



**Ministry of Local Government, Rural Development & Cooperatives
Local Government Division
Local Government Engineering Department (LGED)**

4.5 Guidelines for Increasing Non-tax own revenue source by inflation rate

**Project Coordination Office (PCO)
City Governance Project (CGP)**

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1. Introduction

Rapid urbanization accelerated by industry led economic growth has been taking place in Bangladesh. Potential of economic growth in urban areas is worthy of notice. There are 335 Local Government Institutions which cover 8% of total geographical area of Bangladesh and 30% of total population, while accounting for 60% of total national growth. On the other hand, the negative impact of dramatic change in urban areas is observed. The negative impacts are because the functions of municipalities and city corporations prescribed in Local Government (Pourashava) Act 2009 and Local Government (City Corporation) Act 2009, which are very relevant to the demand of city dwellers and urban development, are not implemented in an appropriate manner. In order to improve the public services provided by urban local governments, several urban development projects are being or were implemented by Local Government Divisions (LGD) and local government and engineering departments (LGED) with financial assistance of different development partners and government's own funds. Based on the experiences gained through implemented projects, effective activities for improvement of urban governance have been formulated as a program that has been well accepted. The urban governance improvement programs have been implemented to ensure good governance of those urban local government institutions namely Paurashava for equal, social harmony and planned development. Initiating urban governance improvement, LGD and LGED with financial support of JICA commenced a project named City Government Project (CGP) in 5 City Corporations.

2. Justifications

Section 82 of Local Government (City Corporation) Act, 2009 provides that the City Corporation, with the previous sanction of the Government, may levy in the prescribed manner, all or any of the taxes, rates, cesses, tolls, and fees mentioned in the Fourth Schedule (**Annex-1**). These revenues are largely divided into two categories: holding tax revenue and non-tax revenue. Non-tax revenue includes taxes, sub-taxes and rates related revenue and lease/rent, tolls, fees etc. For CCs to secure stable, sustainable revenues, it is essential to raise non-tax revenues at least by inflation rate annually. It is important for CC to collect appropriate level of fees/charges through considering market price in order to maintain CC's financial position.

Non-tax revenue is the most important revenue source of a City Corporation. Therefore, the Inclusive City Governance Improvement Action Program (ICGIAP) of the City Governance Project (CGP) includes an action related to the non-tax revenue.

3. Relevant Issues of ICGIAP

3.1 Tasks

Activity No. 4.5 of Financial Reform under ICGIAP stipulates that Non-tax own revenue source should be increased at least by inflation rate in each year. Fees/charges from non-tax own revenue source (e.g. lease, fees from markets, concession fees for bus/truck terminals, water tariffs) should be increased by reflecting inflation rate (CPI: Consumer Price Index). It is important for CC to collect appropriate level of fees/charges through considering market price in order to maintain CC's financial position. CC should conduct the following tasks:

Task 1: Update rates of non-tax revenue sources (fees, lease, rent, etc.) in accordance with the Model Tax Schedule.

Task 2: Fix target for collection of non-tax revenues by each official and adopt non-tax revenue

collection plan.

Task 3: Monitor progress of implementation of this plan every month.

Task 4: Review the tasks mentioned above every month by CEO/Secretary.

Task 5: Review progress of other non-tax revenue in the monthly meeting of CC meeting

3.2 Action by

CC Mayor, CEO and Account Officer

3.3 Indicators

- 1st PR: Complied with
- 2nd PR: Complied with

4. Objectives

Fees/charges from non-tax own revenue source (e.g. lease fees for markets, concession fees for bus/truck terminal, water tariffs, etc.) should be increased by reflecting inflation rate (CPI: Consumer Price Index). The objectives of increase of own revenue source are as follows:

- Increases capacity of CCs to raise non-tax revenue from non-tax sources
- Reduces the need to cut programmes and services unnecessarily.
- Improves the potential for offering new or improved services.
- Increases visibility and accountability for the staff that are responsible for revenue generation and collection.
- Develops opportunities to make the overall revenue structure more equitable and efficient and less dependent on just a few revenue sources.
- Identifies user charges and fees that may not be covering the cost of service to the extent required by the city's financial policies.
- Identifies weaknesses in the city's financial management procedures or organization.
- Reveals areas of future concern to assist in budgeting and forecasting.

A guideline has been prepared on the aforesaid activity that will be used in increasing the non-tax revenue earnings of five (5) City Corporations under the project.

5. Relevant Organizations, Stakeholders and their roles and Responsibility

5.1 Role of Local Government Division

The Local Government Division is responsible for preparation and notification in Gazette of the Model Tax Schedule.

Section 83 of the Local Government (City Corporation) Act 2009, notification and Enforcement of Taxes- (1) All taxes, rates, cesses, tolls and fees levied by the Corporation shall be announced in the official Gazette and, unless otherwise directed by the Government, shall be subject to previous publication. And according to the section 84, Model Tax Schedules- the Government may frame model tax schedules, and where such schedules have been framed, the Corporation shall be guided by them in levying a tax, rate, cess, toll or fee.

5.2 Role of Project Coordinating Office (PCO)

- PCO will provide trainings on tax assessment/collection to tax assessors and collectors.

- PCO will engage an ICT Company as a subcontractor to develop *Trade License Management software and Market Management software* as a part of Integrated Financial Management System (IFMS).
- A subcontractor under PCO will install and set up *Trade License Management software & Market Management software* in the IFMS to CCs.
- PCO will monitor progress of enhancement of non-tax revenue through reviewing quarterly progress reports submitted by CCs, and give advice to CCs.

5.3 WLCC, CSCC and CDCC

Involvement of WLCC, CSCC and CDCC in increasing the non-tax revenue of the CC will produce better and more equitable results. Elected officials, community organizations, NGOs and academicians have a say regarding the issue. Ordinary people have more voice, and CC gets to make real decisions.

6. Necessary Tasks and Procedures

CEO and revenue section/department, in cooperation with a consultant under PCO, should prepare a manpower planning for non-tax revenue collection for short and medium term. And then, CCs should allocate necessary budget related to manpower to revenue account.

6.1 Update rates of non-tax revenue sources (fees, lease, rent, etc.) in accordance with the Model Tax Schedule (Task-1)

Currently no CCs under CGP have their Model Tax Schedule except Chittagong City Corporation which follows Model Tax Rate Schedule-2004. Rangpur CC, Comilla CC, Narayanganj CC, and Gazipur CC under CGP have recently become City Corporations and they still follow the old Pourashava Model Tax Rate Schedule-2003. The Local Government Division (LGD) has prepared a draft Model 'Tax Rate Schedule, 2013' and asked opinions of the concerned City Corporations vide memo No. 46.00.0000.071.22.002.12-85 dated Feb 17, 2013. The City Corporations under the project may follow the draft Model 'Tax Rate Schedule, 2013' until it is approved.

For updating the current rate of non-tax sources, inflation rate of the country can be considered as base to increase non-tax revenue collection from the present level.

6.1.1 What is inflation?

Inflation means the increasing trend of price levels of goods and services of the country in a given time frame. For example, if inflation rate is 5%, the same amount of goods and services that can be purchased by Tk.100 in the present year would have to be purchased by Tk. 105 in the next year. Normally, annual rate of change in consumer price index is used to calculate the inflation rate. So, if present average price index is P_0 and if the average price index of the preceding year is P_{-1} , the inflation rate will be calculated as follows:

$$\text{Rate of inflation} = \frac{P_0 - P_{-1}}{P_{-1}} \times 100\%$$

Based on this method, average inflation rates of Bangladesh in the last five years were as below.

Table 1: Inflation rates in the last five years

Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Rate (%)	6.66	7.13	8.80	10.76	6.78	7.35

Source: Bangladesh Bureau of Statistics

6.1.2 Characteristics of inflation

Due to inflation, the following impacts are expected.

- 1) Price level increases continuously.
- 2) Purchasing power of money reduces, i.e. more money is needed to purchase the same amount of goods and services.

6.1.3 Applicability of inflation in the increase of revenue

A City Corporation is a service oriented local government institution. If there is inflation, a CC will have to spend more in the present year than the previous year for providing the same level of services. In other words, the quantity and quality of CC services will be reduced if there is no increase in revenue earnings each year. Therefore, in order to maintain stability in the quality and quantity of the services, a CC has to increase its revenue at the rate of inflation. On the other hand, a CC has to increase its revenue income by finding out new sources of revenue to enhance quality and quantity of services and extend its service areas. In this regard, CC's mandatory tasks are identified as follows.

- 1) In areas where there is scope and rules to re-assess taxes, rates, fees, rents, tolls, etc. every year, they should at least be increased at the rate of inflation during re-assessment, subject to the limit prescribed in the Model Tax Schedules.
- 2) In areas where there are rules to re-assess after a certain period of time (for example, re-assessment of holding tax in every five years), the re-assessed amount should be increased at least at the rate of change in price indices during the stipulated timeframe.
- 3) Extend areas of revenue collections by finding out new sources of revenue collection.

6.1.4 Sectors of non-tax revenue income

Some examples of the areas where the amount of revenue and rates are subject to re-imposition (fees, lease/rent/toll etc.) every year (subject to the limit prescribed in the Model Tax Schedules) are highlighted below:

(1) Fees:

- Fees on application for building construction and/or reconstruction
- Fees on birth, marriage, adoption and feast, etc.
- City Corporation-operated School fees
- Fees on exhibition, agricultural fair, sports completion and other public mobilizations
- Fees on license issued by the City Corporation and renewal
- Fees on special services provided by the City Corporation
- Fees on animal slaughtering
- Fees on cell phone towers, etc.

(2) Lease:

- Lease of markets, bus-stands and terminals
- Lease of public toilets, slaughter houses, etc.
- Lease of wetland, sand land, ferry terminal, etc.

(3) Rent:

- Rents of City Corporation property/shop/community center/commercial building, etc.
- Rents of road rollers, mixture-machines and other transports/machinery, etc.

(4) Others:

- Compensation collection for road cutting
- Income from forms and certificates issued
- Income from schedule of price quotation
- Penalty
- Income from contractor enlistment
- Income from temporary cattle market

It is noteworthy that in terms of shop rents or similar cases, a City Corporation can make a contract for a limited period. In case of renewing the current contract on its expiry, the rate of change in price indices during the expiring contract's period should be reflected in the value of the new contract, i.e., for renewal of a three year contract the renewed contract's value should reflect inflation during the three year period the prior contract was in effect.

6.1.5 City Corporation's goals and tasks in increasing non-tax revenue

The CC has the authority to intervene in various existing areas of non-tax revenue, and increase their coverage as well as re-evaluate existing rates. Therefore, CC's goals to increase non-tax income can be identified as follows.

- 1) In every area of non-tax revenue, ensure renewal with an increase of the previous year's amount at the rate of, at least, inflation (subject to limitations prescribed in the Model Tax Schedule).
- 2) At the rate of at least inflation, increase the collection in current year compared to that of the last year.
- 3) The rate of change in price index over the period of a fixed-term contract should be the rate at which to increase the new contract value during re-signing of the agreement.
- 4) Increase the areas of non-tax revenue collection and impose tax with the approval of the government.

6.1.6 Fix target for collection of non-tax revenues by each official and adopt non-tax revenue collection plan (Task-2)

CC's non-tax revenue collection targets should all be 'SMART'. That means CC will emphasize the following issues:

S: Specific: use hard numbers and definitive goals rather than fluffy aims, and focus on one part of the revenue earnings per target. So, say, 'CC wants to see rent increase by 10%' rather than 'CC wants to see the total revenue grow.'

M: Measurable: make sure that CC can measure the goal. Use percentages or unit numbers or another real measure. This allows CC to assess performance and will show CC precisely when a target has been hit.

A: Achievable: over-ambitious goals can be incredibly damaging to morale and plans. Make sure targets are within reasonable limits.

R: realistic: only create goals that CC can be achieved with the resources CC already has.

T: time: set deadlines for each objective.

- Using the model tax schedule as a sample, update the list of areas of non-tax revenue collection and increase it by including more potential areas.
- Collect the inflation rates published by the Bangladesh Bank.
- In case of determining the annual demand of non-tax revenue, where applicable, re-assess the current year's amount on top of the amount fixed in previous year, at least at the rate of current year's inflation.
- At the time of renewal of a fixed-term contract, re-fix the contract value at the same rate of change in price index during the period of the expiring contract.
- CCs should increase the number of non-tax revenue collectors at the staff level (collector per 1,000 holdings), so that collection are smoothly carried out.
- Prepare a plan for non-tax revenue collection and fix monthly targets of each collector.
- Ensure total collection of money from lease and other eligible sources instantly/within timeframe, as per the existing government instructions (Note: LGD issues relevant instructions/guidelines to all LGIs regarding the lease of haat/bazar from time to time).

6.1.7 Set Non-tax Revenue Targets

(1) Each Center:

When CC sets a target for the Center, CC can break targets down by non-tax revenue type including fees, lease, rent and others.

To set a revenue target, it is recommended that CC considers its previous revenue performance. Specifically, CC should look at:

- Revenue from the same month in the previous year
- Revenue from the previous month

By looking at both these revenue numbers, CC can set a target that takes seasonal changes as well as growth of the organization into consideration.

(2) Define Revenue Targets for Each Unit

CC can create units to group different areas of non-tax revenue. For example, CC might create a unit for fees and another for rent. By defining revenue targets for each unit, CC can track how different areas of non-tax collection perform.

(3) Define Revenue Targets for Employees

In order to reach the Center's targets, employees have to reach their individual targets. Generally, CC should define revenue targets by job. A rent-collector might be expected to bring in more revenue than a fee-collector. As all employees should be mapped to a job, they will inherit that revenue target. Similar to Center level revenue targets, CC can break down revenue targets by different groups of non-tax revenue.

6.1.8 Monitor progress of implementation of this plan every month. (Task-3)

- PCO will install software for non-tax revenue generating sources including Trade License Management software & Market Management Software as a part of Integrated Financial Management System (IFMS) to a revenue section in CCs.
- Based on a review of last year's total target and actual income, increase and fix the current year's target by inflation rate and ensure the collection of actual income by more than the inflation rate.
- A revenue section/department in CCs should record daily transactions and monitor the progress of non-tax revenue earnings.

(1) Track Individual Employee Performance

To view employee performance, prepare the Employee Performance report. This report indicates if the employee is exceeding his/her target or is under the target. Revenue section/department can also see the employee's goal by considering the revenue number. This is a great report for section to review during daily or weekly staff meetings to make sure staff is on track with their targets.

(2) Monitor the Center's Monthly Performance to Date

When CC analyzes the monthly progress of non-tax revenue collection, CC can see exactly how much revenue the section has collected to date for the month and compare this with to-date target. The section can also compare projected monthly performance against the month's target. This makes it easy for CC to quickly identify if the section is on track to achieving its revenue targets.

(3) Track the Organization's Revenue Performance

If CC has more than one Center, CC will also want to review performance for the entire organization. This is a powerful report that makes it easy to quickly check the employees' daily performance and performance for the month to date and compare all of these to performance from the previous month.

6.1.9 4.1.4 Review the tasks mentioned above every month by CEO/Secretary. (Task-4)

At the top level, targets should crystallize sectional/departmental vision for the year. They provide a way of breaking that vision down to outline what needs to happen to achieve the targets, at what rate the section should expect to see progress (quarterly, monthly, weekly targets etc), and the targets for which departments and individuals or functions of the organization are responsible.

CEO/Secretary will review the non-tax revenue collections every month, monitor progress of the implementation of the plan, and include in the agenda of the Council meeting to review and take decisions for those items that are not achieving the annual target.

6.1.10 4.1.5 Review progress of other non-tax revenue in the monthly meeting of CC meeting (Task-5)

Review matters of non-tax revenue in the City council meeting to obtain suggestions to increase the areas and volume of non-tax revenue collection. CC can easily take necessary measures if any deviation is found with the suggestions made earlier.

7. Responsible personnel for Implementation the Activity

Accounts Officer: Consultation with CEO and revenue officer and recommendation from WLCC, CDCC, CSCC, and the Accounts Officer will enhance the rate of non-tax revenue. The model tax rate (if it exists) as well as the previous years' non-tax revenue rate must be considered while updating the rate following the inflation rate of the country to make a realistic budget provision for non-tax revenue earnings.

CEO & CC Mayor: In monthly meeting, CEO will take notes of the non-tax revenue earnings. If any deviation is found, s/he must unearth the reasons and take necessary measures. S/he will keep the Mayor and the council updated with the present status of non-tax revenue earnings.

8. Implementation Schedule

Activity	Task/TOR	1st Year				2nd Year				3rd Year				4th Year			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Non-tax own revenue source increased at least by inflation rate in each year	Task 1: Update rates of non-tax revenue sources (fees, lease, rent, etc.) in accordance with the Model Tax Schedule.																
	Task 2: Fix target for collection of non-tax revenues by each official and adopt non-tax revenue collection plan.																
	Task 3: Monitor progress of implementation of this plan every month.																
	Task 4: Review the tasks mentioned above every month by CEO/Secretary.																
	Task 5: Review progress of other non-tax revenue in the monthly meeting of CC meeting																

9. Cost of Implementation (if necessary)

CEO/Secretary and Accounts Officer will take into consideration the possible cost of implementation of the activity and prepare proposal for consideration of the Mayor, CSCC and CC council.

Annex I Fourth Schedule of Local Government (City Corporation) Act 2009

Fourth Schedule of Local Government (City Corporation) Act, 2009 (Section 82)

Taxes, Cesses, Rates, Tolls and fees Levied by the Corporation

- (1) Tax on the annual price of buildings and lands.
- (2) Tax on immovable property transfer.
- (3) Tax on application submitted for erection or re-erection of a building.
- (4) Tax on such imported goods for consumption, use or sale in the city.
- (5) Tax on export from the city.
- (6) Fees in the form of toll.
- (7) Tax on profession and callings
- (8) Tax on birth, marriage, adoption and feast.
- (9) Tax on advertisement.
- (10) Tax on animals.
- (11) Tax on cinema, drama and drama show and other items of entertainment.
- (12) Tax on vehicles except car and boat.
- (13) Rate on lights and fire.
- (14) Rate on waste disposal.
- (15) Rate to execute public service related functions.
- (16) Rate for piped water and water supply system.
- (17) Cess on tax levied by the Government.
- (18) School fees.
- (19) Fees on tax collected by the corporation for any public service related functions
- (20) Fees on fairs, agricultural and industrial exhibition, sports competition and other social gathering.
- (21) Fees on markets.
- (22) Fees on license, sanction and permission provided by the corporation.
- (23) Fees on any special function arranged by the corporation.
- (24) Fees on animal slaughter.
- (25) Any other fees approved under any rules of this Act.
- (26) Any other tax that can be levied by the Government.