

Swiss – Kosovo
Local Governance and Decentralization Support
LOGOS

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

KLLOKOT

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

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INTRODUCTION

This report is the analysis of the Own Source Revenues for the Municipality of Kllokot, a new Municipality that has gained the status of municipality in 2010 as a result of the decentralization process in the Republic of Kosovo. Therefore, with the newly formed territory of the Municipality of Ranillug, during the year 2010 conditions were formed where a Memorandum of Understanding was signed with the Municipality of Vitia about the transfer of revenue sources to the new municipality.

Because there is no historical data for OSRs in the new Municipality, the report does not contain any analysis of historical performance, as it is impossible to extrapolate the effect of the territory of the new Kllokot municipality on historical OSR in the mother municipality of Vitia. Thus, it is also difficult to make reliable assumptions about the OSRs of the municipality in the upcoming years. Assumptions for this report come from field visits and discussions with municipal officials taking into consideration their OSRs forecasts projections for the financial year 2011, as well as making assumptions based on the mother municipality of Vitia and the municipalities of Ranilug and Shterpce/Strpce as a similar case in terms of political situation.

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. A note of caution is that as all forecasts, one should be careful in interpreting them as expectations rather than guaranteed results. This is especially poignant in the case of the Municipality of Kllokot, as a new municipality with a majority Kosovan Serb population and unresolved political issues within the community. Nevertheless, it is the assessment of the consultant and the feedback from municipal officials that these issues are less prevalent today and there is a positive trend of accepting Kosovo municipal structures by all citizens and businesses operating in the municipality. To achieve the 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 planned revenues from own sources for the financial year 2011, as outlined in the medium term budget (there were no plans drawn by the municipality of years 2012 and 2013). Then, the report outlines the assumptions made in the forecasting model to conduct the forecasts for OSR generation for the period of 2012-2015, using the forecasted revenues for 2011 as a basis. 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 the municipality could be supported by the LOGOS project in order to achieve the objective of increasing own source revenues generated by the municipality.

MEDIUM TERM PLANNED BUDGET (ONE YEAR)

Due to the fact that the formation of the Municipality of Kllokot was a result the decentralization process in 2010, there are no previous records of OSRs for the consultants to base their analysis on. Based on an internal study by the municipality of Kllokot, the consultants have in turn been provided with forecast projections of OSRs for 2011. Based on these results the consultants have based their further analysis for this report.

The planned medium term budget for the municipality of Kllokot is analyzed under this section, so as to analyze where municipal officials see the main revenue generating sources and the development of these over the coming years.

A detailed discussion of the planned Own Source Revenues for 2011 is presented in the table below:

	2011
Revenues from property tax	7,100.00
Income from businesses	
Revenues from business tax	300.00
Revenues from commercial licenses	
Revenues from licenses for ads	
Revenues from licenses and services	
Revenues from forest exploitation licenses	
The use of road infrastructure	
Revenues from stonebreakers and mines	
Fees for prolonged working hours	
Revenues from business licenses	
Revenues from use of the municipal property	
Revenues from parking of vehicles	
Revenues from the sale of Municipal property	
Revenues from use of the land	
Rent of municipal properties	
Revenues from sales of services	
Revenues from inspections	
Veterinary inspections	
Inspection of food premises	
Inspections for fire	
Inspection of the environment	
Revenues from geodesic plans	

Activities in the field to measure the country - Dept. of Urbanization

Inspections of urban plans - Dept. of Urbanization

Revenue from building permits

Payments for the change in land usage

Issuance of construction licenses

Demolition license

Other services

Revenue from court fines, police and municipality

Fines

Fines - Forestry

Court Fees

Revenues from traffic fines

Other

Other payments

Other Revenues

Revenues from administrative tax

Fees from the registration of vehicles

Issuance of driving licenses

Fees from traveling documents

Tender participations

Road tax

Certificate of the registrar (birth, marriage, death
etc.).

890.00

Other registrar documents

Certification of different documents

Tax for request forms

Inheritance registration fee

Citizen Participation (health and education)

Revenues from culture

Revenue from health services

Revenues from kindergarten

Revenues from secondary Education

Grants and donations

Citizen participation in projects

Foreign donations

Kosovo donors

Total OSR Generated during the financial year	8,290.00
Carried forward revenues	0.00
Grand Total	8,290.00

Table 1. Municipality of Kllokot– Planned OSR Collection 2011

When analyzing planned own source revenues in the municipality of Kllokot, it is noticeable that the forecasts are very conservative and do not reflect the real potential in the municipality. The reason given for this approach by the municipal officials are the instructions and pressure from the Ministry of Finance and Economy to be very conservative and plan OSR within the set ceilings by the ministry.

From the planned revenues in 2011, one can notice the following observations for the main groups of own source revenues. As presented in the table 1, Kllokot municipality plans to generate only 8,290 Euro of OSR, which comprises of only 1.07% of the total planned municipal budget for 2011, set at 777,735 Euro.

The main planned own sources of revenues for the Municipality of Kllokot for 2011 come from property tax, contributing by 86% to planned OSR by the municipality. Next come administrative taxes and levies with 11%, followed by revenues from businesses contributing 3%.

A breakdown of the participation of different categories is presented below:

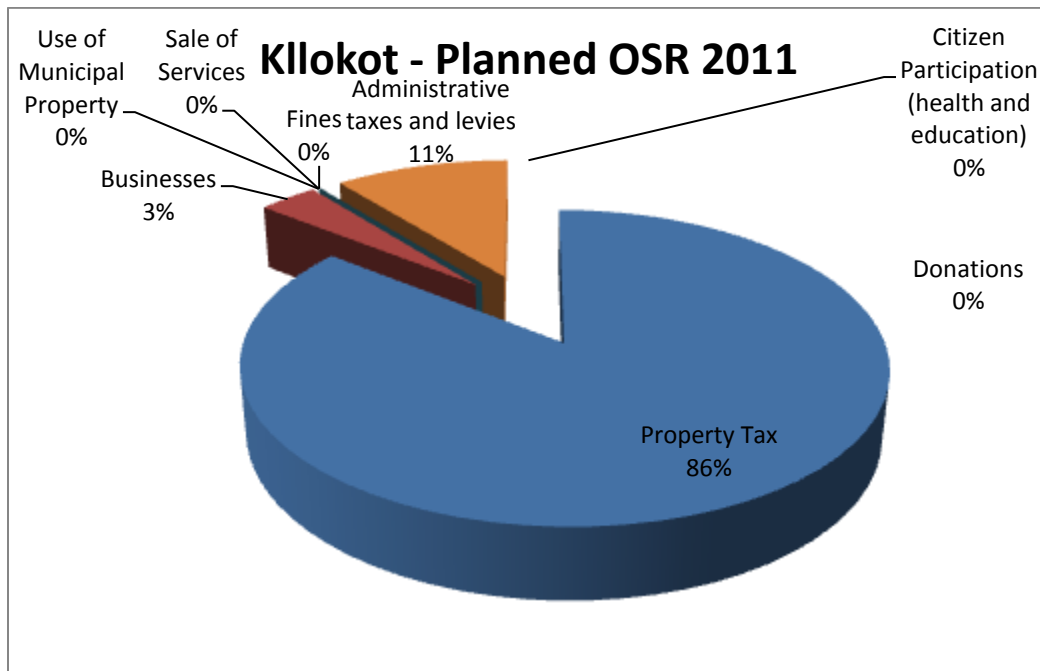


Figure 1 – Breakdown of Planned OSR into the main categories 2011-2013

The analysis of the planned own source revenues for 2011 for the municipality of Killokot show a very conservative forecast with very limited diversification in terms of OSR categories. This indicates a high potential in terms of growth of revenues generated from OSR compared to the municipal plan for 2011.

PROJECTIONS OF OWN SOURCE REVENUES FOR THE MUNICIPALITY OF KLLOKOT

In order to perform projections for Own Source Revenue generation for the forecast period 2011-2015, the consultant used the planned figures for 2011 as a baseline for projections. Then, based on assumptions made in terms of increased efficiency in collection, natural growth and having in mind the current political situation and expected developments in this front.

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 and allocated based on OSR codes, which very often put one type of revenue under one category in a particular financial year, while recording the same item in a different category in the following year. This creates problems of comparison of revenues collected from specific sources.

Further, 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 cannot use the units and price per unit of the specific items of OSR in conducting forecasts. Thus, to conduct the forecasts, the consultant has conducted wide consultations with municipal officials in terms of getting a clear picture of planned revenues and the financial, practical and political considerations made when performing these forecasts.

Forecasts are mostly done based on two factors, increased collection rates assumptions and natural growth assumptions.

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 2012-2015. The baseline for the forecasts was taken from the planned revenues for the financial year 2011, as it was considered to be the most accurate estimate by the municipality. This will serve as a good base for assessing the accuracy of the assumptions taken once data for 2011 becomes available.

Forecasting Assumptions

The consultant has taken the following assumptions when estimating the own source revenues for the period 2012-2015:

Property tax:

As there is no updated and clear database or property register in terms of cadastre taxable zones, inherited from the Municipality of Vitia, when making assumptions about property tax in Klllokot, the following assumptions were made in terms of improved collection rates and natural growth.

When making the assumptions on property tax, improvements in collection were assumed to be at 20% when compared to the planned revenues for 2011, 35% increase for 2013 compared to the previous year, and then continue at an increasing rate of 2.5% for 2014, and then ending at 1% for 2015 onwards. Natural growth rate for new taxable properties was estimated to follow the natural growth of registered properties and was assumed to be 0.3% for 2012-2013, moving on to 0.4% in 2014, 0.5% in 2015.

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 to come from existing businesses in the municipality, including improvements in the political situation. The municipality of Klllokot, through the process of decentralization, has been transferred some of the high tax paying businesses situated in the Klllokot Spa as well as the mineral water plant, from the municipality of Vitia. Having this in mind, the forecasted levels for 2011 are thus considered low. With this in mind, the assumed growth in 2012 compared to the planned revenues in 2011 is triple the amount. The growth in 2013 is then assumed to be at 30% over the revenues in 2012, 20% growth in 2014 and 15% in 2015. Natural growth of businesses was assumed based on a very conservative estimate of growth of the economy in Kosovo, and assumed growth rates are as follows: 2% for 2012-2013, 3% in 2014, 4% in 2015.

Revenues from Administration Taxes and Levies:

Revenues from **birth, marriage and death certificates** were assumed to grow with population increase as well as the increased number of Kosovan Serb citizens of the municipality asking for Kosovan documents. Having these two conditions in mind, we have assumed a growth rate of 10% for 2012, 20% for 2013-2014, 40% for 2015.

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. In terms of citizens' participation in capital investment projects, there are no expectations that this will start to be implemented, not least due to political sensitivities. However, donor support remains a large potential for contributions to OSR for the municipality and as such 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

Special Note on the Municipality of Klllokot

The municipality of Klllokot have been very limited in their planning for Own Source Revenues in 2011. Thus, the consultant would suggest that in consultation with the political leadership of the municipality, the department for budget and finance should look into the possibility of introducing additional sources of revenue and estimating the capacity of these sources for revenue generation.

Business Tax:

The municipality should at least include special provisions for annual business licenses from the biggest businesses located in its premises, including "Uji Klllokot" mineral water plant, Hotel businesses in the Klllokot Spa (including a possibility to charge additional taxes per room/bed occupancy in these hotels), restaurants and other food businesses (including the tax for longer working hours). In addition the municipality should look into introducing a tax on use of advertisement space (billboards on the main road), as well as charging forest usage fees for those businesses/individuals looking at utilizing the wood resources of the municipality.

Revenues from Sale of Services:

The municipality of Klllokot should look at introducing an inspection service within the municipality, or as an alternative enter into a revenue sharing scheme with the mother municipality of Vitia so as to use their inspection services. The municipality could then generate revenues from general inspections, food and restaurant inspections and fire safety inspections,

especially from the hotel and restaurant businesses situated within its boundaries. Further, the municipality can generate revenue from construction permits, services in the geodesy and urbanism department, changing of land destination, field measurements, and ownership and inheritance registration. Again, the same arrangements with the mother municipality can be used here as well.

Revenues from court, police and municipal fines:

The municipality can certainly estimate the revenues that may come from especially traffic fines by the police within the territory of the municipality. The road running through the municipality is very frequented and could be a good source of revenue, while at the same time contributing to a safer environment. Also, the introduction of an inspection service will allow the municipality to collect revenues from municipal issued fines.

Administrative taxes and levies:

The municipality of Kllokot has currently only planned for revenues from issuance of municipality issued personal documents. However, the municipality should look into the possibility of imposing a vehicle tax, issuance of all types of required documentation, tender participation fees and inheritance registration fees.

Citizen participation in health and education:

The municipality should try and identify at least several sources of revenues coming from municipality supported services, such as kindergarten, secondary education and health participations in the local clinic.

Forecasted Own Source Revenues – Municipality of Killokot

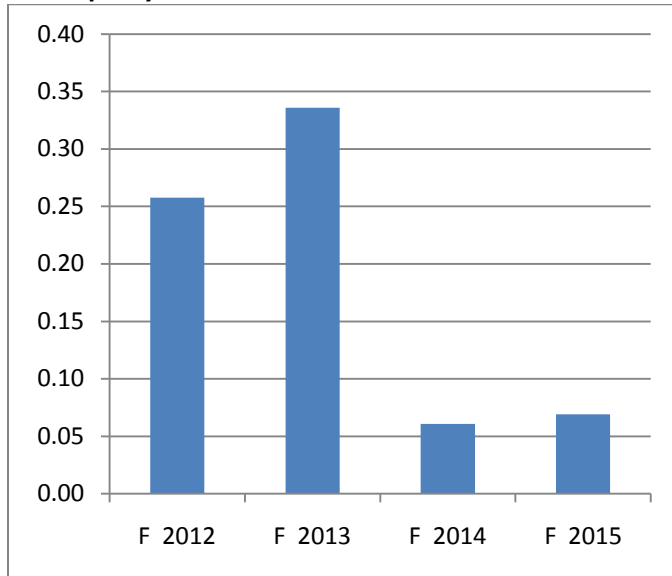
OWN SOURCE REVENUE TYPE	Planned 2011	F 2012	F 2013	F 2014	F 2015
1 PROPERTY TAX	7,100.00	8,541.30	11,556.38	11,891.51	12,069.89
2 BUSINESS TAXES AND LEVIES	300.00	906.00	1,195.92	1,470.98	1,750.47
3 REVENUES FROM USAGE OF MUNICIPAL PROPERTY	0.00	0.00	0.00	0.00	0.00
4 REVENUES FROM THE SALE OF SERVICES	0.00	0.00	0.00	0.00	0.00
5 REVENUES FROM COURT, POLICE AND MUNICIPAL FINES	0.00	0.00	0.00	0.00	0.00
6 OTHER REVENUES	0.00	0.00	0.00	0.00	0.00
7 REVENUE FROM ADMINISTRATION TAXES AND LEVIES	890.00	979.00	1,174.80	1,409.76	1,973.66
8 CITIZEN PARTICIPATION (HEALTH AND EDUCATION)	0.00	0.00	0.00	0.00	0.00
9 GRANTS AND DONATIONS	0.00	0.00	0.00	0.00	0.00
TOTAL :	8,290.00	10,426.30	13,927.10	14,772.26	15,794.02
Year on year percentage change in generated OSR		25.77%	33.58%	6.07%	6.92%
Carried Forward	0.00	0.00	0.00	0.00	0.00
GRAND TOTAL AVAILABLE TO MUNICIPALITY	8,290.00	10,426.56	13,927.43	14,772.32	15,794.09

Table 2 – Projected OSR of the Municipality of Killokot 2011-2015

The consultant will , for the sake of comparability, conduct the forecasts in the same manner, thus focusing only on those revenues that were identified by the municipality.

As can be seen from the forecasted Own Source Revenues table, OSR for the municipality of Kllokot can go up to a planned Euro.76 Euro at the end of 2015, compared to the planned figure of 40,000 Euro for 2010. There is clearly a positive trend when looking at the overall OSRs. As compared to the previous year, OSRs increase in all forecasted years, as shown in the table below.

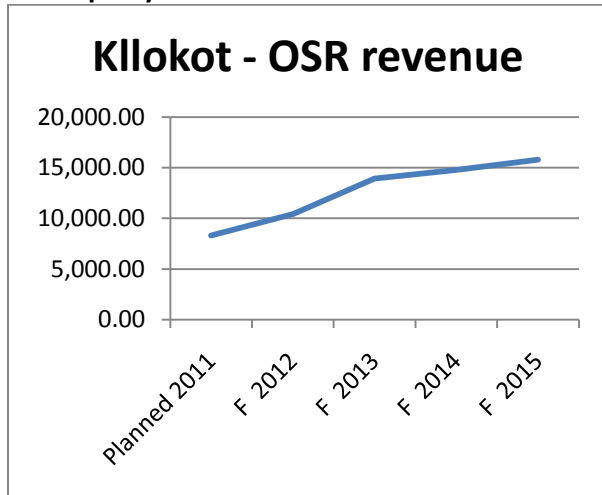
Municipality of Kllokot – Historical and Forecasted Year to Year OSR in percentage change



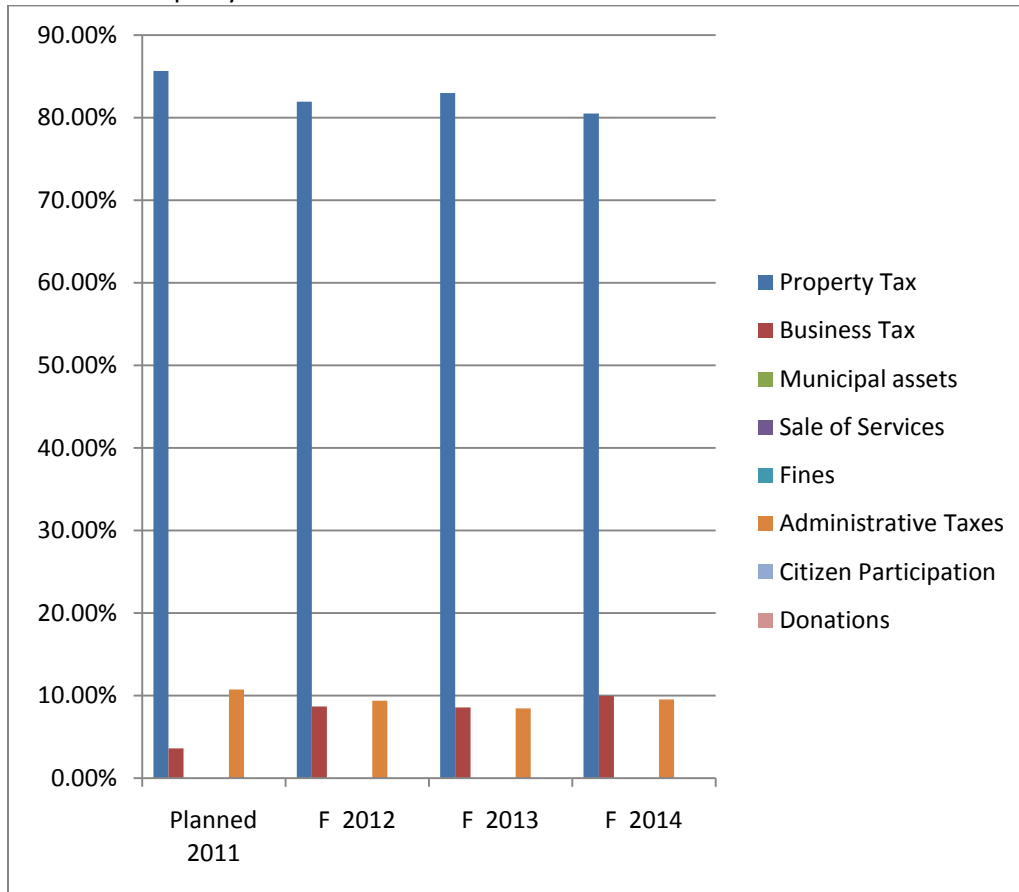
The municipality according to the forecasts can achieve to generate up to 90.51% more annually compared to OSR planned for 2011. This can be achieved through improved political situation and the inclusion of the Serb population of the municipality, better management and utilization of municipal resources and services, as well as through more efficient oversight, inspections and enforcement.

The graph below shows planned and estimated OSRs up to 2015:

Municipality of Kllokot – Historical and Forecasted Own Source Revenues

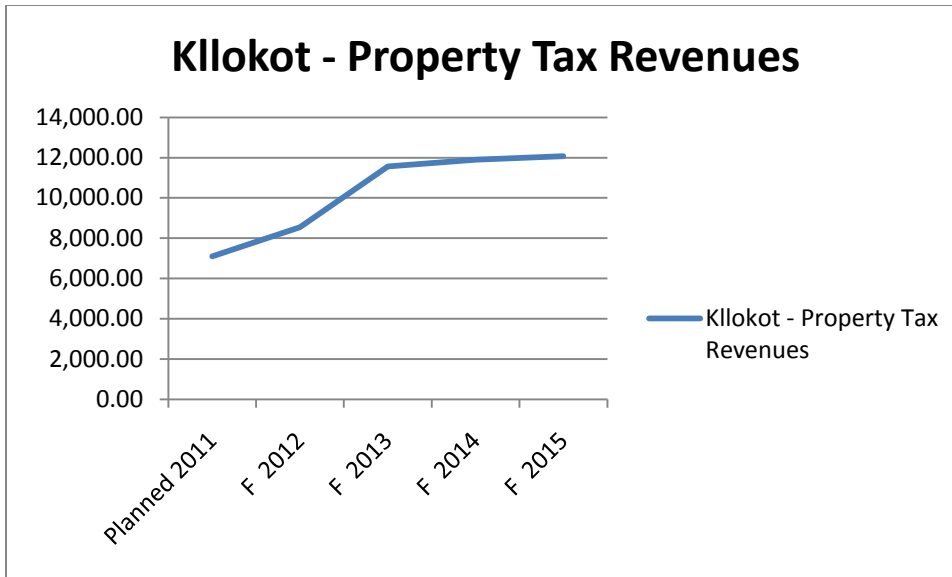


The table below presents the forecasted participation of each OSR category in the total forecasted OSRs for the Municipality of Killokot:

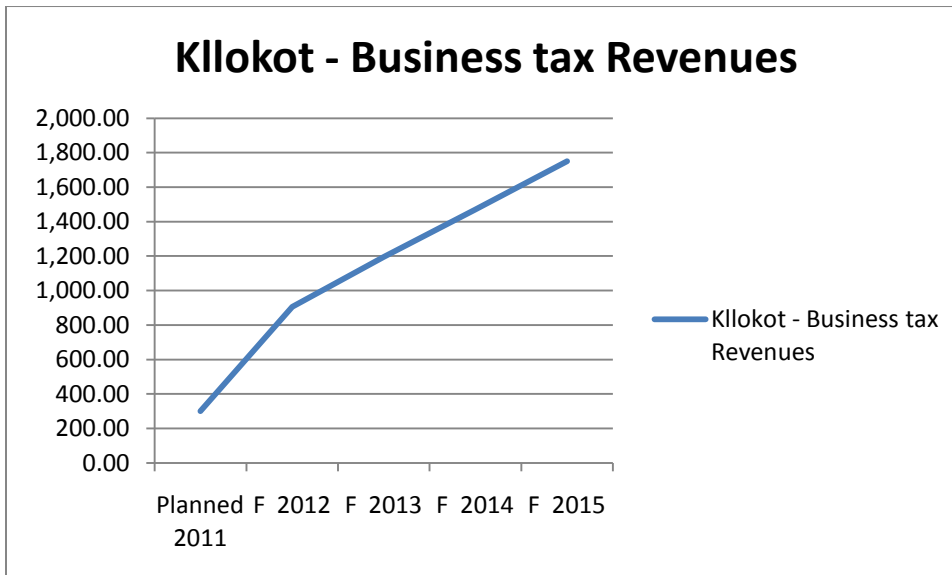


As can be seen from the chart above, the main forecasted drivers of OSR over the coming period are, property tax, followed by administrative taxes and levies and revenues form businesses. These are the areas where municipality of Killokot should try to achieve increases in terms of OSR through increased efficiency in their financial management and enforcement.

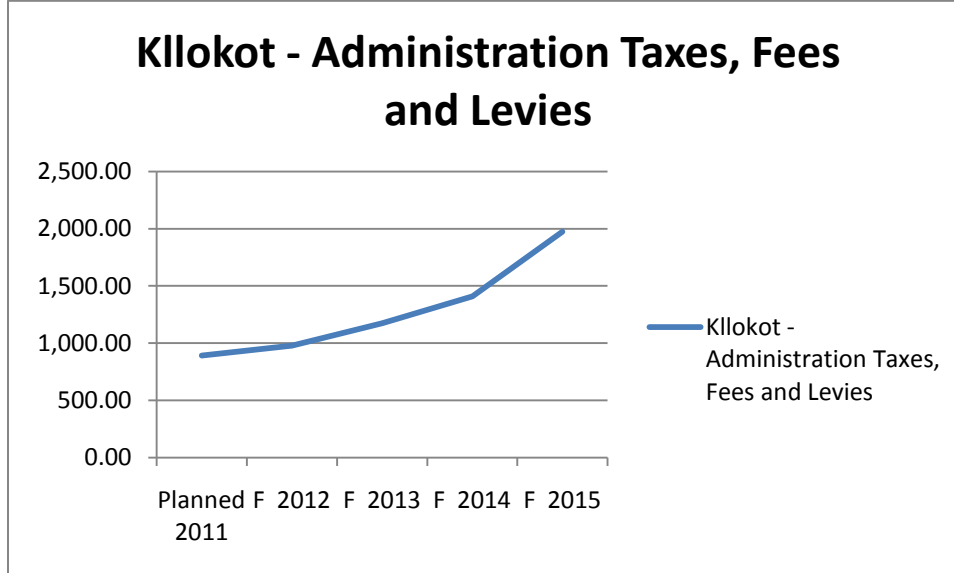
The growth of each category of OSRs forecasted is as presented in the charts below:



Revenues from Property tax continue to increase due to improved political situation, increase and improved registering, database management, improved invoicing and better enforcement, with a forecasted increase of just under 70% in generated property tax by 2015 compared to the 2011 planned level.



Business taxes have a high growth potential due to the presence of several large businesses in the municipality including the mineral water plant, and the growing hotel and recreational businesses in the Kllokot Spa; then the general 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 municipality and the Ministry of Trade and Industry (business registry unit) and the mother municipality of Vitia. Finally, improved presence of municipal officials within the business community and better enforcement of municipal regulations can help improve revenues from businesses. Forecasted growth by 2015 compared to those planned for 2011 is 4.83 times.



Administration fees, levies and taxes are expected to be the second largest contributor to forecasted OSR, contributing on average 10.12% to the OSRs expected to be generated by the municipality. The increase in revenues generated from this category by 2015 will result in an increase of over 1.22 times when compared to the level planned for 2011.

There are no forecasted or planned revenues from Municipality owned assets, sale of municipal services, revenues from municipal, court and police fines, nor any revenues from citizen's participation in health and education services for the analyzed period.

POTENTIAL AREAS FOR INTERVENTION AND SUPPORT

Potential areas for LOGOS project support to the municipality of Kllokot in increasing the level of generated Own Source Revenues are vast. The current level of OSR generation compared to the municipal capacities is very low. However, one should keep in mind political sensitivities, which again may stir up tensions and affect the performance of the municipality in improving its performance in terms of OSR.

Property tax, being one of the large contributors, is an area that one should look at supporting. Currently, the municipality does not have a full property database and does not regularly update it. If reports of a Swedish funded project supporting the municipalities in updating their property database during 2011 are true, then this will go some way in improving the situation. 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. Another 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 project should also look at supporting the municipality in collecting revenues from businesses by improving collection of current taxes and introducing new sub-categories currently not utilized. Improving current collection rates, one can support the municipality in improving its business register and classification so as to achieve better results in business tax collection. The municipality could also start issuing licenses for working longer hours, and also introducing advertisement space tax, and even taxes based on bed/room occupancy rates for the hotel businesses in the Kllokot Spa, which would help securing a more steady revenue stream. Collection of fees for forest utilization and improved enforcement of these fees, coupled with higher level political lobbying resulting in the municipality managing the fees and levies coming from forest utilization, can also result in a steady revenues source for the municipality.

Having in mind the future developments in the municipality, Kllokot could potentially receive good revenues from construction permits, geodesic plans and measurements, field inspections of construction sites.

The municipality, in the opinion of the consultant, should start charging tender participation fee, and also start issuing other certificates and verification of the submitted documentation.

Killokot, being a very new and small ethnically mixed municipality, with a strategic position in terms of nature and tourism, is a very attractive destination for donor supported projects as well. Thus, the project should look at providing 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 forecasted financial performance indicators. 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)**