

BOSNIA AND HERZEGOVINA MFSA: CITY OF BANJA LUKA

1. City profile

Territorial organization: Administrative center of the Bosnia and Herzegovina of Republic of Srpska, consists of 57 sub-municipalities. Total area of the city: 1.239 km². Situated on 17°12' of longitude and 44°46' of latitude.

Population: Total population in 2013-180.056; 2016-182.848 (estimate RS Bureau of Statistics); preliminary census in 2013 BiH-199.191 (BiH Agency of Statistics) Annual growth: +0.4%. (2013-16) status in the country: 2nd place (status in the RS: 1st place). Density: 147.6/km².

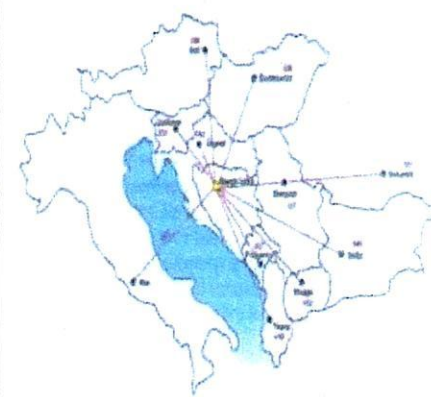
Economy: GDP per capita: 3.302 EUR (estimate 2016).Banja Luka holds 9.497 business entities, not including individual entrepreneurs, and a labor force of 58.482, (basic activity, head office on the city territory). The unemployment rate declined from 20% in 2015 to 17% in 2016.Banja Luka is a university, economic, political and administrative center of the Republic of Srpska with favorable geographic location (highway 50 km, connected to the highway Zagreb-Belgrade; highway Banja Luka-Doboj is nearly completed, as a connection between corridor 5c;international airport is 25 km from the city).Its economic potential is related to development of trade, services (IT), tourism, agriculture and processing industry. Due to the large number of green areas (parks and alleys),it is called the "City of greenery". It is also called "the city of young people, sports and culture. The City is preparing its candidacy for the European Capital of Culture in 2024.

Utilities management: The city of Banja Luka is either majority or significant owner of 5 utility companies operating in: waste management and recycling, heating, water supply and sewerage management, sanitation and funeral services. Also, the city is the founder of 1 public company providing entertainment and recreation, majority owner of 1 shareholders' company for utility fee collection and design and engineering work. Construction and maintenance of street lighting, construction and maintenance of road infrastructure, are funded by the city budget through public procurements and contracts with private companies. Public transport services are provided by private transport companies based on the city permit. Public parking services are provided by the city administration through one of its departments.

Municipal staff: 750 in city administration and 606 in public institutions and organizations funded through city budget in 100% (2016).

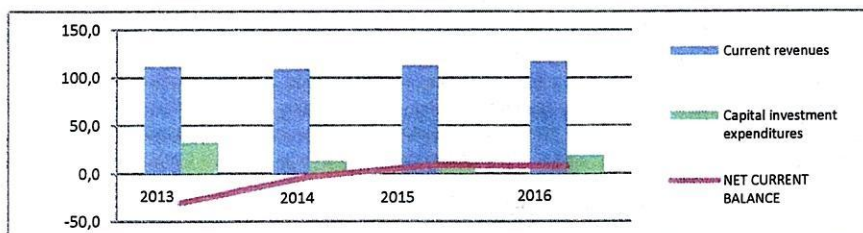
Current Project Investment Plan: capital expenditure plan was adopted for the period 2015-2017. **Planned investments in millions of BAM** (defined source of funding): **8.7** (2015), **49** (2016), **59.4** (2017). Investment structure: 17% economy; 41,4% transport and utility infrastructure; 41,6% for housing, education, social welfare and health care, and sports and culture, environment protection. Development of a new capital investments plan is under way, which will define new list of priorities and realistic sources of funding.

Urban issues and challenges: Upgrading the City as a regional center. Strategic goals: sustained development and larger efficiency in resource management, (goal 1); diversified economic structure ensuring full employment (goal 2); infrastructure efficiency and efficacy (goal 3); well integrated local community (goal 4); revitalized rural areas with ensured conditions for self-sustainable development (strategic goal 5). (Source: Reviewed "City Development Strategy 2007-2019").



2. Financial Situation

| Items (in BAM) | 2013 | 2014 | 2015 | 2016 | Growth Index |
|-----------------------------------|--------------------|--------------------|------------------|-------------------|---------------|
| Current revenue | 111,160,053 | 109,040,498 | 112,365,781 | 116,658,869 | 1.6% |
| Operating expenditure | 85,771,700 | 84,756,429 | 79,901,232 | 82,576,098 | -1.3% |
| Gross Operating balance | 25,388,353 | 24,284,069 | 32,464,549 | 34,082,771 | 10.3% |
| Debt service and borrowing costs | 56,656,439 | 27,985,095 | 24,120,911 | 27,106,485 | -21.8% |
| NET CURRENT BALANCE | -31,268,084 | -3,701,026 | 8,343,638 | 6,976,286 | 160.7% |
| Capital Revenues | 3,370,173 | 3,512,335 | 2,995,594 | 2,522,616 | -9.2% |
| Own capital revenues | 3,130,171 | 3,151,784 | 2,905,471 | 2,358,115 | -9.0% |
| Investment grants and donations | 240,002 | 360,551 | 90,123 | 164,501 | -11.8% |
| Capital investment expenditures | 31,865,594 | 12,525,708 | 9,795,741 | 18,773,229 | -16.2% |
| BALANCE AFTER INVESTMENTS | -59,763,505 | -12,714,399 | 1,543,491 | -9,274,327 | 46.3% |
| Cash reserves from previous years | 92,124 | 60,238 | 99,203 | 4,962,571 | 277.7% |
| Loan proceeds | 58,094,155 | 5,513,505 | 5,397,209 | 6,687,791 | -53.9% |
| OVERALL CLOSING BALANCE | -1,577,226 | -7,140,856 | 7,039,900 | 1,376,035 | n.a. |



Exchange: 1 BAM = 0.51129 EUR / 1 EUR = 1.95583 BAM. Inflation index: 2013: 0.0%; 2014: -1.2%; 2015 +1.4%; 2016: -0.4%; 2017: 1.3% (RS, 2017-estimate)

• **2016 actual budget** of the City of Banja Luka is EUR 65.1 million, of which EUR 59.7 million is from current revenues.

• **Average annual growth** of current revenues in the period under review was 1.6%, which is the result of decreased state tax transfers with increased own-source revenues.

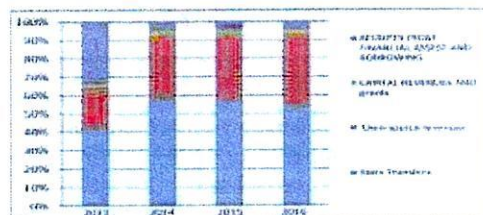
• **Debt service:** 2013 refinancing of loans, which significantly reduced net current balance. Afterwards, due to the reduced current expenditures and rise in revenue, net current balance increased since 2014. In 2017, debt is refinanced again, hence annual debt service is reduced from 11.6 mil. EUR to 9.1 mil. EUR (around 6 mil. EUR in the following years).

• **Operating exp.** were in 2016 42.2 mil. EUR, with a decline of 1.3% in the period under review.

• **Capital expenditures in 2016 were 9.6 mil. EUR.** In 2013, 5.1 mil. EUR was invested in recapitalization of heating company (Toplana). Compared to 2013, decline in investment is for 16.2%, which is mainly a consequence of reduced credit inflow, decline in capital revenues and flood repairs in 2014 funded from the current revenues.

3. Historical Analysis: Revenues & Expenditures

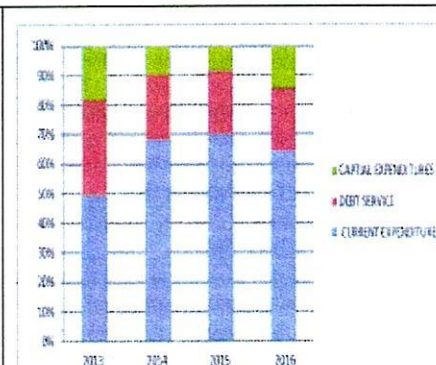
| Description | Million BAM | | | | Million EUR | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2013 Execution | 2014 Execution | 2015 Execution | 2016 Execution | 2016 Execution | Growth 2013-16 |
| TOTAL CURRENT REVENUES | 111,2 | 109,1 | 112,3 | 116,7 | 59,6 | 1,6% |
| State Transfers | 72,2 | 68,9 | 70 | 68,4 | 35,0 | -1,8% |
| Shared taxes | 69,3 | 65,7 | 65,9 | 64,7 | 33,1 | -2,3% |
| Unconditional transfers | 0 | 0 | 0 | 0 | 0,0 | - |
| Conditional transfers-social protection and others | 2,9 | 3,2 | 4,1 | 3,7 | 1,9 | 8,5% |
| Conditional transfers for development | 0 | 0 | 0 | 0 | 0,0 | - |
| Own-source revenues | 39 | 40,2 | 42,3 | 48,25 | 24,7 | 7,4% |
| Local taxes | 8,4 | 8,6 | 9,1 | 10,1 | 5,2 | 6,3% |
| Local fees | 7,2 | 8 | 8 | 7,6 | 3,9 | 1,8% |
| Local income from property | 11,3 | 10,5 | 13,8 | 20,25 | 10,4 | 21,5% |
| Other local income | 12,1 | 13,1 | 11,4 | 10,3 | 5,3 | -5,2% |
| CAPITAL REVENUES AND grants | 3,4 | 3,5 | 3,8 | 2,5 | 1,3 | -9,7% |
| RECEIPTS FROM FINANCIAL ASSET AND BORROWING | 58,1 | 5,5 | 5,4 | 5,7 | 2,9 | -53,9% |



Current Revenues. The most significant sources of current revenue are shared taxes (58%). The most significant sources of current revenue are shared taxes (15%), asset revenues (19%), and other local revenues (8%).

The highest share of current revenue comes from indirect taxes with an average share of 37%. Local property tax with an average share of 6% has the potential to be increased in the future. Revenue from state transfers showed a high volatility and decline of 1.8%, while own-source local revenue recorded an average annual growth of 7.4%. In 2013, there was a high share of proceeds from borrowing represented due to refinancing of long-term loans. The share of state transfers from the Republic is reduced and in 2016 it reaches the share of 58%, whereas the share of own-source revenues is increased (42%). Unconditional and conditional (development) transfers, were not allocated. Capital revenues are in decline (-9.7%), but activities were taken to increase it ("Asset Management" project). Proceeds from borrowing became stable after 2013 on 4.5% of the City budget.

| Description | Million BAM | | | | Million EUR | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2013 Execution | 2014 Execution | 2015 Execution | 2016 Execution | 2016 Execution | Growth 2013-16 |
| CURRENT EXPENDITURES | 85,7 | 87 | 79,9 | 82,5 | 42,2 | -1,3% |
| Expenses for payroll | 36,8 | 36,6 | 36,1 | 36,2 | 18,5 | -0,5% |
| Expenses for goods and services | 29 | 29,2 | 23,5 | 25 | 12,8 | -4,8% |
| Current subsidies and grants (except capital), social transfers to citizens | 17,9 | 18,9 | 18,3 | 19,8 | 10,1 | 3,4% |
| Other current expenditures (VAT) | 2 | 2,3 | 2 | 1,5 | 0,8 | -9,1% |
| DEBT SERVICE | 56,7 | 28 | 24,1 | 27,1 | 13,9 | -21,8% |
| CAPITAL EXPENDITURES | 31,9 | 12,5 | 9,8 | 18,8 | 9,6 | -16,2% |
| OVERALL EXPENDITURES | 174,3 | 127,5 | 113,8 | 128,4 | 65,6 | -9,7% |



The shares of current expenses for payroll (except for 2013, when the budget framework was increased due to refinancing), ranged between 28% and 31% with regard to total budget expenditures. These expenditures were reduced (-0.5%) as well as for goods and services (-4.8%). Current transfers, subsidies and grants rose (3.4% with social transfers to citizens and subsidies to companies) and have average share of around 15% (except 2013). Capital expenditures dropped from 18% in 2013 to 15% in 2016. Because of refinancing of loan debt in 2017, large capital investments are expected primarily in the construction of new city heating plan on wood chips and transport infrastructure.

4. Ratio Analysis

| Ratios | Benchmarks | 2013 | 2014 | 2015 | 2016 |
|---|-------------|------|------|------|------|
| 1 Credit worthiness | | | | | |
| Gross Operating savings/ Current revenue | > 30% | 23% | 22% | 29% | 32% |
| 2 Indebtedness | | | | | |
| Debt outstanding /Gross operating savings | < 10 years | 7.9 | 7.9 | 5.4 | 4.1 |
| Debt service / Total current revenue | < 10 % | 51% | 26% | 22% | 22% |
| Debt outstanding /Budget total | < 60% | 116% | 163% | 146% | 125% |
| 3 Fiscal autonomy | | | | | |
| Own (taxes + fees + unconditional grants) | > 80 % | 35% | 37% | 38% | 41% |
| 4 Capital investment effort | | | | | |
| Capital investment expenditure / Total Cu | > 40 % | 29% | 12% | 9% | 16% |
| 5 Level of service sustainability | | | | | |
| Maintenance works expenditure / Operati | > 15 % | 8% | 7% | 8% | 9% |
| 6 Other ratios | | | | | |
| Salaries & wages / Operating actual expen | < 40 % | 43% | 43% | 45% | 44% |
| Number of municipal employees/1000 citi | < 25 | 7.5 | 7.4 | 7.3 | 7.4 |
| Actual revenue / Planned revenue | 95<A/P<1.05 | 94% | 92% | 102% | 95% |

- **Operating margin** increased from 23% to 32% of current revenues and net margin shows rise as positive changes.
- **The debt burden** is reducing, which is good, but annual share of debt service in current revenue is still high.
- Ratio analysis indicates a need to increase the city's **fiscal autonomy**.
- **Share of capital investments** shows volatility (2013 5mil EUR invested in recapitalization of city heating plant). Apart from 2013, share of these expenses gradually increased. As the refinancing of loans was successfully completed in 2017, conditions for additional capital investments in the future period have been created.

5. Financial projections / Investment programming

City's revenues are expected to rise by 2% on an annual basis. Smaller operational costs are also expected. New employments are not expected in the forthcoming period. Refinancing will enable lower annual amounts of debt repayment, which will lead to investments in the new district heating plant, business zones, water supply.

6. Municipal Finance Improvement Plan

Financial improvement plan has two main objectives with financing estimate of 1.5 mil. BAM: (I) Financial improvement and (II) Improved local funds management. **Goal I** has 3 specific objectives which are under the competence of central state or entity (increased share of the City in distribution of income on indirect taxes and personal income tax; control over the implementation of the Income Tax Law; introduction of new utility fees) and 5 specific goals under the competence of local self-governance (debt restructuring; revenue management based on immovable property tax, rental and utility contribution; implementation of public-private partnership projects and the project "Asset Management"). **Goal II** has 5 specific objectives: An advanced model of program budgeting (implementation of more complex models and precautionary principle); development of financially sustainable "Capital Investments Plan" and the new "Development Strategy", which will be more focused on public policies; advanced control of budget execution (centralized procurement, improved implementation analysis and monitoring); additional internal audit control; improved budget liquidity (collection of all receivables; write off of suspicious and controversial receivables).

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