



Session 2

Role of Budget in Strategic Planning



Objectives

BY THE END OF THE SESSION, PARTICIPANTS WILL BE ABLE TO.....

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Duration

2 hours



Timing

1100 to 1300 hours



Methodology

INDIVIDUAL EXERCISE, GROUP WORK, PLENARY DISCUSSION



Material

Slides	Handouts (HO)	Worksheets (WS)	Reference Material (Ref)



STEPS:

1. Ask participants why should Local Governments have a budget? Highlight that not only is this a legal requirement, but it also determines a level of resources and expenditures required to undertake a specific set of activities.
2. Ask participants who determines the set of activities to be undertaken at local government level? Emphasize that although these activities are generally prescribed as mandated functions with historic levels of staff and resources, certain changes are nevertheless made each year in the deployment of these resources. These changes are usually determined by a small group of people, e.g. nazims or councilors or elected representatives or officers without reference to any systematic review of problems, needs and solutions.
3. Ask participants what is the problem with the process defined above? Highlight that it is closed, knowledge is confined to a small group of people who cannot possibly have the information of what needs to be done, for whom, when, where and how. Emphasize that the process of determining a level of resources and expenditures should be done in a way that is more logical, systematic and participatory and factual rather than intuitive.
4. Highlight that it is very important for all those involved with the formulation of budgets to understand that the budget process does not begin with a call letter. It begins with a review and assessment, objectives setting, formulation of a strategy, and development of a policy to guide and direct the process of budget preparation. Emphasize that in the absence of this logical and strategic process, local governments could simply end up with a repetition of what was done the previous year, and more badly at that because costs have gone up and revenue has gone down, and no-one has seen the sense to modify expenditures and revenues in line with changing priorities.
5. Highlight that Local Government Budget Rules 2003 defines budget in the following words: 'The budget is a statement of receipts and expenditure during a financial year of a local government and thus reflects the local government policies, priorities, financial strategy and operational plans in financial terms.' Highlight that according to this definition, a local government, while preparing budget for the ensuing year, should not estimate income and expenditure by adding increment to previous year's figures but these should be based on policies and priorities identified by the Nazim and the financial strategy and operational plans that the local government adopts to meet those priorities. Show Slide-01 (Strategic Planning Process Flow) and refer participants to **HO 2-01 (Strategic Planning Flow)**. Using **HO 2-02 (Detailed notes on Strategic Planning Flow)**, briefly explain through a participatory discussion the significance and process for undertaking each of the following steps. Ask participants to refer to HO-02 (Details on Strategic Planning Process Flow) during this discussion:
 - Planning Base – Where Are We Now?



- Results Required - Where Do We Want to Be?
 - Implementation - Who Must Do What?
 - Review - How Do We Get the Resources to Do It?
6. Show *Slide 2-02 (Budget Policy)*. Highlight that the previous four steps would culminate in the budget policy that could be formulated on the basis of decisions arising from the examination of expenditure and revenue proposals. Ask participants to refer to *HO 2-03 (Budget Policy Defined)*.
 7. Using *Slide 2-03 (Budget Policy Defined)*, highlight that the budget policy is a formal position taken by a local government to support the implementation of its financial goals. Emphasize that the Budget Policy would provide guidance to financial managers and functional heads as to how to go about compiling the expenditure and revenue estimates that will fund the service delivery activities.
 8. Ask participants what is the significance of policies. Emphasize that policies are important because they put your government "on record" regarding the most important financial issues facing the community. A carefully formulated financial policy framework with built in flexibility to meet changing needs and conditions is one of the most valuable financial tools available to local officials.
 9. Group participants according to their local governments, and ask them to discuss the questions in *WS-01 (Discussion Guideline on Policies)*. Give the groups 20 minutes for their discussion.
 10. In the plenary, question by question, lead a discussion:
 - Do you have financial policies?
 - Are they formal or informal?
 - Are they in writing?
 - List three examples of your local government's financial policies.
 - What problems are associated with your financial policy making process?
 11. Ask each group to respond first to questions 1-3. Most local governments are likely to confirm that they do not have a financial policy, or at least not a formal one, in writing. Ask participants whether they think there is any benefit of a formal written policy. Ask participants to refer to *HO-04 (Advantages of Written Policies)* and using *Slide-04 (Advantages of Written Policies)*, lead the discussion by highlighting that a formal written policy:
 - Encourages financial planning
 - Assists in preventing and managing financial emergencies
 - Focuses attention on financial condition
 - Provides a basis for establishing and evaluating financial management practices
 - Helps to achieve consensus and consistency in financial decision-making
 - Assists in creating financial stability
 - Facilitates public and local official understanding of financial management



- (enhances the financial buoyancy and possible future credit-worthiness of concerned local government)
12. Refer participants to *HO-04 (Effects of Lack of Policy)*, and using *Slide-05 (Effects of Lack of Policy)*, further highlight that serious problems can result from the absence of formal, written financial policies as follows:
 - Uncertainty regarding the financial direction of the local government
 - Policy making by administrative officials
 - Lack of continuity when elected officials and staff change
 - Lack of confidence on the part of investors and users of financial information
 - Adoption of improper financial practices
 - Low public image
 13. Ask participants how policies are normally formed. Emphasize that policies do not always result from a very deliberate process of decision-making on the part of policy bodies but may evolve over time as a result of discussions and consultations with different parties. Policies are usually made or reaffirmed at budget time when councils allocate resources for the new fiscal year. Highlight also that policies may evolve unintentionally. For example, the council makes unintentional policy
 14. When, while operating with a very tight budget, it ignores preventative and routine maintenance of equipment and other fixed resources. After a couple of years of ignoring the maintenance responsibility, the staff decides not to include it in future budget requests. Thus, the council unintentionally has adopted a non-maintenance policy. A council may enact a "policy" defining a specific level of service to be provided in the community, but it never gets implemented for one reason or another. Who, in this case, has really made the policy?
 15. From those groups that claim that their local government have formal financial Policies, request for examples. Emphasize that policy directions could be with regard to revenues or expenditures, or to enhance effectiveness and efficiencies and decrease workload. Refer participants to *HO-05 (Examples of Financial Policies)*, and using *Slide-06 (Examples of Financial Policies)*, highlight the following:
 - Enhancing revenue for user fees and charges in a specific sector;
 - A focus on greater expenditure efficiency through identification and elimination of wasteful practices in local government offices;
 - Preparation of revenue base surveys for all major items of own revenue potential.
 16. Ask the groups what problems they have listed with regard to the financial policy making process. Refer participants to *HO-05 (Problems with Policy Making Process)* and using *Slide-07 (Problems with Policy Making Process)* ensure that the following are discussed with the participants:



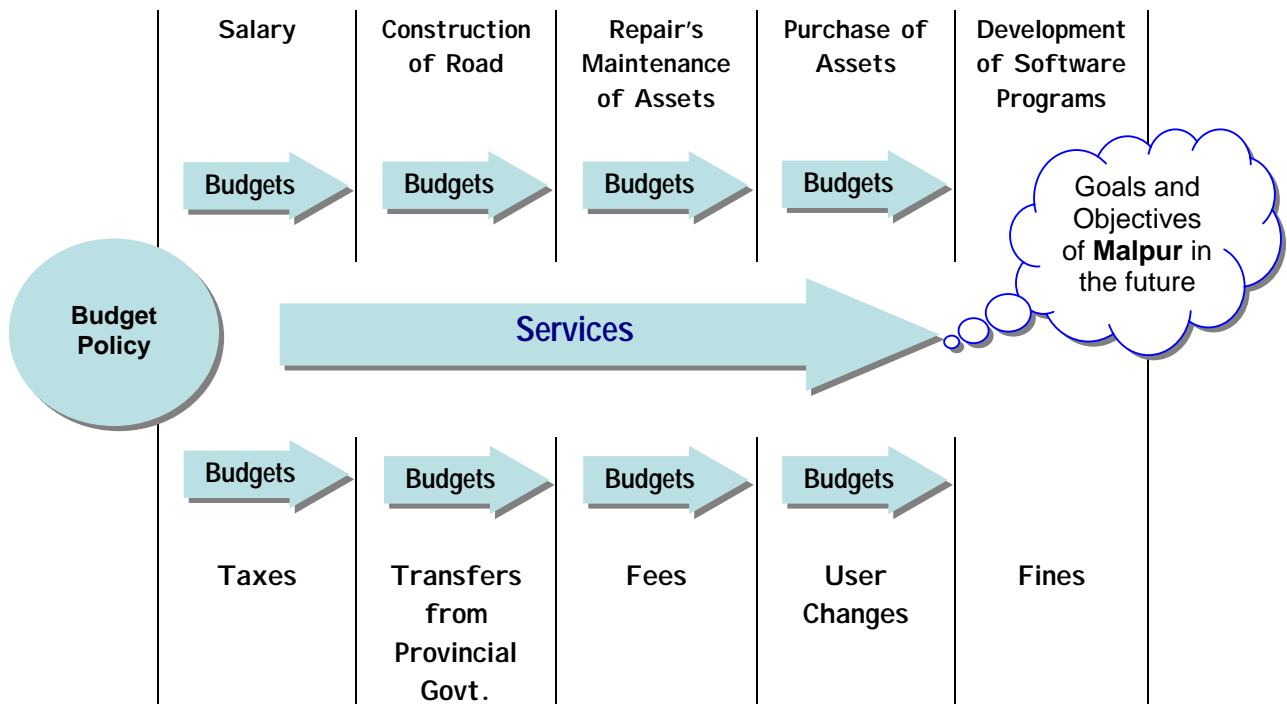
- No clear focus of major revenue/expenditure priorities;
 - Lack of coordination between proper expenditure and revenue estimates;
 - Poor analysis of financial status prior to forward planning;
 - Lack of financial reconciliation and inadequate analysis of variance.
17. Conclude the session by reiterating that budgeting should be a part of a much larger mandate, i.e. the achievement of consciously identified goals and objectives of a local government. Emphasize that many of the concepts raised in this session will be further elaborated in all subsequent sessions.



Strategic Planning Flow

Planning Base	Results Required	Implementation	Review
<div style="text-align: center;"> <p>External Assessment</p> </div> <div style="text-align: center;"> <p>Internal Assessment</p> </div> <div style="text-align: center;"> <p>Priority Issues</p> </div>	<p>Objectives</p>	<p>Action Plans</p>	<div style="text-align: center;"> <p>Existing Financial Practices</p> </div> <div style="text-align: center;"> <p>Expenditure Proposals</p> </div> <div style="text-align: center;"> <p>Revenue Proposals</p> </div>
Where are we now?	Where do we want to be?	Who must do what?	How do we get the resources to do it?

Budget Policy





Detailed Notes on Strategic Planning Flow

1. The Planning Base - Where Are We Now?

This activity is based on the following critical sub-steps:

a. External Assessment: Service Improvements and Customer Satisfaction

What core problems (underlying causes) can be identified for each of the following:

- service **deficiencies** within the existing network (in terms of improved operations)
- service **gaps** where new infrastructure or services may need to be extended to under serviced areas/ groups
- local **opportunities** & comparative advantages (industrial, agricultural, commercial/ tourism)
- proper **custodianship** or protection of the local environment (land, buildings, heritage, nature, wildlife, parks, forestry)

b. Internal Assessment: Staffing and System Changes

This step requires a rapid review of existing:

- **staffing** patterns to consider need to increase or reduce staff in various sections/ departments through contract recruitment, transfer, redeployment, out-sourcing.
- organisational **procedures** to consider need to modify work procedures to optimise on cost and efficiency or provide enhanced service coverage
- management **systems** that will assist the delivery of services and/ or control of inputs and outputs

In each case it will be necessary to identify changes or improvements required and expenditure required or expenditure saved. These cost should then be considered in relation to the revenue and expenditure review below.

c. Establishing Priorities: Consultations with Stakeholders

The degree to which citizens are to be involved in the process is a matter policy makers will need to decide about regardless of the organizing method adopted. Several options are available for soliciting citizen input. Citizens can be appointed on committees or task forces to help assess needs or a separate citizen advisory committee may be established. Another option is to conduct a public meeting to obtain citizens views on problems and needs. Suggestions may also be solicited from the private sector.



2. Medium and Short Term Objectives - Where Do We Want To Be?

After assessing 'where are we now?', the next step is to define 'where do we want to be?' This step is critically important, because it would provide the common vision or direction towards which all efforts and resources of the local government would be directed both in the medium and short (annual) term.

Objectives should be formulated in a way that ensures that they cover each of the main dimensions of local government. The logic is to begin with a review of the main goals of the organization as defined in terms of service delivery and customer satisfaction and then consider the organizational changes required to improve services and the financial implications of these changes as follows:

- Service improvements (volume, coverage, frequency etc)
- Management and staff changes required to implement service improvements (new procedures, new systems, staff/ labour, HRD, equipment)
- Human resource development requirements to achieve service and management objectives
- Financial implications of above changes (expenditure and revenue)

Objectives could be formulated for one of the following:

1. Effectiveness—how well as service should be performing in terms of those who benefit from that service.
2. Efficiency—at what cost and level of output should that service be delivered.
3. Workload—volume of work completed within a specific period of time.

In each case, the objectives must be:

- Consistent with mandated responsibilities,
- Achievable within base budget request,
- Specific, quantifiable, and measurable,
- Challenging and progressive.

Once broad objectives have been formulated, on the principles described, it will be important to establish precisely which are achievable in the short term - ie following year and which can be more sensibly achieved in the medium term.

The objectives and activities that can be achieved in the short term should go into the Annual Action Plan and Budget whilst those that can be better achieved in the medium term will go into the Multi Year Plan.



2 b Multi-Year Plan (MYP)

A multi-year planning process will articulate the local government's three year budget strategy and is thus an important decision-making tool for the whole local government which helps to focus the debate on spending options in the medium term. The multi-year plan framework is an instrument for improved decision-making.

Role and Content of MYP

The multi-year plan is an important management tool that provides:

- Profile of the local government and medium term goals.
- Previous financial years revenues against the revenue budget estimates
- Previous spending against expenditure budget estimates
- Department-wise and sub sector-wise performance in previous financial years measured against performance targets (inputs, outputs and outcome).
- Revenue projections for the next three years.
- Expenditure projections for the next three years.
- Indicative allocations, objectives and performance targets for the next three years.
- Sector un-funded priorities and options for reallocation over next 3 years
- Draft annual action plan and budget estimates.
- Information for monitoring policy priorities (national, provincial and local)
- Information for decision-makers (councillors and officers) to make the decisions that link inputs and activities with intended results over the medium term.
- Guides councillors through the prioritisation process during the budget.

Whilst preparing the multi-year plan it will be important to keep in mind external economic and financial conditions that will affect revenues and expenditures as well as internal changes and adjustments to revenues and expenditures that will be required to meet changing local needs.

2a Performance Targets

Once medium and short term objectives are established, along with requisite activities it is necessary to consider formulating performance targets that will indicate progress in achieving the desired results. Departments should have at least one performance target based around service inputs, outputs and outcome respectively.



Malpur District: Annual Performance Targets

Department	Education	Health	Works and Service
Sub Sector	Primary Education	Secondary Health	Road Maintenance
Input Indicators			
People	No of teachers No of Peons	No of nurses No of doctors	No of labourers
Materials	No of books supplied No of black boards No of chairs & tables	Medicines X Ray equip Dental equip New beds	Roller Tractor Spades
Finance	Rs	Rs	Rs
Output Indicators			
	2,000 girl pupils enrolled	500 operations performed	50 km of roads repaired
	1,560 girl pupils retained	10,000 out patients treated	2,000 potholes filled
	10% improvement in exam pass rate	Average waiting time reduced by 20%	10 km of drains constructed
			20% reduction in road deterioration
Outcome Indicators			
	Increased female literacy	Decreased patient mortality	Improved traffic flow
	Increased female employment	Increased patient longevity	Improved access to public transportation



3. Annual Action Plan - Who Must Do What Immediately?

The objectives must now be translated into an action plan in order to ensure smooth implementation. An action plan will normally comprise a specified set of activities along with details on who will be responsible for implementing the activities; when will the activities be implemented; location of implementation; and the desired progress and the budget. A common error is not to specify the activities in sufficient detail and to schedule implementation of all activities at the same time leading to a bunching of work and lack of capacity to implement.

Another critical step in policy development is to clearly define who will be responsible for overseeing the process. This includes clarifying the roles of elected officials, the Nazim, staff and citizens. There are several organizing approaches to consider:

- elected officials to establish a council committee on financial policies. The committee would be assisted by council and finance staff and would be responsible for periodic consultation with the council;
- elected officials to ask the Nazim to prepare a recommended policy framework. The DCO/ TMO and finance staff would subsequently follow through and prepare a report for the council, usually with the participation of other department heads. The Nazim to perceive the need for formal written financial policies and to initiate the development process without a request from elected officials.
- elected officials to set up a policy committee or task force consisting of a mix of elected officials and staff. Finance personnel with expertise would be assigned to work with the committee. This approach has distinct advantages that all the main stakeholders groups would be represented. Such a collaborative effort can heighten opportunity for agreement and compromise and reduce the likelihood of unwanted surprises.

Develop a timetable with starting, meeting, public hearing, report completion and other key dates. The calendar will assist in assigning responsibilities for the policy formulation process.



Annual Action Plan: Model Format

Malpur District Works and Services

Section Works & Services	Activities	Who is Responsible	When will activities be implemente d	Where or Location	Progress Indicators	Budget Rs Lacs
1 Woks Unit A	Road Repairs	DO Roads & Bldgs	Jan- Feb	Dagpur TMA Chak 5	Contract Awarded Jan Completion Feb	10
2 Works Unit A	Road Rehabilitati on	EDO Works & Services	March-June	Malpur Main Rd	Design Finalised April Contract Awarded April Completion June	40
3 Works Unit B	Storm Drain constructio n	DO Roads & Bldgs	Feb-Sept	Dagpur Tehsil Old Rd	Design Finalised April Contract Awarded May Completion Sept	120
Section Works & Services	Activities	Who is Responsible	When will activities be implemente d	Where or Location	Progress Indicators	Budget Rs Lacs
1 Woks Unit A	Road Repairs	DO Roads & Bldgs	Jan- Feb	Dagpur TMA Chak 5	Contract Awarded Jan Completion Feb	10
2 Works Unit A	Road Rehabilitati on	EDO Works & Services	March-June	Malpur Main Rd	Design Finalised April Contract Awarded April Completion June	40



Budget Policy Defined

Budget policy is a formal position taken by a local government to support the implementation of its financial goals. Emphasize that the Budget Policy would provide guidance to financial managers and functional heads as to how to go about compiling the expenditure and revenue estimates that will fund the service delivery activities.



Advantages of Written Policies

- Encourages financial planning
- Assists in preventing and managing financial emergencies
- Focuses attention on financial condition
- Provides a basis for establishing and evaluating financial management practices
- Helps to achieve consensus and consistency in financial decision-making
- Assists in creating financial stability
- Facilitates public and local official understanding of financial management
- (enhances the financial buoyancy and possible future credit-worthiness of concerned local government)

Effects of Lack of Policy

- Uncertainty regarding the financial direction of the local government
- Policy making by administrative officials
- Lack of continuity when elected officials and staff change
- Lack of confidence on the part of investors and users of financial information
- Adoption of improper financial practices
- Low public image



Examples of Financial Policies

- Enhancing revenue for user fees and charges in a specific sector;
- A focus on greater expenditure efficiency through identification and elimination of wasteful practices in local government offices;
- Preparation of revenue base surveys for all major items of own revenue potential.

Problems with Policy Making Process

- No clear focus of major revenue/expenditure priorities;
- Lack of coordination between proper expenditure and revenue estimates;
- Poor analysis of financial status prior to forward planning;
- Lack of financial reconciliation and inadequate analysis of variance.



WS 2-01

Discussion Guideline on Policies

In the plenary, question by question, lead a discussion:

- Do you have financial policies?
- Are they formal or informal?
- Are they in writing?
- List three examples of your local government's financial policies.

What problems are associated with your financial policy making process?



Budget Policy

What is a Budget Policy?

Financial policies describe the principles and goals that guide the financial management practices of a local government. Policies influence financial decision making. They lead to the development of strategies to achieve goals. And they provide standards for evaluating and monitoring the performance of a local government's financial management system.

Financial policies are statements created by policy makers to clarify their future direction and overall financial management plan. Broadly defined, policies are formal positions taken by a local governing body to support the implementation of its financial goals. Policies provide a framework for financial management and guidance for finance managers in conducting the financial affairs of a local government.

Why a Budget Policy?

Policies are important because they put your government "on record" regarding the most important financial issues facing the community. A carefully formulated financial policy framework with built in flexibility to meet changing needs and conditions is one of the most valuable financial tools available to local officials. Here are some of the benefits of written policies:

- Encourage financial planning
- Assist in preventing and managing financial emergencies
- Focus attention on financial condition
- Provide a basis for establishing and evaluating financial management practices
- Help to achieve consensus and consistency in financial decision-making
- Assist in creating financial stability
- Facilitate public and local official understanding of financial management
- (Will enhance the financial buoyancy and possible future credit-worthiness of concerned local government)

Serious problems that can result from the absence of formal, written financial policies:

- Uncertainty regarding the financial direction of the local government
- Policy making by administrative officials
- Lack of continuity when elected officials and staff change
- Lack of confidence on the part of investors and users of financial information
- Adoption of improper financial practices
- Low public image

Need for Policy Consistency



Policies do not always result from a very deliberate process of decision-making on the part of policy bodies but may evolve over time as a result of discussions and consultations with different parties. Policies are usually made or reaffirmed at budget time when councils allocate resources for the new fiscal year.

Policies may evolve unintentionally. For example, the council makes unintentional policy when, while operating with a very tight budget, it ignores preventative and routine maintenance of equipment and other fixed resources. After a couple of years of ignoring the maintenance responsibility, the staff decides not to include it in future budget requests. Thus, the council unintentionally has adopted a non-maintenance policy. A council may enact a “policy” defining a specific level of service to be provided in the community, but it never gets implemented for one reason or another. Who, in this case, has really made the policy?

How to Develop a Budget Policy?

A systematic approach can simplify the development of financial policies. The approach we have in mind consists of eight steps. Policy review should cover all major budget activities carried out by your local government. Doing this will ensure the development of a comprehensive policy framework which recognizes the relationship of budgeted intent and actual practice.

Policy Framework

The policy formulation process may be based on a systematic review of needs and resources or, in certain cases, a focused review around a particularly serious operational or financial problem (eg responding to a particularly serious service deficiency or a serious adverse audit report). If a focused approach is adopted in any one year, the process should aim to become more systematic in the following year.

A systematic approach to policy review and formulation is outlined below. This process reflects a balanced approach to budget review and policy formulation as outlined in the “Balanced Policy Framework” approach to policy making. The main logic of this approach is to begin with a review of the main objectives of the organization as defined in terms of service delivery and customer satisfaction and then to consider the organizational changes required to improve services and satisfaction and finally the expenditure and revenue implications of these changes.

The main elements of the “Balanced Policy Framework”

- Develop a vision and mission for the local government
- Service deficiencies and improvements to fulfill the vision (volume, coverage, frequency etc)
- Management and staff changes required to implement service improvements (new procedures, new systems, staff/ labour, HRD, equipment)



- Cost implications of changes (recurrent and capital costs)
- Revenue improvement and expenditure reduction proposals to meet costs

Formulation Process

Get Prepared

A first step in policy development is to clearly define who will be responsible for overseeing the process. This includes clarifying the roles of elected officials, the Nizam, staff and citizens. There are several organizing approaches to consider. One approach is for elected officials to establish a council committee on financial policies. The committee would be assisted by council and finance staff and would be responsible for periodic consultation with the council. Another approach is for elected officials to ask the Nizam to prepare a recommended policy framework. The DCO/ TMO and finance staff would subsequently follow through and prepare a report for the council, usually with the participation of other department heads. It is not unusual for a Nizam to see the need for formal written financial policies and to initiate the development process without a request from elected officials. A third alternative is for elected officials to set up a policy committee or task force consisting of a mix of elected officials and staff. Finance personnel with expertise would be assigned to work with the committee. This approach has distinct advantages that all the main stakeholders groups would be represented. Such a collaborative effort can heighten opportunity for agreement and compromise and reduce the likelihood of unwanted surprises.

The degree to which citizens are to be involved in the process is a matter policy makers will need to decide about regardless of the organizing method adopted. Several options are available for soliciting citizen input. Citizens can be appointed to the policy committee, or a separate citizen advisory committee may be established. Another option is to conduct a public meeting to obtain citizen reaction to the policy recommendations under consideration. Finally, suggestions can be solicited by the committee from the business and financial sectors.

Develop a timetable with starting, meeting, public hearing, report completion and other key dates. The calendar will assist in assigning responsibilities for the policy formulation process.

1. Policy Scan

The next step is to scan existing policies and practices. Careful examination of financial practices is another way to gain insight into existing policies or lack of policies. By comparing your local government's financial practices against established standards of local government finance and other best practices you will gain an understanding of policy gaps or inadequacies. What is not found during the review is just as important as what is found. As you examine revenue practices you may learn that revenue surveys are not conducted, there are no revenue guidelines, fee decisions do not address cost recovery and fixed assets are not inventoried or valued. A steady pattern of declining



investment earnings, budget overruns, revenue shortfalls and tax collections point to probable deficiencies in your financial management practices and policies. These findings indicate immediately the need for appropriate revenue policies that will, in turn, provide resources for improved services.

For future scanning it will be necessary to begin gathering and analyzing historical and future financial data. This will enable local officials to begin using trends to analyze and interpret the changes in financial condition. By focusing on factors and trends over a relatively long period of time, it will become clear that financial problems are intensifying or improving and that there is or isn't a need for modified policies.

3. Service Analysis

Service Improvements and Customer Satisfaction

What core problems (underlying causes) can be identified for each of the following:

- 1) service **deficiencies** within the existing network (in terms of improved operations)
- 2) service **gaps** where new infrastructure or services may need to be extended to under serviced areas/ groups
- 3) local **opportunities** & comparative advantages (industrial, agricultural, commercial/ tourism)
- 4) proper **custodianship** or protection of the local environment (land, buildings, heritage, nature, wildlife, parks, forestry)

4. Benchmarking

While you are scrutinizing your policies and practices you should begin collecting information on appropriate standards or benchmarks (i.e. recognized good/ best practices from other sources). The most relevant of these will be drawn from in-country or in-region. In due course DSP will aim to provide an inventory of good practices that are relevant to local government in Pakistan. For example, many local governments in South Asia have begun to generate own revenue improvements of anywhere between 20%-300% with some of the highest annual percentages being recorded for Union Councils in Sirajganj district in Bangladesh. More efficient local governments worldwide generally regard that uncollected taxes should not exceed five to eight percent of the total tax demand.

5. Organisational Analysis

Staffing and System Changes

This step requires a rapid review of existing staffing patterns, organisational procedures and management control systems required to support any changes or



improvements in service delivery identified above. For each service area it will be important to identify

6. Revenue and Expenditure Review

Revenue Review

A complete inventory of your local government's revenue and expenditure activities will help identify gaps where formal policies are needed. The review of revenue should cover all:

- Revenue transfers, grants, subsidies, own revenue (tax and non tax)
- Reserves
- Cash
- Fixed assets

First you should examine the revenue base and update information using surveys or other methods of updation. Once this is complete you should estimate the opportunities for enhancing revenues and likely impact this will have on next years receipts.



This task will consider options for revenue mobilisation to meet additional capital and/or recurrent costs of the proposed activities or changes in service delivery. The main elements of this review are:

1. Review of transfers. Since provincial transfers take place on the basis of a given formula as determined by the PFC, there is usually little change anticipated here. It should be noted, however, since performance criteria have been introduced into this formula – and improvement in own performance can result in larger transfers.
2. Review of own-revenue (Tax and Non Tax). These revenues provides good scope for developing additional sources of funding for recurrent and capital investment that are entirely within the control of the local government. There is a strong interest in mobilizing such revenues in most local governments worldwide and an impressive increase in such revenues taking place throughout South Asia today as local governments become aware that they are unlikely to receive further increases in funding from central or provincial sources. The main areas of scope for revenue enhancement concern:
 - Improvement in tax demand through more effective survey of non assessed, under-assessed and wrongly assessed (ie use category) tax objects. Here, local governments could consider strategies for:
 - a) enhance tax demand in line with statutory liabilities
 - b) periodic adjustment of tax rates in line with inflation including options for indexing
 - c) moves to self assessment processes d) improved collection strategies and arrears management.
 - Improvements in other taxes through more efficient assessment and collection methods
 - Improvement in non tax income such as fees and licenses through streamlined registration processes and improved enforcement of penalties
 - Introduction of user charges and fees for certain types of service including connection fees to services, fast track service delivery arrangements (building approvals, birth and death certificates etc)
 - Betterment levies on land and property



Expenditure Review

This task entails a rapid examination of the likely expenditure that will need to be incurred in order to undertake the activity. This will entail identifying:

- a) what changes to existing services may be required
- b) what new service services may be required
- c) what expenditure will be required (equipment, personnel etc)
- d) existing levels of expenditure
- e) options for expenditure reduction

Once it has been established what new levels of expenditure would be desirable to support identified and prioritised service improvements it will be necessary to consider the scope for expenditure reductions within and between departments. Here a number of options exits as follows:

1. Options for reducing expenditure through more prudent financial management, introduction of new management systems and procedures, reallocation of under utilised/ underemployed staff etc
2. Specific cost reduction measures through

Alternative service delivery arrangements (eg making better use of existing resources) that would or could reduce operating costs. Such strategies could include alternative service delivery arrangements such as promoting public private partnerships or contracting-out arrangements for services such as solid waste collection or disposal, parks and public gardens maintenance etc. Management contracts could be granted to operators for complete services or sections of the existing network. Care will need to be taken in considering the payments or tariff options to providers and impact on the poor.

7. Draft Budget Policy

Once the Policy Review has been undertaken it will be possible to begin to formulate a Draft Budget Policy. Written statements should be clear, concise, understandable, attainable, realistic and defensible. Be prepared to explain the assumptions and rationale underlying recommended policies. Ask questions about the proposed statements of policy such as:

- What is the purpose of the policy proposal?
- Is it to correct or prevent a financial problem?
- Does the statement relate to a benchmark or standard?



- How does the policy relate to other policies?
- Does the policy change an existing policy?
- Does the policy address conflicts or inconsistencies in existing policies?
- Keep in mind that policies should meet local needs and should be flexible.

Generally, it is helpful to group policy statements by financial activity such as budgeting, debt, etc. Preparation of a policy handbook or brochure facilitates distribution. Examples of policy statements are attached. Once the review is completed, the written policy statements are presented to the governing body for adoption. They should be accompanied by an explanation of the process followed in developing them. It is advisable to schedule workshops to review and discuss new policy statements. If

appropriate and desirable, a public hearing can be held. Most important is to encourage formal adoption of the policies. Elected officials should understand the significance of policies as goals for the financial management of the local government and as a statement of the kind of financial condition desired.

8 Publicize Policies.

After policy statements are adopted they should be used to guide preparation of the budget and other discussions of financial issues. They should be integrated into evaluations of financial condition to show the extent to which the local government's practices are in compliance with its policies.

Policies should be used by the staff and external auditors to evaluate the performance of the financial management system. Performance evaluation criteria should incorporate statements of policy for guidance of the finance staff. Adherence to financial policies is the best insurance the local government has for the maintenance of a sound financial position. Other methods for disseminating policy statements include:

- Referring to them in the budget and annual financial report
- Distributing copies to other institutions
- Incorporating them into disclosure statements
- Sending copies to the appropriate ministries
- Referring to the policies when making policy-related recommendations to council
- Distributing copies to professional and governmental associations.

Monitor Policy

Continual monitoring and adjustment are critical to effective financial policies. The policy process should be fluid and flexible. They require fine tuning, redefining and updating

in response to new problems and needs. New financing methods, changes in national legislation, new standards, emerging financial issues and financial stress are just a few of the factors that may require policy modification. Regular reviews are important if financial policies are to continue serving as relevant guides for the efficient management of a local government's financial affairs