

FINAL PLAN

**Comprehensive Financial Management Improvement Plan (CFMIP)
Birgunj Sub Metropolitan City**

INSTITUTIONAL STRENGTHENING OF MUNICIPALITIES PROJECT

ADB TA No. 7355-NEP

Prepared for:

Ministry of Local Development
Government of Nepal
Asian Development Bank

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August 2011

TABLE OF CONTENTS

COMPREHENSIVE FINANCIAL MANAGEMENT IMPROVEMENT PLAN (CFMIP).....	1
BIRGUNJ SUB-METROPITAN CITY	1
Accounting System	1
Current Status.....	1
Accrual Accounting System	4
Current Status	4
Budgeting	6
Current Status.....	6
Revenue Collection.....	9
Current Status.....	9
House and land tax	10
Vehicle tax.....	11
Business and professional tax	11
Building permit fee	12
House rent tax.....	13
Hoarding board tax.....	13
Parking fees	13
Solid waste fees	13
Internal Audit.....	16
Current Status.....	16
External Audit.....	17
Current Status.....	17
Inventory and Procurement	18
Current Status.....	18
Public Private Partnership.....	20
Current Status.....	20
Staff Training.....	21
Financial Projection.....	22
Assumptions made in revenue and expenditure forecast	23
Revenue projection.....	25
Fees and charges.....	27
Property Rental.....	28
Other Revenue	28
Miscellaneous Income	28

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

Government Grants	29
Local development fee	29
Administrative grant	29
Capital grant.....	29
District Development Committee and Other Donors	30
Expenditure projection.....	30
Current Expenditure	30
Debt Repayment	30
Social Program	30
Ordinary Capital.....	30
Capital Investment	31

LIST OF TABLES AND FIGURES

Table 1: Improvement Plan – Accounting	3
Table 2: Improvement Plan – Accrual Accounting System.....	5
Table 3: Comparison Between Budget And Actual Income And Expenditure For Fy 2009/1 ...	7
Table 4: Improvement Plan - Budgeting.....	8
Table 5: Improvement Plan – Revenue Enhancement.....	13
Table 6: Improvement Plan – Internal Audit.....	16
Table 7: Improvement Plan – External Audit.....	17
Table 8: Improvement Plan – Inventory And Procurement.....	19
Table 9: Improvement Plan – Public Private Partnership	20
Table 10: Training Schedule.....	22
Table 11: Financial Projection For Five Years (Fy 2011/12 To Fy 2016/17).....	23
Table 12: Actual Revenue And Expenditure For Fy 2009/10 And Budget Proposed For Fy 2010/11	25

LIST OF ANNEXES

Annex – 1: Assessment of Minimum Conditions and Performance Measures

Minimum Conditions

Performance Measurement

Annex – 2: Financial Statements, Historical and Projected Data

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

ACRONYMS

AAS	Accrual Accounting System
ACCA	Asian Coalition for Community Action
ADB	Asian Development Bank
CFMIP	Comprehensive Financial Management Improvement Plan
DTCO	District Treasury and Controller Office
EO	Executive Officer
FNCCI	Federation of Chamber of Commerce and Industries
FY	Fiscal Year
GIS	Geodetic Information System
HALT	House and Land Tax
HO	Head Office
IAP	Integrated Annual Plan
IPT	Integrated Property Tax
IRO	Inland Revenue Office
ISMP	Institutional Strengthening for Municipalities Project
LBFAR	Local Bodes Financial Administration Regulations
LDTA	Local Development Training Authority
LSGR	Local Self Governance Regulations
MCPM	Minimum Condition and Performance Measurement
MLD	Ministry of Local Development
MOF	Ministry of Finance
MuAN	Municipality Association of Nepal
NGO	Non Governmental Organization
NRs	Nepalese Rupees
PPP	Public Private Partnership
PPPUE	Public Private Partnership for Urban Environment
RAC	Revenue Advisory Committee
TDF	Town Development Fund
TMO	Transport Management Office
Udle	Urban Development through Local Efforts
UNDP	United Nations Development Programme

PREFACE

1. This document was developed under the Asian Development Bank's Institutional Strengthening of Municipalities Technical Assistance Project (TA 7355-NEP). The project has three components: (i) Improving Financial Management (ii) Strengthening Technical Capacity of Urban Service Delivery and (iii) Development and Institutionalization of GIS Based Urban Mapping. This document is related to the first component of the project only.

2. Listed below are the activities the project team are to accomplish under the project's financial management component according to the Terms of Reference (ToR). These are:
 - review and assess the existing financial management system and practices of participating municipalities;
 - review the current accounting and audit system, practices, and recording status, including the level of computerization of the accounting system;
 - review revenue administration management, types of taxes and non-taxes, collection of those over the years, revenue potential and assist in the preparation of more realistic annual revenue estimates;
 - assist in the capacity development programs to municipalities' staff in areas of accounting, budgeting, audit, revenue management and enhancement, and expenditure and revenue recording;
 - review the status of application of integrated property tax, assessment methods of tax amounts, collection efficiency, staff capacity, and potential for revenue enhancement;
 - in close consultation with participating municipalities, draft a Comprehensive Financial Management Improvement Plan (CFMIP) covering 1–3 years, including revenue enhancement measures. Among other initiatives, the CFMIP will include the introduction of accrual-based accounting system;
 - assist the municipalities in implementing the CFMIP, together with capacity development programs for the municipalities' staff, with specific focus on accounting and auditing; and,
 - review the plan to reduce backlogs in financial data, the adoption of annual financial statements, and annual internal and external audits.

3. It can be seen from the above list that the roles of ISMP's implementation team are essentially to review and assess the existing financial management system, accounting and

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

auditing practices, revenue administration, and staff capacity; develop a Comprehensive Financial Management Improvement Plan (CFMIP); and provide training and assist in implementing the CFMIP. The overall objective is to strengthen the financial administration system of participating municipalities.

EXECUTIVE SUMMARY

4. CFMIP is a tool for improving the Financial Management of the municipality. It primarily aims to ensure that proper accounts and financial records are kept, timely audit has been done, there is a strategy for enhancing revenue to meet its financial obligations, and that financial records show the correct state of affairs of the municipality.
5. The present draft CFMIP has been prepared on the basis of discussions held with municipality staff, assessments of the financial management systems and practices and capabilities, studies of secondary documents, meetings held with various stakeholders (MLD, Udle, MuAN), and presentations made at stakeholders workshops and project steering committee meetings.
6. The municipality will need to have a continuing commitment in implementing the recommendations made in the CFMIP. The ISMP team have provided intermittent support and training to support its implementation. The feedback of the municipality has been of assistance to the ISMP team in making it a success. The municipal staff with its vast knowledge of the organizational structure, local social and economic conditions and the staff capacities has been valuable in producing a final useful and workable document.
7. The Fiscal Commission of the Ministry of Local Development (MLD) provides a performance assessment measures in its “Minimum Condition and Performance Measure (MCPM)”. In this assessment, financial indicators comprise a major part of measurement. The practice of MCPM was commenced in FY 2007/08. Based on performance, the municipality is either rewarded or penalised in their entitlement for a formula based government grant. The performance of the municipality is tabulated in the Table below. More details can be found in Annex - 1.

MCPM	Total Points	FY 07/08	FY 08/09	FY 09/10
Minimum Condition	13	7	8	13
Performance Measure (Total)	100	45	46	62
Performance Measure (Financial Management)	28	7	10	16
Performance Measure (Others)	72	38	36	46
Ranking Position (out of 58 municipalities)	58	38	55	33
Financial Implication Based on Ranking (addition (+) or reduction (-) in formula based government grant)		-10%	-100%	-10%

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

8. There are 13 minimum conditions and the municipality has been required to fulfil these conditions gradually from 7, for FY 2007/08 to 13 in FY 2009/10 to be eligible for a formula based government grant. Since the municipality scored only 8 points in FY 2008/09, it was not eligible for any formula based government grant in the following year.
9. In performance measurement, depending upon the score, the municipality either gets additional grant amount of 25% or 10% or reduction in the grant amount of 25% or 10%.
10. ISMP has assisted the municipality to improve its financial management functions, especially in areas that are assessed by the Fiscal Commission. The following Table illustrates how ISMP has assisted municipal staff in addressing the areas in greatest need of improvement during the project which ends in October 2011.
 - Realistic budget estimates have been prepared for expenditure and income taking into account past trends and the availability of both Government funds and internal revenue sources;
 - Action has been taken, as a matter of urgency, for the municipality's property records to be updated to assist in the collection of current and overdue taxes;
 - An Improvement plan for revenue enhancement has been prepared after discussions were held with the municipal staff and other stakeholders;
 - Assisted in maintaining close liaison with the Central Government tax authorities in establishing cooperation between these two authorities;
 - Action plan was prepared in consultation with the internal audit section for making internal audit function more efficient and effective so that the municipal management receives timely information on usage of municipal resources;
 - Action plan was prepared in consultation with the finance section for completing external audit each year and recording (in the given format) and resolving the comments raised by the auditor in a timely manner.
 - Assisted the preparation of an annual procurement plan to match with the approved budget. This plan shows the project implementation period and provides information on budgetary requirements for procurement;
 - A structured staff training was carried out which will broadly cover all aspects of the financial management system, accrual accounts, internal and external audit, computer accounting system etc. Unstructured training was also provided during visits at the municipalities or through emails or telephone.
11. The Comprehensive Financial Management Improvement Plan (CFMIP) encompassing these priority issues and other related activities undertaken in Birgunj municipality related to accounting, revenue, internal audit, external audit, inventory, and public private partnerships is described in its detail below.

COMPREHENSIVE FINANCIAL MANAGEMENT IMPROVEMENT PLAN (CFMIP)

BIRGUNJ SUB-METROPITAN CITY

12. This section of the CFMIP identifies the current status of the core areas of the municipality's financial management system which needs to be improved. The status is then followed by ISMP's recommended time bound strategy for improving the financial management system along with the responsible person. It is the responsibility of the municipality to improve the financial management system. Most of the recommendations are related to the compliance of existing rules and regulations. The areas for improvement are classified in the following sub-sections.

- Accounting System
- Accrual Accounting System
- Budgeting
- Revenue Collection
- Internal Audit
- External Audit
- Inventory and Procurement
- Public Private Partnership
- Staff Training

ACCOUNTING SYSTEM

Status at Project Commencement

13. Accounting is carried out on a cash basis with the Chart of Accounts following the prescribed format. Accounting rules and policies adopted by the municipality are based on the Local Body Financial Administration Regulation (LBFAR).
14. The expenditure accounts are kept manually in the format prescribed in LBFAR. Revenue accounting is managed under the computer system. Revenue section is using the computer software system developed by Shangrila Microsystem.
15. The municipality has hired a consulting firm for developing an accrual accounting system. The final manual will be delivered to the municipality in January 2011. The consultants will provide training to the accounting staff and will also provide on the job support for the implementation of accrual accounting system.

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

16. The consulting firm will also assist in identifying the software firm for developing an accounting software based on the accounting manual. The accounting system that will be developed should be compatible with the revenue system that is currently running successfully.
17. Financial reports are prepared periodically as prescribed in the Local Bodies Financial Administration Regulations (LBFAR). The finance department has been generally complying in maintaining all the important records and reporting requirements.
18. The finance department has sufficient staff to carry out their duties and most of these staff have a good working knowledge in maintaining the manual accounting records. They have had limited training on the use of the computer system and in financial management. The support staffs in the expenditure accounts section are below graduate level. **It is essential to hire one commerce graduate staff who has some work experience and working knowledge of the computer application program (word, excel). There is also a problem with staff transfers being carried out between Departments and/or Sections.**
19. In the past, the financial records were not kept up to date and there have been delays in completing the annual statutory audit. However, in the last few months, substantial progress has been made in updating the accounting records and in completing the annual audit. The auditor has submitted the audit report for FY 2063/64 (FY 2006/07). The municipality prepared an action plan for completing the remaining audits FY 2064/65 to FY 2066/67 (FY 2007/08 to FY 2009/10) by the end of June 2011. **All the pending audits have now been completed. This is a very satisfactory progress made by the municipality.**
20. The latest available audit report (FY 2063/64) has reported in its management letter following deficiencies in the accounting system and procedures.
 - Fixed assets records have not been maintained to reflect the total property in the ownership of the municipality.
 - There are number of old pending advances and un-reconciled accounts. They need to be settled in time. Some advances are recoverable from old staff and officials who have left the organization. **Total amount of advances not settled as of the audit date is NRs190.37 million.**
 - The bank reconciliation statement has old outstanding amounts which need to be adjusted.
 - Inventory recording and reconciliation system needs to be improved. Reconciliation of the inventory movement to the ward office has to be done.

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

- The record of liabilities for amounts due to the suppliers has not been maintained.
- The revenue potential of the municipality has not been fully utilized. All the sources of income have not been collected to its full potential.

Table 1: Improvement Plan – Accounting

No	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion Status
1.	The accounting records (expenditures) are maintained manually. The accounting system should be computerized.	Production of the accounting manual	Jan 2011	Accounts Section	Computer system is now in operation and working satisfactorily.
2.	Provide on the job training on the computerized accounting system.	Structures and on the job training	June 2011	Accounts Section	Further staff computer training would be beneficial
3.	A task force should be formulated for settling audit irregularities.	Clearance of audit irregularities	August 2011	EO Accounts Section	Letter written to the concerned people for settling the irregularities. Task Force has not been formulated. Depending upon the response received on follow up letter future course of action will be determined
4.	Statement of advances should be prepared in the format prescribed in LBFAR (Annex 22)	Aging status of advances presented	June 2011	Accounts Section	Will implement from the current year.
5.	Settlement of old advances should be the first priority of the task force. (advances recoverable from current staff, ex-staff, contractors, ward offices, suppliers etc.)	Settlement target: (i) 15% of advances o/s as of FY 07/08 (ii) 35% of advances o/s for FY 08/09 (iii) 60% of advances o/s for FY 2009/10	Nov 2011 and set new target	EO Accounts Section Internal Audit Planning	Task Force not formed. Since the audit has been updated recently, appropriate measure will be taken to resolve settlement of old advances. There are number of old advances which cannot be traced and will need to be written off.
6.	Settle amounts outstanding in the bank reconciliation statements.	All old amounts	Sept 2011	Accounts Section	All accounts reconciled. Outstanding adjustments will be corrected by the end of FY2068/69 (2011/2012)
7.	Maintain contract ledger for activities carried out by the Contractor, User Committee, NGO in the format prescribed in	For each job	Immediate	Accounts Section	Not maintained

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

No	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion Status
	LBFAR (Annex 68).				
8.	Maintain performance guarantee ledger to monitor and control bank guarantee as performance bond and prescribed in LBFAR (Annex 35).	For all bank guarantee	Immediate	Planning Section Accounts Section	Not maintained
9.	Quantify the amount contributed by the user committees for implementing the projects.	User Committee contribution quantified	Immediate	Respective infrastructure Sections and Accounts Section	Budget for User Committee (UC) work is done. UC contribution estimate is prepared. Agreement with UC is done. Contribution is made in cash. It is kept in a separate UC bank account. UC contribution is 20%.
10.	Reflect value of contribution of the user committees in the financial statements.	User Committee contribution reflected in the financial statements.	After the introduction of AAS	Accounts Section	To be recorded in the Financial Statement
11.	Maintain subsidiary ledger for main infrastructure projects carried out e.g., road, sewer, drainage, environment, water supply etc. as prescribed in LFBAR (Annex 19)	Presentation of correct information for planning and monitoring	Immediate	Accounts Section	Not maintained

ACCRUAL ACCOUNTING SYSTEM

Status at Project Commencement

21. Although the LBFAR requires the municipalities to adopt an accruals-based accounting system (AAS), the municipality is currently using cash-based accounting. It has plans for implementing the accrual accounting system once the accrual accounting manual being prepared by consultants hired by the municipality is finalized.
22. At this stage, the municipality should start the preparatory work for introducing the AAS. Unless the preparatory work is completed, **it will not be possible to switch over to the AAS.** Preparation of the inventory of fixed assets, valuing those assets and listing current assets and liabilities for creating the opening balance will be a time consuming process. Completion of the preparatory work will save time when the new manual is introduced.

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

23. Plans for accomplishing the preparatory work for introducing the accrual accounting system is presented in the following table. The municipality has plans to introduce AAS from the beginning of FY 2011/12.

Table 2: Improvement Plan – Accrual Accounting System

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion Status
1.	Formation of AAS committee. The members of this committee should have the following member's representation. <ul style="list-style-type: none"> • Accounts • Revenue • Engineer District Treasury Office	Driving force for the introduction of AAS	July 2011	EO	AAS implementation plan was prepared but it has been postponed as MLD advised them to wait until the finalization of AAS Manual. Preparatory work could still be done
2.	Preparation of the inventory list of fixed assets (Land, Building, Roads and Bridges, Sewer and Drainage, Public Electrification, Furniture and Fixture, Equipment, Vehicle, Work in Progress (capital projects). Valuation of the above assets should be done. It will be very difficult to find out the actual historical costs of the assets. They should be valued at the current fair price. Current fair price means the cost of those assets at the current market value.	(iii) Value of fixed assets ascertained	July 2011	AAS Committee	As above
3.	Valuation of consumable stores balance amount (Stationary, Electrical Items, Sanitary Materials, Construction Materials, Miscellaneous Items).	Value of inventory items ascertained	July 2011	AAS Committee Inventory Section	As above
4.	Preparation of the list of debtors. They could be following items (Amount Recoverable for Services Provided, Rent Recoverable, Security Deposit, Outstanding Taxes)	Amount of debtors ascertained	July 2011	AAS Committee Revenue Section	As above
5.	Preparation of the list of advances (Staff Advances -	Amount of advances	July 2011	AAS Committee	As above

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion Status
	personal and works, Advance to Contractors, Advance to Suppliers, Deposits)	ascertained		Accounts Section	
6.	Cash and bank balances (at HO and Wards)	Amount of cash and bank balance ascertained	Immediate	Accounts Section	As above
7.	Preparation of the list of creditors (Amount Payable to Suppliers, Amount Payable to Contractors, Advance Received from Communities, Deposits Received)	Amount of creditors ascertained	July 2011	AAS Committee Accounts Section	As above
8.	Staff benefits payable (Gratuity Payable, Leave Encashment Payable, Medical Expenses Payable) to be accrued in the accounts.	Amount of liabilities due to staff ascertained	July 2011	AAS Committee Accounts Section	As above
9.	Loan records (Loan Payable to Different Funding Agencies – TDF, Govt) Interest payable on loan amount	Amount of loan and interest payable ascertained	July 2011	AAS Committee Accounts Section	As above

BUDGETING

Status at Project Commencement

24. Budget preparation through participatory programming process is explained in the Local Self Governance Act (LSGA) and the corresponding rules and procedures. Program proposals for inclusion in the annual budget are collected from the ward level. The Budget Committee comprising Section Chiefs scrutinizes program proposals within the available resources on a priority basis and prepares draft annual plan and budget. It is submitted to the Council for approval before the onset of new financial year. Budget contains all significant activities in sufficient detail and provides a meaningful tool to monitor subsequent performance. Periodic plan should be a basis for preparing the annual budget.
25. In the past budgets were approved by the Council very late (just before the beginning of new fiscal year). The government has proposed that (from FY 2011/12) municipal budgets should be approved by the Council six months before the beginning of the fiscal year. This is a good decision but most municipalities have not been able to comply with this requirement. In order to make budget estimates more realistic, timely and to meet the MCPM requirements, the municipality, besides meeting the following timelines, should monitor and

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

review the progress every quarter to keep track of the proper execution of budgetary procedures.

26. A comparison between budget and actual income and expenditure for FY 2009/10 is detailed in the following table.

Table 3: Comparison between Budget and Actual Income and Expenditure For FY 2009/10

FY2009/10 (FY 2066/67)				
				NRs Million
Particulars	Budget	Actual	Variance	Variance %
Local Taxes	28.38	16.43	(11.95)	-42%
Fees And Fines	11.39	11.46	0.07	1%
Property Rental	2.32	1.97	(0.35)	-15%
Other Revenues	3.41	1.28	(2.13)	-62%
Own Source Revenue	45.50	31.14	(14.36)	-32%
Misc. Income				
Grants	168.49	172.47	3.98	2%
Loans	7.60	-	(7.60)	-100%
Balance Forward	16.97	15.23	(1.74)	-10%
Total Revenue	238.56	218.84	(19.72)	-8%
Current Expenditures	75.84	66.65	(9.19)	-12%
Debt Payment		0.56	0.56	
Social Programs	58.80	53.76	(5.04)	-9%
Ordinary Capital (Fixed Assets)	0.45	0.35	(0.10)	-22%
Capital Investment (Program Exp)	103.47	77.41	(26.06)	-25%
Total Expenditure	238.56	198.73	(39.83)	-17%

27. During the year, total revenue and expenditure decreased by 8% and 17% respectively compared to the budget.

28. In the case of income, own source revenue is 32% less than budget. Grant income is 2% more than the estimated amount. Grants are determined on ad hoc basis in the framework of the national budget formulation process. Lack of predictability does not allow the local bodies, including municipalities, to accurately estimate grants.

29. The current expenditure exceeded the municipality's own source revenue is contrary to the allowable limit of twenty five percent prescribed in the LSGR. However total expenditure was 17% less than the budgeted amount. In the case of expenditures, current expenses,

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

social program, ordinary capital and capital investments decreased by 12%, 9%, 22% and 25% respectively.

30. The municipality is making efforts in to prepare more realistic budgets. This achievement has a direct impact in the performance rating of the municipality in the MCPM evaluation, as additional points are awarded if the budget is close to the actual amount.

31. In order to make budget estimates more realistic, timely and to meet the MCPM requirements, the municipality, besides meeting the following timelines, should monitor and review the progress every quarter to keep track of proper execution of budgetary procedures.

Table 4: Improvement Plan - Budgeting

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion Status
1.	Make an estimate of economic and human resources available	Compliance of LSGR	Mid December	Budget Committee	Budget approved before the beginning of the current financial year on 18 June 2011
2.	Send instructions to the Ward Committees to submit their program of activities	Compliance of LSGR	3 rd week of December	Budget Committee	Municipality proposes to comply with new guidelines of the Government to approve the budget within six months before the new financial year and meet the prescribed datelines.
3.	Submit program activities by the Ward Committees	Compliance of LSGR	End December	Ward Offices	As above
4.	Scrutinize program proposals within the available means on a priority basis in consultation with the Sector Sub Committees.	Compliance of LSGR	1 st week of January	Budget Committee	As above
5.	Submit the annual plan in the Council for approval	Compliance of LSGR	1 st week of January	Budget Committee	As above
6.	Prepare budget estimates – revenue and expenditure proposals. It should be based on realistic figures.	Compliance of LSGR and guidelines	Mid January	Budget Committee	As above
7.	Approval of the annual budget by the Council	Compliance of LSGR and guidelines	Mid January	Council	As above
8	Review financial and physical progress	Compliance of LSGR and guidelines	Quarterly	Budget Committee	As above

REVENUE COLLECTION

Status at Project Commencement

32. The main heads of own source revenue of the municipality are (i) integrated property tax (ii) business and profession tax (iii) building permit fees (iii) registration and other fees (iv) rental charges (v) hording board fees. Revenue collection is done at the Head Office with a majority of payments being made in cash. The Ward offices collect some fees for miscellaneous services.
33. The Revenue Section has computerized its accounting system. The present system is running satisfactorily. Receipts for the payment of taxes and fees are now issued by computer print out.
34. Revenue collection is mostly carried out from Head Office with a majority of payments being made in cash. The Ward offices collect some fees for miscellaneous services provided (i.e. approval certificates etc).
35. Funds collected at Head Office are banked the following day and bank reconciliations for revenue accounts completed weekly.
36. Property records are only maintained in the computer system for those customers that pay their property taxes. There is no system of issuing invoice or notice to the tax payers for amounts due. A large proportion of citizens do not pay taxes on time unless they need to get a recommendation letter for various purposes. For example, out of about 30,000 (estimated) houses the municipality has maintained the records of only 10,000 houses. Approximately two thirds of houses are not in the tax net. Similarly, collection of taxes from other sources is far below its potential.
37. There is lack of coordination with the Central Government agencies for enhancing revenue collection. The municipality is not as effective in collecting revenue compared to the revenue collection administration of the Central Government. Under the present circumstances, coordination and support of the Central Government is necessary in the following areas.
- a) Exchange of business tax data with the Inland Revenue Office.
 - b) Make it mandatory to show evidence of business tax payments to the municipality at the Inland Revenue Office.
 - c) Make it mandatory to show evidence of annual vehicle tax payments to the municipality at the Transport Management Office while paying annual vehicle tax.

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

- d) **Make it mandatory to show evidence of payment of property tax while transferring title deeds of house and land.**
 - e) **Remove the current provision of double payment of house rent tax.**
 - f) Ensure a mechanism is implemented in clearing pending revenue sharing accounts with District Development Committees.
 - g) **Improve information sharing with land revenue office and land survey department.**
38. The municipality has a **Revenue Advisory Committee (RAC)** comprising six members effective from FY2066/67. The members are represented by Inland Revenue Office, FNCCI (two members), taxpayers (two members) and EO. RAC should play proactive role in enhancing revenue.
39. Enhancement of revenue is a major issue for the municipality. The issues, challenges, strategy and the improvement plan for revenue enhancement is presented below. The ISMP team **recommends improving collection efficiency of the present taxes and fees** instead of introducing new taxes and fees.
40. The revenue section should maintain a close relationship with all the municipality sections. **The Ward offices should be mobilized for enhancing revenue collection. The revenue campaign will be an opportunity in mobilizing the Ward offices, understanding the expectations of the citizens and preparing future strategies for improving service delivery and collection of taxes and service fees.**

HOUSE AND LAND TAX

41. Birgunj municipality has opted to continue with House and Land Tax (HALT). **It does not wish to switch over to an Integrated Property Tax (IPT) unless a detail study is carried out.**
42. At present there are number of houses outside the tax net. The data base of the taxpayers is not up to date. **It is estimated that about 66% of the houses are outside the tax net.** The revenue section has computerized house records of approximately 10,000 houses out of an estimated 30,000 houses in the municipal area. **There is no system of issuing invoices or reminder letter to taxpayers.** People pay taxes voluntarily to fulfil their legal obligation or for complying with the requirement for some other agency **e.g. getting bank loan, selling property (for Land Revenue Office).** Inhabitants are reluctant to pay their taxes as they do not see the benefit in paying taxes or they just do not pay tax voluntarily. **However, HALT has potential revenue of 100mn if all possible strategies are applied.**

43. Maintaining up to date records of the houses is the most important function that the municipality should accomplish. Component 3 of this project will be assisting the municipality in updating the data base of the properties. **This component will also assist the municipality in street naming and house numbering.** However, updating this data should be a continuous process.
44. The land parcel data is maintained by the Land Revenue office. **Changes in land parcel data does not flow to the municipality automatically.** The municipal deputed its staff to collect land parcel data on an annual basis. Information sharing with Land Revenue Office and Land Survey Department has to be improved.

VEHICLE TAX

45. Vehicle tax includes taxes collected from vehicles entering the municipality area, annual vehicle renewal fees and parking fees.
46. The municipality in FY 2010/11, through open bid, awarded a contract for the collection of vehicle tax, **annual renewal fee and parking charge to a contractor for NRs17.77 million.** The vehicle tax collection in FY 2009/10 was NRs917,000. Because of a dispute on the appointment procedure of the contractor, there was a delay of approximately four months in making the contract effective. The contractor is now implementing the contract and has been paying the contractual installments on time. **This has become a very important source of revenue of the municipality although it is a subject** of discussion if the bid price was reasonable.

BUSINESS AND PROFESSIONAL TAX

47. Birgunj is a commercial and industrial city. It has a big potential for business and professional taxes. At present, the municipality does not have an accurate data base of the businesses and professions. **Creating a data base is a challenge but updating it regularly is another challenge as there is always a movement of the business locations, registration of new businesses and abandonment of businesses.**
48. Establishment of cordial relationship with the Chamber of Commerce is therefore very important. Federation of Chamber of Commerce (FNCCI) is the parent organization of the business community. **The relation of the municipality with FNCCI is cordial but the support received so far has not been visible.** Some business people may not have knowledge of

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

their liability to pay business and professional taxes and some may be reluctant to pay taxes. FNCCI can play a crucial role in educating its members for paying taxes and the benefits they receive.

49. According to the IRO Birgunj, the total number of tax payers in the municipality is approximately 8,000 but the municipality has a record of 4,000 tax payers and tax is collected from only about 600 tax payers. IRO is willing to exchange the data base of the tax payers and support the municipality in collecting business and professional taxes. Support of IRO in collecting this tax will be very useful through sharing a data base, exchanging ideas and establishing a good working relation.
50. The municipality has been making efforts in collecting taxes from businesses but there are a number of challenges.

BUILDING PERMIT FEE

51. Building permit fees is one of the main sources of fees collected by the municipality. Although it is essential for any new construction to receive a building permit before commencement of construction or alteration in the existing structure, a number of constructions do not have municipality approval. It is estimated that approximately 25% of houses are built without approval. Capturing data of buildings constructed without a permit can generate addition revenue from lost fees and HALT. The Ward offices should be made effective for identifying illegal constructions. A revenue mobilization campaign planned in four wards will assist in verifying illegal constructions.
52. The data base of the building section is weak. Records are maintained manually. The filing system is primitive with files kept in bundles.
53. At present there is no manpower for supervising illegal constructions. Three important sections, building permit, revenue and GIS do not have proper coordination. Recently this section has started sending one copy of the building permit to the revenue section which is a source data for maintaining the property record.
54. The municipality has not been able to pass the building code. It was proposed to pass the building code under Integrated Annual Plan (IAP) but the Board did not pass it mainly due to "right of way issues" as a number of building do not meet this condition.

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

55. This section is under the planning section. **The planning chief feels that this section should be headed by a planner or architect.**

HOUSE RENT TAX

It is collected by the Central Government and the municipality at 10% and 2% respectively. The municipality has not been able to raise money under this income heading. In this regard, the municipality needs cooperation from the Central Government. **It would have been administratively much easier to collect the total rent tax by Central Government and share such collection.**

The Government has announced in FY 2011/12 budget to review the present system of rent tax.

HOARDING BOARD TAX

56. **Hoarding board fees are collected by the municipality through a contractor. This is a satisfactory arrangement.**

PARKING FEES

57. **The municipality has not started collecting parking fees.** It should consider the collection of parking fees for better transport management rather than enhancing revenue.

SOLID WASTE FEES

58. The municipality does not charge for the collection of solid waste. This is a potential source of revenue. **Introduction of solid waste fees should be considered.**

Table 5: Improvement Plan – Revenue Enhancement

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion Status
	Awareness Campaign				
1.	<p>Conduct awareness campaign at ward levels with active participation of ward committee. It was agreed to start this campaign in four wards (5, 7, 8 and 13) The focus of this campaign should be to make the citizens aware about their liability to pay taxes and the services they receive from the municipality. ADB investment in pipeline could also be highlighted.</p> <p>A team of three persons will be necessary (ward secretary, other</p>	Awareness campaign in four wards	June 2011 Set new target for remaining wards	<p>Revenue Section</p> <p>Ward Committees</p> <p>Other Sections</p>	Not yet commenced. Plan has been prepared

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion Status
	two persons).				
2.	Improve service delivery along with revenue campaign and improvement in revenue collection.	Improved Service Level	Immediate and Continue	All Departments	Will be implemented when funds are available
3.	Collect feedback from the citizens about their service level expectations.	Improved Service Level	Immediate and Continue	All Departments	This will be undertaken as part of the awareness campaign
	House and Land Tax (HALT)				
4.	Update of the house and land data base after the completion of activities under Component 3 of this project. Currently the municipality has maintained the records of 10,000 HALT tax payers out of estimated 30,000 houses.	Data base of all house and land updated	July 2011	GIS Section ISMP	GIS is working in updating the house numbers. In the mean time Municipality has updated records of 7,000 houses of 10 Wards. Remaining records of 9 Wards to be updated. Update of data will be done after the completion of GIS work.
5.	Make a plan to bring the house and land tax payers in the tax net. This activity will be linked with the revenue campaign awareness program and GIS activity.	10% FY12/13 20% FY13/14 30% FY14/15 and 40% FY15/16 Achieve 100% in four years	July 2015	Revenue Section GIS Section	This time line is acceptable to the Municipality.
6.	Conduct feasibility study for switching over to IPT from the current HALT.	Build a strategy	Jan 2012	Revenue Section MLD	Municipality will decide as per the policy of the Government.
7.	Built in drainage charge in the house and land tax.	Improved Service Level	After house connections	Revenue Section	This will done in due course
	Vehicle Tax				
1.	Vehicle tax collection (one time entry, annual renewal fee and parking charge) contracted out to the private contractor on competitive bidding process. Bid amount is NRs 17.77 million for FY 2010/11.	Improved collection	Continue for FY 2011/12 as well	Revenue Section	New contract amount is NRs 27.70 million compared to NRs 17.70 million in the previous year
	Business and Professional Tax				
1.	Enter into dialogue with the local Chamber of Commerce and hold regular meeting with them.	Build up trust and cooperation	Immediate and Continue	EO Revenue Section Revenue Advisory	Dialogue commenced. Will revise the Business and Professional Tax rates in some sectors of the

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion Status
				Board	business as suggested by the CC
2.	Enter into dialogue with the Inland Revenue Office for close cooperation and exchange of data and information.	Improved coordination with IRO	Immediate and Continue	EO Revenue Section Revenue Advisory Board	It is essential to have dialogue with the Chamber of Commerce, Central Govt authorities, Inland Revenue office. Not commenced to date
3.	Make a plan to bring the business and professional tax payers in the tax net. Current record of the tax payers is 4,000 (tax collection from only about 600) but the estimated tax payers is about 8,000 (IRO records).	10% FY12/13 20% FY13/14 30% FY14/15 and 40% FY15/16 Achieve 100% in four years	July 2015	Revenue Section	This time line is acceptable to the Municipality.
	Building Permit Fee				
1.	At present this section is under Planning Department. It is a very important section and it should be headed by an urban planner or an architect.	Improvement in the management of the section	Jan 2012	Board EO	No action taken to date
2.	Provide facility for keeping the building permit files properly. The present filing condition is very disorganized.	Improved file retrieval system saves time	Immediate	EO	Improvement not commence
3.	Prepare an action plan for identifying the illegal constructions. This action plan should be combined with the Revenue Awareness Campaign.	Improved data base and increase in revenue	Immediate and Continue	Building Permit Section Revenue Section	To be coordinated with GIS Project Component.
4.	Update the records of building permit in digital format.	Improved file retrieval system saves time	July 2011	Board EO	No funds available to carry out
5.	Maintain close linkage with the GIS and Revenue Section.	Improved coordination	Immediate and Continue	Revenue Section Building Permit Section GIS Section	GIS Project Component proceeding
	Solid Waste Service Charge				
1.	Consider introducing solid waste fee. Collection process should be carefully studied.	Charge fee for providing service	July 2012	Revenue Section	Commenced implementation of PPP model in two Wards. Local User Committee is managing the activity. Service charge

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion Status
					collection varies according to the user. Minimum charge is NRs25 and maximum NRs1,000 for corporate houses,

INTERNAL AUDIT

Status at Project Commencement

59. The Internal Audit Section has been established but at present it is manned by a section head only and is not functional. Appropriate action should be taken to make this section functional.

60. In the present organizational structure, the Internal Audit section is under the Finance Division. This organization structure needs to be changed and the Internal Audit Chief should be made responsible to report to the EO as specified in the LBFAR.

Table 6: Improvement Plan – Internal Audit

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion status
1.	Activate IA section for audit FY 2067/68. Start post audit of the transactions for FY 2067/68 (July 10 - Jan 11).	Compliance of LBFAR rules	Apr 2011	EO Internal Audit Section	Planning to start audit for FY 2068/69 (2011/2012) on a regular basis
2.	Complete three months audit for the current fiscal year 2067/68 (Feb - Apr 11).	Compliance of LBFAR rules	June 2011	Internal Audit Section	See above
3.	Complete three months audit for the current fiscal year 2067/68 (May - July 11).	Compliance of LBFAR rules	Sept 2011	Internal Audit Section	See above
4.	Equip the municipal staff for conducting internal audit of transactions from FY 2068/69	Compliance of LBFAR rules	July 2011	EO Internal Audit Section	See above
5.	Conduct internal audit of transactions from July 2011 onwards on a regular basis.	Compliance of LBFAR rules	Within 7 days after month end	Internal Audit Section	See above
6.	Prepare monthly internal audit report in the format prescribed in Annex 74 of LBFAR.	Compliance of LBFAR rules	Within 2 weeks after the month end	EO Internal Audit Section	See above

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion status
7.	Implement the directions, if any, given by EO after the submission of the internal audit report and the decision thereon.	Compliance of LBFAR rules	Within 3 weeks after completion of the month	Internal Audit Section Respective Dept	See above
8.	Internal audit section should report to the Executive Officer.	Compliance of LBFAR rules	Immediate	EO Admin Section	Will report to the EO
9.	Should work as a focal point of the external auditor for accomplishing his functions.	Coordinated work	Continue in each audit	Internal Audit Section External Auditor	Will act a as focal point for the external auditor

EXTERNAL AUDIT

Status at Project Commencement

61. The municipality under Section 135 of the Local Self-Government Act, 1999 and under Rule 203 of the Local Body Financial Administrative Regulation, 2007, should complete the final audit of all income and expenditure of the fiscal year. External audit should normally be completed within six months after the year end.

62. The auditors are appointed every year on the basis of the bid submission for a maximum period of three years. The auditors are required to comply with the Nepal Standard on Auditing, while discharging their duties.

63. When this TA was started external audit was completed as of FY 2003/04. Audits for FY 2005/06 and FY 2006/07 were complete but submission of report was delayed. Audit for FY 2007/2008 to FY 2009/10 was under progress. Progress made for completing the pending audit was satisfactory and the audit as of FY 2009/10 has now been completed. This is an example of the commitment of staff in accomplishing the given task.

64. The Improvement Plan for external audit is presented in the following table.

Table 7: Improvement Plan – External Audit

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion status
1.	Submission of draft report for FY 2064/65 (2007/08) by the	Compliance of LBFAR rules	Dec 2010	Accounts Section	Completed

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion status
	auditors.			Auditor	
2.	Submission of the final report for FY 2064/65 (2007/08) by the auditors.	Compliance of LBFAR rules	Jan 2011	Accounts Section Auditor	Completed
3.	Submission of draft report for FY 2065/66 (2008/09) by the auditors.	Compliance of LBFAR rules	Mar 2011	Accounts Section Auditor	Completed
4.	Submission of the final report for FY 2065/66 (2008/09) by the auditors.	Compliance of LBFAR rules	Apr 2011	Accounts Section Auditor	Completed
5.	Submission of draft report for FY 2066/67 (2009/10) by the auditors.	Compliance of LBFAR rules	Jun 2011	Accounts Section Auditor	Completed
6.	Submission of the final report for FY 2066/67 (2009/10) by the auditors.	Compliance of LBFAR rules	July 2011	Accounts Section Auditor	Completed
7.	Appointment of auditor for FY 2067/68 and thereafter.	Compliance of LBFAR rules	Jan every year	Accounts Section Auditor Council	Yet to be appointed
7.	Maintain records of audit irregularities and take action for their resolution as per Annex 75 of LFBAR.	Compliance of LBFAR rules	Immediate	Accounts Section	Now that audit reports are up-to-date compliance with AFBAR is proposed

INVENTORY AND PROCUREMENT

Status at Project Commencement

65. The Inventory Section, with three staff members, is within the Finance Administration Department of the municipality.
66. Preparation of the annual procurement plan for regular consumable store items has been started but not for development expenditures. Physical verification of the inventory is done annually. Requisitions, purchase order forms, goods received and issue forms are used to assist with the processing of stores and materials.

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

67. The inventory records are kept manually. Inventory software was installed, but it is not being used. Staff has not received proper training for the implementation of the software. In the accounts section, no stores and assets general ledger account(s) are maintained. Under AAS, accounts section will need to maintain the general ledger which will have to be reconciled with inventory section records.

68. Store items and asset records are kept in quantity only. The cost price of these items should also be recorded in the stock book. Recording the value of these items will be an inevitable part of the AAS. This practice of recording value should be started.

69. Comprehensive annual procurement plan for infrastructure inventories should be prepared. This should be done in coordination with the other relevant sections.

Table 8: Improvement plan – Inventory and Procurement

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion Status
1.	Software for inventory record should be introduced.	Improved data base	July 2011	Software Supplier Inventory Section	This activity has not started. Inventory staff need training before computerization of the records. They will try to introduce in the current year
2.	Run both computer and the manual system for six months and abandon the manual system after six months.	Improved data base and savings in human resources	Jan 2012	Software Supplier Inventory Section	Will run both systems for some time.
3.	Start maintaining records of store and assets records in value as well.	Assist in AAS implementation	Immediate and Continue	Inventory section	Will start from next fiscal year
4.	Prepare procurement plan (annual and master) for development expenditures. (Annex 71 & 72)	Improved planning tool	Immediate	Inventory section and other respective sections	Planning Section and Inventory Section prepare it together.
5.	Reconcile inventory record with the general ledger maintained at the accounts section.	Reconciled data	After introduction of AAS	Inventory Section Accounts Section	Will reconcile after introduction of AAS.
6.	The hierarchy of this section should be under general administration and not finance according to LBFAR.	Improved internal control	Immediate and Continue	EO	Not changed

PUBLIC PRIVATE PARTNERSHIP

Status at Project Commencement

70. The municipality has a policy of investing in infrastructure through Public Private Partnership (PPP). Construction activities such as water supply, drainage and roads are constructed in the communities through PPP. The ratio of contribution of the community for such activities is approximately 10 to 40 percent depending upon the nature of work and affordability of the community.
71. Besides programs implemented through municipal support, there are number of PPP programs directly implemented by the NGOs. However, the costs of such programs are not recorded and reported. In the case of programs implemented by the communities through municipal support, the share of the community contribution in kind is also not valued and reported.
72. The municipality has started work under PPP through the support of UNDP funded Public Private Partnership for Urban Environment (PPPUE) programme. Feasibility studies of implementing some projects under PPP was carried out and it has already initiated action in implementing those projects. Some of the projects being run or under consideration are as follows.

Table 9: Improvement plan – Public Private Partnership

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion Status
1.	Ghadi Haruwa Pond was previously managed by the municipality itself. The management of this pond has been contracted out to the private sector. In the past municipality incurred loss in its management.	Contract amount of NRs 3.7 million for five years	For five years Until 2014/15	PPP Section Revenue section	Contractor has improved the facility and invested money. Procured six boats and started fast food shop.
2.	Swimming pool was previously managed by the municipality itself. The management of this pond has been contracted out to the private sector. In the past municipality incurred loss in its	Contract amount of NRs 1.7 million for five years	For five years Until 2014/15	PPP Section Revenue section	Contractor has expanded facilities like conference room, health club, party venue, restaurant.

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

No.	Tasks	Quantification	Completion Time Line	Responsible Person(s)	Project Completion Status
	management.				
3.	Biogas plant is being constructed in Ward no 1 (Shanti Tole) in partnership with Lumanti. Beneficiary 25 household. Total investment of NRs 500,000 provided by PPUE	Use of waste materials	July 2011	PPP Section Revenue section	Construction is in progress.
4.	Asian Coalition for Community Action (ACCA) to provide NRs 4 million fund at 3% interest to construct 25 houses	Shelter to poor people	July 2011	PPP Section Revenue section	House construction in progress. Building cost about NRs100,000/house. It will serve 24 dalit community. They will have to pay 5% of the building cost for five years. This amount will be deposited in the maintenance fund.
5.	Implementation of 10 mobile toilets. Tendered for 2 toilets and bid received for 1. Funding ratio PPPUE 50%, Municipality 25% and private 25%. Cost for one toilet is NRs 1.1 million.	Rental charge NRs 25,500/month	July 2011	PPP Section Revenue section	Two units arrived and in operation. User fee charge is NRs 3 (toilet) and NRs 2 (urinal)
6.	Operation and management of the Town hall by the private sector.	Savings in expenditure and generation of income	July 2011	PPP Section Revenue section	One submitted proposal quote for NRs1.7 million for five years
7.	Prepare periodic report on PPP activities. The periodic reports should address the following matters. Description of the Service <ul style="list-style-type: none"> • Expenditure and income to date compared to budget • Complaints received and resolved • Details on staffing 	Improved monitoring and reporting	Immediate and Continue	PPP Section	Reports prepared as part of the financial reporting process

STAFF TRAINING

73. From discussions with the municipality finance staff it is considered that training is required in the following activities:

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

- Implementation of accrual accounting (LBFAR requires its introduction from financial year 2009/2010),
- The legal provisions relating to financial management for municipalities in the relevant acts, regulations and Government directives
- Computer training on financial management software

74. Based on the assessment of training requirements conducted by the ISMP team, the following training plan was developed. A five days training was held in Kathmandu from 25 to 29 April 2011. Further training (outside the scope of this TA) will be necessary to improve the financial management system and to implement the recommendations made in CFMIP.

Table 10: Training schedule

Training Courses/ Objectives	Topics	Participants	Duration	Trainers
Part A: Training on: MUNICIPAL FINANCIAL MANAGEMENT SYSTEM	<ul style="list-style-type: none"> • Budget Formulation and Review • Revenue Collection • Flow of funds • Recording of Transactions • Procurement and Inventory Management 	4 persons from each municipality Accounts 1 Revenue 1 Internal Audit 1 Inventory 1	5 Days	ISMP – Consultants Resource Persons/experts from MLD/LDTA/DTCO OAG and MOF Udle AAS Project
Overall objective: To upgrade knowledge and skills in overall municipal financial management system, including resource planning, allocation process, flow of funds, and accountability framework	<ul style="list-style-type: none"> • Familiarization on ADB disbursement procedures • Accounting of PPP expenditures • Internal Auditing • External Auditing • Application of computers for accounting • Preparation of financial statements: Trail Balance, Income & Expenditure Account and Balance sheet 			

FINANCIAL PROJECTION

75. Financial projections of income and expenditure has been done for five years (FY 2011/12 to FY 2016/17). Details of the historical and projected data are given in **Annex - 2**. A summary is presented in the Table below.

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

Table 11: Financial projection for Five years (FY 2011/12 to FY 2015/16)

Line	NRs Million										
	Actual					Budget		Forecast			
	FY 05/06	FY 06/07	FY 07/08	FY 08/9	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16
	FY 62/63	FY 63/64	FY 64/65	FY 65/66	FY 66/67	FY 67/68	FY 68/69	FY 69/70	FY 70/71	FY 71/72	FY 72/73
Local Taxes	15.57	15.66	13.46	20.96	16.43	40.40	36.01	43.34	54.27	69.18	88.46
Fees And Fines	7.27	5.62	5.44	11.86	11.46	16.34	17.98	19.78	21.75	23.93	26.32
Property Rental	1.75	1.95	1.41	1.50	1.97	2.60	1.87	1.96	2.06	2.16	2.27
Other Revenues	-	0.00	0.48	-	1.28	0.00	1.00	1.10	1.21	1.33	1.46
Own Source Revenue	24.59	23.24	20.79	34.32	31.14	59.35	56.85	66.17	79.29	96.60	118.52
Misc. Income Includes Cost Sharing	0.88	-	-	0.49	-	-	0.50	0.55	0.61	0.67	0.73
Grants	127.71	125.64	135.67	179.34	172.47	182.93	201.23	221.35	243.48	267.83	294.62
Loans	-	-	-	-	-	20.00	-	-	-	-	-
Balance Forward	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	153.18	148.88	156.46	214.15	203.61	262.28	258.58	288.07	323.38	365.10	413.86
Current Expenditures	51.87	71.28	77.54	71.79	66.65	73.08	80.39	88.43	97.27	107.00	117.70
Debt Payment	1.48	1.48	1.41	1.40	0.56	1.10	0.38	0.37	0.35	0.34	0.32
Social Programs	33.94	49.55	46.59	51.78	53.76	57.10	62.81	69.09	76.00	83.60	91.96
Ordinary Capital (Fixed Assets)	2.52	1.43	1.24	0.07	0.35	0.30	0.50	0.55	0.61	0.67	0.73
Capital Investment (Program Exp)	21.69	42.00	76.41	77.31	77.41	130.70	85.15	143.77	93.66	158.15	103.03
Total Expenditure	111.50	165.75	203.18	202.36	198.73	262.28	229.22	302.21	267.88	349.75	313.73
Surplus (Deficit) For The Year	41.68	(16.87)	(46.73)	11.79	4.88	-	29.35	(14.14)	55.50	15.35	100.13
Fund Balance	-	24.80	(21.93)	(10.13)	(5.25)	(5.25)	24.10	9.96	65.46	80.81	180.94

Assumptions made in revenue and expenditure forecast

76. The municipalities have a practice of preparing their annual budget in excess of the actual realistic and achievable budget. The reason for inflating the budget is to include programs which are not possible to be accomplished within the available resources but are included under pressure mainly from the political parties. This is done to satisfy the political parties and the citizens who place pressure on the municipality to include the projects in their

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

constituency. The Table below shows the scenario of actual revenue and expenditure for FY 2009/10 and budget proposed for FY 2010/11.

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

Table 12: Actual revenue and expenditure for FY 2009/10 and budget proposed for FY 2010/11

Particulars	Actual for FY 2009/10	Budget for FY 2010/11	Variance	NRs Million
				% (+) or (-) in FY 2010/11 Budget to FY 2009/10 Actual
Local Taxes	16.43	40.40	23.98	146%
Fees And Fines	11.46	16.34	4.88	43%
Property Rental	1.97	2.60	0.63	32%
Other Revenues	1.28	0.00	(1.28)	-100%
Own Source Revenue	31.14	59.35	28.20	91%
Misc. Income	-	-	-	
Grants	172.47	182.93	10.47	6%
Loans	-	20.00	20.00	
Total Revenue	203.61	262.28	58.67	29%
Current Expenditures	66.65	73.08	6.43	10%
Debt Payment	0.56	1.10	0.53	95%
Social Programs	53.76	57.10	3.34	6%
Ordinary Capital (Fixed A	0.35	0.30	(0.05)	-15%
Capital Investment (Progra	77.41	130.70	53.30	69%
Total Expenditure	198.73	262.28	63.55	32%

77. The above figures show that the budgeted own source revenue has increased by 91% and the total revenue by only 29%. Increase in government and other grants have been increased by 6%. In the case of expenditure, current expenditure, debt repayment, social programs and capital investment costs have been budgeted to increase by 10%, 96%, 6% and 69% respectively. Expenditure in ordinary capital has been reduced by 15%.

78. The financial projections have been made for five years (FY 2011/12 to FY 2015/16). Forecasts of revenue is based on the recommendations made in CFMIP for revenue enhancement. In the case of expenditure, forecasts have been made at 10% which is a reasonable expenditure growth rate.

REVENUE PROJECTION

79. Projection of revenue has been made based on the current sources of revenue of the municipality. It has been recommended in CFMIP that the municipality should focus in

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

enhancing the revenue within the current structure of revenue and not seek to add additional taxes and fees.

80. CFMIP recommends that the present revenue collection efficiency should be enhanced so that the municipality can achieve the maximum revenue collection potentiality. It will be futile to introduce new taxes and fees if the current manpower has to be diverted to manage new revenue which could hamper collection of existing revenue collection.
81. The following assumptions have been made in projecting future revenue. The municipality should use this projection as a guideline for estimating the annual budget. It will not restrict the municipality in introducing any new taxes if they are viable and can be collected without investing much time and efforts.
82. Historical data shown in the financial projection for five years (FY 2004/05 to FY 2009/10) have been taken to assess the growth rate of revenue and expenditure. Data published by MLD with the support of Udle/GIZ has been taken for the first three years (latest data available as of FY 2007/08). Remaining two years data (FY 2008/09 and FY 2009/10) and the budget for FY 2010/11 have been compiled from the municipality records.

Taxes

83. Tax is a main source of revenue of the municipality which contributes approximately 55% of the total own source revenue of the municipality. The main sources of taxes are vehicle tax, business and profession tax, house and land tax and other taxes (house rent, market tax etc). Assumptions made in projecting the taxes are described below.

House and land tax

84. House and land tax (HALT) is a major source of revenue. Its share of contribution is over 80% of the local taxes. It has been estimated to increase this tax by 94% in the budget for FY 2010/11. Construction of new buildings and revision in the value of land tax rate are the main contributory factors in the increase of this tax. However the rate of building valuation has not changed since it was fixed in LBFAR some time back. Revision in the building costs could generate additional tax. The Central Government should consider revising these rates. The forecast in the increase of HALT has been estimated at 10%. In the case of properties which are not in the municipal tax net, it is estimated that they will be brought in the net within the next four years at the rate of 10%, 20%, 30% and 40% respectively by FY 2015/16. Out of estimated 30,000 houses, it is estimated that 20,000 houses are liable to pay tax. At present 10,000 houses are in the tax net. Remaining 10,000 tax payers will be added in the tax net in four years. Estimated increase of new buildings is based on the historical growth rate of the new constructions. It is estimated that 600 new buildings are constructed each year and the growth

rate of new buildings is 5%. **However, HALT has huge potential up to 100 million if collected with full campaign.**

Vehicle tax

85. The municipality collects three types of vehicle taxes. (i) one time entry tax (ii) annual tax and (iii) parking fees.

86. Collection of vehicle tax has not been very effective. The collection rate has not increased compared to the growth rate of the vehicles in the country. It is essential that the municipality gets full support of the Transport Management Office in collecting this tax as the vehicle owners invariably pay the annual registration fees. Since the support from TMO was not forthcoming, collection of the vehicle tax (all three) was contracted out to the private sector at an annual contract amount of NRs17.70 million. It is estimated that the vehicle tax will increase by 10% in the future years.

Business and profession tax

87. Business and professional tax is a potential source of income of this municipality as it is an industrial and commercial town of Nepal. But, so far, the collection of this tax has not been very encouraging. The data base is not up to date and numbers of tax payers are outside the tax net. It is estimated that there are about 6,000 taxpayers (as estimated by Inland Revenue office) out of which only 600 are within the tax net. It is estimated that remaining 7,400 tax payers will be brought in the tax net in four years starting from FY 2012/13 at the rate of 10%, 20%, 30% and 40% respectively in each year. They have been included in the revenue calculation at the historical average tax collection of NRs1,959 per tax payer. Increase in the budget for FY 2010/11 is estimated at 20%. For financial projection it has been estimated that it will increase by 10%.

Other taxes

88. Other taxes are house rent tax, market tax, contract tax etc which are not material in amount. It has been estimated to increase it by 15%. Budgeted increase for FY 2010/11 is 141%.

FEES AND CHARGES

89. Fees are another important source of revenue of this municipality. Its share of contribution in the total own source revenue is approximately 37%. The main sources of fees are recommendation fees, building permit fees, and other fees (service fees, property appraisal fees, registration fees, fines and penalties and miscellaneous fees).

Recommendation fee

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

90. Recommendation fee is collected by the municipality for providing various types of recommendations to the citizens. The budgeted increase of this revenue is 89%. It has been estimated that the fee will increase by 10%.

Building permit fee

91. Building permit fees is a major source of income from fees and charges. It accounts for approximately 63% of fees and charges and 18% of own source revenue. The budgeted increase of this revenue is 4%. It has been estimated that it will increase by 10%.

Other fees

92. Other fees and charges include income from property valuation appraisal fees, registration fees, various service charges, fines etc. Annual increase in other fees and charges has been estimated at 10% as recorded in the historical data.

PROPERTY RENTAL

Market shop building

93. Property rental is the income received from the property of the municipality rented out. It has been estimated at 5%. This is the normal increase in the rental amount in the country although in the budget for FY 2010/11 it has been estimated to decrease by 33%. This may be due to revision in the contract for rental property.

Other rental

94. Other rental amount is very nominal. As there is no historical growth trend to estimate this revenue, it is estimated that the income in FY 2011/12 under this head would be NRs 0.50 million which is estimated to increase by 5% thereafter. In FY 2010/11 budget it is estimated that NRs1.30 million would be collected.

OTHER REVENUE

95. Other revenue includes various other income e.g. confiscation of deposits, auction sales, and other miscellaneous income. Since the income from this source varies in different years which is dependent upon the decision and policy of the municipality it is estimated that the income in FY 2011/12 from these heads would be NRs 1.00 million which is estimated to increase by 10% thereafter.

MISCELLANEOUS INCOME

96. Miscellaneous income includes various other items which are not listed in any other income head. It also includes contribution made by the user committees for construction work if the

user committee deposits its share of contribution at the municipality. It is estimated to increase by 10%.

GOVERNMENT GRANTS

97. Government grants are provided to the municipalities every year. Generally municipalities receive three types of grant proceeds: They are (i) Local Development Fee (ii) Administrative Grant and (iii) Capital Grant.

Local development fee

98. Provision of Local Development Fee (LDF) was introduced when collection of octroi was abolished when Nepal decided to join WTO. LDF used to be collected on the import of goods into the country. Total collection of LDF is distributed to the municipalities based on a specified criteria. The municipality was ensured that the share of LDF would not be less than the collection of octroi when it was abolished. In the past, municipalities used to treat this income as their own source income. Government has now stopped collection of LDF at the Customs. Yet they continue to provide equivalent unconditional grants to municipalities. It has been estimated that such grants will increase by 10%.

Administrative grant

99. Administrative grant is provided to the municipality for administrative expenses for expenditures related to Central Government payments e.g. salary of the EO. It has been estimated that this will increase by 10%.

Capital grant

100. Capital grant is provided for implementing various development programs of the municipality. The amount of annual capital grant varies according to the development program of the municipality and the availability of Central Government resources. Since the amount of government grants is dependent upon the policy of the Central Government, availability of resources and the investment plans of the municipality, it is difficult to forecast the amount of government grant to any degree of accuracy. The municipality tends to overestimate this income to match excessive budget estimates made for development expenditure. For future projection, 10% increase has been based on the budget for FY 2010/11.

District Development Committee and Other Donors

101. The municipality receives grants from the District Development Committee for municipal projects and for some other income sharing from the sale of district resources. Grants received from other bilateral donors and NGOs are also recorded under this head. Again it is difficult to estimate the amount of grants under this head. It has been estimated to increase this amount by 10%.

EXPENDITURE PROJECTION

Current Expenditure

102. This is the administrative recurrent expenditure. It includes administrative staff costs, office expenses, office supplies, regular repairs and maintenance, fuel and other regular day to day expenses. It has been estimated that this expenditure will increase by 10%. Budget for FY 2010/11 has also been increased by 10%. The municipality and the government has been paying particular attention in controlling this expenditure hence a reduced increment has been taken.

Debt Repayment

103. The municipality has taken two long term loans from TDF for Mina Bazaar improvement in 2010/11. They will be repaid over a period of 17 and nine years respectively. Repayment has been calculated based on the repayment schedule.

Social Program

104. This head includes the social programs implemented by the municipally. They are education, health, disaster relief, culture, sports, financial assistance, environment etc. These program activities depend upon the availability of financial resources. It has been estimated that expenditures for these activities will increase by 10%. Future increment has been based on the budgeted expenditure for FY 2010/11 which shows only 6% increase to FY 2009/10 actual amount.

Ordinary Capital

105. Capital expenditures under this heading are purchases made for fixed assets for the use of the municipality. The municipality has spent very nominal amount for such assets in the last five years. It has been estimated that NRs0.50 will be spent in FY 2011/12, which has been increased by 10% thereafter.

Capital Investment

106. All the development expenses are recorded under capital investment. They include town level projects and other development and construction works. The amount of expenditure under this head depends upon the availability of the resources. The municipality invariably inflates this expenditure head as it includes the “wish list” of the political parties and the citizens. It has been estimated that this expenditure will increase by 10% based on the actual expenditure for FY 2009/10 as the budget amount for FY 2010/11 shows an increase of 69%.

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

Annex - 1

**Assessment of
 Minimum Conditions and Performance Measures**

Minimum Conditions

Working Area	Indicator	Indicator Description	FY7/8	FY8/9	FY9/0
1. Local Self-Governance	1: Planning and Budget Approval	The programs and budget of the current fiscal year shall be approved by the Municipal Council of last fiscal year.	NC	NC	C
	2: Progress Assessment	The municipality shall assess the municipal level planning quarterly or in annual basis.	NC	C	C
2. Financial Management	3: Municipality Fund	All incomes received in the name of municipality shall be in the deposited to municipality fund.	C	C	C
	4: Detail Records of Taxes and Income Sources	The municipality shall keep updated detail records of taxes and income sources.	C	C	C
	5: Auditing System	The municipality shall complete the final auditing of all incomes and expenditure of the fiscal year.	NC	NC	C
	6: Procurement Planning	A master plan for public procurement and an annual procurement plan shall be prepared and be implemented after obtaining approval from the municipality.	NC	NC	C
	7: Inventory Management	The municipality shall inspect and report on inventory.	C	C	C
	8: Financial Irregularities and Action for Clearance	The municipality shall complete auditing and list financial irregularities, with details of actions taken.	NC	NC	C
3. Service Delivery and Transparency	9: Citizen Charter	A Citizen Charter shall be issued and applied by the municipality.	C	C	C
	10: Provision of Building Permit	The municipality shall develop building permit criteria working procedures for building construction.	C	C	C
	11: Publicizing Income-Expenditure, and	The municipality shall publicize income-expenditure and tax rates.	C	C	C

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

Working Area	Indicator	Indicator Description	FY7/8	FY8/9	FY9/0
	Rates for Tax and Duties				
4. Formation and Functions of the Committees	12: Formation and Function of Account Committee	An account committee shall be formed.	NA	NA	NA
	13: Formation and Function of Municipal Level Revenue Advisory Committee	A municipal level revenue advisory committee shall be formed.	NC	NC	C
	14: Formation and Function of Supervisory and Monitoring Committee	A supervisory and monitoring committee shall be formed.	NA	NA	NA
	15: Formation and Function of Vacancy Fulfilment Committee	A vacancy fulfilment committee shall be formed.	C	C	C

C= Complied, NC = Not Complied, NA= Not Applicable

Performance Measurement

Working Area	Indicator	Indicator Description	Full Marks	FY 7/8	FY 8/9	FY 9/0
2. Financial Management	10: Feasibility Study on Revenue Potentiality and its Projection	The municipality should conduct a study on revenue potentiality and its annual projection based on the study.	4	0	2	2
	11: Actual Income / Expenditure and Budget Implementation	The municipality should prepare budget estimate by assessing the actual details of income expenditure of the last fiscal year.	4	2	0	2
	12: Assets / Property Management	The municipality should prepare lists of public property and infrastructure, which should be updated.	2	2	2	2
	13: Revenue Administration Management	The municipality should have a systematic and updated record of income generation from local taxes, fees, service charge, duties rent etc.	4	2	4	2

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

14: Integrated Property Tax - IPT	The municipality should implement the integrated property tax system as a main source of income.	2	0	0	0
15: Public-Private Partnership	A public private partnership (PPP) promotion committee should be formed to encourage and manage the PPP system, which may be used even for matters related to internal income generation.	2	0	1	2
16: Abiding by the Optimum Limitation of Administrative Expenses	The municipality should keep administrative expenditure confined to internal income.	2	0	0	0
17: Accrual / Corporate Account System	The accounts of the municipality should be kept in accordance with the accrual/corporate account system.	2	0	0	1
18: Status of Security / Deposit Accounts	The municipality should follow the procedures regarding security / deposit accounts.	2	1	1	1
19: Accounting Quality and Status of Advance Payment	The municipality should maintain financial discipline by reducing the irregularities in financial transactions; clearing advance payments and taking actions on past irregularities.	2	0	0	2
20: Abiding by the Limitation of Financial Assistance Expenses	The municipality should confine itself in expenditure on financial assistance to the approved budget.	2	0	0	2
		28	7	10	16

Nepal Institutional Strengthening of Municipalities
Comprehensive Financial Management Improvement Plan (CFMIP) – Birgunj

Financial Statements
Historical and Projected Data

Annex - 2
NRs Million

Line	Actual					Budget	Forecast					
	FY 05/06	FY 06/07	FY 07/08	FY 08/9	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	
	FY 62/63	FY 63/64	FY 64/65	FY 65/66	FY 66/67	FY 67/68	FY 68/69	FY 69/70	FY 70/71	FY 71/72	FY 72/73	
Vehicle Tax	1.30	1.56	0.87	1.10	0.92	10.30	17.00	18.70	20.57	22.63	24.89	
Business & Professional Tax	14.07	13.83	12.41	1.74	1.18	1.98	2.18	3.85	7.13	12.19	19.21	
House and Land Tax	0.20	0.26	0.18	17.14	13.70	26.60	15.07	18.77	24.25	31.69	41.30	
Others (house rent, market, contract)	0.00	0.00	0.00	0.99	0.63	1.53	1.76	2.02	2.32	2.67	3.07	
LOCAL TAXES	15.57	15.66	13.46	20.96	16.43	40.40	36.01	43.34	54.27	69.18	88.46	
Recommendation Fee	1.13	1.73	1.90	3.26	2.07	3.92	4.31	4.74	5.22	5.74	6.31	
Building Permit Fees	3.64	3.01	2.90	4.87	5.41	6.40	7.04	7.74	8.52	9.37	10.31	
Others (Service, Appraisal, Registration, fines)	2.50	0.88	0.65	3.73	3.98	6.02	6.63	7.29	8.02	8.82	9.70	
FEES AND FINES	7.27	5.62	5.44	11.86	11.46	16.34	17.98	19.78	21.75	23.93	26.32	
Market/Shops/Building	1.62	1.61	1.17	1.17	1.97	1.30	1.37	1.43	1.50	1.58	1.66	
Others	0.12	0.34	0.25	0.33	-	1.30	0.50	0.53	0.55	0.58	0.61	
PROPERTY RENTAL	1.75	1.95	1.41	1.50	1.97	2.60	1.87	1.96	2.06	2.16	2.27	
Confiscation Deposit	-	-	-	-	-	-	0.50	0.55	0.61	0.67	0.73	
Others (Auction, sales)	-	0.00	0.48	-	1.28	0.00	0.50	0.55	0.61	0.67	0.73	
OTHER REVENUES	-	0.00	0.48	-	1.28	0.00	1.00	1.10	1.21	1.33	1.46	
OWN SOURCE REVENUE	24.59	23.24	20.79	34.32	31.14	59.35	56.85	66.17	79.29	96.60	118.52	
MISC. INCOME includes cost sharing	0.88	-	-	0.49	-	-	0.50	0.55	0.61	0.67	0.73	
Octroi / Local Dev.Fee	124.93	124.93	124.93	166.46	135.98	139.58	153.54	168.90	185.79	204.36	224.80	
GON/Administrative Grant	0.80	-	0.76	0.80	2.10	2.75	3.03	3.33	3.66	4.03	4.43	
GON/Development Grant	1.98	0.21	8.92	12.08	25.56	34.00	37.40	41.14	45.25	49.78	54.76	
Dist. Dev. Board/Others	-	0.50	1.06	-	8.83	6.60	7.26	7.99	8.78	9.66	10.63	
GRANTS	127.71	125.64	135.67	179.34	172.47	182.93	201.23	221.35	243.48	267.83	294.62	
TDF Loan	-	-	-	-	-	20.00	-	-	-	-	-	
LOANS	-	-	-	-	-	20.00	-	-	-	-	-	
BALANCE FORWARD	-	-	-	-	-	-	-	-	-	-	-	
TOTAL REVENUE	153.18	148.88	156.46	214.15	203.61	262.28	258.58	288.07	323.38	365.10	413.86	
CURRENT EXPENDITURES	51.87	71.28	77.54	71.79	66.65	73.08	80.39	88.43	97.27	107.00	117.70	
DEBT PAYMENT	1.48	1.48	1.41	1.40	0.56	1.10	0.38	0.37	0.35	0.34	0.32	
SOCIAL PROGRAMS	33.94	49.55	46.59	51.78	53.76	57.10	62.81	69.09	76.00	83.60	91.96	
ODINARY CAPITAL (Fixed Assets)	2.52	1.43	1.24	0.07	0.35	0.30	0.50	0.55	0.61	0.67	0.73	
CAPITAL INVESTMENT (Program Exp)	21.69	42.00	76.41	77.31	77.41	130.70	85.15	143.77	93.66	158.15	103.03	
TOTAL EXPENDITURE	111.50	165.75	203.18	202.36	198.73	262.28	229.22	302.21	267.88	349.75	313.73	
Surplus (Deficit) for the Year	41.68	(16.87)	(46.73)	11.79	4.88	-	29.35	(14.14)	55.50	15.35	100.13	
Fund Balance	0.00	24.80	-21.93	-10.13	-5.25	-5.25	24.10	9.96	65.46	80.81	180.94	