact the budget analysts in the Budget Department of the Ministry of Finance.

Respectfully!

Salvador Elmazi,
Director of Budget Department, MF

1. The basic principles for the preparation of municipal budget 2020-2022

The Government of Republic of Kosovo is committed to maintain macro-fiscal stability, and within a sustainable budget framework to provide the opportunity for funding of strategic projects.

Based on the Law on Local Government Finance, municipalities are obliged to assist the financing of general expenditure for the education and health sectors from general grant. Likewise, municipalities are obliged to assist funding of expenditures of social services from the general grant.

This circular considers Government priorities, maintaining the relation between current expenditures and capital expenditures.

Current expenditure: Compared to previous year, there is evident increase under categories of current expenditure.

Employment: There will be no employment increase compared to previous year, except the increase of personnel by a decision of Grants Committee (theatre personnel and residential services).

In the category of **salaries and allowances** the calculation was based on assumption of new coefficients that might be stipulated by the Law on Salaries in Public Sector (early projections by MPA) as well as funding of personnel for theatres and residential services.

This category might have changes because of yet non-completion of bylaws that supplements this Law, and in case of changes you'll be notified on time.

In the expenditure category **goods and services** the increase has been dedicated mainly for:

- Addressing of economic miss-classification of funds in frame of capital expenditure (funds these which according to the nature belongs to the expenditure category of goods and services).
- Covering of funding needs for waste management, and
- Budget support for the preuniversity education and primary health.

In the category of **capital expenditure** the increase has been dedicated for covering of municipal obligations which are in continuous increase.

Also under the category of **subsidies and transfers** there is an increase compared to previous year, mainly due to economic miss-classification of funds in frame of capital expenditure and funding for theatres. Planning under category of subsidies and transfers shall be completed from municipal own-source revenues.

Capital expenditures: In regard to capital expenditures, this circular provides space for an evident increase of local public investments as result of increasing municipal total funding for years 2020-2022.

During the process of capital investments planning, in accordance with legal obligations, each municipality initially should plan sources for full funding of ongoing projects.

Municipalities might plan new projects, if planned budget provides additional space on obligations for the implementation of existing projects, including even co-funding projects with line ministries or with potential donors.

During planning of capital projects you should consider existing structure of accounting plan with purpose of proper implementation of economic classifications which are verified through audit process.

Instructions about budget planning:

In order to maintain fiscal discipline and according to existing legal obligations, budget organizations are not permitted to increase salaries coefficients and add the number of employees beyond provided restrictions with Law on Budget. Hiring of new personnel should be completed pursuant to monetary extend in disposal for the expenditure category of salaries and allowances for 2020 and projections for 2021-2022. Legal provisions should also be respected in occasion of paying the overtime work. Any disrespect of these restrictions by budget organization is an entry in obligation without cover, and consequently presents violation of LPFMA and Annual Law on Budget.

Residential expenditures are distributed pursuant to relevant expenditure categories within the general structure of municipality expenditures. In order to ensure the provision of residential services, the municipalities are obliged to implement the MLSW guidelines on the distribution of budget funds within various expenditure categories in sub-program of Residential Services within funding ceilings for Residential Services which have been approved by Grants Committee and reflected in Budget Circular 2020/01.

Funds for financing of theatres are distributed according to expenditure categories within general structure of expenditures in municipalities according to the approval from Grants Committee. In electronic systems KFMIS and BDMS there will be opening of a new sub-program for theaters.

2. Expenditure structure according to categories

During planning of budget for years 2020-2022 each municipality should respect expenditure structure according to the categories issued with this circular. The table that presents expenditure structure according to expenditure categories for 2020 and assessments for 2021-2022 for municipalities has been provided under annex 1.

3. Eligible gender budgeting (EGB)

Municipalities should address eligible gender budgeting according to the instructions given by Budget Circular 2020/01.

4. Delivery of municipal budget-proposal for 2020-2022

After the approval of budget-proposal for 2020-2022 by Municipal Assemblies, the municipalities have to deliver it to the Budget Department in the Ministry of Finance until 30 September 2019. Approved proposal budget should content following documents:

- ✓ Tracking document based on the approval of budget-proposal by Municipal Assembly (signed by the Mayor).
- ✓ Decision of Municipal Assembly on the approval of municipal budget-proposal for 2020-2022 including multiyear capital projects.
- ✓ Tables of municipal budget (BDMS and PIP):
 - Table 4.1 – The plan of budget appropriation of municipality total expenditure for years

- 2020-2022 (printed copy from BDMS, stamped and signed by the Mayor and CFO),
- Table 4.2 – funding of capital projects for 2020 and multiyear capital projects for years 2021-2022 (printed from PIP system, stamped and signed by the Mayor and CFO),
- Table 4.3 – Mid-term plan of municipal budget total revenues from Government grants and own source revenues (printed from BDMS, stamped and signed by the Mayor and CFO),
- Table 3.1.B – Budget appropriations plan pursuant to investment clause,
- Table 3.2.B – Funding of capital projects through investments clause,
- Table of Eligible Gender Budgeting.

