

**Swiss – Kosovo**  
**Local Governance and Decentralization Support**  
**LOGOS**

# Analysis and Forecasting for **Own Source Revenues** in the Municipality of

## VITIA

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This report was prepared by RECURA Financials for the LOGOS project implemented by Intercooperation

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## INTRODUCTION

This report analyzes Own Source Revenues in the Municipality of Vitia and based on historical data and assumptions made based on the findings from field visits and discussions with municipal officials, the report forecasts the generation of Own Source Revenues for the period 2010-2015.

This report is part of the engagement of the financial expert from RECURA Financials, as a consultant to the Local Government and Decentralization Support project (LOGOS) supported by the Swiss Agency for Cooperation and Development, and implemented by Intercooperation.

This report should be seen as an independent outside evaluation of the municipal performance in generating OSR and in estimating the municipal potential for OSRs in the future. In making the forecasts, the consultant used historical performance, as reported in the Auditor General reports, as well as assumptions and estimates based on observations and municipal officials. A note of caution is that as all forecasts, one should be careful in interpreting them as expectations rather than guaranteed results. To achieve forecasted results there needs to be engagement first and foremost by the municipality and some support by the LOGOS project and other parties engaged with this level of governance.

The report below outlines the historical performance of the municipality in generating OSR and interprets some of the observations for the different OSR categories over the 2007-2009 period. Then, the report outlines the assumptions made in the forecasting model to conduct the forecasts for OSR generation for the period of 2010-2015. Provided that these forecast are achieved, the report analyzes the forecasted trends and tries to interpret the causes of such forecasted performance. Finally, the report gives some indicative suggestions into areas that municipalities could be supported by the project in order to achieve the objective of increasing own source revenues generated by the municipality.

## HISTORICAL PERFORMANCE

When analyzing the historical performance of the municipality of Vitia, the consultants have used Auditor General reports as well as extensive consultations with relevant municipal officials. There were many issues regarding the auditor reports, which caused problems and issues regarding the accurate measurement and reporting of OSRs by the municipalities. First, the auditor reports were inconsistent regarding the classification and recording of own source revenues, including the different naming of the same types of taxes and levies. Further, mostly due to the fact that the contracted audit companies were changed over time, there are discrepancies between the auditor reports for the same municipality for the different financial years, including even in cases different historical totals being reported as compared to the original reports from the particular financial year. One major issue was the changing of economic codes, especially after the introduction of the UNIREF payment system, by which the municipalities record revenues which do not coincide with how these taxes and levies are categorized in the municipal regulations. These changes in the way municipalities record and then report OSR make it difficult to extrapolate any trends for specific categories and require further detailing and discussions with municipal officials. Furthermore, auditors use their own models to present OSRs by the municipalities, which further creates lack of clarity and disaggregation of data required for good projections.

A more detailed discussion of the historical performance and trends for the different categories of OSRs is presented after the historical financial reports on OSR for Vitia municipality, presented in the table below:

	2007	2008	2009
<b>Revenues from property tax</b>	79,302.01	190,306.84	215,839.30
<b>Income from businesses</b>			
Revenues from business tax	25,776.83	45,299.50	21,214.10
Revenues from commercial licenses	2,885.50	5,152.50	5,599.00
Revenues from licenses for ads	0.00	291.00	2,268.50
Revenues from licenses and services	3,037.00	4,912.00	4,663.50
Revenues from forest exploitation licenses	0.00	0.00	0.00
The use of road infrastructure	0.00	0.00	45.00
Revenues from stonebreakers and mines	0.00	0.00	0.00
Fees for prolonged working hours	0.00	0.00	0.00
Revenues from business licenses	0.00	0.00	0.00
<b>Revenues from use of the municipal property</b>			
Revenues from parking of vehicles	0.00	0.00	0.00
Revenues from the sale of Municipal property	0.00	4,706.00	20,705.00
Revenues from use of the land	696.18	241.00	454.00

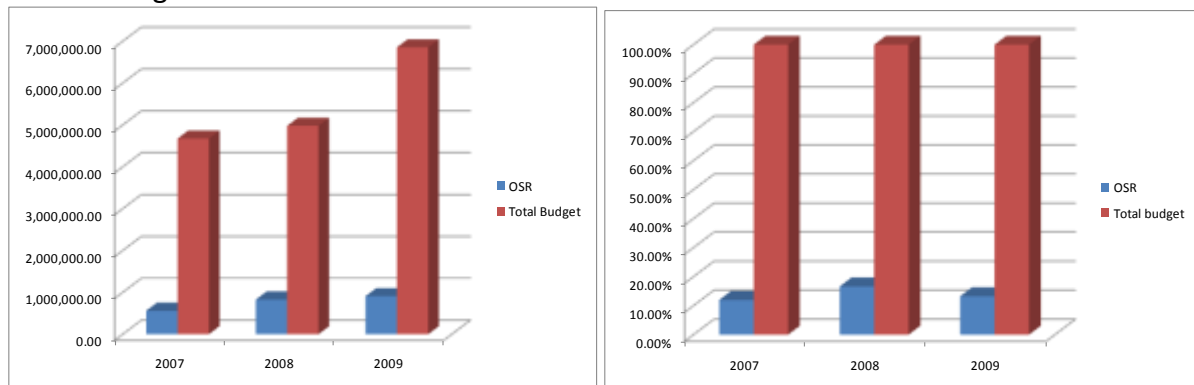
Rent of municipal properties	3,500.00	7,290.00	32,820.74
<b>Revenues from sales of services</b>			
Revenues from inspections	0.00	0.00	710.00
Veterinary inspections	970.00	470.00	0.00
Inspection of food premises	0.00	0.00	0.00
Inspections for fire	0.00	0.00	0.00
Inspection of the environment	0.00	0.00	0.00
Revenues from geodesic plans	5,484.50	5,237.00	8,092.00
Activities in the field to measure the country - Dept. of Urbanization	20,057.50	13,496.84	4,400.00
Inspections of urban plans - Dept. of Urbanization	0.00	0.00	0.00
Revenue from building permits	0.00	0.00	0.00
Payments for the change in land usage	0.00	15.00	1,293.00
Issuance of construction licenses	24,569.30	26,487.30	49,181.75
Demolition license	0.00	0.00	0.00
Other services	0.00	0.00	0.00
<b>Revenue from court fines, police and municipality</b>			
Fines	2,115.00	2,215.00	2,385.00
Fines - Forestry	6,234.00	7,446.66	5,875.80
Court Fees	72,559.00	68,734.97	63,945.00
Revenues from traffic fines	32,359.00	52,162.15	50,796.00
<b>Other</b>			
Other payments			
Other Revenues	20,246.00	2,542.00	3,167.00
<b>Revenues from administrative tax</b>			
Fees from the registration of vehicles	0.00	55,710.00	63,130.50
Issuance of driving licenses	0.00	8,794.00	6,372.00
Fees from traveling documents		0.00	0.00
Tender participations	3,271.00	3,955.00	7,325.00
Road tax	0.00	0.00	0.00
Certificate of the registrar (birth, marriage, death etc.).	24,108.50	35,744.00	61,456.00
Other registrar documents	2,957.50	3,517.00	4,365.00
Certification of different documents	1,166.00	1,049.00	1,573.00
Tax for request forms	0.00	0.00	0.00
Inheritance registration fee	77,857.00	44,540.50	28,600.00
<b>Citizen Participation (health and education)</b>			
Revenues from culture	746.00	192.00	0.00

Revenue from health services	28,265.70	44,045.85	68,413.50
Revenues from kindergarten	16,953.00	17,730.00	15,720.00
Revenues from secondary Education	5,680.00	0.00	0.00
<b>Grants and donations</b>			
Citizen participation in projects	99,995.00	159,002.00	159,080.00
Foreign donations	0.00	17,596.16	0.00
Kosovo donors	0.00	0.00	0.00
<b>Total OSR Generated during the financial year</b>	<b>560,791.52</b>	<b>828,881.27</b>	<b>909,489.69</b>
		<b>47.81%</b>	<b>9.72%</b>
<b>Carried forward revenues from previous years</b>	<b>190,921.06</b>	<b>209,509.00</b>	<b>280,793.00</b>
<b>Grand Total</b>	<b>751,712.58</b>	<b>1,038,390.27</b>	<b>1,190,282.69</b>

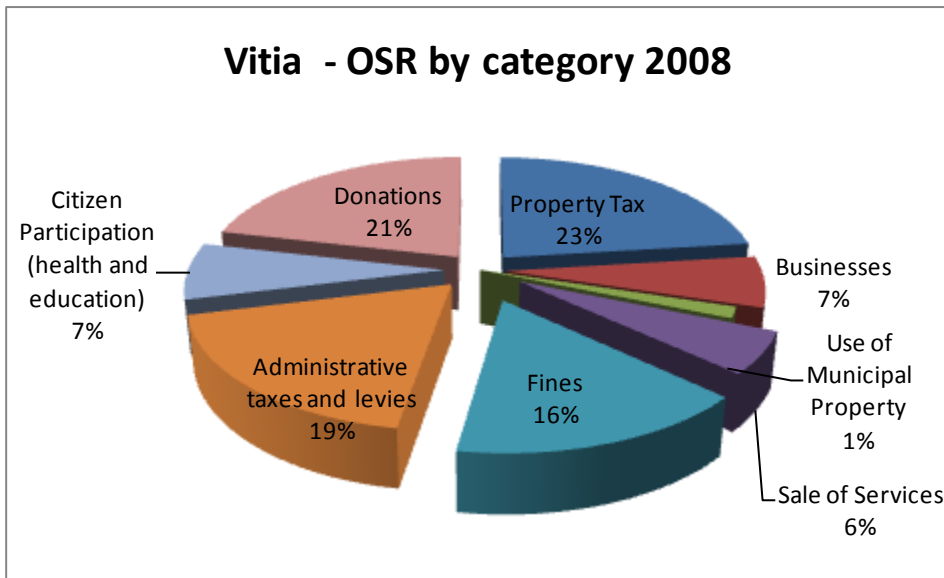
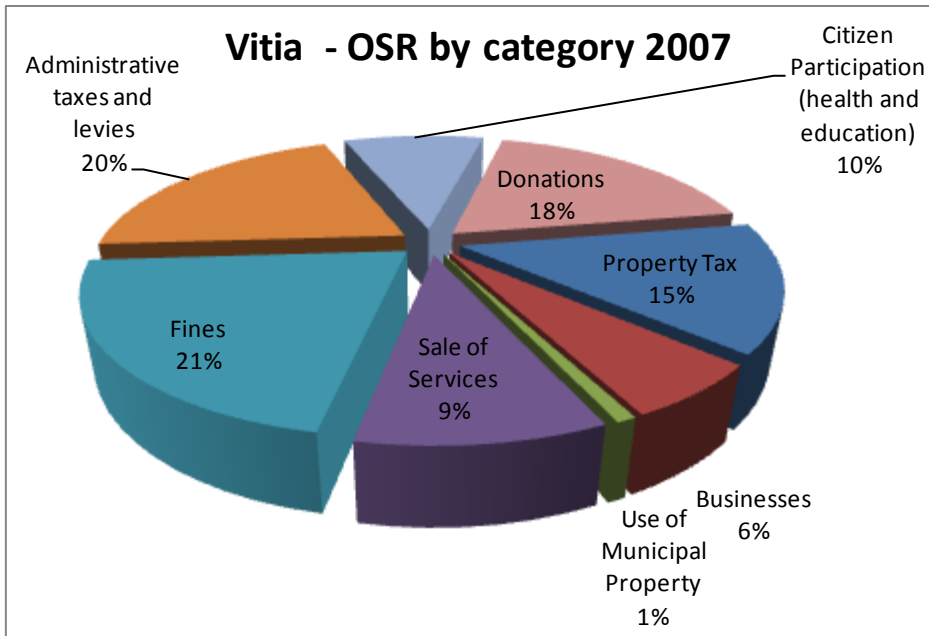
**Table 1. Municipality of Vitia - Historical Own Source Revenue Collection 2007-2009**

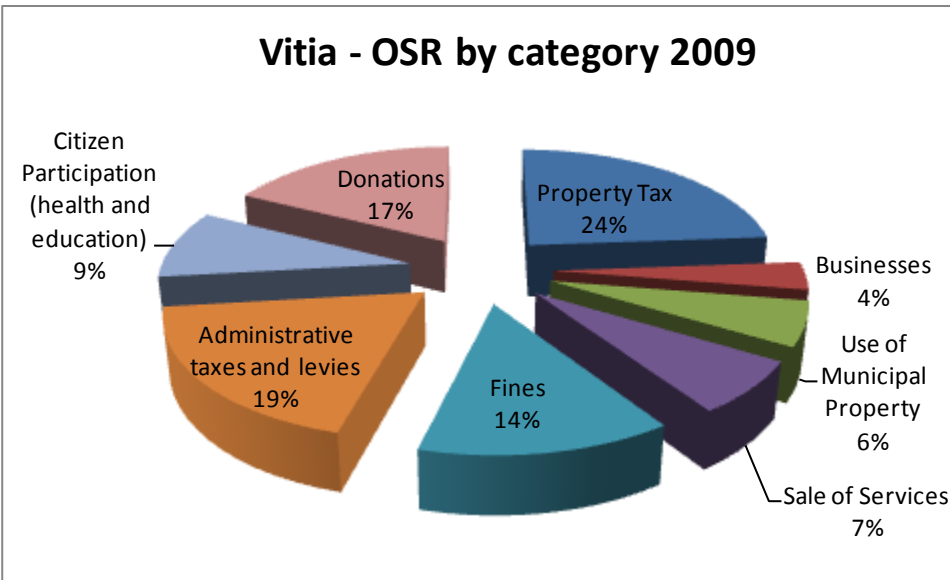
When analyzing historical trends of own source revenues in the municipality of Vitia, one can notice the following observations for the main groups of own source revenues. As presented in the table 1, Vitia municipality recorded an increase in the generation of OSR of 47.81% in 2008 when compared to 2007, whereas in 2009 OSRs generated during the year increased by 9.72% as compared to 2008. The major factors that contributed to the significant increase from 2007 to 2008, were the revenues from property tax and the citizen participation in capital investment projects. The change in these factors from 2008 to 2009 was lower but still increased enough to contribute to the overall 9.72% increase in total OSRs generated.

Own Source Revenues generated during the financial year in Vitia were on average at 13.97% of the total annual budget set for the municipality at the beginning of the year. This is presented in the two figures below:



The majority of the income for this municipality was generated by the property taxes, court and traffic fines, citizens participation in capital projects (donations) and through administrative taxes and levies. A breakdown of the participation of different categories is presented below:





When analyzing the specific categories of own source revenues, one notices the following observations. There is a continuous increase in revenues from property tax throughout the years, with noticeable increase in 2008 in comparison to 2007. The collections of the property taxes increased by 140% in 2008 in comparison to 2007 and by 13% in 2009 in comparison to 2008. The participation level of property tax on the overall OSR for Vitia was 14.14%, 22.95% and 23.73% for the period 2007-2009 respectively. Thus, it is the single biggest contributor to OSR, even if foreign donations and citizens' participation in capital investment projects are not excluded.

The property tax collection levels relate to issues of management, whereby the property database is not updated regularly as required by law. This causes problems with the billing, which are further exacerbated due to the fact that billing is done centrally by the Ministry of Economy and Finance, with almost no access for municipalities to actively follow the billing process. Municipal authorities condition vehicle registration with payment of property tax and this has shown to be effective in increasing collection rates.

Revenues from businesses have been fairly consistent though volatile during the 2007-2008 periods. In 2009, revenues collected have decreased mostly as a result of politically motivated lower level of enforcement due to 2009 being a municipal election year. Thus, the increase of 75% in 2008 compared to 2007 was followed by a decrease of 39.2% in 2009.

Besides the revenues from the business tax, which on average counts for 75% of total revenues from businesses during the analyzed period, there are four other sub-categories that have had an effect on revenues from businesses and these are revenues from commercial licenses, licenses for advertisements, other licences and services and revenues from the use of the road



infrastructure. However, these categories have a low material impact and are nonetheless have an increasing steady trend throughout the years.

Revenues from the use of municipal property are mainly coming from the rent of municipal properties and revenues from the sale of municipal vehicles. Revenues from the use of municipal land also add to the revenues from the used of municipal property, however, its contribution is very low. Revenues from the use of municipal land, including the revenue from the sale of vehicles, have had a sharply increasing trend during the period of 2007-2009, increasing from €4,196 in 2007 to €53,979 in 2009.

Revenues from sale of municipal services on average ranked as the fifth revenue generator by size in Vítia. Revenues decreased in 2008 when compared to 2007 by 10% while they increased in 2009 in comparison to 2008 by almost 40%. The main contributor of these revenues and the reason for the significant increase in 2009 is the increased number of the construction licences granted by the municipality. The revenues from the building permits comprise of on average 61% of the revenues generated from the sale of municipal services. The second largest contributor to these revenues is the collections from the activities in the field to measure the country by the Department of Urbanisation.

Revenues from municipal, court and traffic police fines are a major contributor to the Own Source Revenues over the 2007-09 periods, participating on average with 16.49% in total OSRs collected. The highest contributors to this category are court and traffic fines, which together make up more than 90% of revenues generated from fines.

Administration fees, levies and taxes also make up a large proportion of OSRs generated in the municipality of Vítia, ranking in third by size after property and business taxes (excluding donations and court and police fines), providing on average 19% of OSE. The largest contributors here are the revenues coming from the issuance of different certificates by the registrar. A large contributor is the fee from the inheritance registration as well contributing on average by 38.93%, although the revenues from this category are expected to decrease in the future.

Revenues coming from citizens' participation refer to health, education and culture, and on average secure about 8.64% of the total OSR generated. These revenues include co-payments by citizens when receiving medical services, for secondary school participation, kindergarten and services related to culture.

Finally, citizens' contributions to public works make up a large proportion of OSRs in Vítia, while foreign donations are very low. Although considered as OSR by law, the consultant thinks that, due to the nature of donations (especially fluctuations and problems in forecasting donations), that these sub-categories are not analyzed further in this report.

## PROJECTIONS OF OWN SOURCE REVENUES FOR THE MUNICIPALITY OF VITIA

In order to perform projections for Own Source Revenue generation, the consultant faced difficulties in establishing a base for the assumptions and forecasts as data provided is not disaggregated. Although the municipalities set the levels for taxes, levies and charges in the municipality and the municipal regulations on average specify about 600 different items considered as OSR, data is not collected on each individual item and revenues are recorded based on larger categories. Further, due to changes in economic codes used over the years, certain revenues are recorded under different items in different years creating problems of comparison. In terms of property tax, the municipalities since 2008 have only their forecast budgets and general data on the amounts collected, however they have no access to the total property tax bill invoiced for the municipality as this is done centrally in the Ministry of Economy and Finance by the Department for Property Tax. Municipalities do not have access to the system the Property Tax department uses at MEF. Thus, it is very difficult to assess the amount that could be potentially collected. Further, most of the municipalities do not update the property database as required (1/3 every year) and this is a major problem in establishing the true tax base on property. However, this may change in 2010 as there are indications that a Swedish supported project will help the municipalities in conducting a complete registering of properties within their boundaries.

As municipalities report aggregate revenues in terms of categories or sub-categories, and due to lack of data in establishing the true tax base, one can not use the units and price per unit of the specific items of OSR in conducting forecasts. Thus, to conduct the forecasts, the consultants have consulted widely municipal officials in terms of getting as accurate as possible picture of historical performance and the reasons for the larger oscillations over the years. Discussions with the relevant municipal officials in charge of collecting the respective revenues were held in order to get their input into potential future trends. Forecasts are mostly done based on two factors, increased collection rates assumptions and natural growth assumptions. In cases where a historical trend could not be established due to fluctuations in revenues, outlier years are excluded or averages are taken.

Following are descriptions of assumptions taken for specific categories and sub-categories of OSR and the estimated potential of the municipality to raise own source revenues over the period 2010-2015. Year 2010 is also forecasted, as accurate and full data for this year was not available to the consultant at the time of performing the analysis, thus 2010 is also forecast. This will serve as a good base for assessing the accuracy of the assumptions taken once data for 2010 becomes available.

### Forecasting Assumptions

The consultant has taken the following assumptions when estimating the own source revenues for the period 2010-2015:

**Property tax:**

As disaggregated data for the different urban zones was not available, and as the consultant was not able to get the exact data from the Ministry of Economy and Finance on the total bill of property tax invoiced over the years for the municipality, assumptions were made in terms of improved collection rates and natural growth. The improvements in collection were assumed to be at 2.5% compared to the previous years over the period 2010 – 2014, and then 1% in 2015 onwards. Natural growth rate for new taxable properties was estimated based on feedback from the municipal official in terms of the trend for new properties registered each year, and the natural growth was assumed to be 0.3% for the first two years, moving on to 0.4% in 2012, 0.5% in 2013, 0.6% in 2014 onwards.

**Business Taxes and Levies:**

In terms of the revenues from the **annual business tax**, assumptions were made on improved collection and natural growth. Improved collection was assumed at 7% compared to the previous year for the period 2010 – 2012, 6% in 2013, then a drop to 3% in 2014, and 2% in 2015. Natural growth of businesses was assumed based on a very conservative estimate of growth of the economy in Kosovo. Thus growth rates assumed were the following: 2% for 2010-2011, 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015. This reflects the slower pace of the trickle-down effect of the economic growth in Kosovo to the municipal businesses.

Revenues from **commercial licenses, service licenses and advertisement space** were assumed to growth due to improved collection and natural growth, and these were assumed to be the same as those for the annual business tax.

**Revenues from usage of municipal property:**

Revenues from **usage of municipal land** were assumed to grow through better utilization by the private sector and improved management by the municipality. The growth was factored on the average revenues coming from this item and were assumed to be 2% over 2010 and 2011, 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015.

Revenues coming from **leasing of municipal assets (space)** were assumed to grow due to better utilization with no new growth. Improved utilization was assumed to be 2% in 2010, 4% in 2011, 5% in 2012, 10% in 2013 and 15% in 2014, with no growth afterwards.

Revenue from **sale of municipal property** was assumed to stay at selling vehicles and other movable property and not in terms of selling real estate assets. This assumption was made due to the unclear situation between the Kosovo Privatization Agency and Municipalities in terms of who has the right to

manage or sell property titled under the municipality. Thus, we have assumed a sale of vehicles in 2015 similar to the one in 2009 as these will be completely depreciated vehicles in the municipality books.

#### **Revenues from sale of municipal services:**

**Revenues from inspections** were considered as being low due to lack of enforcement. Thus we have assumed a growth of 30% in 2010, 20% in 2011, 15% in 2012, 10% in 2013 and 5% in 2014 onwards. Natural growth was assumed to be the same as for new properties registered in the municipality following an increase of 0.3% in 2010-2011, 0.4% in 2012, 0.5% in 2013, 0.6% in 2014 and onwards.

Revenues from issuing **Construction Permits** were assumed to grow due to improved collection and natural growth. Improved collection was assumed to be 2.5% over the 2010-2014 period, going down to 1% growth for 2015 onwards. The natural growth assumed was the same as for the new registered properties.

Revenues from **geodesy plans and field inspections and measurements by the urbanism department** was assumed to have rapidly negative trends as new legislation foresees the possibility for the private sector to provide this service. Thus we have assumed a decrease of 50% in generated revenues in 2010, 30% in 2011, followed by a further 20% reduction in 2012 and then remaining at the same level from 2012 onwards, reflecting that some of this business will still flow through the municipality.

**Fees for change of land destination** were assumed to grow under the same assumptions as the building and construction permits presented above.

#### **Revenues from court, police and municipal fines:**

**Municipal fines** were assumed to growth by 2% in 2010-2011, and then by 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015 onwards, due to population growth and better targeting and enforcement.

**Forestry fines** were assumed to grow due to better enforcement, targeting and economic growth. Assumed growth due to enforcement was 5% in 2010-2011, 4% in 2012, 3% in 2013-2014, and 2% after 2015. Growth due to the growth of the municipal economy is assumed to be the same as for the municipal fines above.

**Court and Traffic fines** were also assumed to grow reflecting the growth of the municipal economy with growth rates being the same as above.

#### **Revenues from Administration Taxes and Levies:**

As a basis for forecasting **Vehicle registration tax** revenues the average of the revenues from 2007-2009 was taken. Then a growth of 7% for 2010 was assumed, 6% in 2011, going down to 4% for 2012-2013,

increasing again to 5% for 2014 and 7% for 2015. This growth was assumed to come from increased number of registered vehicles and also increased tax amount for the future years.

Revenues from issuing **health certificates for drivers license** were calculated taking 2009 as a base for this item and then applying a decreasing growth rate so as to achieve revenues as witnessed in the past. Thus the growth rate starts with 14% in 2010, going down by 1% per year and ending with 8% in 2015 onwards.

When forecasting revenues from **tender participation**, we have assumed a growth due to increased transparency in the municipality and the effects of increased municipal budgets due to economic growth in Kosovo. As a result, we have assumed a growth of 3% in 2010-2011, 5% in 2012, 6% in 2013, 7% in 2014, 8% in 2015 onwards.

Revenues from **birth, marriage and death certificates** were assumed to grow with population increase. Having in mind the young population and the larger need for such documentation by this category of citizens we have assumed a growth rate of 5% for 2010-2012, 4% for 2013, 3% for 2014 and 2% in 2015 and onwards.

Revenues from **other certificates and verification of documents** were assumed to grow with a similar pattern to issuing other certificates. The growth rates assumed here were 5% for 2010-2012, 4% for 2013, 3% for 2014 and 2% in 2015 and onwards.

**Registering ownership and ownership inheritance fees** were assumed to grow on top of the average value of this revenue for the period 2007-2009, with a natural growth of the municipal economy and to follow a growth of 2% for 2010-2011, 3% in 2012, 4% in 2013, 5% in 2014 and 6% in 2015 and onwards.

#### **Citizen participation in health and education:**

Revenues from **health services participation, participation for kindergarden expenses and revenues from secondary education** were assumed to grow due to population increase, with assumed growth rates being the same as those for birth, marriage and other certificates above.

#### **Grants and donations:**

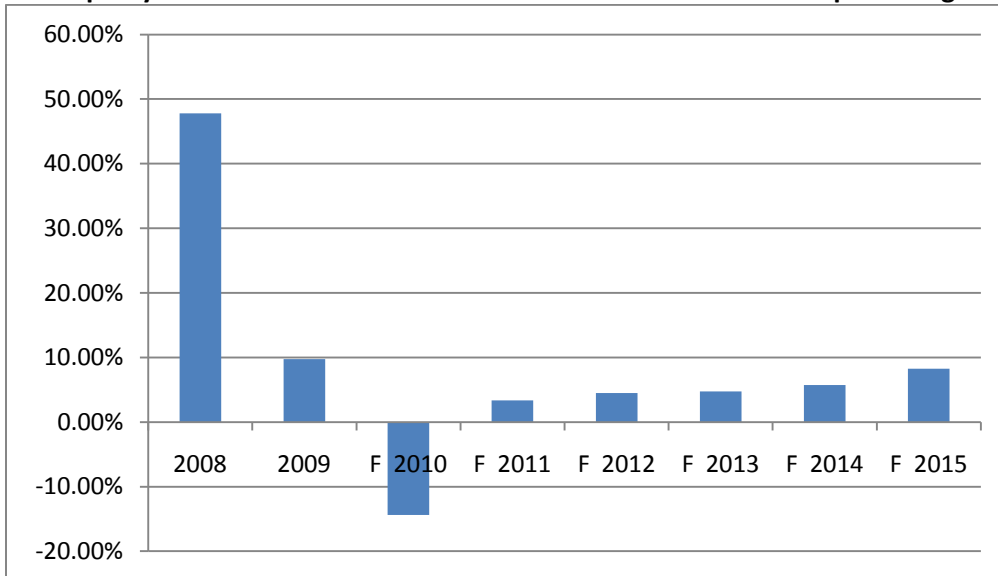
The consultants have not made any assumptions regarding forecasted income from foreign and Kosovan donations, nor citizens participation in capital investment projects. This is because it is difficult to estimate the number or size of future donor support in the municipality. Assistance could be provided to the municipality in terms of identifying potential donors and support programmes, and then supporting the municipality in getting access to this type of support.

## Forecasted Own Source Revenues – Municipality of Vitia

OWN SOURCE REVENUE TYPE	2007	2008	2009	F 2010	F 2011	F 2012	F 2013	F 2014	F 2015
<b>PROPERTY TAX</b>	<b>79,302.01</b>	<b>190,306.84</b>	<b>215,839.30</b>	221,882.80	228,095.52	234,710.29	241,751.60	249,245.90	253,233.83
<b>BUSINESS TAXES AND LEVIES</b>	<b>31,699.33</b>	<b>55,655.00</b>	<b>33,790.10</b>	36,831.21	40,146.02	49,539.43	54,493.37	58,852.84	63,561.07
<b>REVENUES FROM USAGE OF MUNICIPAL PROPERTY</b>	<b>4,196.18</b>	<b>12,237.00</b>	<b>53,979.74</b>	33,950.16	35,298.70	37,053.99	40,729.57	46,787.33	66,819.88
<b>REVENUES FROM THE SALE OF SERVICES</b>	<b>51,081.30</b>	<b>45,706.14</b>	<b>63,676.75</b>	63,955.30	62,553.78	62,903.99	64,787.09	66,711.41	67,850.86
<b>REVENUES FROM COURT, POLICE AND MUNICIPAL FINES</b>	<b>113,267.00</b>	<b>130,558.78</b>	<b>123,001.80</b>	127,436.45	130,383.57	134,636.11	145,738.58	165,729.21	199,154.16
<b>OTHER REVENUES</b>	<b>20,246.00</b>	<b>2,542.00</b>	<b>3,167.00</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>REVENUE FROM ADMINISTRATION TAXES AND LEVIES</b>	<b>109,360.00</b>	<b>153,309.50</b>	<b>172,821.50</b>	203,887.84	213,066.65	221,956.64	230,217.93	239,337.66	251,101.54
<b>CITIZEN PARTICIPATION (HEALTH AND EDUCATION)</b>	<b>51,644.70</b>	<b>61,967.85</b>	<b>84,133.50</b>	90,943.13	95,490.28	100,264.80	103,272.74	104,767.80	106,863.15
<b>GRANTS AND DONATIONS</b>	<b>99,995.00</b>	<b>176,598.16</b>	<b>159,080.00</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL :</b>	<b>560,791.52</b>	<b>828,881.27</b>	<b>909,489.69</b>	<b>778,886.87</b>	<b>805,034.53</b>	<b>841,065.24</b>	<b>880,990.88</b>	<b>931,432.13</b>	<b>1,008,584.50</b>
Year on year percentage change in generated OSR		47.81%	9.72%	-14.36%	3.36%	4.48%	4.75%	5.73%	8.28%
Carried Forward	190,921.06	209,509.31	280,793.00	233,666.06	241,510.36	210,266.31	220,247.72	186,286.43	151,287.67
<b>GRAND TOTAL AVAILABLE TO MUNICIPALITY</b>	<b>751,712.58</b>	<b>1,038,390.58</b>	<b>1,190,282.69</b>	1,012,552.78	1,046,544.92	1,051,331.60	1,101,238.65	1,117,718.62	1,159,872.26

As can be seen from the forecasted Own Source Revenues table, OSR for the municipality of Vitia go up to 1,008,584.50 Euro at the end of 2015. There is clearly a positive trend when looking at the overall OSRs. As compared to the previous year, OSRs increase in all years except for 2010 and 2012, as shown in the table below.

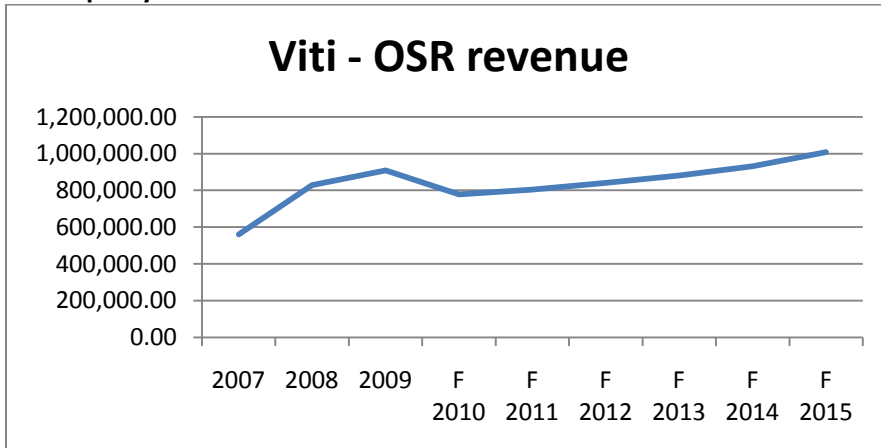
**Municipality of Vitia – Historical and Forecasted Year to Year OSR in percentage change**



Although year 2008 was a high point, the main driver there was the increase in payments of property tax, which as an increasing trend continued in 2009 as well. According to the forecasts based on stated assumptions, the municipality of Vitia can achieve to generate up to 10.89% more annually compared to OSR generated in 2009. When excluding revenues from grants and donations, the increase in internally generated own source revenues for the municipality of Vitia is 34.4% in 2015 compared to 2009. This can be achieved through better management and utilization of municipal resources and services, as well as through more efficient oversight, inspections and enforcement.

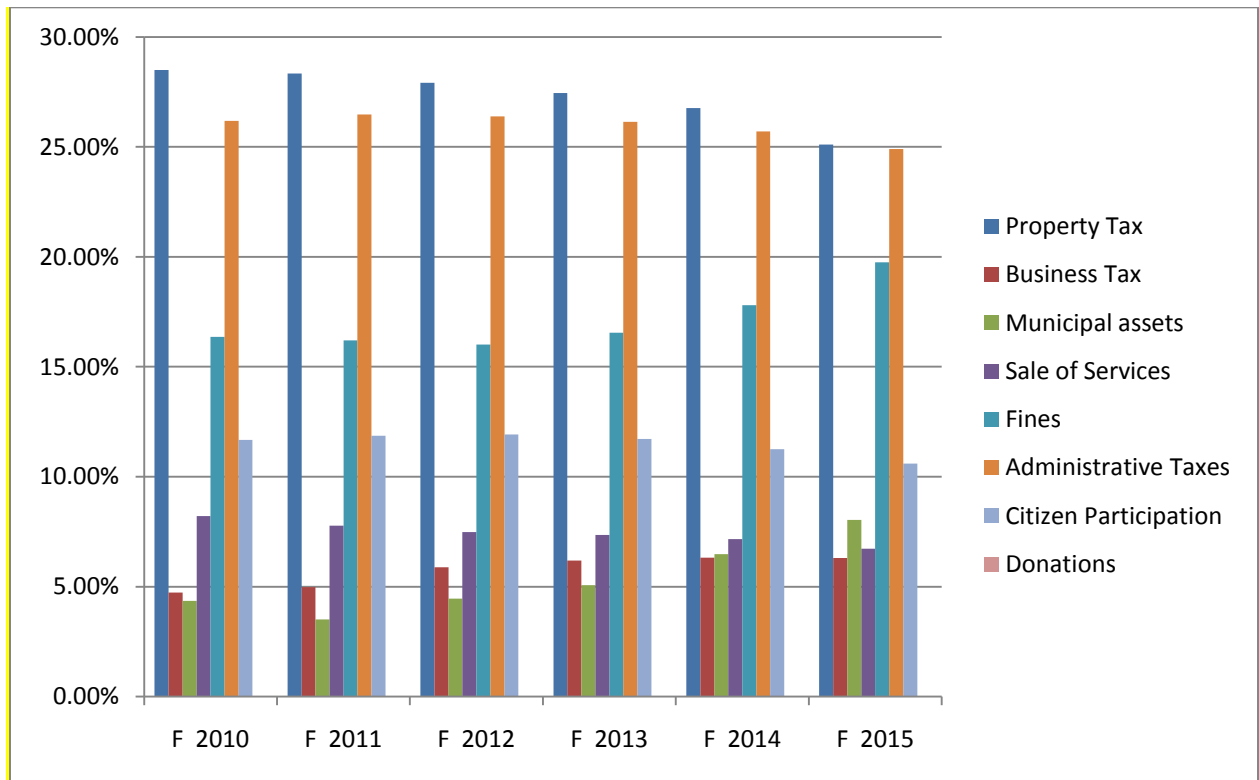
The graph below shows historical and projected OSRs up to 2015:

**Municipality of Vitia – Historical and Forecasted Own Source Revenues**



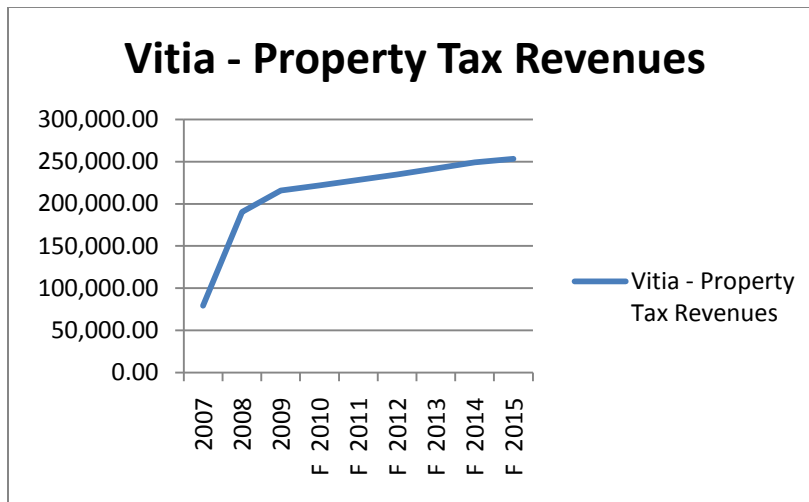
The table below presents the participation of each OSR category in the total forecasted OSRs for the Municipality of Vitia:

As can be seen from the chart above, the main drivers of OSR over the coming period remain to be the property tax (on average contributing by 26.82% to total generated OSR); Municipal Administration taxes and levies (25.47% of OSR on average over the forecasted years); Fines issued by the courts, traffic police and the municipality (comprising on average 16.82% of generated OSR); Citizen participation in education and health with 11.29% on average contribution to forecasted OSR over the 2010-2015 period. Revenues from business taxes are forecasted to be low in comparison with other categories, and the municipality of Vitia should look at possibilities of increasing contributions from businesses. Also, improved management of municipal assets could lead at increased revenues from this category through better utilization of existing resources.

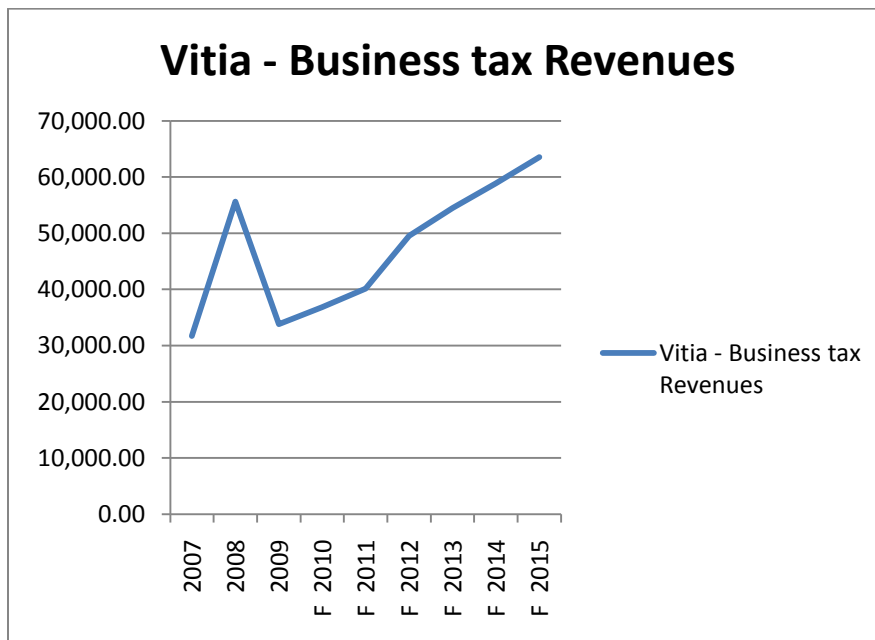


The growth of each category of OSRs forecasted is as presented in the charts below:

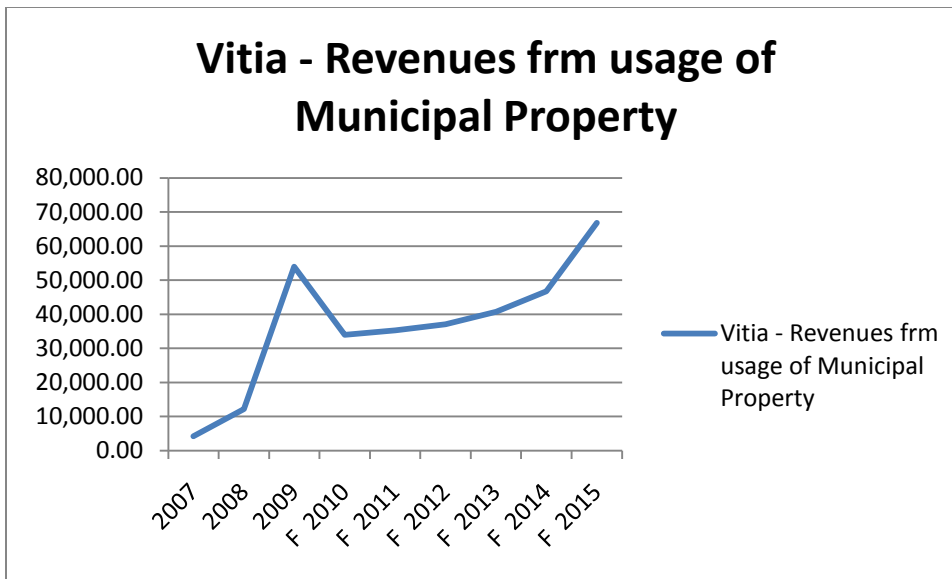




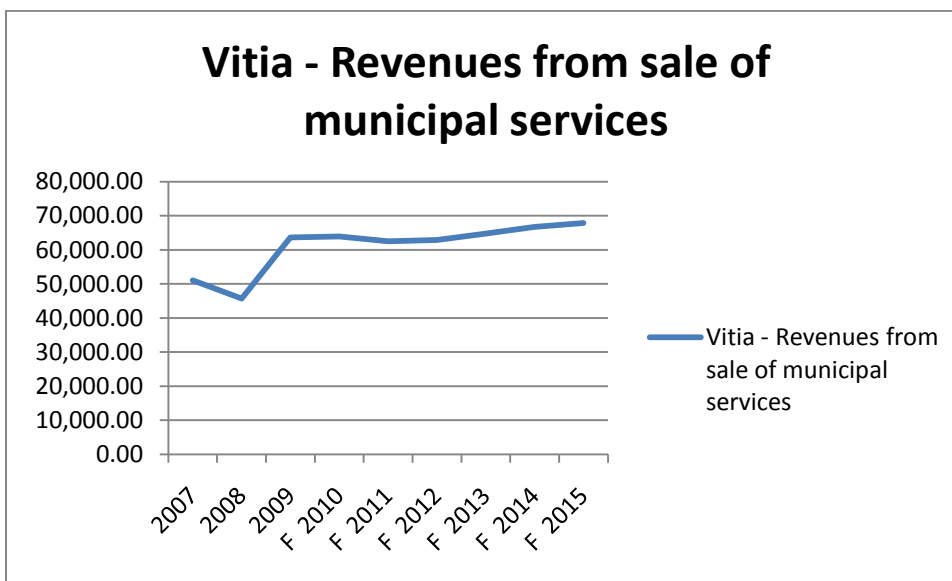
Revenues from Property tax continue to increase due to improved registering, database management, improved invoicing and better enforcement. Revenues from this tax will also increase due to natural growth of the municipality as well as growth of the economy. Finally, one can also count on revenue collection of tax liabilities from previous years, which should be done in close cooperation with the property tax department at the Ministry of Finance and Economy. Compared to 2009, the forecasted revenues from property tax in 2015 increase by 17.3%.



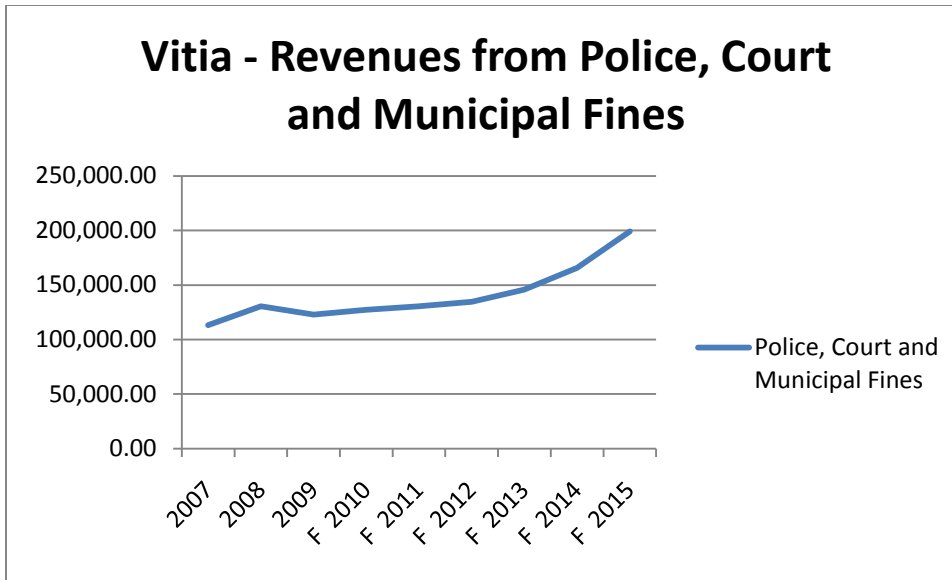
Business taxes have a high growth potential due to the growth of the economy, better registering and servicing of businesses and improved enforcement. Increased collection of business taxes can also be achieved through better cooperation between the municipalities and the Ministry of Trade and Industry (business registry unit). Finally, improved presence of municipal officials within the business community and better enforcement of municipal regulations can help improve revenues from businesses. Forecasted growth compared to 2009 is 88.1% by 2015.



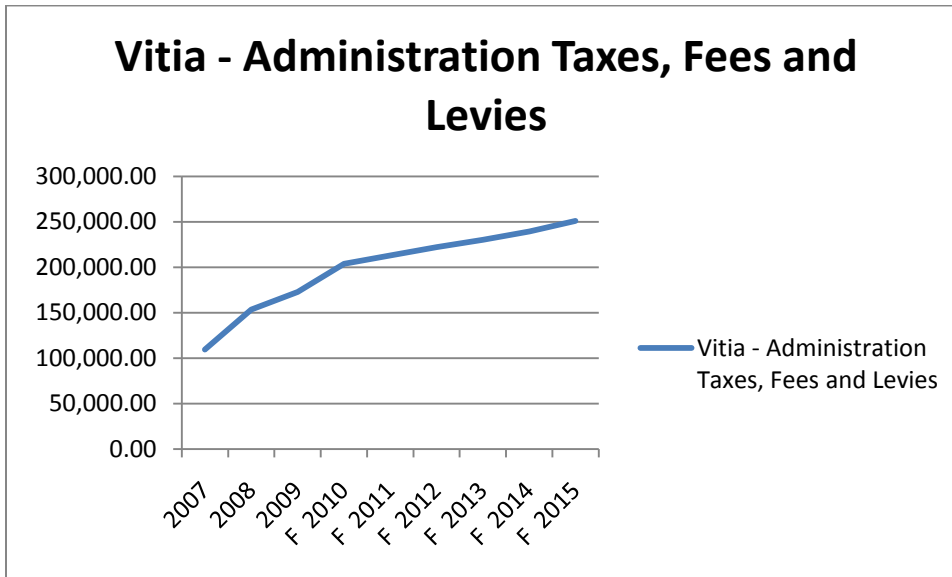
Revenues from use of municipal property do not make up a large percentage of total OSR, however, by improved management of municipal assets, the increase in revenues from this category can be 23% compared to revenues generated in 2009, and by then comprise about 5.32% of total OSR. The municipality of Vitia should try to improve on this category as there is higher potential for revenues.



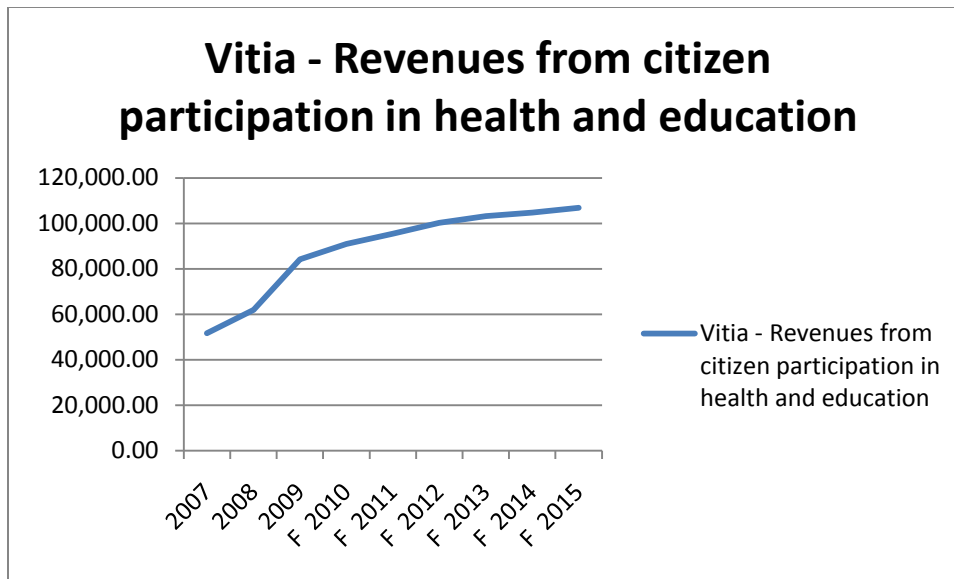
Revenues from sale of municipal services are an important contributor to OSR in the municipality, comprising on average 7.45% of forecasted revenues. Forecasts are that if there is increase efficiency and better provision of municipal services, the municipality of Vitia can achieve at least a 6.55% increase in revenues from provision of municipal services compared to 2009.



Revenues from fines issued by courts, police and the municipality are and continue to be a large contributor to municipal OSR, on average contributing 17.11% to revenues generated by the municipality in the years up to 2015. Municipality should try to increase the participation in these fees by increasing the contribution to this category coming from municipal fines through improving the efficiency of its municipal inspection services, as these fines comprise only a minute part of revenues generated through fines. Compared to 2009, the forecasted increase in revenues generated from fines is 61.9%.



Administration fees, levies and taxes are expected to contribute on average 25.96% to the OSRs generated by the municipality over the forecasted period. The increase in revenues generated from this category will result in an increase of 45.29% in revenues generated when compared to 2009.



Forecasted revenues coming from citizen's participation in education and health payments contribute on average by 11.5% of OSRs generated during the period 2010 – 2015, which makes it the third largest contributor. This will result in an increase of 27% of revenues generated from this category compared to those generated in 2009. As this category is a major contributor to OSRs generated by the municipality of Vitia, the municipality should make efforts and create policies that encourage citizens to use these services provided by the municipality, rather than opt for private providers or choosing facilities in Prishtina rather than Vitia.

## POTENTIAL AREAS FOR INTERVENTION AND SUPPORT

Potential areas for LOGOS project support to the municipality of Vitia in increasing the level of generated Own Source Revenues should focus on OSR categories that can be affected by actions of municipal authorities and where there can be clear benefits in improving municipal performance.

Property tax, being one of the largest contributors, is an area that one should look at supporting. Currently, the municipality does not update the property database as required by law (1/3 of the database updated annually), and invoicing is done based on the existing database by the central Department for Property Tax at the Ministry of Finance, without any direct communication between the municipality and the central level. There are reports that a Swedish funded project will support the municipalities in updating their property database during 2011. This will enable municipalities to have a better picture of the taxable tax base and improving taxing policies they apply, as well as improving efficiency in enforcement and the response of the municipality in delivering capital investment projects to respective paying cadastre zones. One area of support from the LOGOS project can be in preparing municipal publications and outreach events in order to present achieved results in property tax collection and promote the effect of improved collection in the everyday lives of inhabitants of respective zones.

The municipality can also be supported in terms of generating revenues from businesses. This can be done in two directions. One is to help them improve business registering and classification and as a result produce better taxing policies for businesses. Also, the project could try to improve the links between the municipalities and the Ministry of Trade and industry in sharing information on registered businesses and their current functioning. A database of uncollected taxes could be created in the municipality and updated on a yearly basis, thus eliminating businesses that have closed, gone bankrupt or are not active, while at the same time enabling better targeting of existing, functional and successful businesses. Policies of conditioning municipal services to businesses that have due and unpaid taxes and levies.

Further, the municipality of Vitia currently does not collect any revenues for licenses for longer working hours by restaurants, bars and supermarkets. One recommendation is that the municipality starts applying the set fees in the municipal regulation and enforces them on applicable businesses.

Municipal leasing of land, buildings and space is another potential good revenue source is managed properly. The municipality has managed to increase the revenues coming from utilization of municipal owned space. However, the municipality does not apply a parking fee system and is recommended to introduce one for specific strategic and frequented areas of the town. Finally, municipal land can also be better utilized thus increasing revenues coming from this item. The utilization of municipal assets could be made more attractive through strategic investments, decisions and stimulating policies.

The completion of the spatial planning documentation, including the urban and detail regulatory plan, will allow the municipality to encourage development, especially in the construction sector. This will help the municipality to increase revenues coming from building and construction permits, as well as other related services, through stimulating new construction activity and legalizing existing unregistered and unlicensed properties. The municipality should look at opportunities to improve on its inspection services (food, environment, fire) and also improve its service provision in the urbanism and geodesy departments, thus losing less revenues from the up-and-coming private sector providers.

The project could also provide support to the municipality in identifying potential donors and areas that could benefit from grants and other forms of donor support. This support could further include assistance and training in project planning, proposal writing, fundraising and monitoring and evaluation techniques. This would enable the municipality to tap into available and potential grants thus helping it increase available own source revenues.

These proposed areas of LOGOS project support should be discussed with municipal officials and areas where the support could be most optimal should be selected in cooperation with the municipality.

This report is prepared with information covering financial performance up to the financial year 2009. The consultant suggests that this analysis be updated on a regular annual basis during the LOGOS project life and the model and its findings fine tuned as new and more detailed information becomes available.

**ANNEX 1 – OWN SOURCE REVENUES 2007-2009 AND OSR FORECASTS  
2010-2015 (EXCEL DOCUMENT)**