

I Annex - Democracy and the rule of law

7. LAW ON LOCAL SELF-GOVERNMENT FINANCING

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Pursuant to Article 88 item 2 of the Constitution of the Republic of Montenegro, I hereby issue the

Decree Promulgating the Law on Local Self-Government Financing
(Official Gazette of the Republic of Montenegro 42/03, 44/03, Official Gazette of Montenegro 05/08 of 23 January 2008, 51/08 of 22 August 2008)

I hereby promulgate the Law on Local Self-Government Financing, passed by the Parliament of the Republic of Montenegro at the second sitting of the first ordinary session in 2003 on 9 July 2003.

Number 01-451/2

Podgorica, 10 July 2003

Republic of Montenegro

President

Filip Vujanovic, m.p.

LAW ON LOCAL SELF-GOVERNMENT FINANCING

I GENERAL PROVISIONS

Article 1

- (1) This Law shall define financial resources, methods for financial equalisation and use of conditional grants, as well as methods of financing the reserved affairs of local self-government (hereinafter referred to as the "municipality") stipulated by the Constitution, the law and other regulations.
- (2) Provisions of this Law shall also refer to the financing of the Capital and Historical Royal Capital.

Article 2

- (1) Funds for financing municipality's reserved affairs shall be provided in the municipal budget.
- (2) The municipality shall manage the funds from paragraph 1 of this Article independently.

Article 3

Funds for performing municipality's devolved and delegated affairs shall be provided from the state budget, in line with the regulations on devolving, i.e. delegating affairs.

II FINANCIAL SOURCES

Article 4

A municipality shall raise revenues from:

- 1) its own sources;
- 2) joint revenues;
- 3) Equalisation Fund;
- 4) State budget.

Own-Source Revenues

Article 5

- (1) A municipality's own-source revenues shall be:
 - 1) municipal taxes, in accordance with this Law;
 - 2) tax on games of chance and entertainment games, in accordance with separate law;
 - 3) municipal road charges, in accordance with a separate law;
 - 4) sojourn fee, in accordance with a separate law;
 - 5) local administrative fees, in accordance with a separate law;
 - 6) local communal fees, in accordance with a separate law;
 - 7) charges for construction land improvement, in accordance with a separate law;
 - 8) charges for environmental protection and improvement, in accordance with a separate law;
 - 9) revenues generated from property owned by a municipality and revenues generated from property rights;
 - 10) revenues from companies and other legal persons owned by a municipality, i.e. that a municipality is a shareholder of;
 - 11) fines imposed in a misdemeanour proceedings, as well as property gain confiscated in that proceedings;
 - 12) revenues collected from concession fees for performing communal activities and revenues from other concession activities that a municipality concludes in accordance with law;
 - 13) revenues collected by municipal bodies, services and organisations through providing their services;
 - 14) revenues collected from interests on municipal deposits;
 - 15) revenues collected from self-imposed contribution introduced for the territory of a municipality;
 - 16) revenues from grants and subsidies; and
 - 17) other revenues defined by the law.
- (2) Municipalities shall inform the Ministry of Finance on generation and use of revenues referred in paragraph 1 item 9 of this Law, in a procedure stipulated by this Law.

1) Municipal Taxes

Article 6

Municipalities may introduce the following taxes:

- 1) surtax on personal income tax;
- 2) immovable property tax;
- 3) consumption tax;
- 4) tax on undeveloped construction land;
- 5) tax on company or title;
- 6) tax on games of chance and entertainment games.

Surtax on Personal Income Tax

Article 7

- (1) A municipality may introduce an obligation of paying surtax on personal income tax at the rate of up to 13% for legal and natural person from its territory.
- (2) The surtax on personal income tax shall be paid on tax on personal earnings, tax on income from self-employment activity, property income tax, property rights income tax, and capital gains tax.
- (3) Exceptionally from paragraph 1 of this Article, the surtax rate on personal income tax for the Capital and Historical Royal Capital may amount up to 15% of the tax liability referred to in paragraph 2 of this Article.

Article 8

- (1) Surtax on personal income tax shall be paid at the rate defined by a municipality's decision.
- (2) Provisions of the law governing personal income tax shall be accordingly applied to calculating and paying surtax on personal income tax as well as to other matters that are not specifically regulated by this Law.
- (3) Legal and natural persons, banks and other financial organisations shall be required, at the request of a competent municipal tax authority, to deliver data or allow insight into their financial documents and other records for the purpose of controlling surtax calculation and payment.

Immovable Property Tax

Article 9

- (1) Immovable property tax shall be paid by legal and natural person, i.e. immovable property owners.
- (2) Immovable properties referred to in paragraph 1 of this Article shall include land, buildings, residential and business units of buildings and other buildings.
- (3) Revenues referred to in paragraph 1 of this Article shall be paid into the budget of the municipality that the immovable property is located in.

Article 10

Immovable property tax base shall be the market value of the immovable property on 1 January of the year the tax is calculated for.

Article 11

- (1) Immovable property tax rate shall be proportional and it may range from 0.08% to 0.80% of the immovable property market value.
- (2) The municipality may determine the immovable property tax rate according to the type and purpose of immovable property;
- (3) Provisions of the law governing immovable property tax shall be applied to calculating and paying immovable property tax as well as to other matters that are not specifically regulated by this Law.

Consumption Tax

Article 12

- (1) Consumption tax shall be paid on consumption of alcoholic and non-alcoholic beverages in catering establishments.
- (2) Non-alcoholic beverages referred to in paragraph 1 of this Article shall include natural fruit juices, as well as all refreshing fizzy non-alcoholic beverages, mineral and sparkling water, coffee and tea.

Article 13

A consumption taxpayer shall be a legal or natural person that provides catering services.

Article 14

The consumption tax base shall be the selling price of beverages sold in catering establishments, which does not include the value added tax and the consumption tax.

Article 15

The consumption tax rate shall be set by the municipality and it cannot exceed 5% of the tax base referred to in Article 14 of this Law.

Article 16

- (1) Calculated consumption tax shall be registered in records defined by a municipality.

- (2) Provisions of the law governing value added tax shall be accordingly applied to calculating and paying consumption tax, use of fiscal cash registers as well as to other matters that are not specifically regulated by this Law.

Tax on Undeveloped Construction Land

Article 17

- (1) Tax on undeveloped construction land shall be paid by legal and natural persons, i.e. owners of undeveloped construction land.
- (2) Undeveloped construction land referred to in the paragraph 1 of this Article shall include the land within boundaries of a settlement's construction area where, in accordance with the spatial plan, building may be built and where no buildings have been built.
- (3) Undeveloped construction land shall also include a land with a temporary building, for construction of which no approval is required, as well as the land with ruins of a former building.

Article 18

- (1) Tax base of the tax on undeveloped construction land shall be the area covered by the undeveloped construction land expressed in m².
- (2) Tax on undeveloped construction land shall be paid on annual basis, to the amount of EUR 0.03 to 0.30 per m² of undeveloped construction land.

Article 19

Amount of the tax on undeveloped construction land shall be defined by a municipality's decision, depending on its location, dimensions and other circumstances important for use of undeveloped construction land.

Article 20

Method of calculating and paying the tax on undeveloped construction land shall be determined by a municipality's decision.

Article 21

- (1) Taxpayers of the tax on undeveloped construction land shall submit the data on location and dimensions of the undeveloped construction land to the competent tax authority.
- (2) Data referred to in paragraph 1 of this Article shall be submitted by 31 March of the year that the tax is calculated for.

Tax on Company or Title

Article 22

- (1) Taxpayers of the tax on company or title shall be legal and natural persons that are taxpayers of corporate profit tax or personal income tax and that are registered for performing certain activities.
- (2) Persons referred to in the paragraph 1 of this Article having several business units within their organisation shall be obliged to pay the tax on company or title for each business unit.
- (3) Tax on company or title shall be paid on annual basis to the amount defined by a municipality, and per company or title it cannot exceed:
 - EUR 500 for legal persons, and
 - EUR 100 for natural persons.
- (4) A municipality may modify the amount of tax liability for legal persons, depending of the amount of their revenues, assets and number of employees.

Tax on company or title shall not be paid by newly established legal and natural persons for the first year of their operation.

Article 23

Method of calculating and paying the tax on company or title shall be defined by a municipality's decision.

2) Revenues from Self-Imposed Contribution

Article 24

- (1) A municipality may introduce a self-imposed contribution for the purposes of satisfying certain needs of citizens.
- (2) A municipality's decision shall regulate the purpose, territory, period for which a self-imposed contribution is introduced, total amount of funds being collected, a payer of self-imposed contribution, persons exempted from paying self-imposed contribution, amount of self-imposed contribution (base, proportional rate, etc.), methods of calculating and accomplishing citizens' supervision over use of resources for designated purposes, and other issues important for introducing self-imposed contribution.

2. Joint Revenues

Article 25

- (1) Municipality shall collect revenues from joint taxes and charges introduced by the State.
- (2) Joint revenues referred to in paragraph 1 of this Article shall be:
 - 1) revenues from personal income tax;
 - 2) revenues from immovable property turnover tax;

- 3) revenues from concession fees and other charges paid for use of natural resources, authorised by the Republic.

Revenues from Personal Income Tax

Article 26

- (1) A municipality shall be entitled to 10% of revenues from personal income tax collected in its territory.
- (2) Exceptionally from paragraph 1 of this Article, the Historic Royal Capital shall be entitled to 15% of revenues from personal income tax collected in its territory.
- (3) Funds referred to in paragraph 1 of this Article shall be paid directly to the accounts of the municipal budget, through an authorised agent for payment operations.

Revenues from Immovable Property Turnover Tax

Article 27

A municipality shall be entitled to 50% of revenues from the immovable property turnover tax collected in its territory.

Revenues from Concession Fees and Other Charges

Article 28

A municipality shall be entitled to 30% of revenues collected from concession fees and other charges (hereinafter referred to as “charges”) for use of natural resources located in its territory.

Natural resources referred to in paragraph 1 of this Article shall include forests, waters, watercourses, mineral resources, sand, gravel and stone.

III FINANCIAL EQUALISATION OF MUNICIPALITIES

1. Equalisation Fund

Article 29

- (1) Financial equalisation, i.e. balancing of financing of municipalities shall be performed through the Equalisation Fund (hereinafter referred to as the “Fund”).
- (2) Resources of the Fund shall be provided from the revenues collected from:
 - personal income tax to the amount of 11% of the overall sum of collected personal income tax;
 - immovable property turnover tax to the amount of 20% of the overall sum of collected immovable property turnover tax.
- (3) Resources referred to in paragraph 2 of this Article shall be paid to a special account of the Fund, through an authorised agent for payment operations.

Article 30

- (1) The right to use resources of the Fund shall be enjoyed by the municipalities whose fiscal capacity per capita, in the year preceding the one for which the fiscal equalisation is carried out, is lower than average fiscal capacity of all municipalities.
- (2) The municipality's fiscal capacity referred to in paragraph 1 of this Article shall be calculated as a sum of local fiscal revenues (hereinafter referred to as "local revenues") and joint revenues from taxes and charges.

Criteria for Allocation of the Fund's Resources

Article 31

- (1) Fiscal equalisation of municipalities shall be carried out according to the following criteria:
 - 1) fiscal capacity of each municipality;
 - 2) budgetary needs of each municipality.
- (2) The ratio of criteria referred to in paragraph 1 of this Article in fiscal equalisation of municipalities shall be 90% : 10%.

Article 32

- (1) Fiscal equalisation through application of criteria related to fiscal capacities of municipalities shall be carried out through two stages.
- (2) The first stage of fiscal equalisation shall include equalisation of joint revenues per capita, i.e.:
 - personal income tax up to the amount of average revenues generated per capita on this base for all municipalities,
 - immovable property turnover tax up to the amount of average revenues generated per capita on this base for those municipalities that are entitled to use resources of the Fund,
 - charge for use of natural resources up to the amount of average revenues generated per capita on this base for those municipalities that are entitled to use resources of the Fund.
- (3) The second stage of fiscal equalisation shall include equalisation of a municipality's standardised local revenues per capita with average revenues generated by all municipalities on this base in the year preceding the one for which the equalisation is carried out, up to the amount of resources remaining after the first stage of equalisation.
- (4) Standardisation of local revenues referred to in paragraph 3 of this Article shall be done by the Ministry of Finance, by applying average tax rates for all municipalities.
- (5) The amount of resources obtained through application of both stages of equalisation shall be increased by use of 2.00 coefficient for municipalities with less than 3,000 inhabitants.

Article 33

Fiscal equalisation through application of the criteria related to budgetary needs shall be conducted as follows:

- 30% of resources shall be allocated to municipalities entitled to use the Fund's resources,
- 70% of resources shall be allocated on the basis of length and area covered by local roads of municipalities entitled to use the Fund's resources in the ratio 50% : 50%.

Article 34

- (1) Resources of the Fund shall be allocated to municipalities during a year by means of monthly advance payments, as well as at the end of year, through final allocation.
- (2) During the year, resources shall be allocated to municipalities to the amount of 90% of the Fund's available resources.
- (3) A plan of advance payments of the Fund's resources for the next year shall be adopted by the end of October of the current year.
- (4) Final allocation of the Fund's resources for the previous year shall be done by the end of May of the following year.
- (5) The ministry of Finance shall decide upon the allocation of resources referred to in paragraphs 3 and 4 of this Article.
- (6) Decisions on allocation of resources referred to in paragraph 5 of this Article shall be published in the Official Gazette of Montenegro.
- (7) Detailed instructions on the method and procedure of allocation of the Fund's resources shall be passed by the Ministry of Finance.

Commission for Monitoring of Development of Municipalities' Fiscal Equalisation System

Article 35

- (1) For the purpose of monitoring the development of municipalities' fiscal equalisation system, in particular providing impartiality, efficiency and transparency of this system, the Commission for Monitoring of Development of Municipalities' Fiscal Equalisation System (hereinafter referred to as the "Commission") shall be established.
- (2) The Commission referred to in paragraph 1 of this Article shall have the following competences:
 - to monitor application of criteria for fiscal equalisation,
 - to give recommendations for overcoming the deficiencies observed in applying criteria for fiscal equalisation,
 - to provide opinion on the Ministry of Finance's decisions on allocation of the Fund's resources,
 - to prepare reports on development of the municipalities' fiscal equalisation system and give proposals for its improvement.
- (3) The Commission shall have seven members; out of that number, five members shall be appointed by the association of municipalities of Montenegro, one member by the

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Ministry of Finance and one member by the Ministry in charge of local self-government affairs.

- (4) The Commission shall be appointed for a five-year period.
- (5) The president of the Commission shall be elected in the first constitutive session from among Commission's members coming from the association of municipalities. The president shall be appointed for one-year period.
- (6) The Commission's Rules of Procedure shall regulate matters important for its functioning.
- (7) Resources for functioning of the Commission shall be provided out of the Fund's resources.
- (8) Technical and administrative affairs for the needs of the Commission shall be performed by the Ministry of Finance.

IV CONDITIONAL GRANTS FROM THE REPUBLIC BUDGET

Article 36

A municipality shall be entitled to use conditional grants from the Republic Budget for financing investment projects that are of special interest to one or several municipalities.

Article 37

- (1) A municipality that has adopted a multi-annual investment plan shall be entitled to use conditional grants referred to in Article 36 of this Law.
- (2) The multi-annual investment plan shall particularly define: capital requirements (list of all needs for achieving optimal level of public services), capital procurements (supplies and equipment), environmental impact priorities, impact on the budget, sources of financing, and explanation for each planned project.
- (3) The multi-annual investment plan shall be adopted for a five-year period.

Article 38

- (1) A municipality may be granted, in form of conditional grants, a maximum 50% of the funds required for implementation of an investment project.
- (2) The amount of conditional grants shall be determined depending on the level of revenues generated from charges for construction land improvement in a municipality per capita compared to the average of those revenues in all municipalities in the year preceding the implementation of an investment project:
 - 1) If revenues of a municipality per capita, when compared to the average generated revenues of all municipalities, are lower than 50%, the municipality shall be eligible for a conditional grant of up to 50% of the value of the investment project.
 - 2) If revenues of a municipality per capita, when compared to the average generated revenues of all municipalities, range from 50% to 70%, the municipality shall be eligible for a conditional grant of up to 30% of the value of the investment project.
 - 3) If revenues of a municipality per capita, when compared to the average generated revenues of all municipalities, range from 70% to 90%, the municipality shall be eligible for a conditional grant of up to 20% of the value of the investment project.

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- 4) If revenues of a municipality per capita, when compared to the average generated revenues of all municipalities, are higher than 90%, the municipality shall be eligible for a conditional grant of up to 10% of the value of the investment project.
- (3) The Government of the Republic of Montenegro (hereinafter referred to as the "Government") shall decide upon allocation of conditional grants, at the proposal of the Ministry of Finance.
- (4) A substantiated request for allocation of a conditional grant shall be submitted to the Ministry of Finance by the end of March of the current year.
- (5) The request referred to in paragraph 4 of this Article shall be accompanied by an opinion of the Ministry in charge of the area in which the investment project shall be implemented.

V FORMS OF FINANCING MUNICIPALITIES

1. Budget

Article 39

- (1) A municipality shall have its own budget.
- (2) The budget shall include all inflows belonging to the municipality and all outflows from the scope of its competence.

Article 40

- (1) The municipal budget shall be adopted for the fiscal year that corresponds to the calendar year.
- (2) The municipal budget shall include all inflows belonging to the municipality and all outflows from the scope of its competence.
- (3) The municipal budget shall register revenues by sources, and expenditures by organisational, functional and economic classification.

Article 41

- (1) Inflows and outflows in the municipal budget must be balanced.
- (2) Municipal budget outflows may be financed out of revenues and budgetary reserves, including short-term loans for expected revenues if they are intended for meeting short-term needs for liquidity.

Article 42

- (1) Proposal of a decision on budget shall be defined by the president of municipality, who shall present it to the assembly by the end of November of the year preceding the year for which the budget shall be adopted.
- (2) The decision on budget shall particularly include:
 - 1) a normative part regulating its execution in detail;
 - 2) an estimation of inflows and outflows itemised by economic and functional classification;
 - 3) expenditures of spending units;
 - 4) use of surplus and covering of deficit;
 - 5) current and permanent budget reserve.

Article 43

The proposal of the decision on budget shall be accompanied by the following documents:

- 1) report on public debates conducted with regard to the budget;
- 2) overview of revenues and expenditures for the previous fiscal year;
- 3) report on budget execution for nine months of the current fiscal year and an estimation of budget execution for the remaining three months of the current fiscal year;
- 4) overview of the planned revenues and expenditures for the following three fiscal years.

Article 44

- (1) The budget shall have to be adopted before the beginning of the year it refers to.
- (2) If the budget is not adopted within the deadline referred to in paragraph 1 of this Article, a decision shall be passed on temporary financing for the period of three months maximum.
- (3) Temporary financing referred to in paragraph 2 of this Article may be carried out to the amount that corresponds to 1/12 (one twelfth) of expenditures realised in the previous fiscal year.
- (4) The decision on temporary financing shall be passed by the municipal assembly.

Article 45

In cases when planned revenue are reduced or planned expenditures increased during a fiscal year, the budget shall be modified in accordance with the procedure prescribed for its adoption.

Article 46

A municipality that receives specific-purpose funds from the Republic Budget shall keep those funds separate from its own funds and use them only for the purposes they have been provided for.

Article 47

Provisions of the Budget Law shall be accordingly applied to preparing, planning and managing the budget as well as to other matters that are not specifically regulated by this Law.

2. Budget Execution

Article 48

- (1) Upon adoption of the budget, local self-government body competent for financial affairs shall inform budget beneficiaries on the appropriated funds.
- (2) Budget funds shall be used for the purposes determined by separate laws and regulations of municipalities.
- (3) All budget beneficiaries shall use the funds for determined purposes economically and in accordance with the regulations on use and disposal of those funds.

Article 49

- (1) During the year, budget funds shall be, as a rule, put at disposal to all bearers and beneficiaries of those funds within the generated revenues and depending on liabilities due, if a law or a municipality's decision or a contract with a bearer or beneficiary of budget funds do not regulate otherwise.
- (2) Spending unit shall use the appropriated funds in accordance with the dynamics approved by a president of municipality.

Article 50

If, due to uneven inflow of budget revenues, execution of planned expenditures cannot be ensured, the following may be used to cover those expenditures: reserve funds and short-term loans within the limits provided for in this Law.

Article 51

- (1) In the case of unforeseen circumstances that were unfamiliar at the moment of passing the budget, president of a municipality may, on the basis of a spending unit's justified request, reallocate spending units' funds for specific purposes, (by increasing or decreasing the funds) and up to 10% of the funds allocated to the spending unit.
- (2) Spending units may, if approved by president of a municipality, reallocate granted funds for particular purposes up to the amount of 10% of funds provided for purposes whose amount they are to change.

Article 52

- (1) President of a municipality shall be accountable for execution of the budget.
- (2) The budget executor shall be responsible for use of budget funds for intended purposes.

3. Budget Reserves

1) Current Budget Reserves

Article 53

- (1) Within the budget, a part of planned revenues shall not be allocated in advance, but shall be kept as a current budget reserve.
- (2) Funds of the current budget reserve shall be used for unforeseen or insufficiently foreseen activities financed from the budget.
- (3) Funds from the current budget reserve shall be put at disposal of president of a municipality, in accordance with a decision passed by the municipal assembly.
- (4) The president of municipality may authorise the budget executor to manage funds of the current budget reserve up to a certain amount.

2) Permanent Budget Reserves

Article 54

- (1) Budget shall provide funds for a permanent budget reserve, which is presented as a separate item of the expenditures.
- (2) Permanent budget reserve shall be used for financing expenditures made for participation of municipalities in eliminating consequences of extraordinary circumstances such as floods, droughts, earthquakes, fires, environmental and other natural disasters, as well as other extraordinary events that can jeopardize lives and health of people or cause damage of large dimensions.
- (3) Permanent budget reserve may be also used for temporary execution of budget liabilities caused by lower revenues, and for covering a budget deficit.
- (4) Maximum 2% of the total revenues in a budget year shall be allocated to the permanent budget reserve.
- (5) Municipal assembly shall adopt a decision on use of the permanent budget reserve funds.

4. Final Budget Statement

Article 55

- (1) Upon the expiry of the year that the budget is adopted for, municipal assembly shall adopt the final budget statement.
- (2) The final budget statement shall include:
 - 1) balance sheet;
 - 2) profit and loss statement expressed in accordance with organisational, functional and economic classification;
 - 3) capital expenditures and funding statement;
 - 4) cash flow statement;
 - 5) report on execution of the budget, prepared in a manner to show the difference between appropriated and executed funds;
 - 6) explanation of significant deviations between appropriated funds and executed funds;
 - 7) report on received domestic and international donations and loans, and executed debt repayments;
 - 8) report on using current and permanent budget reserve funds;
 - 9) report on guarantees issued during the fiscal year;
 - 10) external auditing report on financial reports referred in items 1-9 of this paragraph.

Article 56

- (1) Proposal of the final budget statement shall be determined by president of a municipality, who shall submit it to the municipal assembly by the end of May of the current year.
- (2) The final budget statement shall be presented for insight to the Ministry of Finance within 30 days from the day of its passing.

Article 57

Along with the final budget statement, the municipal assembly shall also be presented with the profit and loss statements of public enterprises and public institutions, permanent reserves and property balance sheets dated on 31 December of the year that the budget refers to.

Article 58

Public enterprises and institutions established by the municipality, as well as other legal persons that the municipality is majority owner of, shall submit their annual financial statements for inspection to the municipal body in charge for finances, within 30 days from the day of their adoption.

5. Investment Policy

Article 59

- (1) Municipalities shall implement their investment policy in accordance with good financial management practice.
- (2) A municipal assembly's decision on investment policy shall define the procedure for unallocated funds disposal, types of securities in which unallocated funds may be invested, investment diversification policy, quality of instruments in which the funds are to be invested, as well as other issues important for investment policy.
- (3) President of a municipality shall make the decision on investments, in accordance with the established investment policy, and at the proposal of the local self-government body in charge of financial affairs.

IV BORROWING

Article 60

- (1) A municipality may borrow by issuing securities or taking loans.
- (2) A municipality shall issue securities in accordance with the law.

Article 61

- (1) Municipalities may take short-term loans for the purpose of satisfying short-term needs for liquidity.
- (2) A short-term loan, within the meaning of paragraph 1 of this Article, shall mean any credit in which the principal repayment schedule does not exceeds 12 months.
- (3) The decision on taking the loan shall be published in the Official Gazette of the Republic of Montenegro.

Article 62

- (1) A municipality may take long-term loans and issue guarantees.
- (2) A long-term loan, within the meaning of paragraph 1 of this Article, shall mean any credit in which the principal repayment schedule exceeds 12 months.
- (3) A municipality may take long-term loans only for the purpose of financing capital infrastructure expenditures or for the purchase of capital assets, in accordance with the approved multi-annual investment plan.
- (4) The long-term loan may not be used for financing current expenditures.
- (5) The decision on taking the loan shall be published in the Official Gazette of the Republic of Montenegro.

Article 63

- (1) Contracts on taking loans, on the basis of assembly's decision, shall be concluded by the president of a municipality.
- (2) A local self-government body in charge of financial affairs shall keep records on the existing debt of a municipality, as well as on short-term and long-term loans taken.

Article 64

- (1) A municipality may take debt in a manner that the total repayment of the principal and interests in a particular year does not exceed 10% of realised current revenues in the year preceding the year of borrowing, upon prior consent of the Government.
- (2) The Ministry of Finance shall pass detailed instructions on the contents of a municipality's request for borrowing and fulfilment of conditions for granting a loan to the municipality.

Article 65

- (1) Public enterprises, institutions and other legal persons founded by a municipality can take debts only with the approval of the founder.
- (2) Municipal assembly shall give approval referred to in paragraph 1 of this Article.
- (3) Restraints referred to in Article 64 of this Law shall also include possible borrowing of public enterprises and institutions founded by the municipality.

V LOCAL SELF-GOVERNMENT TREASURY

1. Consolidated Treasury Account and General Treasury Ledger

Article 66

- (1) Local self-government body in charge of financial affairs shall open a consolidated treasury account.
- (2) Budget funds shall be deposited on the consolidated treasury account.
- (3) No payment shall be done from the consolidated treasury account without being appropriated in the budget.
- (4) Local self-government body in charge of financial affairs shall be authorised to approve opening of sub-accounts, i.e. of other accounts as an integral part of the consolidated treasury account.
- (5) Local self-government body in charge of financial affairs shall regulate in detail the method of using funds from the accounts referred to in paragraph 4 of this Article.
- (6) Local self-government body in charge of financial affairs shall manage the consolidated treasury account, sub-accounts and other accounts.
- (7) Local self-government body in charge of financial affairs shall keep the general treasury ledger.

- (8) Separate records shall be kept in the general treasury ledger for every beneficiary of the budget funds.
- (9) Transactions and events recorded in the ledger of beneficiaries of budget funds must, at any moment, be in accordance with the transactions in the general treasury ledger and adjusted to the local consolidated bank account.

2. Treasury Activities

Article 67

- (1) Local self-government body in charge of financial affairs shall perform the treasury-related activities by executing the following functions:
 - 1) Financial planning, which includes:
 - projection and monitoring of inflow on the consolidated treasury account, as well as expenditure payment requests that include the analysis of cash flow, budget execution plan and debt service;
 - definition of quarterly, monthly and daily quotas of payment commitments;
 - 2) Cash management, which includes:
 - consolidated treasury account management that records all inflows in and all outflows from the budget related to opening and control of bank accounts and sub-accounts and banking relations management;
 - liquidity management;
 - further elaboration of procedures with regard to receiving payments through the banking system;
 - financial sources management, including investment of unallocated funds;
 - 3) Expenditures control, which includes managing the processes of approval of commitments, checking received goods and services and approving payments from appropriated funds;
 - 4) Debt management, which includes:
 - management of new loans negotiations and agreements;
 - keeping records on outstanding debt;
 - management of inflows from borrowing;
 - 5) Budget accountancy and reporting, which includes:
 - accounting activities for payment processing and inflow registration, keeping daybook, general treasury ledger, and selected auxiliary books for all inflows and outflows, and international donations and other types of support;
 - financial reporting;
 - accounting methodology, which includes maintenance of the classification system, prescribing rules for budget accounting, and prescribing requests with regard to internal and external reporting;
 - 6) Managing financial information system.

Article 68

Provisions of the Budget Law shall be accordingly applied to other matters related to local self-government treasury operation, unless otherwise stipulated by this Law.

VI MONITORING

Article 69

A municipal assembly, in a manner defined by municipal charter, shall perform monitoring of budget execution and purposeful use of the funds that are appropriated from the budget for particular purposes.

Article 70

A president of municipality, in a manner defined by municipal charter, shall perform monitoring of financial, material and accountancy operations of budget beneficiaries regarding the purpose, volume and dynamics of funds use.

Article 71

The competent local self-government body shall perform administrative monitoring of implementation of this Law.

Article 72

- (1) The Ministry of Finance shall monitor legality of work of local self-government bodies in implementation of this Law.
- (2) The Ministry of Finance may require the state body in charge of auditing to perform an audit of financial operations of a municipality regarding security, reliability, cost-efficiency, effectiveness and purposefulness of use of municipal budget funds related to the municipality's devolved or delegated affairs.

Article 73

A president of municipality shall present the report on control referred to in Article 72 of this Law to the municipal assembly, as well as inform the Ministry of Finance about the measures taken within 30 days.

Article 74

- (1) Municipalities shall be required to present to the Ministry of Finance the data on revenues and expenditures, as well as on budget borrowings on quarterly basis, not later than within 30 days from the end of quarter.
- (2) The procedure for submission of data referred to in paragraph 1 and their contents shall be set by the Minister of Finance.

- (3) A municipality that fails to deliver the data referred in paragraphs 1 and 2 of this Article shall temporarily be deprived of funds that it receives from the joint revenues.

VII SPECIAL PROVISIONS

Application of Other Regulations Related to Taxation Procedure

Article 75

Provisions of the law governing tax administration shall be accordingly applied to the method of calculating and paying of municipal taxes, taxation procedure, functioning of the local taxation body as well as other matters that are not regulated in details by this Law.

VIII TRANSITIONAL AND FINAL PROVISIONS

Article 76

Secondary legislation for implementation of this Law shall be passed within 120 days from the day of entry into force of this Law.

Article 77

- (1) The Commission for Local Self-Government Financing shall be established within 60 days from the day of entry into force of this Law.
- (2) The Minister of Finance shall convene the first session of the Commission referred to in paragraph 1 of this Article.

Article 78

The Law on Public Revenues System (Official Gazette of the Republic of Montenegro 30/93, 3/94, 42/94, 13/96, 45/98) and provisions of the Articles 1, 14, 15, 17, 19, 20, 21, 22 and 23 of the Law on Communal Fees and Charges (Official Gazette of the Republic of Montenegro 38/92, 30/93, 3/94, 27/94 and 45/98), related to local fees for company titles and paying charges for using communal goods of general interest, shall be repealed on the day of entry into force of this Law.

Article 79

This Law shall enter into force on the eighth day following that of its publication in the Official Gazette of the Republic of Montenegro and it shall apply from 1 January 2003.

PUBLISHER'S NOTE:

Provisions of the Law on Amendments to the Law on Local Self-Government Financing (Official Gazette of Montenegro 05/08 of 23 January 2008) that are not incorporated in the consolidated text of this Law shall read as follows:

“Article 34

- (1) The Commission for Monitoring of Development of Municipalities’ Fiscal Equalisation System shall be constituted within 30 days from the day of entry into force of this Law.
- (2) The Minister of Finance shall convene the first session of the Commission referred to in paragraph 1 of this Article.

Article 35

This Law shall enter into force on the day following that of its publication in the Official Gazette of Montenegro and it shall apply from 1 January 2008.”

PUBLISHER’S NOTE:

The words “charges for construction land use” in Article 5 item 7 of this Law shall be deleted by entry into force of the Law on Physical Planning and Construction (Official Gazette of Montenegro 51/08) as of 1 January 2009.