



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

4.8 Guidelines for Comparison of Budget proposal with previous year

**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

A budget is a quantitative expression of a plan for a defined period of time. It can also be defined as an estimation of the revenue and expenses over a specified future period of time. Budget is a powerful management tool that helps City Corporations define levels of urban services and identify how revenues are to fund expenditures. Budgeting involves a process of prioritizing projects, programs and service levels in the light of limited financial resources.

A budget is the annual financial plan of a local government which defines its operational and development priorities for the ensuing financial year and describes how the plans will be financed. The budgeting process is vital in laying out the city's choice of expenditure priorities and identifying the resources necessary for the realization of planned expenditures. Budgeting is the process of allocating scarce resources across unlimited demands; it is a financial and operating plan for a fiscal year (12 months). The budget contains information about the types and amounts of proposed expenditures, the purposes for which money will be spent, and the proposed means of financing. City Corporations are now legislatively required to prepare annual budgets in compliance with the section 76 of Local Government (City Corporation) Act, 2009. City Corporations are required to prepare and adopt an annual budget that includes estimates of all amounts required during the year. However, CCs have flexibility as to the format and level of details of their budgets. While the operating and capital components of budgets are inter-related, City Corporations in Bangladesh prepare them separately.

3. Relevant Issues of ICGIAP

3.1 Areas/Activities:

The City Governance Project (CGP) includes activity 4.8 in the Inclusive City Governance Improvement Action Program (ICGIAP) "Budget proposal is compared with the budget and actual outlays in the previous year, displayed at the CC office."

3.2 Tasks:

Appropriate budgeting is essential for a CC to plan its annual scheme. A budget enhances predictability of finance by reflecting the future expenditures/all development activities while integrating citizens in the process of preparing the budget. CC should carry out the following tasks:

Tasks under the Activity 4.8 of the ICGIAP are as follows:

- Task 1: CC will initiate preparation of a budget proposal before the start of the financial year by comparing the budget and actual outlays in the previous year following rules and procedures as mentioned in CC Act.
- Task 2: The proposed budget will be disclosed and displayed for citizens' comments/suggestions well ahead of discussion of the budget in CSCC meetings and approval in the CC meeting.
- Task 3: Considering the comments/suggestions of citizens and those of CSCC & CDCC meetings, CC will finalize and approve the budget in the CC meeting before starting the concerned financial year and will submit to the prescribed authority for approval.

3.3 Action by

- Mayor
- CEO
- Accounts Officer

3.3 Indicators

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

4. Objectives

The budget is probably one of the most important work products of the City Corporation. At the most basic level it is a legal document that gives the City Corporation authority to incur obligations and pay expenses. The major objectives of budget systems include coordination, allocation of resources and general planning for operations. It allocates resources among departments, reflecting the legislative body's priorities and policies and controls how much each department may spend.

Those preparing a local government budget should keep the following principles in mind;

1. Establish broad goals to guide government decisions.
2. Establish credible approaches for achieving the goals that have been set by developing appropriate policies, programs and strategies.
3. Equip the local government with a budget that is consistent with the principles and the approaches that have been chosen.
4. Enable the local government to monitor and evaluate its performance and to make adjustments to meet contingencies and changing circumstances.

This guideline has been prepared on Budget proposal as compared with the budget and actual outlays in the previous year, displayed at the CC office under the project.

5. Relevant Organizations, Stakeholders and their roles and Responsibility

5.1 Role of Local Government Division

According to section 76 of Local Government (City Corporation) Act, 2009, the Local Government Division is responsible for approval of the budget prepared by the CC.

Budget- (1) The Corporation shall, in the prescribed manner, prepare and sanction, before the first day of June each year, a statement of its estimated receipts and expenditure for the next ensuing financial year, hereinafter referred to as the Budget, and forward a copy thereof to the Government.

(2) If the budget is not prepared or sanctioned by the Corporation before the first day of June as mentioned in sub section (1), the Government may have the necessary statement prepared and certify it, and such certified statement shall be deemed to be the sanctioned budget of the Corporation.

(3) Within thirty days of the receipt of the copy of a budget under sub section (1), the Government may, by order, modify it, and the budget so modified shall be deemed to be the sanctioned budget of the Corporation.

(4) At any time before the expiry of the financial year to which a budget relates, a revised budget for the year may, if necessary, be prepared and sanctioned, and such revised budget shall, so far as possible, be subject to the provisions of this section.

5.2 Role of City Corporation

(1) Entities in Charge of budget Preparation or Approval:

Local governments usually follow specific guidelines for budget preparation that are provided by higher authorities. Many other players are also involved in the process of preparing the budget. In City Corporations the main players are the following:

(2) City Council

The city council is responsible for adopting the current and capital budgets for the upcoming fiscal year. Its approval is often issued as a local bylaw or ordinance. The council thus is also responsible for approving modifications to the budget throughout the fiscal year.

(3) Legislative Approval of the Budget

Local governments' budgets are prepared by the Mayor (or the Mayor's designated or delegated representative) and presented before the City Corporation council. After receiving the draft budget document, the council usually turns it over to a committee of the council for scrutiny. The committee will advise the council concerning the budget proposals. As part of its scrutiny, the city council may hold hearings to obtain the advice and opinions of key stakeholders. After completing its examinations, the city council adopts the budget by passing a local appropriations act or council resolution.

The budget thus becomes a local bylaw that cannot be changed by any entity below the council should it be deemed necessary. The council may adopt a modified budget, which is called a

“supplementary” or “revised” budget. City Corporations may propose a revision of the budget at any time before the close of the fiscal year.

5.3 WLCC, CSCC& CDCC

Participatory Budgeting –Engaging Stakeholders in Budget formulation

Participatory budgeting is a democratic process in which citizens or community members are directly involved in decisions about how to spend all or a part of a local budget. Citizens' involvement varies in form, depth and breadth. Many local governments have opened up decisions entire municipal budgets, involving citizen assemblies in setting overall priorities and choosing new investments. In some cases the local government sets aside a small portion of the budget and entrusts communities to decide priority projects for their neighborhood. Common forms of citizen participation in the budget process are WLCC, CSCC etc.

6. Necessary Tasks and Procedures

Appropriate budgeting is essential for CC to plan its annual scheme. A budget enhances predictability of finance by reflecting the future expenditures/all development activities while integrating citizens in the process of preparing the budget. CC should carry out the following tasks.

6.1 CC will initiate preparation of a budget proposal before the start of the financial year by comparing the budget and actual outlays in the previous year following rules and procedure as mentioned in CC Act. (Task-1)

Accounts Officer prepares budget variance report comparing the budget and actual outlays of the previous year. A budget is an evaluation tool, comparing commitments made in the previous year's budget with actual accomplishments. In budgeting, a variance is the difference between a budgeted, planned or standard cost and the actual amount incurred/spent.

A situation in which income exceeds expenditures is called "budget surplus". The term "budget surplus" is most commonly used to refer to the financial situations of local governments; a surplus is considered a sign that local government is being run efficiently. A budget surplus might be used to pay off debt, save for the future, or to make a desired purchase that has been delayed. When spending exceeds income, the result is a budget deficit, which must be financed by borrowing money and paying interest on the borrowed funds. A balanced budget occurs when spending equals income.

6.1.1 Essential Elements of Budgeting

In a nutshell, budgeting involves three key elements: planning, co-ordination and control.

(1) Planning

Planning may begin with the development of broad statements of your City Corporation's needs and what it hopes to accomplish for several years ahead. This means thinking strategically, clarifying the challenges facing City Corporation and setting priorities. Identifying the following may help provide a framework for City Corporation to state its needs and priorities:

- services or functions that must be provided
- services or functions currently provided that do not need to be provided
- services or functions not being provided that could be provided

(2) Coordination

Most City Corporations have a budget committee to coordinate the budgeting process. The budget committee includes part or all of council and senior staff and usually has the mandate to:

- Produce and circulate an approved statement of City Corporation's priorities and goals to department heads.
- Provide technical budgeting assistance through finance staff to departments.
- Evaluate individual budgets submitted to the committee.
- Consolidate departmental and local board budgets into an overall budget document for council's review and consideration.

(3) Control

Once a budget is approved, quarterly or monthly reports to management and council may help show whether actual expenditures and revenues conform to the budget. Significant variances may need to be addressed and a course of action prepared and approved to get back on track by alleviating or at least minimizing the variances. Once the budget is adopted, it may serve multiple purposes as a City Corporation's policy document, an operational guide, a financial plan, and a communications tool.

6.1.2 Budget preparation Techniques

Budget preparation techniques and practices apply general budget concepts and principles to the formulation of a typical City Corporation budget. Here, the main components of a City Corporation budget from both revenue and expenditure sides are identified and discussed. The various concepts are brought together through a hands-on exercise in budget formulation. Concepts and techniques relating to capital budgeting including various techniques for appraising investment projects and their applicability in the City Corporation context are examined. Detailed and lengthy line-item budget summaries or snapshot budgets are used to inform management decisions, for reporting, and for communicating with stakeholders, especially citizens.

Usually Budget of City Corporations in Bangladesh has three components:

- 1) Revenue Budget
- 2) Development Budget
- 3) Capital Budget

6.1.3 The Revenue side of the City Corporation Budget

Budget preparation is an iterative process in which draft budget plans and cost or revenue estimates are exchanged vertically between lower-level and higher-level entities, such as, departments and their units, or between departments and the city council or its budget committee. Horizontal exchange and coordination across departments such as service or

functional departments and the finance department are also intensive. Nevertheless, it is the revenue side of the budget that is the logical starting point for three reasons.

- Preparing entities: Ascertaining the possible revenues available for appropriation helps to fix the boundaries, in terms of available resources, of the expenditures that the organization can budget.
- Citizens: Citizens are usually concerned about taxes and worry at budget time about hikes.
- Politicians: political leaders are always conscious that program initiatives leading to higher expenditures, and therefore higher taxes, may have negative political effects.

The revenue side of a City Corporation budget usually has four components: (1) own- source revenues, (2) fiscal transfers from higher governments, (3) shared taxes, and (4) debt or borrowing.

- “Own- source revenue” refers to the various taxes and non-tax sources of revenue that City Corporation can collect. They may include property taxes, income taxes, retail sales taxes, and others, depending on national revenue assignment. Non-tax sources include user fees and charges, such as a vegetable vendor pays to use the municipal market and also proceeds from the lease or sale of assets. Fiscal transfers are the various grants that higher levels of government provide to City Corporations, whether unconditional or conditional. Borrowings are the loans and other forms of debt that City Corporation can take on to finance their expenditures.

At the start of the budget preparation process, the Accounts Officer (or the finance or revenue department) surveys the historical trend of revenue collection figures to estimate the resources that can be raised. In addition, the Accounts Officer tries to estimate the possibility of increasing tax or other rates or expanding the existing tax base. The Accounts Officer will also explore the possibility of new sources of revenue. These efforts are essentially of a technical nature, carried out with a view to presenting options to city management. The city management makes the final call on revenue options, considering their technical, economic, administrative, and political feasibility.

6.1.4 The Expenditure side of the City Corporation Budget

Simultaneously, the Accounts Officer informs the departments (or head of projects and programs) about the extent of financial support to be expected in the budget and invites their expenditure proposals. The various operating expenditure items, such as salaries and office expenses, are estimated based on historical and current spending trends. The Accounts Officer also takes into consideration expected changes in general economic indicators, such as, the rate of inflation, in preparing spending estimates. The plans and information generated and exchanged at this stage also help the units themselves and the Accounts Officer to prioritize programs, projects, and expenditures. Usually the Accounts Officer gives certain guidelines through the budget circular with respect to the various assumptions, trends, and priorities, and that helps the departments and other units prepare their expenditure proposals. The Accounts Officer scrutinizes the proposals and finalizes them, often based on bargaining discussions with the respective departments. Those discussions also help the Accounts Officer plan for expenditure management. As mentioned, in the process of preparing the budget, it is essential to collect data on actual revenues and expenses for the last year or two, as well as to propose an estimate of the next year’s revenues and expenditures that takes into account changes in policies and events adopted by the City Corporation. The budget needs to show how much money will be available, where it comes from, and how it will be used.

6.1.5 Capital Budgeting in City Corporation Governments

Capital budgeting is a tool for expenditure planning that often includes a multiyear capital improvement plan (CIP) and preparation of an annual capital budget. The capital improvement plan is important because purchasing, development, expansion, or rehabilitation of physical assets requires large money outlays, often beyond the limits of the annual budget. Hence, separate and long-term planning is necessary to ensure that projects are evaluated in a systematic manner, from both technical and financial perspectives, to help the city management select a list of projects that are feasible and within the city's operating and financial capabilities.

A capital budget typically provides for infrastructure to be maintained or new infrastructure needs to be met in the future. It may set out the specific capital projects to be approved for the budgetary period, such as, capital improvements, land acquisitions, new facilities and equipment, and it identifies a source of financing for each.

Through capital budgets, City Corporation can plan future operating budget expenditures, debt repayment and potential reserve fund needs to manage the financial position of the City Corporation over a specific period of time.

The capital budget process typically calls for a coordinated inter-departmental effort to develop a financing plan for the new construction, acquisition or replacement of City Corporation assets.

The capital budget may be a section of the overall budget (as in the figure below) and the capital budget should have cost estimates for all infrastructure projects that are proposed, including both the investment cost and implications for the operating budget. Capital budget preparation requires ranking project proposals using capital budgeting techniques, such as, payback period.

	Revenues	Expenditures
Current Budget	Current revenues Own revenues: taxes, fees, transfers from government Other revenues (rent), Surplus carried forward	Current expenditures Payroll Operation and maintenance, interest payment, deficit carried forward (if any)
		Operating surplus
Capital Budget	Self-financing	Capital Expenditures
	Capital Revenues Sale of property, land, grants loans	Civil works purchase of property, land, repayment of loan principal

Figure 6-1: Budget Standard

6.1.6 Operating/Current Budgets

Operating budgets are normally used to plan for City Corporation's day-to day expenditures, such as, salaries, wages, benefits, electricity, maintenance of buildings and infrastructure. As a policy document, operating budget may include a statement of budgetary policy in the form of goals, objectives and strategies. As a communications tool, the budget may help provide summary information that is suitable for use by the media and the public.

As an operational guide, operating budgets often attach or include a chart of the City Corporation organization, a description of workforce organization (what each City Corporation department, board and commission does) and sufficient data to provide a basis for comparison (for example, the previous year's budget, spending in the previous year, and current year-to-date spending on operations).

As a financial plan, a budget usually includes projected operating expenditures and revenue sources for the period covered. The budget is formatted in such a way that it parallels a City Corporation's accounting and financial reporting system. This may facilitate monitoring and evaluation of the budget performance.

6.2 The proposed budget will be disclosed and displayed for citizens' comments/suggestions well ahead of discussion of the budget in CSCC meetings and approval in the CC meeting. (Task-2)

Elected representatives, common people, community organizations, academics, and NGOs' have their involvement in participatory budget making model for democratic local government. Their endorsements are based on the following

- It gives community members a say. Ordinary people have more voice, and they get to make real decisions.
- It produces better and more equitable decisions. Local residents Know best what they need, and budget amounts are redistributed to communities with the greatest needs.
- It develops active and democratic citizens. Community members, staff, and officials learn democracy by practicing it. They gain more understanding of complex political issues and community needs.
- It builds communities and strengthens community organizations. People get to know their neighbors and feel more connected to their city. Local organizations are able to spend less time lobbying, and more time deciding policies themselves.
- It connects politicians and constituents. Politicians build closer relationships with their constituents. Community members get to know their elected officials and local governments.

It makes local government more accountable and efficient. Local officers are more accountable when community members decide on spending in public assemblies. There are fewer opportunities for corruption, waste or costly public backlash.

6.3 Considering the comments/suggestions of citizens and those of CSCC meeting, CC will finalize and approve the budget in the CC meeting before starting the concerned financial year and will submit to the prescribed authority for approval. (Task-3)

In participatory budgeting, community members make budget decisions through an annual series. There are many models of participatory budgeting, most follow a basic process: diagnosis, discussion, decision making, implementation, and monitoring:

- Residents identify the most important local needs and generate ideas to respond to those needs.
- The representatives of different segments of the society discuss the Local priorities and together with experts, develop concrete projects that address them.
- Residents may vote for which of the projects to fund.
- The local government includes the chosen projects in its budget and allocates funds to implement them.

7. Responsible personnel for implementing the Activity

(1) The Mayor

The Mayor is primarily responsible for the presentation of the city budget to the city council. She or he may delegate the responsibility to a subcommittee of the council, such as a budget committee or standing committee for finance.

(2) CEO

The CEO will instruct the head of each department, section, or other independent unit to submit departmental budgets to the Accounts Officer or the budget committee. The plans should include detailed estimates of the budget needs of the coming fiscal year and estimates of any revenue anticipated to be collected by the CC.

(3) Accounts Officer

The Accounts Officer or the Chief Financial Officer (CFO) usually leads the day-to-day process of budget preparation and works under the direction of the Mayor and the budget committee. The Accounts Officer is responsible for reviewing and commenting on the City Corporation's budget and its financial plans. He or she is required to submit periodic reports to the council and the Mayor on the budget execution progress. The Accounts Officer's report should include variance analysis and evaluation of the City Corporation's various operations, fiscal policies, financial transactions and recommendations.

(4) Variance analysis:

Revenues and expenditures need to be reviewed regularly, monthly or quarterly, to ensure that they conform to the budget and to determine if they are on track to achieve the stated policy objectives. Activity can analyzed in a number of ways, in terms of both financial and

operational performance, but an analysis of the variances between budgeted amounts and actual results is arguably one of the best methods.

Given that budgeted levels will generally be different from actual levels, explanations of the resulting variances should be restricted to those that exceed a certain percentage, such as, plus or minus 10 percent of the budget. The table below shows a case in which four items vary by less than the 10 percent threshold but the category “grants” differs significantly because of delay; the cost of materials indicates substantial savings that might be a result of unaccounted bills.

When the planned level of activity developed after extensive review during the budget process is compared with the actual results, the variance provides useful information to decision makers. However, variances, small or large, do not by themselves explain the underlying reasons, such as whether the budget preparation process had flaws or the environment for the activity has changed. Thus, the variance analysis is just a signal that must be followed by specific inquiries and corrective measures; those may include changing the budget plan by issuing a supplementary budget or warning the respective departments to exercise more stringent expenditure control.

Table 7-1: Variance Analysis

Category	Budget	Actual	Variance better/(worse)	Variance (%)	Explanation
Revenues					
Taxes	10,000	10,500	500	5.00	
Grants	15,000	10,500	-4,500	-30.00	Delayed or canceled?
Total	25,000	21,000	-4,000	-16.00	
Expenditure					
Labour	4,500	4,600	-100	-2.2	
Material	3,000	2,800	+200	6.7	Unpaid bills?
Total			+100	13	

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
Budget proposal is compared with the budget and actual outlays in the previous year, displayed at the CC office	Task-1: CC will initiate preparation of a budget proposal before start of the financial year by comparing the budget and actual outlays in the previous year following rules and procedure as mentioned in CC Act.																
	Task 2: The proposed budget will be disclosed and displayed for citizens' comments/suggestions well ahead of discussion of the budget in CSCC meetings and approval in the CC meeting.																
	Task 3: Considering the comments/ suggestions of citizens and those of CSCC meeting, CC will finalize and approve the budget in the CC meeting before starting the concerned financial year and will submit to the prescribed authority for approval.																

9. Cost of Implementation (if necessary)

CEO and Accounts Officer will take into consideration the probable cost of implementation of the activity and prepare proposal for consideration of the Mayor and CC council.