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PUBLIC SECTOR RESTRUCTURING ON THE MUNICIPAL LEVEL: THE CASE OF CITY OF BELGRADE

Restrukturiranje javnog sektora na nivou gradske uprave na primeru Grada Beograda

Abstract

As at 2013 year-end the City of Belgrade had a 20.25% budget deficit, an inefficient City Administration and an overweight public sector that generated a total financial loss almost EUR 24 million. In just one year, through the implementation of reforms that involved institutional, organizational and financial restructuring, the City halved the budget deficit, and the public sector which previously generated a loss was transformed into a public sector that generates a profit, in the amount of EUR 8.5 million.

The essence to the restructuring process is reflected in the clear division between the function of the founder and the function of management. The founder, City of Belgrade, starts doing the basic function of the founder, which is continuously controlling and monitoring the operations of public companies. The management of public companies was given two key goals: improving the efficiency of business operations and a continued improvement in the quality of the services provided by the public company. Many public companies do not have the fundamental goal of making a profit but rather providing services of public interest in the business activity they are in charge of. By establishing an economic goal also, the public companies, regardless of their fundamental goal and purpose for which they were founded, also have to take into account economic parameters or, in order words, operating efficiently.

Key words: *restructuring, budget deficit, public utility companies, City of Belgrade*

Sažetak

Na kraju 2013. godine budžetski deficit Grada Beograda iznosio je 20,25%, dok su neefikasna gradska administracija i glomazni javni sektor uticali na to da ukupni finansijski gubici dostignu skoro 24 miliona evra. Za samo godinu dana, zahvaljujući sprovedenim reformama koje su bazirale na institucionalnom, organizacionom i finansijskom restrukturiranju, gradska uprava uspela je da prepolovi budžetski deficit i da javni sektor, koji je u prethodnom periodu konstantno beležio gubitke, transformiše u profitabilan javni sektor čija je ukupna dobit iznosila 8,5 miliona evra.

Od ključnog značaja za proces reformisanja je uspostavljanje jasne podele između osnivačke i upravljačke funkcije. Kao osnivač, Grad Beograd najzad počinje da obavlja osnovnu funkciju osnivača, a to je kontrola i monitoring poslovanja javnih preduzeća. Uprava javnih preduzeća treba da bude usmerena na realizaciju dva ključna cilja: veća efikasnost poslovanja i stalno unapređenje kvaliteta usluga javnih preduzeća. Mnoga javna preduzeća gube iz vida da je njihov fundamentalni cilj stvaranje profita i zadovoljavaju se ulogom isporučioća usluga od javnog interesa u segmentu za koji su zadužena. Orijehtacija javnih preduzeća ka ekonomskom cilju, bez obzira na njihovu osnovnu delatnost i svrhu osnivanja, znači da će takođe morati da vode računa o ekonomskim parametrima, odnosno, da posluju efikasno.

Ključne reči: *restrukturiranje, deficit budžeta, javna komunalna preduzeća, Grad Beograd*

Introduction

Optimization of the functioning of the public sector is crucial for the proper functioning of social environment which it serves. In the case of the Republic of Serbia such examples are particularly significant for two reasons. First, because efficiency of the public sector is the problem at the state level, and by further addressing it, economic environment would be significantly improved, obstacles for prompt and quality performing of public affairs would be removed, but it would also reduce social costs of insufficient effectiveness of the system. Second, because there is quite a strong belief that the public sector is, by definition, inefficient, that it generates losses, as well as that the subjects in its ownership cannot carry out their target function with the achievement of positive financial effects.

Same observations can be applied to the City of Belgrade (hereinafter referred to as: CoB). In this paper is, therefore, shown great progress in terms of positive effects of restructuring public sector of CoB that has been achieved in the previous year. The first segment of the paper contains a summary of the undertaken systemic and operational measures in the field of restructuring. The second part of the paper represents the presentation of the financial effects of restructuring public sector of CoB as a whole. The third part consists of the review of effects apportioned on individual public companies (hereinafter referred to as: the PC) and limited liability companies (further on: the LLC) in the ownership of CoB.

Literature review

There is strong degree of agreement in the empirical literature about the low efficiency of the public sector, both absolutely and in comparison to the private sector. The vast majority of researches indicate that the public spending must be substantially lower [8], [13], [14], [15].

The empirical results differentiate in terms of the prevailing sources and factors of unsatisfactory level of efficiency. *Roubini* and *Sachs* [11], [12] analysis performed on OECD countries demonstrated that extensive spending and high budget deficits are highly correlated with fragmented and weak governments. Similarly, *Borge et*

al. [5] provide evidence that high fiscal capacity and high degree of party fragmentation lead to low public sector efficiency. *Von Hagen* [16] findings are in line with the previous, demonstrating strong relationship between low deficits and strict budgetary procedures in US states and EU members. *Bartel* and *Harrison* [4] provide evidence that public sector inefficiency in terms of soft budget constraint and the level of competitiveness is primarily due to agency-type problems. *Alfonso et al.* [1], [2] find that the efficiency of the public sector depends on factors that influence the ability of the private agents to protect their resources from public claims, on the monitoring capacity of public and private agents, and on international constraints.

Besides the prevailing agreement on the public sector efficiency problem, in literature there is ongoing debate on the optimal solution, i.e. whether reforms could effectively substitute the privatization [6], [7] [9],[10]. *Borge et al.* [5] indicate that the organization and financing of the specific services are politically determined, and that restructuring that may improve efficiency is often politically controversial. *Alfonso et al.* [1] point to the importance of transferring many non-core activities to the private sector. In his paper, *Bangura* [3] explains four main reform fields, namely, fiscal stability, managerial efficiency, capacity building, and public accountability.

Restructuring measures for the City of Belgrade's public sector

At the end of 2013 the financial situation at the CoB budget was the following:

- Total liabilities at CoB level amounted to EUR 1,118,716,459
- Due and unpaid liabilities towards direct and indirect budget beneficiaries in the amount of RSD 14 billion (approximately EUR 120 million)
- The budget deficit of 20.25%

The situation is followed by the two general lack: a. massive and inefficient public sector, b. a lack of basic control and monitoring mechanisms by the founder.

The basic problem is that, in the previous period, CoB did not execute its role of the founder, in the domain of

control and monitoring of operations of public companies. In order to resolve the above mentioned problem, CoB first and primary measure was to establish mechanisms for the exercise of these activities. Large number of systemic and operational activities and measures that were conducted, in order to restructure the public sector, can be divided into three groups: institutional, organizational, and financial.

Institutional restructuring

Within the institutional restructuring, CoB has taken several measures. Within the CoB Administration, the powers of the Pricing Administration have been expanded, so as to continuously monitor the work of public companies. The position of the Assistant to the Mayor for public and public utility companies has been established. So-called Project Managers monitoring individually each company have been introduced. At a weekly level data providing insight into the work of companies (general data, financial data, as well as open issues - current problems in companies' operations) were collected and systematized, in order to prepare consolidation business plan, primarily through costs reduction and revenues increase, and all in order to increase the efficiency of CoB companies. So far, shortened *due diligence* had been conducted for all companies, and on that bases, consolidation business plans for all public and public-utility companies have been prepared and are now under execution.

Described measures set up the CoB Administration's proactive approach and demonstrated an example of the management within the administration. In addition, a system of continued control and monitoring is established, providing, at the same time, needed support of the founder to public companies. Now, there is a continuing presence of the founders to the extent that founder is entitled to, with regards to exercising its functions, i.e. control and supervision of the public companies operations.

Also, Internal Audit and Budget Inspection functions have been separated from CoB Administration, and were given the position of independent institutions. Unlike other sectors of CoB Administration that experienced the reduction in the number of the employees, those two institutions had an increase of the employees' number in

the past year. The goal is to strengthen them in human resources, so as to be able to perform assigned functions in full capacity.

By the Decision on the Establishment and the Operations and the Section for Centralized Public Procurement and Control of the Procurement Process, the process of centralization of the public procurement for certain goods and services was launched (goods: office supplies, equipment for the hygiene maintenance and hygiene paper, foods, vehicles, energy sources, computers and computer equipment, furniture and services: cleaning facilities, physical-technical security, maintenance of computers and computer equipment, printing services, disinfection, fumigation and pest control services), that will lead to significant savings within the public companies spending and prevent abuses. Director of the Public Procurement Office of Republic of Serbia said on 14th November 2014, that the greatest individual saving had been made by the City Administration of CoB, which managed to save RSD 1.3 billion in the first semester, i.e. spent 62% less than in 2013 for public procurement.

In addition to formal fulfillment of the public procurement procedure and executing centralized public procurement by the Public Procurement Agency, CoB established a dedicated organizational unit, within the Budget Inspection, that is analyzing the substantive need for certain procurement. No public company may undertake any public procurement prior to notifying subject unit, explaining in parallel the need for such procurement. Special attention is being paid to unifying public procurement in order to launch an open procedure and to eliminate procurements of small value and procurements via Purchase Order, where the possibility of an abuse is much more expressed. By applying these measures, as well as the principles, in their business policies, public companies Ada Ciganlija, Tasmajdan and Funeral Services managed to consolidate during this year and not to be on the list of the companies subsidized by the new budget.

Also, in accordance with the amendments to the Labour Law (Official Gazette of RS No. 24/05, 61/05, 54/09, 32/13 and 75/14), negotiations the with representative Unions were initiated in order to adopt new Special Collective Agreement for public companies in communal

and housing/ activities in Belgrade. In line with the Law prescribed time frame, a Special Collective Agreement at the level of CoB was signed, as well as the individual collective agreements at the level of each company. For the first time, all public and public - utility companies whose founder is CoB have signed individual collective labor agreements. This sets a true example of establishing social dialog, as well as harmonization around minimum of common values that are necessary, especially in the moment of implementation of the reform process. New collective agreement protects the rights of employees, as well as conditions on the work and union gathering, but at the same time it acknowledges CoB difficult economic situation.

Organizational restructuring

Basic characteristics, i.e. the shortcomings of the organizational structure and job positions' systematization, which CoB new management faced in public communal system, are:

1. Unreasonably large dispersion, namely broad organizational structure with a large number of sectors and other organizational units within the sectoral structures in the largest number of public companies (PC) and public-utility companies (PUC).
2. As a consequence of previously mentioned, there is a large number of managerial staff (at all organizational units' levels - deputies, assistants, coordinators) at the expense of operational job positions, where, if observed in percentage terms, the number of managerial staff in relation to total number of employees ranged from 3% to even 53% of the total number of employees (which means that in some companies there were managers supervising a small number of employees, or that some managers did not have any subordinate employees).
3. In a large number of companies positions of advisors and assistants to director are present. Such positions were usually the result of creating a position for a particular person, instead of having a real need for fulfilling a position with a suitable employee.

4. Lack of a normative basis for determining working effects, as well as the system for control over the need for work force and performed tasks.

As a reaction to existing situation, i.e. to the abovementioned irregularities, the new management of CoB launched an initiative to adopt new Rules and Regulations on the Organization and the Job Positions Systematization, at the level of all PC and PUC. CoB, as the founder of PC and PUC, provided the instructions, that should primarily result in the compliance of the new organizational structure and job positions systematization with the new Labour Law, as well as in rationalization of the organizational structures and job positions systematizations, taking into account that the implementation of the City's instructions should not jeopardize organizational functionality of each PC and PUC.

Instructions provided by CoB reflect in the following:

1. Introduction of the obligation for the PC and PUC to comply their Rules and Regulations on the Organization and Job Positions Systematization with the provisions of the new Labour Law, by the 26th November 2014 (note: committees for supervision, established by CoB, confirmed that all companies carried out harmonization by the given deadline);
2. Implementation of the unified content of the new Rules and Regulations on the Organization and the Job Positions Systematization;
3. Analysis of the existing organizational structures and identification of the shortcomings, i.e. opportunities to execute rationalization;
4. Creating of the new, more shallow and immediate organizational structure, which will, without disruption of organizational functionality, contribute to more efficient utilization of the resources.

Management of CoB narrowed the frame for deepening the organizational structures in PC and PUC, through unified instructions, such as: unifying titles of the organizational units (Sector as the biggest organizational unit, Division or Section, and at the end – Department, as the lowest organizational unit), defining the minimum number of officers that can make the smallest organizational unit (recommendation was minimum 5 employees).

Also, in co-operation with the companies' management, the analysis was carried out regarding the sectoral dispersion of the organizational scheme, resulting in recommendations for the unification or cancelation of certain departments. In this way, horizontal rationalization was carried out, but at the same time operational functionality of the operation was maintained.

Previously stated has resulted in reduction in the number of managerial staff, i.e. their deployment on the operational level, thereby contributing to having a greater number of available officers, on one hand, and having savings through lower salaries, on the other hand. Concrete measures to achieve this goal were the following:

- Abolition of advisers, coordinators and assistants to director positions in all PC and PUC.
- In 2015 CoB, as the founder, plans to introduce Financial Management and Control function (FMC) in all PC and PUC, and thus be ready to welcome opening of the Chapter 32. Implementation of Financial Management and Control also includes setting of the normative for each business operation, by which real needs for human resources will be identified and proper system of control over set goals and conducted tasks will be possible. Only with the implementation of FMC we will have realistic information on how much the applied organizational scheme and systematization are adequate, and in accordance with it further rationalization will be conducted in order to improve the efficiency of the PC and PUC business operations.

In accordance with the previously said, CoB instructions are to place, in the organizational sense, under the directors' office, organizational units that are of special importance for control of business operations. The organization units are as follows:

1. Internal Audit Section,
2. Control over Public Procurement Section,
3. Quality Control Section, and
4. IT Sector.

The implementation of the above mentioned instruction is on-going in all the PC and PUC, where the CoB, as the founder, is continuously conducting supervisory function over this process.

Financial restructuring

The financial restructuring process has been carried out using the following initiatives:

First, it was recommended that the companies change their way of financing costs for engaging task force under the contract (personnel services through private companies), and to directly engage workers. The example for the said is the City Sanitation which used to, in the previous period, engage a part of its work force – 700 workers, through private companies (staff leasing). All of these workers are now engaged directly by signing contracts with the company.

Second, after detailed review and analysis of the practice of paying subsidized prices for utility services, abuses by subsidized users were detected. Based on that, the Decision on amendment of the Decision on Setting Categories of Users Who Pay Subsidized Prices for Communal Services was adopted, which resulted in reform of users' categories and made savings amounting to RSD 90 million on monthly level.

Third, external legal services were abolished, which resulted in yearly savings of RSD 33 million. Namely, in 2013, public companies paid to external law firms RSD 33 million for services provided, while at the same time all these companies have, in their systematizations and organizational schemes, department for legal services, while CoB has City Prosecutors' Office.

Fourth, all the vehicles that had been identified as surplus, 263 cars, were sold. Projection of the savings only on fuel costs, insurance, registration and spare parts, on annual level, gave the amount of around RSD 108 million. At the auction, held on 7th June 2014, 54 cars were sold, while the amount received, RSD 11,605,648.00 was transferred to the account for the help to population of flooded areas. The cars that were not sold were given for use to institutions of general social interest: health care centers, emergency assistance, social institutions, municipalities that were harmed by the floods and similar.

Fifth, spokesperson and consulting services, on which public companies spent RSD 110 million in previous year, were terminated.

Sixth, for the first time, the Mayor's Office, in cooperation with the Secretariat for Finance, Internal Audit

Section, Budget Inspection Section, relevant secretariats, Pricing Administration and public companies, worked on detailed planning of the Business Program for 2015. The main goal that was set for the forthcoming year was to increase the efficiency of the business operations, on one hand, and to increase quality of the communal services, on the other. The goal is for companies to rationalize their costs, so as to utilize those savings to increased number of activities – improving services (more parks being taken care of, cleaner streets, increased number of connections to water supply and sewer networks and similar).

Effects of the restructuring measures on the City of Belgrade’s public sector

The effects of restructuring process could be analyzed by following total revenues, net financial results and number of employees.

A/Total revenues

The trend of revenue movements is slightly negative, and is the consequence of the fact that CoB decreased budget giving and the subsidies to public companies in the last year. The fact is that in almost all companies the high growth rate of net profit is present, which points to doubled positive effect of measures taken. First, reduced grants and subventions to public companies by CoB were achieved. Second, profit of public companies was increased. It is also important to note that a significant number of companies that used to record losses are now reporting

net profit. The conclusion is that in the previous year management has been significantly improved.

The average rate of revenues’ growth, for the whole system of Public Companies and Limited Liability Companies founded by CoB, is negative and amounts to 7.1%, while the growth rate of the net profit is 151.2%, meaning that the system moved from the zone of loss amounting to RSD -1,820,076,555.00 (in 2013) to the profit zone, which amounts to RSD 954,285,474.00 as of end of 2014.

Business result of PUC ‘District Heating Plants of Belgrade’ largely generates the positive result on the total level because they had an increase of close to RSD 3 billion in comparison to 2013 (see the Figure 2), which also significantly contributes to covering of losses of Urban Public Transportation ‘Belgrade’ and other 3 companies that are operating with negative result.

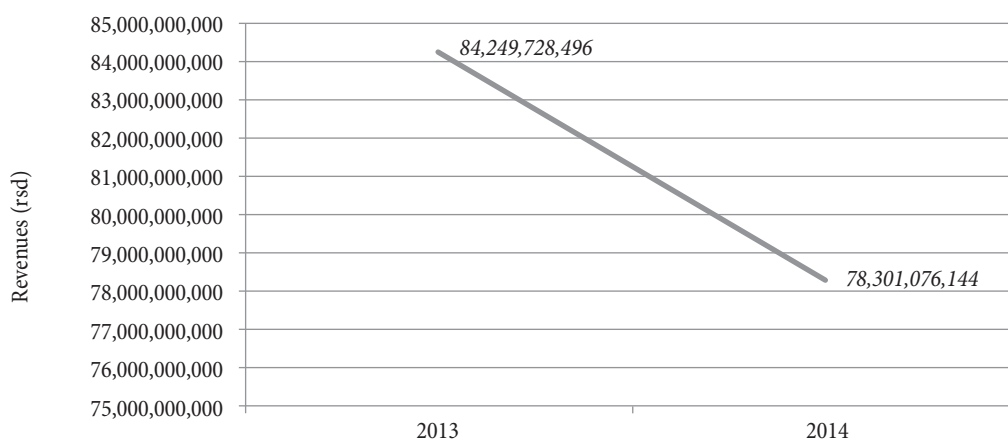
The trend of total revenues’ movement is shown in Figure 1 and Figure 2.

B/Net profit and number of employees

According to shown data, the system of PC and LLC operated positively and achieved net profit growth of RSD 2,774,362,029.00 (from negative result in the amount of RSD -1,820,076,555.00 the system achieved positive values of RSD 954,285,474.00). The effects of such positive results will be materialized through distribution of net profit in favor of CoB budget during 2015.

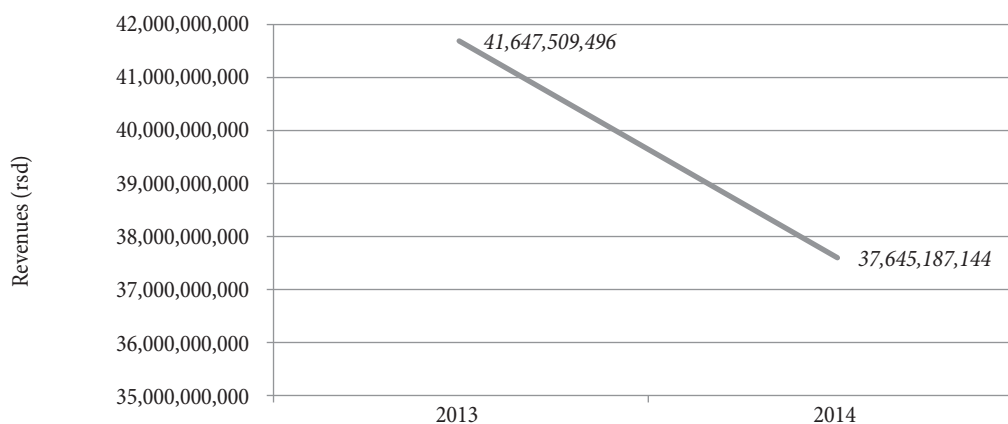
If we exclude the system’s two largest companies, outperformers in positive and negative results, i.e. PUC

Figure 1: The trend of changes in revenues from PCs and LLCs founded by the City (in RSD)



Source: Author’s calculations on the basis of the City Administration data

Figure 2: The trend of changes in revenues from PCs and LLCs founded by CoB, excluding PUC ‘District Heating Plants of Belgrade’ and UPTB



Source: Author’s calculations on the basis of the City Administration data

‘District Heating Plants of Belgrade’ (DHPB) and Urban Public Transportation Belgrade (UPTB), the remaining system’s PC and LLC achieved the growth of net profit in the amount of RSD 1,730,336,029.00, i.e. net result of the remaining companies is moved from the loss of RSD -866,156,555.00 to the increase in the amount of RSD 864,179,474.00, which is the result of increased business efficiency (rationalization of costs and other measures of business-financial consolidation).

In the system of PC and LLC, there is a trend of employees’ reduction, by 329 persons, which represents a decrease of 2.2% (this is a natural outflow of employees).

Number of persons engaged by temporary and occasional labor contracts in 2014 was reduced by 677 persons or 22.6%. Within the framework of the measures for business-financial consolidation companies had an

obligation to reduce the number of persons engaged on temporary and occasional basis.

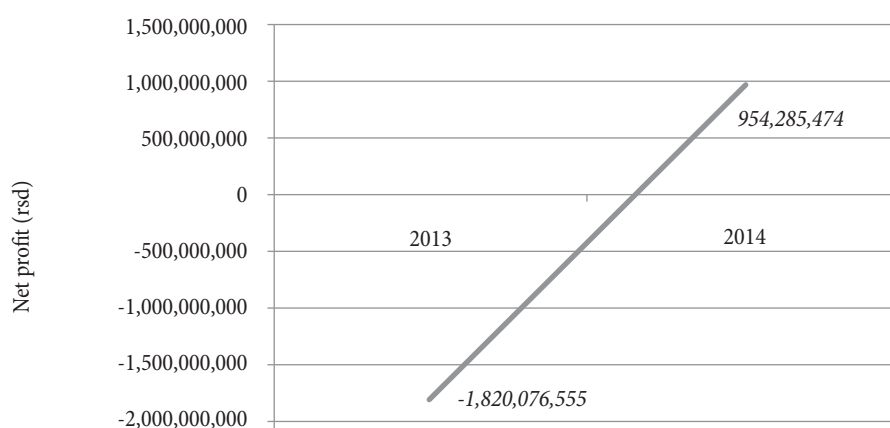
The dynamics of monitored categories is shown in Figures 3, 4, and 5.

Comparative review of net profit by years is given in Figures 6, 7, and 8.

The overall results

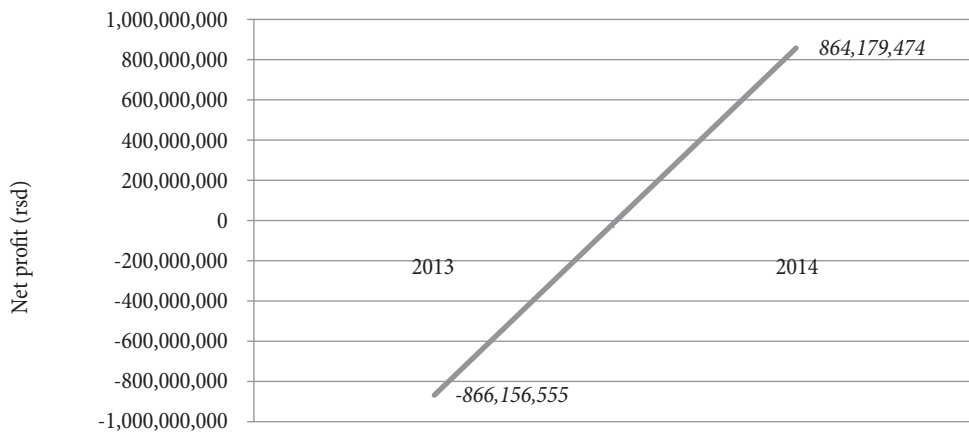
By observing the data presented in the previous segments of this paper, it is noticeable, even given the opposite general belief, that public companies and limited liabilities companies founded by CoB, can operate with profit, if optimizing adjustments are applied. Table 1 distinctively illustrates this claim, but also provides a comprehensive picture of the effects of the changes implemented in the previous year.

Figure 3: Net profit by PCs and LLCs founded by CoB (in RSD)



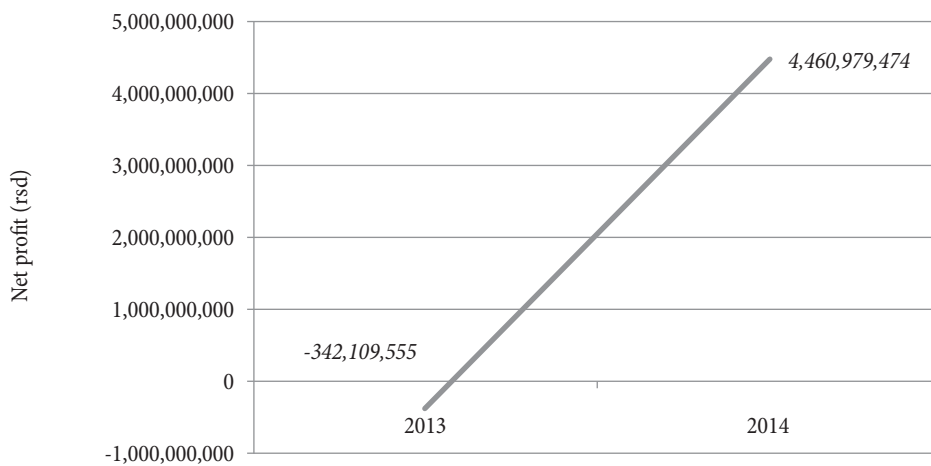
Source: Author’s calculations on the basis of the City Administration data

Figure 4: Net profit by PCs and LLCs, founded by CoB, excluding DHPB and UTSB



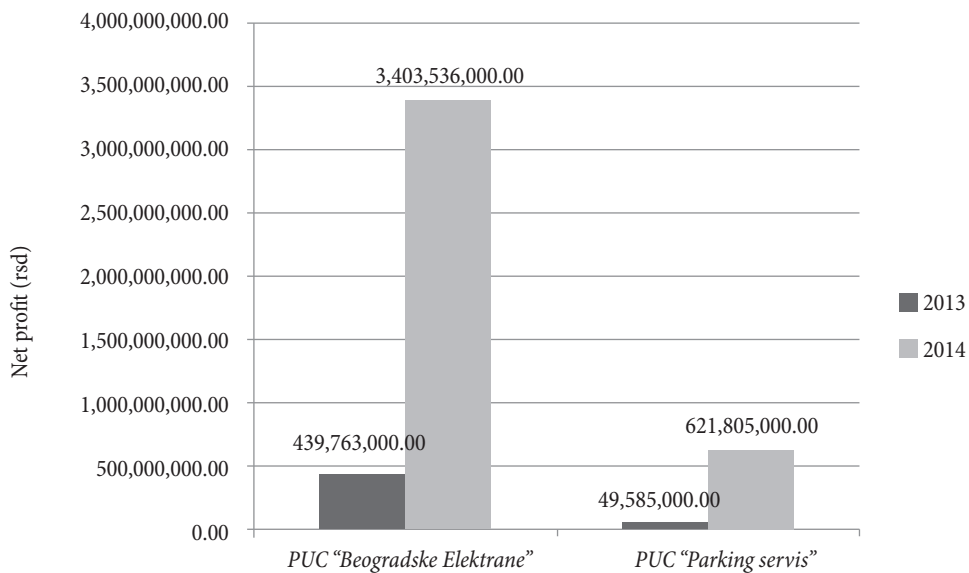
Source: Author's calculations on the basis of the City Administration data

Figure 5: Net profit by PC and LLC, founded by CoB, excluding UTSB and SC (in RSD)



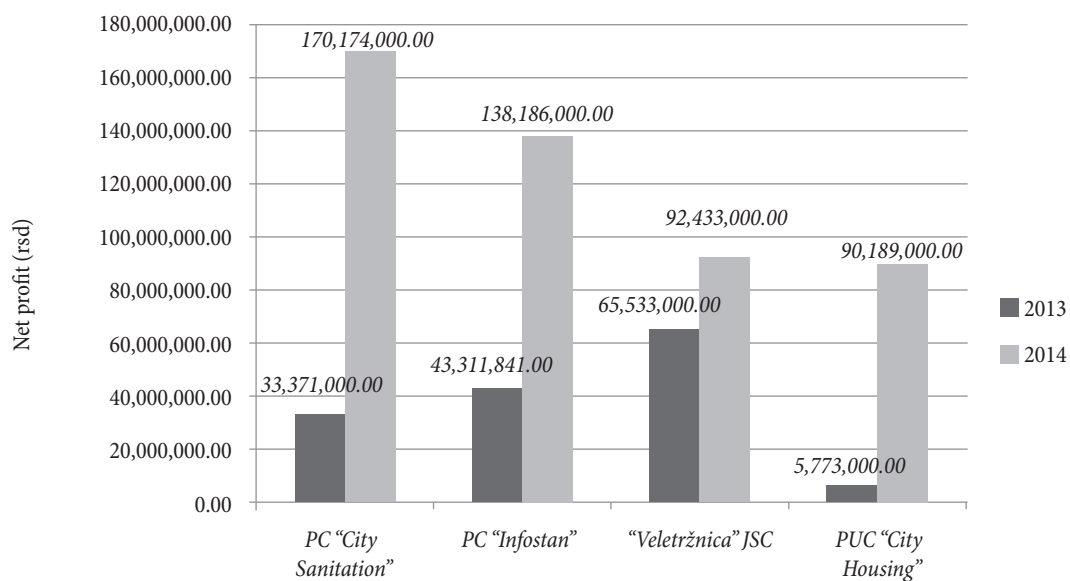
Source: Author's calculations on the basis of the City Administration data

Figure 6: Companies whose net profit exceeds RSD 500 million



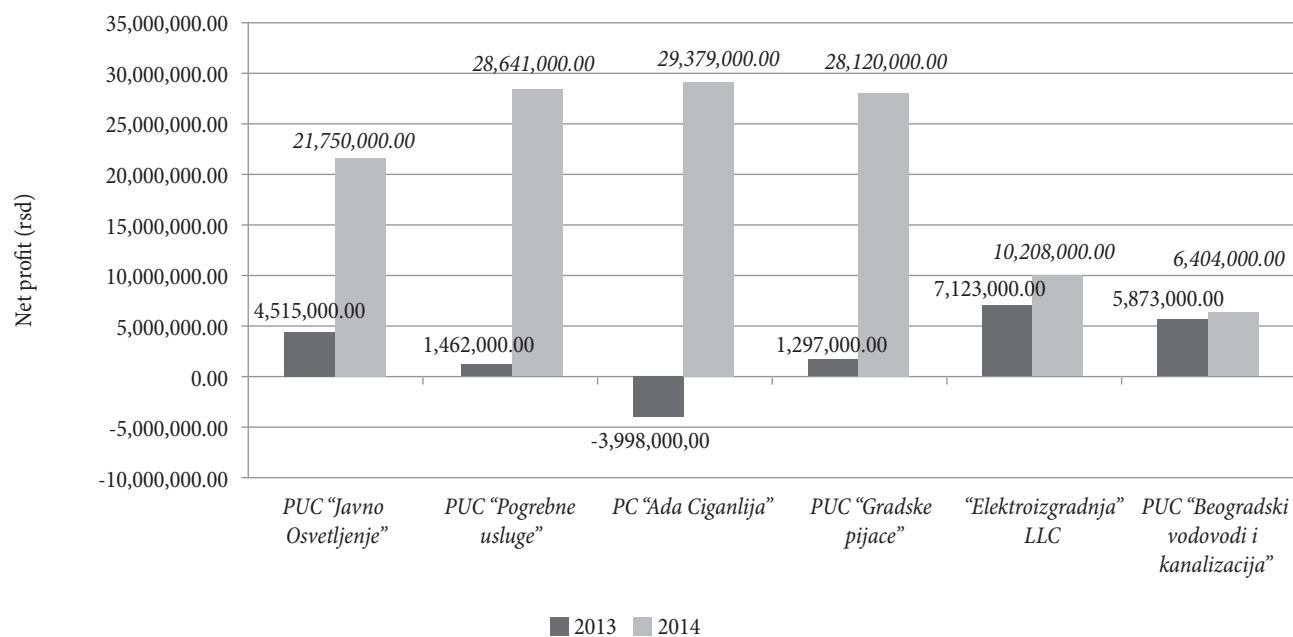
Source: Author's calculations on the basis of the City Administration data

Figure 7: Companies whose net profit ranges from RSD 50 to 200 million



Source: Author's calculations on the basis of the City Administration data

Figure 8: Companies whose net profit ranges from RSD 5 to 20 million



Source: Author's calculations on the basis of the City Administration data

Table 1: The overall display of the effects of restructuring the public sector of CoB

Order	Name of the company	Net profit				Number of employees in personnel records				THE TOTAL REVENUE				Revenue growth rate 2014/2013
		Realized in 2013	EUR	Assessment of the achievement at the end of 2014	EUR	Net profit growth rate 2014/2013	Number of employees in 2013	Number of employees in 2014	Change in the number of employed	Revenues in 2013	EUR	Assessment of the achievement at the end 2014	EUR	
1	PUC "District Heating Plants of Belgrade"	439,763,000.00	3,835,964.27	3,403,536,000.00	28,186,890.32	673.9%	2,208	2,130	78	28,816,473,000.00	251,360,303.06	237,540,888.57	-0.5%	
2	PUC "Parking service"	49,585,000.00	432,519.99	621,805,000.00	5,149,570.72	1154.0%	657	647	10	2,507,637,000.00	21,873,613.62	21,565,049.45	3.8%	
3	PC "City Sanitation	33,371,000.00	276,088.53	170,174,000.00	1,409,425.21	409.9%	1,826	1,768	58	5,466,577,000.00	47,683,852.62	47,146,325.97	By 4.1%	
4	PUC "Infostan"	43,311,841.00	377,800.49	138,186,000.00	1,144,407.94	219.0%	162	163	-1	2,147,427,000.00	18,731,574.18	10,161,078.07	-42.9%	
5	Veletřnica AD	65,533,000.00	571,631.19	92,433,000.00	765,497.66	41.0%	42	44	-2	265,401,000.00	2,315,039.59	2,364,551.56	7.6%	
6	PUC "City Housing"	5,773,000.00	50,356.72	90,189,000.00	746,968.69	872.7%	220	223	-3	2,294,817,000.00	20,017,227.53	17,478,461.50	-8.0%	
7	PUC "Public Lighting"	4,515,000.00	39,383.44	21,750,000.00	180,139.14	381.7%	173	169	-4	856,041,000.00	7,467,073.61	6,273,008.12	-11.5%	
8	PUC "Funeral Services"	1,462,000.00	12,752.73	28,641,000.00	237,194.71	1859.0%	457	436	21	1,708,930,000.00	14,906,652.97	14,404,147.78	1.8%	
9	PC "Ada Ciganlija"	-3,998,000.00	-34,873.75	29,379,000.00	243,324.49	805.3%	34	63	-29	247,983,000.00	2,163,105.87	2,088,433.10	By 1.7%	
10	PUC "Belgrade City Markets"	1,297,000.00	11,313.47	28,120,000.00	232,871.69	2068.0%	206	205	1	1,003,513,000.00	8,753,442.23	8,184,795.06	-1.5%	
11	Elektroizgradnja doo	7,123,000.00	62,132.50	10,208,000.00	84,539.07	43.3%	172	165	7	919,332,000.00	8,019,148.29	7,114,474.75	-6.6%	
12	PUC "Belgrade water supply and sewerage"	5,873,000.00	51,229.00	6,404,110.00	53,036.59	9.0%	2,473	2,434	39	8,723,119,000.00	76,090,014.05	75,105,969.03	4.0%	
13	PC "Belgrade Fortress"	895,000.00	7,806.91	2,479,000.00	20,528.32	176.98%	18	18	0	79,528,000.00	693,706.76	842,218.85	27.9%	
14	PC "Beogradvode"	-129,358,000.00	-1,128,363.84	1,113,000.00	9,217.48	100.9%	171	165	6	346,294,496.00	3,020,657.30	4,121,735.27	43.7%	
15	PC "Belgrade Land Development Public Agency" (surplus/deficit)	0.00	0.00	0.00	0.00	0.0%	288	296	-8	8,355,529,000.00	72,883,600.35	62,526,449.52	-9.6%	
16	PC "Urban Planning Institute"	-87,125,000.00	-759,973.87	-47,054,000.00	-389,684.71	46.0%	144	144	0	151,115,000.00	1,318,145.78	1,628,023.11	30.1%	
17	PUC "Beograd put"	-804,449,000.00	-7,017,046.97	-125,577,636.00	-1,040,066.55	84.6%	1,292	1,247	45	2,734,684,000.00	23,854,098.97	2,711,999.86	-88.0%	
18	PUC "Belgrade City Parks"	37,144,000.00	323,999.65	31,519,000.00	261,005.29		1,243	1,204	39	2,114,039,000.00	18,440,337.36	17,191,933.01	-1.8%	
19	Beo Zoo	8,991,000.00	78,426.69	1,419,000.00	11,751.66		49	42	7	136,900,000.00	1,194,151.19	1,093,227.35	-3.6%	
20	Kombank Arena	11,501,604.00	100,326.18	1,249,000.00	10,343.78		39	39	0	639,279,000.00	5,576,302.25	2,262,447.11	-57.3%	
	Total PC and LLC (with the net profits)	-308,791,555.00	-2,693,526.68	4,505,972,474.00	37,048,147.01	87.60	11,874	11,603	271	69,514,618,496.00	606,362,047.59	541,770,245.06	-5.9%	

№	Name of the company	Net profit				Number of employees in personnel records				THE TOTAL REVENUE			
		Realized in 2013	EUR	Assessment of the achievement at the end of 2014	EUR	Net profit growth rate 2014/2013	Number of employees in 2013	Number of employees in 2014	Change in the number of employed	Revenues in 2013	EUR	Assessment of the achievement at the end 2014	EUR
21	UTC "Beograd"	-1,393,683,000.00	-12,156,816.74	-3,313,430,000.00	-27,442,686.76	5.862	5,769	-93	13,785,746,000.00	120,250,292.00	11,968,921,000.00	99,129,708.46	-13.2%
22	PC "Sava Center"	-84,284,000.00	-735,192.39	-193,264,000.00	-1,600,544.60	131	123	8	519,842,000.00	4,534,477.30	528,083,000.00	4,373,398.02	1.6 Times zoom %
23	JRDP "Studio B"	-33,486,000.00	-292,091.65	-29,729,000.00	-246,782.51	242	222	20	361,991,000.00	3,157,574.75	345,671,000.00	2,862,725.87	-4.5%
24	PC "Hippodrome Belgrade"	168,000.00	1,465.43	-15,264,000.00	-126,411.09	16	16	0	67,531,000.00	589,059.34	36,073,000.00	298,743.92	-46.6%
	Total PC (with negative result)	-1,511,285,000.00	-13,182,635.35	-3,551,687,000.00	-29,331,762.03	6,251	6,130,000	121	14,735,110,000.00	128,531,403.38	12,878,748,000.00	106,657,269.76	-12.6%
	Total PC and LLC	-1,820,076,555.00	-15,876,162.03	954,285,474.00	7,716,384.99	18,125	17,733	392	84,249,728,496.00	734,893,450.97	78,296,909,144.00	648,427,514.82	-7.1%
25	SRC Tasmajdan	-34,190,000.00	-298,232.50	30,246,000.00	250,486.75	140	110	30	301,182,000.00	2,627,150.06	259,860,000.00	2,152,069.29	-13.7%
26	SRC Pionirski grad	-199,000.00	-1,735.84	-6,909,000.00	-57,217.91	13	13	0	31,456,000.00	274,384.37	29,293,000.00	242,594.34	-6.9%
27	City Center for physical culture - DIF	-13,819,000.00	-120,540.36	-16,680,000.00	-138,137.90	48	42	6	83,924,000.00	732,032.19	71,050,000.00	588,411.16	-15.3%
	Total sport centers	-48,208,000.00	-420,508.70	6,657,000.00	55,130.94	201	165	36	416,562,000.00	3,633,586.61	360,203,000.00	2,983,074.79	-13.5%
	Total PC and LLC and sport centers	-1,868,284,555.00	-16,296,670.73	960,942,474.00	7,771,515.92	18,326	17,898	428	84,666,290,496.00	738,527,037.59	78,657,112,144.00	651,410,589.61	-7.1%
15	Pharmacy Belgrade (surplus/deficit)	1,706,096,000.00	14,881,932.56	1,951,011,000.00	16,158,779.19	1,077	1,023	-54	10,642,182,000.00	92,829,614.98	9,174,482,000.00	75,985,439.79	-13.8%
29	VU "Veterina Beograd"	123,183,000.00	1,074,500.55	14,249,000.00	118,013.91	208	201	7	557,868,000.00	4,866,170.46	399,746,000.00	3,310,556.04	-28.3%
30	Tourist Organization of Belgrade (surplus/deficit)	-327,000.00	2,707.85	895,000.00	7,113.28	36	36	0	108,618,000.00	947,452.99	115,950,000.00	960,168.93	Are 6.5%
31	Institute for Biocides and Environmental Medicine	0.00	0.00	0.00	0.00	51	53	-2	86,853,451.51	757,605.20	352,910,000.00	2,922,676.73	306.3%
32	City Institute for expertise	188,000.00	1,639.89	-32,835,000.00	-271,927.94	82	70	12	149,800,000.00	1,306,675.30	115,668,000.00	957,921.77	-22.8%
	Total institutions and institutes	1,829,665,475.48	15,959,804.26	1,933,320,000.00	16,122,577.43	1,454	1,386	68	11,545,321,451.51	100,707,518.89	10,158,456,000.00	84,128,766.39	-12.0%
	In T O T A L:	-38,619,079.52	-336,866.47	2,894,262,474.00	23,971,032.35	19,780	19,284	496	96,211,611,947.51	839,234,556.48	88,815,568,144.00	735,539,356.00	-7.7%

Source: Author's calculations on the basis of the City Administration data

Conclusive remarks

The key to the public sector reform, which was executed by the management of CoB in the previous year, is based on a clear segregation between the function of the founder and the management function. The founder, CoB, took over its basic function, which is to continuously control and monitor the operations of the public companies.

When it comes to management function, two basic goals were set: to increase business efficiency and to constantly improve quality of services provided by public companies. Through the principle of efficient operations it is being insisted on economic postulates of rational and optimal operations. Through the principle of permanent improvement of service quality, public function is being protected as well as the activity for which the public company was founded in the first place. For many of the public companies earning profit is not even the main goal, but conducting public function for which they have been established for. The point is to appreciate economic postulates in the regular business, but not at the expense of service quality. By introducing both of these principles, mechanisms for corrective actions are established.

The three key areas of reform of the public sector in Belgrade were characterized by: institutional, organizational and financial restructuring.

The example of Belgrade shows that the consolidation of State finances must start at the level where the costs are incurred, i.e. at the level of local government. The example of Belgrade also shows that the reform of the public sector does not have to be politically controversial as *Alfonso et al.* [1] concluded. The proof of this is in the signing of the collective contract with the representative syndicates at the City level as well as the public companies level.

In accordance with the consulted literature, the example of the reforms of the public sector showed that the outsourcing of certain services had negative effects on the income of the companies. The elimination of outsourcing and the taking over of these services by public companies lead to a reduction in costs for the following two reasons: 1) the workers who were already on the payroll and surplus to requirements were engaged in work and

2) it prevented corruption, considering these contracts had a very high value.

By applying the above principles, CoB public sector managed, in only one year, to come, from the phase of generating, at the consolidated level, the minus of RSD 1.8 billion, to the phase of producing profit of almost RSD 1 billion. This positive difference is not the result of the revenue side growth and rapid increase of the communal services, but to against, it is primarily the result of abolishing unnecessary expenses.

Reform of the public sector is characterized by, and for the first time in modern history, reduction in the number of employees. It has proven that with the responsible approach, the public sector does not have to be, by automatism, polygon for “political employment”.

Last year, 2013, was marked by the process of business-financial consolidation at the level of CoB budget, as well as the level of public and public-utility companies. Given the fact that the budget deficit was halved, that CoB did not enter into new debts, and that the public companies came from minus phase to the phase of positive operations, the conditions are now set to mark this 2015th year as the year of investments. Stable financial system at the City level, as well as at the level of each company, is a good base for introduction of a process of public-private partnership that will be one of basic methods and models for attracting investors. Belgrade identified possible areas of cooperation, offered already elaborated projects and is currently in the process of drafting internal procedures that should work out all legal acts with the aim to efficiently implement this process. Belgrade will be the pioneer in realization of this model of attracting the investors, paving the road for other local self-governments and the Republic as well. Our goal is to have the year 2015 as the year marked with investments, where public-private partnership will be one of the key models.

In order to seriously prepare for attracting investors, Belgrade has prepared ‘Guide for Investors’, where in one place it sublimed all potentials Belgrade has, with clear specification of all projects that already exist. The Guide identified three main pillars for attracting investors: the process of public - private partnership, green field investment and the privatization process.

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is the Mayor of Belgrade, leads a city of 1.7 million people where he has initiated a vast financial reconsolidation program to achieve sustainable fiscal stabilization. Siniša has served as Special Economic Advisor to the Prime Minister of Serbia. He was a financial advisor in private practice specializing in transactional work in M&A, financial advisory, restructuring and business consolidations. In 2001, he was the Assistant Minister for Privatization, and the Director of Tender Privatizations. Previously he worked at Deloitte Central Europe and Credit Suisse First Boston in the Mergers & Acquisitions Group in NY. The Mayor is a graduate of the University of Belgrade, in Economics. He completed his MBA with honors in Finance at Washington University, St. Louis, Missouri. In 2013, he obtained his PhD at the Faculty of Organizational Sciences of Belgrade. He has served on various boards at Fiat Serbia, Komercijalna Banka, Air Serbia, and the Clinical Hospital Centers. Currently, he is a President of the Air Serbia Supervisory Board. Siniša is happily married and is a father of three children.



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was born on January 8, 1979. He finished the postgraduate studies at the Faculty of Economics in Belgrade, earning a Master's degree in Business and Financial Management. Currently, he is working on his doctoral thesis, researching "Inflation targeting: advantages, disadvantages and application in Serbia." Before having accepted the position of the Deputy Mayor, he was the Head of Administration for Prices, of the City of Belgrade. He has more than ten years of work experience. He worked on many national and international projects as a manager or as a team member, applying the various kinds of internationally recognized methodologies. He has published several papers in relevant scientific journals. He excelled his financial skills, while working at "EKI Audit" company, by completing the audit of over thirty financial reports, and by developing numerous business and financial Due Diligence reports. Borko expanded his interest at the Institute of Economics to macroeconomics, specializing in monitoring and analysis of macroeconomic indicators, as well as creating applied macroeconomic and feasibility studies, development strategies etc. As one of the best students of the Faculty of Economics, Borko gained his first work experience, with the Ministry of Economy. Later on, he confirmed the qualifications to work in the state administration, by passing the state exam. Borko is fluent in English.