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Revenue and Expenditure Base of Municipalities at Gandaki Province

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Abstract

The funding scheme from federal and provincial government had a positive impact on equity through the formula funding scheme. However, property taxes; house and land tax; house and land rent tax; business tax; rental or lease tax; parking fees; herbs, scraps, wildlife tax and service charges are the main sources of income of municipalities. An efficient revenue base allows local governments to provide reasonably efficient services to their people. By considering this issue, the study served primarily as a quantitative study. Using a descriptive and causal comparative study design, expert opinions on key indicators of income and expenditure, and their relative importance for assessing the financial health of the municipal unit and collect opinions on actions that should be taken to improve through Key Informant Interviews (KII) checklists. The main informants were municipal executive-level officials or elected authorities. A checklist was prepared for KII instruction by considering existing literature and consulting the experts of the related field. Out of the 85 municipalities, 27 municipalities were selected as sampling units. The sample represents approximately 32% of the population. The secondary data required for the study was collected from the Annual Reports and Audit Reports of sample municipalities of the office of the auditor general. Federal and state grants play an important role in supporting local government spending. Overall, local governments have found themselves gradually strengthening their income and expenditure bases to improve their financial viability, putting them on the path to financially sustainable development.

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Keywords: Revenue base, expenditure base, municipalities, provincial grants, federal grants

Introduction

Local government is a form of public administration where most of the context is the lowest level of government in a given state. The term is used in contrast to state-level agencies called the central government or the federal government, which deal with interstate administration. In general, local governments act with the power transferred to them by government law. In a federal state, the local government usually forms the third circle of government. Although the concept of local autonomy is as old as history, it has recently emerged in widespread academic discussion. Globalization and the information revolution force us to re-examine the relations of citizens, states and various administrative authorities with non-governmental entities and to focus even more on local governance. However, the development economics literature has yet to accept this concept because the development aid to municipality has a long tradition of focusing on either local government or community organization and ignoring the general institutional environment that facilitates or hinders connectivity cooperation. However, competition between organizations, groups, forms and networks that serve public interests at the local level (World Bank, 2002). Local authorities consume a range of services such as transport, police, fire, water and sanitation, waste collection and disposal, housing, health, leisure and culture, education and social expenditure. They finance these services and related infrastructure from multiple sources (UN-HABITAT, 2009).

Urban infrastructure is essential for the economic, social and environmental health of the municipal area. Municipalities must provide not only roads, traffic, water, sanitation and other 13 "hard" services, but also "soft" services that improve the quality of life in their communities, such as parks, libraries, social housing and recreational opportunities. To maintain this, the government of Nepal has allowed municipalities to collect revenue from various sources such as taxes and non-tax funds (Kaphle, 2016). A municipality is a city with its own local government. Municipalities are local bodies established in urban areas that deal with local issues such as sanitation, public health, etc. The main sources of financing for the municipalities are tax aid, part of the tax collected and collected by the state, and local government revenues (Lekhi, 2007).

Local Government Operation Act 2017, Chapter 9, made the provision that the municipality are not allowed to impose, demand taxes or take loans in their jurisdiction, except according to the procedure prescribed by law. However, property tax and house and land tax; Land tax (land revenue); house rent; Business tax; Rent or rent tax; parking fees; According to articles 55-62 (GON/MOFAGA, 2017). Herbs, scrap metal and game tax and service fee are the most important sources of the municipality's own income. Generally, municipal capital expenditures are the responsibility of the federal government and the county government. The National Natural Resources and Fiscal Commission (NNRFC) formulated and recommended the distribution of subsidies to the second tier of government based on

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population and demographic factors (70 percent), geographic area (15 percent), human development index. (5 percent) and developed criteria (10 percent). Expenditure requirements, revenue collection efforts, infrastructure development and special circumstances are considered in the allocation. According to the Intergovernmental Tax Act 2074 (2017), municipalities received four types of grants from the federal and provincial governments, namely fiscal equity grants (*Samaanikaran Anudan*), conditional grants (*Sasharta Anudan*) additional grants (*Samapurak Anudan*) and special grants (*Bishesh Anudan*) to meet the cost requirements. However, the financial formula had a positive effect on equity through the formal fee component (Sharma, 2022). This fee component provides additional funding to the municipality when it is exposed to financial risks (Näslund-Hadley and Arcia, 2021). It seems that due to receiving such subsidies, municipalities pay less attention to obtaining their own source of income. Monitoring the local economy is an important step to assess the financial capacity of regional governments to meet their obligations and plan effective and efficient development policies (OECD/UCLG, 2016).

New constitutional arrangement of Nepal 2015, has restructured more than 3,900 municipalities and village development committees were separated into 753 rural and urban municipalities (Paudel & Sapkota, 2018). This step has been taken without proper feasibility of the economic situation and status of the geographic area as well as other bases that sustain the developmental requirements and financing ability. Are the new municipal units financially viable and able to operate with an efficient service? A municipality's revenues and expenditures determine its efficiency. Weaknesses in revenue and expenditure management can limit a local government's ability to contribute to poverty alleviation and economic development. They may also reflect the existence of other governance challenges. The purpose of this study is to analyze the bases of municipal revenues and expenditures. If that revenue constitutes a significant portion of our operating expenses, loss of that revenue could materially impact our services or lead to increased revenue from other sources, such as property taxes and other local taxes. Through efficient revenue base are the municipalities able to deliver efficient service to the people reasonably; the study tries to address this issue.

Concept and Literature Review

The history of local governments around the world is found interesting. In India, municipalities are formed under state laws. Classification of small towns in about 18 states was based on their revenue (Agrawal; 1960). The Municipal Corporations Act of 1892 camouflaged all the changes which, with its various amendments, were largely suppressed by the Local Government Act of 1833 (Nigam, 1968). In England, local authorities are divided into metropolitan and non-metropolitan areas. The metropolitan area includes six districts, but not all districts have the same administrative system. Scotland, however, has a two-tier system and falls under the metropolitan category (Chandler; 1991). Distinct three types of urban areas namely cities, provinces and special regions has found as its ancient classification. The government of urban units must provide all necessary services to the residents (Gupta; 1968).

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Local government revenues are affected by economic, technological and demographic changes. Openness to the external environment can change the productivity of the revenue system and its administrative and political acceptance. Taxation principles are therefore important to guide decision-making (Bartle, Kriz & Morozov, 2011). In this study, financial performance measures are grouped into revenue-based, cost-based, and debt-based (Groves, Nollenberger, Valente, & International City/County Management Association, 2003). The specificity and development of municipal government revenue are essential aspects of its overall economy. The level and development of revenues is of critical importance and is a direct indicator of the financial capacity of the municipality. Since local taxation is in most cases the main source of income for the local government, revenue collection depends largely on the characteristics of taxation (Marshall & Douglas, 1997). Ability to increase income, in the general term "ability to increase revenue" can be interpreted in several ways. In general, the revenue base includes the sum of all property assessments. These include residential, commercial and merchandise assessments. It does not include (mostly) corporate fees, royalties or licenses or intergovernmental transfers. Resident or residence-specific ratios According to some survey respondents, the level of taxation can be expressed as a resident or residence ratio, the ratio of which varies widely across the country. If guidance is up in any of these measures, this may indicate current or future pressure on the municipality's ability to maintain service levels. Event Fund Procedures A municipal fund is a special account to which funds are allocated, usually for a specific period, to finance a specific project. For example, a reserve fund can be formed for the future purchase of a fire truck. The municipality would allocate funds to this budget as long as it is sufficient for the purchase. When a province or territory allows the use of reserve funds, there are usually restrictions on the purposes for which the funds can be used. Reserve funds can usually only be used for the purpose for which they were created. Provincial or regional transfer/tax base Measure or relationship Intergovernmental transfers represent a large (albeit declining) portion of the total revenue base of most municipalities. This ratio has been presented in studies as a candidate measure of public finance stress. And A measure based on the high and growing number of property tax delinquencies Every year, a certain percentage of residential and commercial property taxes remains unpaid. Although every jurisdiction has a system to help ensure that all or part of the tax collection is intact, the system is complex and often politically contentious in small communities. Sometimes defaults can last more than three years before a "tax sale" is organized to collect some of the unpaid ones (Marshall & Douglas, 1997).

In expenditure-based measurement, cost-based benchmarks, benchmarking and other performance indicator has got greater courtesy in the current municipal financial management literature (Miller & Miller, 1992; Palmer, 1993; Fischer, 1994; Midwinter, 1994). Performance measurement is by no means a new phenomenon in the Canadian municipal context. For example, in 1980 the City of Thunder Bay created a performance measurement manual and directory. (Marshall & Douglas, 1997). For the local government of Mafikeng or any other organization to function sustainably, there must be sufficient income to positively fulfill these responsibilities. This means that existing sources of income

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must be constantly evaluated and improved to ensure their sustainability in the long term (Phatudi, 2010). To remain globally competitive, cities need supporting infrastructure to attract businesses as well as transportation, water supply, sanitation, waste collection and disposal, police and fire protection, parks, leisure and culture, and affordability. A wide range of services for residents should be provided, such as services. Provides housing and income. Support cities also need to provide services to attract and retain quality human capital. The “knowledge workers”, who are increasingly key to economic success, are the key drivers of life such as diversity, tolerance, vibrant arts communities, recreational opportunities, quality public schools, strong neighborhoods and protection from crime (Florida, 2002).

The worldwide scenario also moves the revenue collection opportunities of municipalities. For example, the taxation of business premises is affected by the mobility of economic sectors in a globalized environment. In this context, firms are more mobile and respond to differential property taxes in different locations (Kitchen & Slack, 1993). Local governments need to be aware of the impact tax policies have on businesses. Cities also need to manage their finances responsibly to attract private investors and access capital markets (Serageldin et al., 2008). Millennium Development Goals In 2000, the leaders of 189 countries announced the United Nations Millennium Declaration with a vision to end poverty and improve the well-being of the world's poorest people by 2015. Measure your progress towards that vision. The challenge of meeting these goals will increase the burden mainly on local governments as it is the level of government responsible for providing basic services such as water and sanitation, housing, basic health care and education. Local governments need adequate resources, local autonomy and greater capacity to provide these services (Dirie, 2005). Urban sprawl is the result of land-use policies and financial decisions, such as the overinvestment in highways and roadways in North American cities and the scarcity of urban space in remote areas in many Latin American countries has encouraged scarce housing outside city centers (Stren, 2001). Urbanization largely raised the costs of amenities, especially infrastructure costs: "when neighborhoods are sparsely spread, they need more water, sewers, power lines, and roads" (O'Meara, 2001). Financial instruments used to pay for economic growth (such as property taxes, user fees and development fees) can encourage fragmentation. If these financial instruments charge the same amount for services during development, regardless of the costs incurred, there is no incentive to invest near existing services where costs are lower (Slack, 2002). During the past twenty years, several countries have increased the powers and responsibilities of local governments, but they have not linked these responsibilities to revenue at the local level. Lesser no of countries allows local governments to collect taxes that can generate sufficient revenue to encounter an escalating need. needs" (Bird, 2000). In short, local government revenues are not keeping up with growing spending needs (Montgomery et al., 2003; OECD, 2006). Not only are local governments dependent on intergovernmental transfers, but their own sources of income are inadequate. In most countries, municipal revenues are usually based on property taxes and royalties rather than favorable taxes such as income, sales and fuel taxes. Government-to-government money transfers are unreliable in many

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countries. Local governments in the least developed countries face even greater challenges in terms of generating income (Dirie, 2005). First, the revenue base of municipalities is often weak, especially compared to the national revenue base. Second, they have low incomes, have no incentive to increase their incomes, and do not use the existing income potential of these sources. For example, property taxes are difficult to administer and collect (Bird & Slack, 2004).

The recent development of municipal finance is partly driven by the need to find ways to pay for the costs that municipalities must incur to meet local service and substructure needs. Often these trends are related to investment finance. There are also new trends in financial management that meet the demand for accountability and transparency at the local level. Decentralization of taxation an important trend in the development of local government finances is the decentralization of taxation, which means the transfer of financial responsibility from the state to local governments, which provide more and more services and forced to provide funding. While many industrialized countries have a long history of decentralization, it is much more recent in less developed countries. Since the 1980s, up to 75 countries have implemented decentralization policies to ensure more efficient delivery of public services and combat poverty (Ingram & Hong, 2007). The share of local spending in total government spending varies from less than 5% in Greece to around 60% in Denmark. The ratio of local investment to public investment varies from around 20% in Greece to over 70% in Italy. On the other hand, in most countries, domestic debt is a much smaller share of total debt than spending and investment. In many countries, decentralization has resulted in national and state/provincial governments delegating responsibilities to local governments. In some specific cases, outsourcing is part of the general fiscal decentralization, where the central or state/provincial government delegates fiscal sovereignty to local governments to make tax and spending decisions. The goal is to serve more efficiently and effectively, but tax authorities are often not involved in the decentralization process. In other cases, decentralization was a way of transferring the debt burden of municipalities to a higher level of government, reducing their transfers and shifting responsibility downwards (Ebel & Vaillancourt, 2001). Delegating spending responsibilities to municipalities without sufficient revenue sources (sometimes referred to as an "unfunded mandate") jeopardizes municipalities' ability to deliver services and puts pressure on municipal finances. Regardless of the reasons for decentralization or the extent to which it is devolved to municipalities, revenues under their direct control rarely match their expenditures (Bird, 2001b). Exceptions are some countries where local governments have few expenditure obligations, or some countries (for example, the Nordic countries) where local governments have a broad and flexible tax base, such as income tax (Bird & Vaillancourt, 1998).

Several studies related to the field identified and explained the financial measures of municipalities. Within these measure revenue base; expenditure base and debt-based measure have found widely used measures of financial status of municipalities. This study primarily concerned with cost and revenue base of the municipalities within Gandaki province of Nepal.

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Data and Methods

The study employed primarily quantitative research. Descriptive as well as causal comparative research design is used to collect expert opinion on indicators of revenue and expenditure base and their relative importance for assessing the financial soundness of municipalities in Gandaki province of Nepal and their view on measures to be undertaken to improve it. The design is appropriate as describe the revenue and expenditure base and the different categories of municipalities as well as explaining serviceability of sample municipal unit. Additionally, the study employed the qualitative tool Key Informant Interview (KII) and the study was undertaken 27 KII (from each municipal). The key informants were the executive-level public officials or elected authorities of the municipalities. The checklist was prepared for guiding KII.

The population of the study is comprised of all the municipalities of Gandaki province of Nepal. The municipalities in Nepal are classified as metropolitan cities, sub-metropolitan cities, urban municipalities and rural municipalities. The sample unit of the study is the municipalities of Gandaki province of Nepal. Currently, there are 85 municipalities within Gandaki province. Within 85 municipalities in the study area, there is only one metropolitan city, 26 urban municipalities and 58 rural municipalities. There is no sub-metropolitan city in the province. Out of the 85 rural and urban municipalities, 27 rural and urban municipalities were selected as sampling units. The sample represents approximately 32% of the population. Single metropolitan city within the province is intentionally included in the sample. In addition, 9 urban municipalities and 17 rural municipalities were specifically selected as sample units for the study. There are 11 districts in the Gandaki province which are spread in three different geographical topography; high hill (Himalayas), mountain and Tarai region. The reason for employing purposive sampling is to make the sample municipal units' representative of all the 11 districts and three geographical regions. The list of all urban municipalities published by the Ministry of Federal Affairs and Local Government were served as the sample frame in this study. Sample units are carefully selected (not less than 25 percent from each district) and proportionally based on region. It is expected that the sampling procedure is the result in a sample representative of the population in all aspects; district, geographical area and types of municipalities.

The study is based on both primary and secondary data with focusing on the quantitative approach. The secondary data required for the study were collected from annual and audit reports of the sample urban municipalities from the office of the Controller of Auditor General, Government of Nepal and Local Development, Local Bodies Fiscal Commission and Central Bureau of Statistics, Nepal. Primary data were collected through key informant interview (KII).

Results and Discussion

As per the new constitution of Nepal 2015 municipalities has rights to formulate laws and can impose different taxes in local level. The constitution has granted the Village and

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Municipal Assembly the proper to draft and enact their very own legal guidelines that are included in schedule-eight and schedule-nine of the constitution. However, there are provisions that define instances in which federal and nation authorities have the jurisdiction to draft the legal delines. These are the legal guidelines that want to be drafted: Laws associated with figuring out the wide variety of wards withinside the Village Body and Municipality, Article 56 (4); Policies, requirements and legal guidelines on any of the topics enumerated withinside the Concurrent List and different regions of monetary powers as to be relevant additionally to the states, Article 59 (2); Laws associated with time for submission of finances, Article 59 (3); Laws regarding the control of finances deficits and different financial discipline, Article 59 (7); Laws regarding the imposition of taxes and series of sales on topics that fall in the Concurrent List and on topics that aren't covered at the Lists of any stage, Article 60 (1) 9; Laws associated with conditional presents, complementary presents or unique presents, Article 60 (5); Laws on different provisions regarding the neighborhood stage government now no longer supplied with the aid of using the charter, Article 219; Laws associated with the formation of four-member ward committee together with the ward chairperson in Village Body and Municipality, Articles 222 (4), 223 (4); Laws associated with levying of tax however that don't prejudice carriage of products and services, capital and labour market, and the neighboring nation or neighborhood stage, Article 228 (2); Laws associated with deficit finances financing, Article 230 (2) and Laws associated with preserving coordination among the federation, nation and neighborhood stage, Article 235 (1) (Poudel & Sapkota, 2018). Local government operation act 2017 made the clear provision regarding different taxes and fees that can imposed by the municipalities in part nine section 55 to 62. As a result of this legal provision municipalities has the specified sources of revenues and need to collect the taxes by formulating laws. Regarding this issue current position of municipalities in Gandaki Province is found as:

Table 1

Position of Formation of Tax Laws and its Enaction

Revenue Base	Formation of Laws		Execution of Laws	
	Yes	No	Yes	No
IPL/HLT	22 (81.5)	5 (22.5)	22 (81.5)	5 (18.5)
Land revenue	23 (85.2)	4 (14.8)	25 (92.6)	2 (7.4)
House and land rent tax	23 (85.2)	4 (14.8)	24 (88.9)	3 (11.1)
Business Tax	21 (77.8)	6 (22.2)	22 (81.5)	5 (18.5)
Parking	8 (29.6)	19 (70.4)	7 (25.9)	20 (74.1)

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Herbs, waste	9 (33.3)	18 (66.7)	9 (33.3)	18 (66.7)
Service	21 (77.8)	6 (22.2)	23 (85.2)	4 (14.8)
Rental	18 (66.7)	9 (33.3)	18 (66.7)	9 (33.3)
Other	3 (11.1)	24 (88.9)	3 (11.1)	24 (88.9)

(Source: KII Checklists, 2022)

Table 1 shows the position of laws and its implementation condition within the sample municipalities in Gandaki province of Nepal. Municipalities are able to impose house and land tax; land revenue; house and land rent tax; business tax and service fees with maximum of 92.60 percent and least of 66.67 percent. However, some of the taxes within the rights of municipalities are still weak condition and they are not able to impose to raise the revenue. Least number of municipalities imposing parking fees is found because of non-urbanization area as well as not having ample parking space and insufficient road network. Very few (11.10 percent) municipals are able to pick up the local issues and identified the sources of revenue from other sources. In addition to these taxes' municipalities can also involve in revenue sharing scheme with federal and provincial government as assured by inter-governmental fiscal transfer act 2018. In practice majority of municipalities execute house and land tax; land revenue; house and land rent tax; business tax and service charges. Rental charge (Bituari) is executed by 66.70 percent municipalities. However, parking charge; herbs, waste and animal tax and other tax are levied by lesser no of municipalities. Minimal parking fees is into practice due to insufficient infrastructure as well as non-urbanized area. Execution of another taxes is due to inefficient management as well as less expertise of policy makers.

Regarding the issue of improving revenue municipal boards found serious. In this regard researcher tried to explore more information about their practice and intention to enhance the revenue base.

Table 2

Revenue Improvement Practice in Municipalities

Practice	Respondent's Opinion	
	Yes	No
Other tax enacted	8 (29.6)	19 (70.4)
Updated detail rate	25 (92.6)	2 (7.4)
Notice and forms related	25 (92.6)	2 (7.4)

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Automation of revenue system	26 (96.3)	1 (3.7)
Conducted tax payer education program	16 (59.3)	11 (40.7)
Meeting of revenue consultation	25 (92.6)	2 (7.4)
Revenue feasibility study	21 (77.8)	6 (22.2)
Revenue forecast	20 (74.1)	7 (25.9)
Budget base revenue projection	22 (81.5)	5 (18.5)

Source: KII Checklists, 2022

Table 2 shows the practice position of revenue improvements within municipalities in Gandaki province of Nepal. Out of the sample municipal unit's 29.60 percent of municipal identified local means of revenue and enacted the other tax laws and carried it out into their practice. Almost (92.60 percent) sample municipalities have updated their tax rates; noticed it to the taxpayer through fiscal act at the beginning of fiscal year; automated the system electronically to update the record; consult with the specialists and experts while framing it and conducted taxpayer education program to enhance the revenue collection capacity and strengthening the revenue base. Sample municipal units also found engaged in preparing revenue improvement action plan (RIAP) and has started to conduct the feasibility study. Regarding the issue 77.80 percent municipalities has already initiated this action into practice. In addition, municipalities are engaging in preparing budget and projecting their revenue before its execution. However, the efforts made by the municipalities still found insufficient to realize expected revenue and able to meet the expenses for effective service delivery. Except the mandatory provision by law municipal has found lesser effort and creativity in formulating policy and sustainable tax reform. Leaders' vision and broadness may lead to such creative and sustainable tax reform to strengthen the revenue base as well as efficient service to the people in cost effective manner and get the greater support from the people.

Table 3

Responses Regarding Strengthening Revenue and Expenditure Base

Statements	Yes		No	
	N.	%	N.	%
Municipal spending generally within +/- 5% of the approved operating budget;	20	74.10	7	25.90
Administration provides written updates to council on the municipality's finances and budget performance in a timely manner in advance of council meetings;	26	96.30	1	3.70
Does your municipality have a process to formally link the municipal budget to the municipal business plan;	16	59.30	11	41.10

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Does the council monitor the municipality's actual vs. budgeted municipal revenues and expenditures on a minimum of a quarterly basis;	20	74.10	7	25.90
Revenues from taxes grown by specific % over the past two years;	24	88.90	3	11.10
Does your municipality derive any revenue from investments; Have your municipality's revenues from investments grown in the past two years;	7	25.90	20	74.10
Does your municipal revenue growth reflect growth in the community;	21	77.80	6	22.20
Based on the annual audited financial statements, have provincial and federal grants accounted for more than 50% of your municipality's total revenue;	16	59.30	11	40.70
Are your municipality's taxes competitive with other municipal in your locality;	20	74.10	7	25.90
Are your municipality's taxes comparable with other municipal in your locality;	14	51.90	13	48.10
Are tax payments generally kept up to date for IPT/ House and land tax;	25	92.60	2	7.40
Are tax payments generally kept up to date for fees/ charges;	24	88.90	3	11.10
Does the largest single taxpayer account for more than 20% of total municipal property tax Revenues;	4	14.80	23	85.20
Does your municipality have more than 5% of current property tax unpaid for the most recent completed fiscal year;	13	48.10	14	51.90
Has the overall percentage of tax arrears increased in the past two years;	17	63.00	10	37.00
Are your municipality's fees/ service charge rates competitive with other municipalities within your region;	20	74.10	7	25.90
Are your municipality's fees/ service charge rates comparative within your region;	16	59.30	11	40.70
Do your utility rates generate sufficient revenue to cover the cost of operating and sustaining the municipal utility system;	9	33.30	18	66.70
Are utility payments collected from users on a regular basis;	7	25.90	20	74.10
Updated collection process of outstanding utility payment system;	17	63.00	10	37.00
	5	18.50	22	81.50

Source: KII Checklists, 2022

A municipality's revenue characteristics and trends are important aspects of its overall financial position. Income levels and development are very important and are a direct indicator of a local government's financial strength. Since local taxes are often the main source of income for local governments, the potential for earning income is highly dependent on the characteristics of the tax levied in specific title (Marshall & Douglas, 1997). Improving revenue base strengthen the expenditure base and minimize financial

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distress. Table 3 shows different practices to strengthen the revenue base adopted globally and in the situation of municipalities of Gandaki province. Preparing and approving budget by municipal budget; approving it timely; not more than five percent limit of budget transfer; updating tax rate in time; automation of revenue recording system; initiatives to minimizing the arrear taxes; service charge-based service sustenance plan; 88.90 percent of sample municipal experienced regarding ever increasing revenue realization; 77.80 percent of sample municipal feel reflection of community growth in revenue growth. Till the local governments largely depended on provincial and federal transfer in this study 59.30 percent of sample municipal having more than 50 percent revenue from such transfer. There is still significantly larger single tax payer, in this regard 14.80 percent municipal having larger taxpayer stable that contributing more than 20 percent of their total tax revenue. Tax arrear sill having a larger problem in the municipalities. In this issue 63 percent of municipal could not able to realize such revenue within concerned fiscal year.

Expenditure fund measures help track the allocation of funds to the specific need-based programs. Some comparative studies use expenditure-based measures to explore out the financial distress of the municipalities. However, it is widely believed that spending measures, at best, help to explain policy and administrative decisions rather than measuring financial burden. (Marshall & Douglas, 1997). Municipal having practice of making sufficient budgeted expenditure and spent by 74.10 percent operating budget plus/ minus 5 percent of budget amount. Municipalities have mechanism of monitoring of budgeted and actual expenditure, regarding this 74.10 percent municipalities established and practiced in controlling expenditures. Municipalities trying to establish comparable as well as competitive tax rates and utilities terrif with other municipalities within the province and only 25.90 percent of municipal trying to make their services sustainable through generating revenue from same service. Each of the municipal should design and initiate the time and technology driven services that bear the cost of providing such services and making them sustainable services to uplift the quality of life of the people.

Table 4

Comparison of Different Revenue and Expenditure Indicators

Comparable Items	Maximum	Minimum	Mean	Std. Dev.	CV
Total revenue	3,61,78,97,547.32	14,88,94,300.72	59,53,66,086.57	64,09,59,168.24	1.08
Total expenditure	3,29,50,00,049.91	10,79,00,899.94	55,47,43,951.99	58,56,93,404.44	1.06
Fiscal equity grants	62,16,44,000.00	7,84,33,000.00	15,06,12,869.48	10,33,65,383.60	0.69
Other grants	1,35,02,49,371.09	4,01,90,456.77	29,13,06,575.06	24,95,95,576.53	0.86
Total grants received	1,97,18,93,371.09	11,86,23,456.77	44,19,19,444.54	34,75,38,659.88	0.79
Capital expenditures	1,31,40,51,330.83	4,75,32,538.54	20,37,60,366.51	23,67,89,350.21	1.16

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Operational expenditures	1,57,24,41,880.98	2,49,29,411.96	17,19,95,236.42	28,92,01,775.20	1.68
Employee expenditures	44,54,50,345.14	3,40,63,383.57	17,89,88,349.07	11,04,56,926.19	0.62
Total own revenue	1,64,60,04,176.23	2,98,68,570.55	15,34,46,642.03	30,49,86,275.30	1.99
Own revenue per capita	34,320.68	1,604.79	5,028.75	6,917.47	1.38
Total revenue per capita	1,68,814.40	8,751.63	26,175.86	34,861.39	1.33
Grants received per capita	134,493.72	4,769.98	21,147.12	28,265.47	1.34
Capital expenditure per capita	53,891.77	2,862.36	8,698.62	11,527.81	1.33
Operational exp. per capita	28,264.64	1,702.35	5,649.49	5,775.52	1.02
Salary expenses per capita	40,180.21	988.17	7,775.48	8,142.31	1.05
Fiscal transfer to capital exp.	4.57	1.20	2.52	0.81	0.32
Own revenue to total expenses	0.50	0.11	0.22	0.09	0.38
Regular exp to own revenue	5.89	1.20	3.24	1.25	0.39

Source: Audited Report from the Office of the Auditor General, 2022

Table 4 shows the clear financial situation of the municipal unit within Gandaki province. Total revenue is found Rs 3617.78 million to 148.89 million with mean value of Rs 595.37 million and standard deviation of Rs 640.96 million with coefficient of variation 1.08. which shows the non-comparable revenue mobilization due to the different size and sources. Similarly, total expenditure also follows the same trend with maximum of Rs 3295 million to least 107.90 million with mean value of Rs 554.74 million and standard deviation 585.69 having CV 1.06. Fiscal equity grants from federal and provincial maximum of 621.64 million to 78.43 million with mean value Rs 150.61 million with lower CV revealing precise allocation of revenue among the different government units. Mean value other grants 291.30 million that permits municipal to initiate developmental activities based on plan. Capital expenditures mean value of Rs 203.76 indicates all the municipal could not able to build up the infrastructure equitably and not meeting the other grants. Average value total grants Rs 441.92 million has significant role to meet the total expenditure but increase dependability on the provincial as well as federal grants. Significant portion of revenue is spent on operational and employee cost which have mean value Rs 172 million Rs 179 million respectively. Own revenue of the municipalities is also found much deviating which have maximum value of Rs 1646 million to Rs 29.89 million. Which shows there is not

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equivalent revenue base and in an average municipality can have ability to bear 22 percent of total expenditure in an average through own revenue. Similarly grants received from provincial and federal government 2.52 times of capital expenditure that makes municipalities seeking for support from upper tier of government rather than focusing on generating own revenue to sustain their service. In an average budget spent by the municipalities is 324 percent of their own revenue which shows with the federal and provincial grants they are not able to operate smoothly. Per capita data regarding own revenue; total revenue; grants received; capital expenditure; operational expenditure and salary expenditure also shows the same result as shown in Table 4.

Conclusions

Based on principles of public finance Economic efficiency, Fairness (equity), Accountability, Adequacy and Stability, Autonomy and Ease and cost of administration (Beeson et.al., 2019) fiscal federalism in Nepal tried to adopt. To deliver efficient public service new political division of Nepal reduced more than 3900 local government units into 753 municipalities into the doorstep of the people with cost effectiveness Thus, to fulfill this sentiment of the new constitution and intention of decentralization of authority municipalities need to make financially viable and sustainable by strengthen the revenue and expenditure base. As per the constitutional provision and rights assigned by local government operation act 2017, municipalities are found engaged and enforced different tax laws and forced them into practice by considering the time and resources devoted to assess, collect, and cost for revenues should be minimized. Moreover, costs of compliance on the part of taxpayers should be minimized. Due to such effort base of revenue is found ever increasing and revenue position is also increased. Expenditures also found controlled through budgeted approaches to delegated right to spent. Through automation and effective collection process revenue collection found efficient. However, federal and provincial grants play the vital role to bear the expenses of municipalities. Fiscal equity grants and own revenue generally allow to bear operating expenses is found sufficient to bear salaries and operating expenses. Special grants are received to initiate developmental works as well as infrastructure development found significant during the study period. Moreover, the municipalities within Gandaki province are not found so efficient on spent of capital expenditure equivalent to other special grants. Which reveal that the municipalities are not able to develop the infrastructure in efficient manner. In aggregate municipalities are found strengthening their revenue and expenditure base gradually to enhance their financial viability and found on the way of financially sustainable.

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