



REVENUE ENHANCEMENT

Financial Management Training Module 2 of 4



MINISTRY OF LOCAL GOVERNMENT AND
PROVINCIAL COUNCILS



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2008



**MINISTRY OF LOCAL GOVERNMENT
AND PROVINCIAL COUNCILS**



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PREFACE

The Asia Foundation (TAF) implemented the Transparent Accountable Local Governance (TALG) Program with financial support from the United States Agency for International Development (USAID) from January 2005 - September 2007. The Foundation's main counterparts were the Ministry of Local Government and Provincial Councils and the Sri Lanka Institute of Local Governance. The International City/County Management Association (ICMA) and Environmental Management Lanka (EML) provided additional technical assistance and support.

The TALG Program developed a number of training modules and publications as part of its institutional strengthening programme for Local Authorities (LAs) in Sri Lanka. Each of the TALG training modules was used to train officials in thirty-five Local Authorities in Southern, Eastern, Central, North Western, North Central and Uva provinces. These were very successful in promoting effective, transparent and accountable local governance. Preparing the training modules was a painstaking process and support from the Australian Agency for International Development (AusAID) enabled The Asia Foundation to complete and publish this and the other publications in the series.

INTRODUCTION

Through the interventions made by the Foundation for the betterment of the Local Governance system in Sri Lanka, publications were developed in the following areas:

- Citizen Participation
- Local Planning
- Service Delivery
- Financial Management
- Policy and Regulations

These publications range from one-page documents of Leading Practices to Training Modules. Major categories of the publications are:

- Training Modules
- Guidebooks
- Reports and Documents
- Video Films
- Computer Applications

TALG developed many training modules mainly in the areas of Financial Management and Service Delivery. **Revenue Enhancement** is Module 2 under Financial Management Training. Other training modules in the series include:

Module 1: Financial Reporting and Cash Management

Module 3: Grant Management and Donor Relations

Module 4: Office Management

Users should note that there are a range of TALG publications including Technology of Participation and Resource Directory for Local Authorities that can be used by LAs to create an enabling environment for performing better financial management.

About this Training Module

Module 2: Revenue Enhancement

This module, Revenue Enhancement, is based on previous training sessions conducted under TALG, which mainly focused on enhancing own-source and grant revenues of LAs. Through this training TALG assisted LAs to increase their revenue base and firm up current revenue sources. LAs learnt how to efficiently and effectively collect their arrears from defaulters. In some cases arrears were about 200% of their annual budget.

What is Inside this Module

These TALG training modules can be used by different users, ranging from beginners to practitioners, and from those working in LAs to those working as partners with LAs. This publication contains all of the resources required by trainers to deliver a two-day workshop in Revenue Enhancement.

The Revenue Enhancement training module provides learning materials and exercises on the sources of revenue available to LAs and goes on to identify why and how these revenue sources should be maximised.

The Main Objectives of this Module

- To provide guidance to the officials who engage in financial management for LAs in Sri Lanka.
- To provide knowledge, skills and tools in financial management activities in a systematic manner.
- To assist LAs to deliver efficient and effective services, by ensuring better financial management.
- To assist LAs to adopt new methods and techniques in financial management.

How to Use this Module

The resources in this publication may be used:

- To enhance knowledge in this specific topic.
- To share the knowledge with others.
- To support a training programme and awareness campaigns.
- To improve the existing system and performance monitoring.

Learning materials will provide guidance to all decision-makers and staff of the LA who are involved in financial management activities.

SESSION 1: WHY MAXIMIZE REVENUES?

Summary

This session will discuss how to create an effective and efficient revenue maximization system for a LA.

Key Points

- Reduces the need to cut programmes and service unnecessarily.
- Improves the potential for offering new or improved service.
- Revenues collected by a LA should be used to provide services for citizens.
- Creates equity among citizens by having all citizens pay for services received.

Definition

Revenue maximization means that a LA is committed to getting the most it can out of revenue sources that are legally and administratively available. It means a commitment to put in place a wide-ranging series of improvements to its policies, procedures, staffing and organizational structure. The intent is to use each one of its revenue sources to its fullest potential in accordance with LA goals and priorities.

Benefits

Adopting an overall programme that strives for maximizing revenues has many benefits for a LA.

- 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.

Policies

Policies are important because they put the LA on record regarding the most important issues facing the community. LA officials should make clear their expectations for how revenues are managed. Revenues should be managed as professionally and efficiently as possible. Below are some suggested policies in this area.

- The LA will periodically collect and analyze information on the revenues it uses, including how much each revenue source has raised.
- The LA will periodically collect and analyze information on the revenues being used by other LAs.
- The LA will establish a professional and aggressive programme for recovery of delinquent accounts by delegating collection responsibility to the Secretary/Commissioner, who must follow adopted revenue collection policies. Annual reports on collection efforts will be prepared for council/citizens.

- The LA will conduct an annual review of selected fees and charges to determine the extent to which the full cost of associated service is being recovered by revenues.
- The LA will review all fees and charges at least once every four years.
- Assessments will be every five years and will be requested by the LA to the Divisional Secretariat (DS). If the DS cannot perform the revised assessments, it is possible for a LA to hire a private valuator. Every effort should be made to ensure revised assessments are performed.
- The LA will place increased emphasis on user charges to finance the cost of municipal services.
- The LA will conduct a cost finding analysis before committing to programmes of privatizing services.

What to do with Additional Revenues Received by Maximizing Revenue Collection

Revenues received by a LA belong to the people of the LA and should be used to provide services for them. The reason a LA is in operation is to provide services for its citizens. If a LA begins collecting additional revenues it is often tempting to use those funds for other purposes. It is important to remember that services provided should be services that are needed by the majority of citizens. Building a new road in a place where only a few citizens live or repairing a shop where a relative of a council member works, may seem necessary, but services should be offered that will provide the greatest benefit to the largest number of citizens. In all cases, the LA should consult with citizens on spending priorities.

SESSION 2: TYPES OF REVENUES IN SRI LANKAN LOCAL AUTHORITIES

Exercise

The LA as Landlord

Summary

This session will discuss the various types of revenues in Sri Lankan LAs and briefly explain the importance of each. Note, rates and rents are the most important and largest revenue sources for LAs. The exercise at the end of the session gives you the opportunity to analyze a hypothetical situation involving rents and asks you to determine an alternative method of collection.

Key Points

- Operating revenues in LAs consist of own-source revenues and grants.
- Own sources of revenue include rates, taxes, rents, license fees, charges or fees for services provided, warrant costs, fines, penalties and other miscellaneous revenues.

This section presents an overview of the existing revenue framework of LAs and analyzes the sources and flow of funds. This discussion deals only with operating revenues and does not intend to address revenues brought into the LA for the purpose of capital building. These revenues will be discussed in future training sessions.

Type of Revenues in LAs – Own-Source Vs. Grants

LAs largely depend on the public funds they collect for operating revenues. LA revenues can be divided into two types, depending on the source of funds. Own-source revenues are revenues that the LA collects itself, such as rents, rates, fees, etc., and operating grants are funds that the LA receives as a grant from a higher level of government, either the Provincial Council (PC) or Ministry.

Own-source revenues account for between 30% and 70% of expenditure in LAs. LAs receive grants from the central government, usually through the PCs, and the recurrent grant is the largest of the grants given to LAs. It is provided as a block grant to the PCs and covers the cost of salaries, overtime, pension, travelling etc. of the employees of the PC. This grant usually covers about 85% of the personnel expenses of the PCs. Part of this same grant is provided to the LAs to pay the salaries of their employees, which may cover between 70% and 90% of total salary expenditure for local government employees. LAs are dependent on the Ministry and the PC for these funds in order to operate their local government. Without these grants the LA would not be able to provide services to citizens at all. However, this dependence on outside sources for revenues inhibits the LA's ability to sustain consistent levels of service due to the inconsistent nature of these funds.

Source of LA Funds – Own-Source Revenues

The LA's own sources of revenue include rates, taxes, rents, license fees, charges or fees for services provided, warrant costs, fines, penalties and other miscellaneous revenues. A breakdown of own-source revenue for recurrent expenditure, by the type of LA, is given in Table 1 below.

Rates and taxes are the highest source of own funds for Municipal Councils (MCs) and Urban Councils (UCs). In the case of Pradesha Sabhas (PSs), revenue from other sources and rents are the highest sources of own revenue. Rates, taxes and rents provide over 75% of own revenue for MCs, 68% for UCs and about 40% for PSs. For the more urban

Table 1: Own Recurrent Revenue Sources of Local Authorities

Sources of Own Revenue in 2003	MC (18)*		UC (36)*		PS (256)*		Total (310)*	
	Avg/LA (Rs M)	% of Total						
Rates & Taxes	110.4	65.9	5.9	40.6	1.2	14.8	8.0	45.0
Rent	16.5	9.8	3.9	27.7	1.9	24.8	3.0	16.9
Licenses	4.9	2.9	0.6	4.3	0.7	8.8	0.9	5.2
Fees for Services	12.3	7.3	1.3	9.3	1.1	13.6	1.7	9.8
Warrant/Fines/Penalties	3.2	1.9	0.4	2.5	0.9	11.5	1.1	5.4
Other	20.4	12.2	2.3	15.6	2.1	26.5	3.2	17.7
Total	167.7	100.0	14.4	100.0	7.9	100.0	17.9	100.0

Source: Dept of Census and Statistics 2004

* The number of LAs included in the analysis given within brackets.

The average amount per LA was obtained by dividing total receipts of all LAs by the number of LAs.

LAs, rates and rents provide the major source of income, whereas for the PSs, which are more rural, the revenue sources are fairly evenly divided among all sources. Two potential sources of additional or increased revenue are, 1) more efficient collection efforts by the LAs from rates, taxes and license fees and 2) greater cost recovery of fees for services provided.

A LA's operating expenditure is financed by own operating revenues and from a revenue grant (Block Grant) provided by the government. The revenue grant is meant to meet the cost of salaries and other personnel costs of LA staff. While many individual LAs receive up to 70% of their operating revenue from the ministry block grant, Table 2 shows the averages for all LAs in Sri Lanka.

Table 2: Recurrent Revenue of Local Authorities

LA	Own Revenue		Revenue (Block) Grant		Total Operating Revenue	
	Avg/LA (Rs M)	% of Total	Avg/LA (Rs M)	% of Total	Avg/LA (Rs M)	% of Total
MC (18)*	167.7	63.6	96.0	36.4	263.7	100.0
UC (36)*	14.3	57.6	10.6	42.4	24.9	100.0
PS (256)*	7.8	58.2	5.6	41.8	13.4	100.0
Total (310)	17.9	61.0	11.5	39.0	29.4	100.0

Source: Dept of Census and Statistics 2004

* The number of LAs included in the analysis given within brackets.

The average amount per LA was obtained by dividing total receipts of all LAs by the number of LAs.

About 36% of the total recurrent revenue is provided as a grant by the government in the case of MCs. In the case of UCs and PSs, about 42% of the total recurrent revenue is provided as a grant by the government. The smaller LAs are not able to finance a greater proportion of their operating expenditure from own revenues, due to both poor collection efforts as well as lower economic base of the rural areas. With recurrent grants from government sources being progressively reduced, measures for improving the financial viability of local bodies, especially the weaker ones, must be learnt if they are to be made financially independent in the long-term.

Table 3: Sources of Capital Revenue and Assets

Sources of Capital Revenue and Assets 2003	MC (18)*		UC (36)*		PS (256)*		Total (310)*	
	Avg/LA (Rs M)	% of Total						
Capital Grants (Govt.)	4.7	6.8	2.3	17.2	2.2	33.1	2.3	21.3
Loans	0.9	1.1	0.3	2.3	0.1	1.9	0.2	1.7
Sales of capital assets	1.5	2.2	0.05	0.4	0.05	0.7	0.7	1.2
Other receipts	2.7	4.0	0.5	4.0	0.8	13.1	0.9	8.5
Deposits	16.6	24.3	3.8	28.9	1.4	21.8	2.6	23.7
Staff loans	9.1	13.3	1.7	12.7	0.7	11.3	1.3	12.2
Other	33.1	48.3	4.5	34.5	1.2	18.1	3.4	31.4
Total	68.6	100.0	13.2	100.0	6.5	100.0	11.4	100.0

Source: Dept of Census and Statistics 2004

* The number of LAs included in the analysis given within brackets.

Table 4: Total Revenues of Local Authorities

LA	Own Recurrent Revenue		Recurrent Cost (Block) Grant		Capital Grants & Assets		Total Revenue	
	Avg/ LA (Rs M)	% of Total	Avg/ LA (Rs M)	% of Total	Avg/LA (Rs M)	% of Total	Avg/LA (Rs M)	% of Total
MC (18)*	167.7	50.5	96.0	28.9	68.6	20.6	332.3	100.0
UC (36)*	14.3	37.8	10.6	27.8	13.1	34.4	38.0	100.0
PS (256)*	7.8	39.1	5.6	28.1	6.6	32.8	20.0	100.0
Total (310)	17.9	44.1	11.5	28.4	10.9	27.1	40.3	100.0

Source: Dept of Census and Statistics 2004

A summary of all revenues available to Sri Lankan LAs is provided.

* The number of LAs included in the analysis given within brackets.

Summary – All Funding Sources

An analysis of all financial resources available to LAs (Table 4) shows that between 40% and 50% of the resources are self-generated or own revenue, with MCs performing the best, followed by PSs. About 30% of the resources are provided by the government as a recurrent grant to pay salaries and related expenditure. Capital grants and assets account for between 20% and 35% of the total resources of LAs. However, as shown in Table 3, between 7% and 33% of these capital resources come as a government grant, the lowest for MCs and the highest for PSs. Overall, the MCs obtain 30% of their resources from the government, while the UCs obtain 34% and the PSs nearly 40%. (These percentages are calculated using Rs.M Block Grant [Table 4] plus Rs.M Capital Grant [Table 3] divided by Rs.M Total Revenue [Table 4] multiplied by 100.) The above illustrates the high dependence of local bodies on government financing, with little efforts being made to improve the situation. Thus, future sustainability of LAs must be affected through better financial management, improved capacity to implement projects, more effective collection of receipts and improved cost recovery for services provided.

Exercise

The LA as Landlord

Time required: 45 minutes

Purpose: For participants to identify the administrative ‘loopholes’ in inefficient rent collection procedures and to suggest appropriate steps to correct the situation.

Process: Tell participants they will be working for about 30 minutes in small groups of five to six as consultants to a LA. This LA has a poor history of rent collection from its municipally owned buildings.

Handout: Give participants ‘The LA as Landlord’(see below). Ask participants to read the incident and work together to answer both questions that conclude the incident. After 30 minutes, bring the participants back together and ask each group to share its answers to the first question. After a general discussion, repeat the process with the second question. Conclude the exercise by asking why being able to solve a problem like this one is important for the bookkeeper of a LA.

The LA as Landlord

You have been hired as a consultant to help a LA obtain more money from monthly rent payments collected from the tenants of 14 buildings owned by the LA. These buildings are what are left of approximately 35 buildings that were given to the LA from the Ministry two years ago. The other buildings were sold to generate money for needed improvements in the LA’s aging and badly deteriorated water systems and for building a new library. In keeping the 14 buildings, the LA was counting on the rental income to provide revenue for the LA for many years. Unfortunately, the collections have never come close to the LA’s expectations. Therefore, the LA has employed you to assess the problem and suggest a solution.

From your investigations you have uncovered the following facts. Occupancy rates are high throughout the city and there are many businesses wanting to rent the 14 buildings. Due to the differences in size, location and the amenities provided, monthly rental rates vary from building to building. Further, it has been the LA’s practice to reduce the monthly rate for a building according to how much responsibility shop owners agree to accept for making repairs and doing minor maintenance or for assuming certain management responsibilities. For example, three of the owners pay less than half the normal monthly rate in exchange for acting as an agent for the LA in collecting rents from other shop owners in their part of the city. Receipts vary from month to month. One reason, you discover, is that once businesses use up their 3-month deposit, they often continue to operate their business without paying. Additionally, there are occasional lost collections during the process of evicting tenants for non-payment of rent.

The turnover rate among renters is high. It is not unusual for a tenant who is in rent arrears to close their store without notice, often leaving the property in a poor state of repair.

Rent collections last month averaged just over 60% of the amounts due. In some months, the cost of maintenance/renovation of buildings and rent collection uses up more than half the amount collected. From the lease agreement records maintained by the LA, you have not been able to track the rental income history of any particular building. The rent collectors you have talked to have no explanation for the low collection rates, although they admit that, at times, they have taken less than the full amount due, out of sympathy for the economic hardship of their neighbours. From several of the renters you get a different story. They tell you they have never missed a rent payment although sometimes collectors accept partial payments and return twice or even three times during the month to collect the balance due.

Questions

1. From the information provided, what is wrong with the way this source of revenue is being administered by the LA that might account for the low revenue yield? Specify in your answer obvious collection risks or 'loopholes' in the system.
2. What changes would you recommend to tighten administrative controls and reduce the collection risks that seem to be causing the unacceptable revenue drain? Point out any drawbacks or obstacles to the changes you have in mind and what could be done to minimize them.

SESSION 3: REIMBURSEMENTS AND GRANTS FROM MINISTRY, DIVISIONAL SECRETARIAT AND PROVINCIAL COUNCIL

Summary

This session will discuss the process for receiving operating grants and reimbursements from other units of government in the country (DS, PC and Ministry) and the importance of ensuring those revenues are received in a timely manner. If they are not received on time, the LA must request funds from another unit quickly and resolutely.

Key Points

- While it is difficult for a LA to know the amount of grant it should be receiving from the PC, every effort should be made to ensure the Ministry grant is as transparent as possible.
- Transparency must exist in the transfer of funds from the PC to the LA.
- The Finance Commission approves all grants to PCs.
- As PCs do not currently operate in the North and East, the funds flow directly to the LAs and do not pass through the PCs.

How Funds Flow from Ministry to PCs to LAs and Problems with this Flow

Funds for recurrent expenditure (Block Grant for the PCs) are usually allocated through the Ministry of Local Government and Provincial Councils (MLG & PC) after approval by the Finance Ministry. The Ministry transfers the block grants to the PCs on a monthly basis based on reimbursements. The amount provided may vary each month but should reflect the overall agreed allocations for the year on a reimbursement basis. Based on the amount received, the Ministry distributes the funds to the various PCs on a proportionate basis. The Ministry has no discretionary power to increase or decrease the block grant allocated to a particular PC. Capital grants (Project Specific Development Grants [PSDG], Criteria Based Grants [CBG] and Matching Grants [MG]) are provided to the individual PCs directly by the Treasury. However, the Treasury may make cuts in the agreed allocation due to cash flow problems, shortfall in revenues or any other problem affecting the country's finances as a whole. Under these circumstances, it is possible that PCs may not receive the full quota of capital and recurrent grants officially allocated in the National Budget. These funds are allocated by the PCs for recurrent and capital expenditure according to the LA's budget and planned activities. PCs are also responsible for the transfer and monitoring of funds earmarked for LAs. The PCs reimburse the recurrent salary payments of LAs. The basis of allocation is thus the actual cost incurred.

In the case of capital grants made to PCs, little or no transfers are made to LAs. Generally, LAs have to find their own resources for capital expenditure. The only exception is limited road development investments under PSDG where a specific allocation is made for select LAs. In the case of other PSDG, CBG and MG, very little or no allocations are made to LAs by the PC.

The monitoring of all expenditure, including funds given directly to PCs is undertaken by the MLG & PC. However, under existing law the Ministry does not have the power to control or direct the expenditure of PCs. The Finance Commission undertakes some monitoring and evaluation of expenditure and is responsible for recommending the allocations to PCs for the following year. The Finance Commission's recommendations are partly based on an analysis of previous year's expenditure as well as perceived needs as evaluated by the representations made to the Commission by the respective PCs and LAs.

Existing Constraints and Bottlenecks

- In the case of recurrent grants, the LAs are required to incur the cost and request reimbursement from PCs. There are delays in obtaining this reimbursement, and if there are cutbacks in the monthly allocation of recurrent grants by the Treasury to the PCs, these are then passed on to the LAs who do not receive the full reimbursement of their expenditure on salaries, etc. A major problem is that LAs are not in a position to question the PCs on the amount of cuts applied to LAs as against actual cuts made by the Treasury. Thus there are issues of transparency as well as predictability in the amount and flow of funds from Treasury to PCs and particularly from PCs to LAs. LAs should request as much data as possible from the PCs in order to discern the exact amounts they are owed from the Ministry.
- There are problems relating to the apportioning of stamp duties, court fines, etc. which go into a common fund at the PC and are redistributed to LAs on a proportionate basis after reconciliation. There are considerable delays in transferring this source of revenue to LAs. These funds, which are quite sizeable in total, can be forfeited in the case where they are not transferred within a specified time, as per the regulations of the PC. Here again there are issues of transparency in the apportioning of this revenue.
- There are very few incentives for improving the financial performance of PCs and LAs, although this is vital. The major area of concern is that the reimbursement of salaries is based on actual and is not linked to productivity of the LA. This works as a disincentive for LAs to reduce personnel cost and improve performance. There is a need to revise the allocation of block grants to LAs so that it provides an incentive to improve efficiency and expenditure management. This should be undertaken at the PC and/or Ministry level.
- It is not mandatory for PCs to allocate funds/grants for capital investment to LAs. Since PCs have inadequate funds for their own development activities there is little or no allocation to LAs for capital investments. Further, there is no transparency in the allocation procedure of PCs for transferring capital grants to LAs.
- Taxes and rates are not collected as scheduled and many LAs and PCs have accumulated considerable arrears. As discussed previously, simply collecting what is owed will enable most LAs to increase their revenues tremendously.

The Role of the Finance Commission in the Allocation of Funds

The Finance Commission (FC), which was created by the 13th Constitutional Amendment of Sri Lanka, plays a crucial role in the allocation of resources. It comprises of five members, two are ex officio members (The Secretary, Ministry of Finance and the Governor of the Central Bank) and a representative from each of the three major communities.

In consultation with the Treasury the FC recommends the allocation of funds for the financial needs of the PCs. In general about 85% of the funds provided by the Treasury to the PCs are for Recurrent Expenditure and 15% for Capital Expenditure. All PCs, except the Western Province (WP), are required to finance around 10% of their expenditure from own-source revenues. The WP is required to finance about 60% because of its high revenue base. The allocations to the LAs to meet the salaries are based on the salaries of the approved cadre in 1984. Since then, cadres of some LAs have been revised but no increases have been provided to any of these LAs.

The FC recommends the allocations to PCs on the basis of past financial performance, needs and other criteria. The FC also gives consideration to requests made by any PC for increased allocations justified under special circumstances. The FC's recommendations have to be approved by the Cabinet before the Treasury makes allocations. When allocations are approved, the Treasury is usually not able to release the funds in entirety due to liquidity problems. In general, the reduction in funding is in the range of 3% in the case of recurrent expenditure and 25% in the case of capital expenditure. The Treasury may also impose additional restrictions on both capital as well as recurrent expenditure depending on the country's financial state. About 12.5% of total government expenditure is allocated to the PCs through the FC.

The World Bank has reportedly spoken to the Treasury Department about the excessive public employment sector in Sri Lanka. As a result, the Treasury has focused on limiting the growth of this sector by restricting the growth of LA cadre. This has emphasized the need for LAs to solve their own staffing problems and many have resorted to employing casual labour funded from their own sources.

Tools Available to LAs to Ensure Proper Transfer of Ministry Grants from the PC

- Create a good working relationship with your Assistant Commissioner of Local Government (ACLG).
- Request that your MP inform you of the amount of grant you should be receiving.
- Ask your Commissioner of Local Government (CLG) & ACLG to explain the process for reimbursement and to justify why your reimbursement or grant amounted to a certain level.
- If you feel the PC is not responding to your needs for timely fund transfers, discuss this with them. If there is no resolution, contact the MLG & PC.
- If there are still difficulties after trying the items listed above, talk with other LAs about approaching your CLG or ACLG together, with your concerns. Often a group of people with similar concerns is stronger than one working alone.

SESSION 4: RECORD-KEEPING AND COLLECTION RATES – KNOW WHAT IS OWED

Summary

This session will discuss the organization of LAs and the roles and responsibilities of staff. It is important that all personnel understand their role in the revenue collection process and take that responsibility seriously. It is also very important that bills are sent out correctly to the citizens so that they know what to pay and when to pay it.

Key Points

- There should be dedicated persons in the LA with specific responsibilities for billing, collecting money, depositing, marking accounts as paid, etc. Each division should have a separate person in charge in order to ensure proper checks on revenue collection.
- The procedure for giving abatements (a reduction in amounts owed) should be clearly stated in a policy and no one in the LA should have the power to give abatements outside policy.
- Clear procedures for accepting payments, either in person at the counter, by mail, etc., should be posted at the LA and adopted as policy.
- The LA should have an adopted policy regarding partial payments so that citizens can pay a portion of their bill if they desire. While partial payment is not as good as full payment, it is better than no payment at all.

This section of the workshop looks at two key areas in revenue administration. Firstly, the organizational structure and staff who oversee the billing and collection activities. Secondly, the procedures used by this office to bring in revenues. It is easy to overlook these areas in searching for ways to improve revenues for the LA, but they are improvements that are under the control of the LA administration, have potentially big payoffs, and have many benefits, besides improving revenues to the authority.

Organizational Structure/Staffing

In a LA there should be a group of people dedicated to billing and collection, with one Collections Officer responsible for preparing and distributing all bills, and collecting and depositing all revenues. Revenue collection operations should be organized with clear lines of responsibility for all personnel. Each employee should have a distinct set of duties and a single supervisor. Avoid situations in which collection responsibilities are divided between offices or supervisors and/or where individual employees must report to more than one person. Consolidation allows for economies of scale in personnel, training, office equipment and avoids many communication and expectation problems.

Reporting

The Collections Officer should report to the Bookkeeper of the LA. Collections may be carried out on an in-house or a contracted basis, or combination of the two. The advantages of using in-house collections staff are primarily control and accountability. The Collections Officer directly supervises the staff and the procedures, and can institute control and audit procedures to ensure the honesty, efficiency and accuracy of the Collections Office. Also, the Collections Officer can oversee contact with the taxpayer or ratepayer in order to ensure that customers are treated politely and fairly. The primary drawback of in-house staff, is the cost. Unless the LA is billing and collecting continuously, it can be expensive to have staff dedicated just to collections.

Privatization

Privatization may be less expensive if the contractor handles multiple clients and prorates its collection costs to each client. However, control may be more difficult to establish, maintain and audit with a contract. Often, bills and collection of payments are carried out by the authority's staff and delinquent bills are given to a private collection agency for follow-up efforts.

Division of Responsibility

Within the Revenue Office, there should be a clear division among employees performing the functions of billing, collecting and depositing, with adequate checks and balances. One member of staff should add up the money (cheques and cash) received and prepare the deposit, while another should add up all the bills that have been paid and prepare them for posting to the customers' accounts. The two totals should then be compared. This makes it much less likely that any one person can mislay or misappropriate any funds received. Entering all payments into a cash register or a computer linked to a cash drawer at the time of payment can help reduce the chance of error and improve the time it takes to balance the day's collections.

Deposits

Deposits should be made into the LA's bank accounts each day. Prompt depositing of funds is important for safeguarding funds and to make the money available for cash management purposes. If staffing allows, the person making the actual deposit to the bank should be someone other than the person who prepared it. LA officials should be especially stringent in requiring qualified and honest collections staff. Whenever large sums of money are handled, it is critical that adequate and credible safeguards are established.

Evaluation Checklist for Organization and Staffing

- Is overall responsibility for financial stewardship concentrated in one official, who serves as Finance Director, Secretary or Bookkeeper?
- Are specific finance units, such as Budgeting, Assessment, Collections, Purchasing, Accounting and Treasury headed by officials who report to the Bookkeeper or Finance Director?
- Is the responsibility for the form, filing and retrieval of all financial records concentrated in the Bookkeeper or Finance Director?
- Is the Bookkeeper or Finance Director responsible for all finance-related reports internally and externally, including all reports required by other levels of government?
- Are finance operations viewed as a whole for data management purposes, i.e. are data recorded, filed, retrieved, transferred and reused according to a system-wide plan designated to minimize rerecording?
- Are all top finance officials (e.g. Collections Officer, Accountant, Treasurer) professional staff with degrees and/or certification in government finance?

Billing and Collections Procedures

There should be documented procedures for billing and collections. Written procedures contribute to greater efficiency, consistency and accuracy, as well as improving communications. The Pradeshiya Sabhas, Urban Council, and Municipal Council Gazettes (published in 1940, 1987 and 1989), as well as the Work Procedures for LAs (published by Sri Lanka Institute of Local Governance) provide a basic outline of the procedures LAs should follow. Other benefits from written

procedures:

- They can be the basis for training and cross-training staff. Written procedures can be used as reference materials and establish standards for handling money and accounting responsibilities.
- Written procedures can be a key part of the staff evaluation process. It is easier to determine performance levels if you have clearly articulated performance expectations, such as all cheques will be deposited by the close of business.
- They can help staff refuse requests for exceptions and special favours. Customers can be shown that requests to lower their bill, waive interest or penalties, hold post-dated cheques for later deposits and other special handling are clearly against the written policies and procedures. This also demonstrates commitment to a professionally run office.
- The written procedures can be given to the auditors, who are generally looking to determine that office procedures provide sufficient internal controls and safeguards to protect the authority's assets.
- They can help document the need for more staff, hardware, software, training or other resources to accomplish the goals of the office.
- They can be helpful in saving time and avoiding mistakes on unfamiliar tasks that are not performed frequently.
- They can be the basis for preparing reports for management and the public.

Billing Procedures

Generally, there is a separate person within the Finance Office that prepares the billing list and then gives this list to the collector for bill preparation and collection. Good procedures that should be developed for the Billing Office include:

Preparing the Billing List

The list should include the name of the person responsible for paying the charge, the service address for the charge, the total amount of new charges, total amount of old charges carried forward, all interest and penalties added to the bill, the account number and the basis for the charge. For example, if the charge is for water consumption, the bill should state the old meter reading or consumption rate, the new reading and the difference that is the basis for the current bill. Other relevant billing information, such as source of the reading, (actual by authority staff, provided by customer, estimated, etc.) and any miscellaneous charges added to the bill, should also be on the list. The subtotal of all charges should be at the end of the billing list and a grand total calculated. The LA official in charge of preparing the billing list should sign and date the list on the last sheet, indicating his or her approval in sending the list to the Collections Officer. Additionally, the billing list should be separately sent to the Accounting Officer, who will set up the total amount to be billed as a receivable on the general ledger.

Preparing the Actual Bill

The bill itself should have at least two parts (a top and bottom or multiple layers) that enable one part to be presented to the Collection Office for payment and one portion to be retained by the customer. Each individual bill should contain all the information described above, as well as a mailing or delivery address for the bill (if different from the service address), the preparation (or issue) date of the bill, the due date for payment without penalty and the total minimum payment that will be accepted. The bill should also clearly contain payment instructions (e.g. cash only, if credit cards will be accepted, pre-addressed return envelopes and remittance coupon), the business hours of the Collection Office and a phone number for questions customers may have. You should also consider printing a second set of bills to keep in the office for those customers who have lost the first one sent to them, unless you have the capacity to generate a new bill quickly on demand.

Computerization of the billing process assists greatly in producing bills accurately and in a timely manner (assuming employees and management are well trained in the use of the computer and that the hardware/ software are appropriate for the task). The most efficient process for preparing bills is to refer to the computer-based list of account information used to prepare the billing list. A good billing software package should be able to keep records of on-going billing and collections, prepare a printed billing list, store all charges to customers' accounts and generate a new bill, without retyping or re-entering the same information.

Handling of Requests for Abatement of Billed Amounts

It is very important to have clear written standard operating procedures for handling requests for reductions in billed amounts, often known as abatements. It is important to ensure that the collections staff who are accepting payment for bills do not also have the authority or ability to decrease (or increase) the amount of anyone's bill. It would be too easy for dishonest staff to accept payments, then lower the amount of the bills and keep the difference, without anyone else being aware of the action. Authority to grant abatement should be reserved for the LA officials who oversee the provision of the service that is being billed for (e.g. rents, water), and should be authorized on a signed form that indicates the reason for the abatement (e.g. erroneous meter reading, miscalculation of square footage, etc.). This form should be in triplicate, with the original sent to the person billed, and copies going to the Collections Officer and the Accounting Officer. Both the Collections Officer and the Accounting Officer should use the abatement to reduce the total amount to be collected and the Collections Officer should also post the abatement to the customer's account to reduce the total due. If the customer has already paid the total amount originally billed, the Collections Officer should issue the customer a refund of the amount overpaid or credit the account.

A Schedule of Key Dates and Activities

It is very important to establish a calendar indicating the dates for preparation of the billing lists, issuing the bills and the due dates. These activities can be improved by reducing the time it takes to produce the billing list, actual bills and delivery time to customers. Prompt billing on a regular basis increases the amount of cash available for paying the authority's obligations and for investment. It can help reduce delinquencies by establishing regular billing and due dates in the minds of customers, who can then set aside funds to pay their bills. Setting these billing dates and then monitoring adherence to them can also be an indicator of any emerging problems in the billing and collections operations.

Collections Procedures

Once the bills have been prepared and sent out, the actual collection of payments begin. The staff of the Revenue Office receives and records the payments to customers' accounts and deposits the funds in the bank. The Collections Officer must set up simple and clear procedures, adequate controls and useful reporting methods for this collection.

Procedures for Accepting Payment at the Counter

Many customers will want to or be required to pay the bill in person at the LA. Procedures here should include stamping the customer's portion of the bill to indicate payment was made together with the date and stating on both bill portions if payment was made in cash and/or by cheque. If payment was made by cheque, the account number should be written somewhere on the face or the back of the cheque. If the customer does not have his/her portion of the bill, a pre-numbered duplicate receipt should be written, and the original of the receipt given to the customer, the other retained in the office. The guiding rule should be, for every payment received there should be a bill or receipt retained in the office that exactly matches the amount paid, and that reflects the account number and name of the customer. At the end of each business day, there should be a stack of bills and/or receipts that add up to the day's total business and exactly equals the amount of money to be deposited in the bank.

Procedures for Accepting Payment Through the Mail (if applicable)

The LA may choose to allow customers to pay their bills by cheque and send it to the office by post. If this is the case, the LA should include return envelopes pre-addressed to the office. There are generally two choices for handling these payments. The LA can use their own staff to open and process the mail payments, or they can contract with a bank to help with receipt of payments. In the first option, the LA should develop written procedures for staff processing mail. The staff person should carefully open each envelope, being sure to remove all contents of the envelope so as not to miss a small note or other enclosure. Most envelopes will contain a copy of the bill being paid and a cheque for the payment.

As staff remove these bills and cheques, they need to examine each carefully to see that the cheque is properly dated and signed, that the amount of the cheque equals the amount of the bill and that the bill is not overdue. Any payments that do not meet these requirements should be set aside for special handling. A calculator tape should be produced for the total of all cheques and bills. Once these equal each other, cheques are prepared for deposit by endorsing them with the deposit stamp for the LA. All cheques and cash that were received over the counter should be added to the deposit. The deposit should be made every business day. Cheques and cash should not be held for more than one day in the Collections Office, both because the funds cannot gain interest until they are in the bank and to reduce the opportunity of fraud.

Collections Officers can also enter into agreements with banks to process payments that the customer has sent directly to the bank. In these cases, customers place their payments in pre-addressed envelopes to the bank. Staff at the bank will open the envelopes, deposit the cheques into the authority's bank account and prepare a list of all accounts paid for the collector to post to customers' accounts. This is known as a lock-box arrangement. Further, if the printed bills have a scan line containing the customer's bill number and the amount due printed at the bottom of the bill, the bank can use scan reading devices to quickly prepare the posting list for the collector and process hundreds of payments in a very short time.

Finally, if the LA uses computer equipment to post payments to customers' accounts, the bank can prepare a computer file containing the posting information and the authority can accept the file via a computer disc or tape, or electronically via a modem.

Procedures for Posting Partial Payments to Accounts

Residents may sometimes be unable to send in the total amount they owe to the LA. The LA must have a procedure in place for handling partial payments of a bill. The most important thing to remember is to never turn down revenue payments – even if they are not being paid in full. There is a big difference between a resident that does not pay any portion of their bill and makes no arrangements for payment and a resident that makes an attempt to pay but is unable to pay the entire amount. The LA should acknowledge the resident that is attempting to pay a portion of their bill and should be thankful that at least some of the payment is being made. Therefore, the LA should have a procedure in place to recognize partial payment of amounts due. The easiest way to handle this is to simply apply any partial payment to the account and note that there is still an amount due. Authorities must make sure that partial payment accounts are not included in listings of accounts that are paid in full. There is still an amount owed and the LA must diligently seek payment for the remainder.

Another consideration is what to do if a citizen pays a bill that contains multiple parts. Perhaps a citizen received a notice of payment for a building he is renting for Rs 700 and also received a tax bill for Rs 600. He comes to the LA to pay, but only has Rs 1000 to pay for both of these bills. How does the clerk apply the payments? Does she take the Rs 700 for the rent and give him Rs 300 in return and ask him to come back later and pay the entire Rs 600 bill when he has the money? Does she take Rs 600 for the rates and only Rs 400 for the rent bill? There must be a policy in place for applying partial payments to multiple tax bills. The recommendation is to pay off an entire bill so that it is complete and apply the

remaining money paid as a partial payment on the other bill. The LA should not turn away any payments simply because the citizen is attempting to pay only a partial bill. A system and policy must be in place to receive partial payments.

Procedures for Posting Payments to Accounts

Each day, staff should record all payments received to customers' accounts. If computerized files are kept, the payments can be entered as a batch, and the computer software can add up the total amounts paid to be sure they equal the total amount of bills paid and payments received. If payments are recorded onto hand prepared ledgers, calculator tapes should be prepared after all posting, to be sure the totals agree.

Procedures for Checking Daily and Monthly Collections

Revenue Reports should be prepared by the collections staff at the end of each business day showing the amount of payments received, abatements granted and new amounts billed. Note that:

1. Revenue codes for the different categories of revenues are taken from the LA's chart of accounts. A batch is created for all bills that are of a similar type of payment, e.g. rents that were deposited together at the same bank. The LA in this case deposits cashier payments into a neighbourhood bank. Unique batch numbers are given to each batch.
2. At the bottom of the Revenue Report are the total amounts of the collections, with subtotals by bank. This facilitates reconciling the posted revenue to the bank deposits.

Revenue reports should also be generated on a monthly basis and compared to bank statements for the month. Two further reports should be prepared by the collector, a list of outstanding accounts and a trial balance. These should be checked carefully to ensure each produces the same ending position and that the total amount of paid accounts for the month equals the Collections Officer's Revenue Report for the same period. Any exceptions should be checked and corrected. Then the Collections Officer should compare his/her reports with those of the Accounting Officer to be sure they are also in agreement. Again, we emphasize that all this comparing and checking work is greatly facilitated by the use of computers and good financial software, as long as staff are fully trained in using the software and understand the reports they need to reconcile collection activity. Following is a checklist of issues for you to consider in evaluating how well your current collection procedures are helping you to maximize the revenues due to your LA.

Evaluation Checklist for Revenue Collection Procedures

- Are there written policies and procedures for preparing billing lists?
- Are bills prepared promptly? Does the present billing system effectively process the present load? What is the number of days from which the billing list is prepared to the time bills are mailed? How does this compare with prior years?
- Are there adequate safeguards to ensure all customers are billed?
- Are there written policies and procedures for accepting payment from customers over the counter?
- Are there written policies and procedures for processing payments received in the mail?
- Are there written policies and procedures for accepting partial payments from citizens?
- Are each day's receipts deposited in the bank intact and without delay?
- Has the use of a lock-box arrangement with a bank been explored?
- Are there written policies and procedures for handling requests for abatements?
- Are there written policies and procedures for issuing refunds?

SESSION 5: DELINQUENT ACCOUNTS - TOOLS FOR COLLECTING WHAT'S OWED

Exercise

Discuss tools to use in collecting revenue in your LA.

Summary

This session discusses how LAs should work to collect delinquent accounts and ensure no one is allowed to refuse to pay their taxes. If one person is given an exception, then everyone will believe they are entitled to the same. It is important to put in place a structure for collecting revenues that are delinquent so that everyone will know the process and that pressure will be kept on those who do not pay.

Key Points

- There are several different ways to deal with those citizens that do not pay their bills. Every effort should be made to communicate with the delinquent account holder in order to understand why they have not paid. Arrangements should be made to collect at least a portion of what is owed.
- Wherever possible, the LA should make it easier for citizens to pay their bills – late hours, a mobile payment centre, etc.
- Clear policies must be in place on how the LA will treat delinquent accounts at various intervals – 30, 60, 90 and 120 days.
- It is vital that the LA keeps its revenue source records up-to-date. Without revenues, the LA cannot perform services needed for its citizens.

Delinquent account handling is a very important part of the collector's responsibilities. It should be handled in such a way that it sends a message to all customers that prompt payment is vital to the LA's financial health and ensures equity among customers. Collectors should have a sense of how many bills are likely to remain unpaid after the first billing notice has been sent out and the due date has passed. They should have plans to follow-up unpaid bills in a legal and efficient manner. A number of strategies for following up on delinquent accounts are discussed below. However, use of these procedures should not be arbitrary. Collection Officers should have time schedules for all enforcement measures and should implement them at the same time for all customers who have not paid. For example, the collector could proceed with termination of service for all customers whose account is more than 120 days overdue, unless they fall into a protected category. The Collections Officer must avoid the appearance of using his/her enforcement authority selectively or punitively.

Delinquent Account Enforcement Strategies

Send Second Notices

A second notice is useful for those customers who have forgotten or otherwise overlooked payment of the bill, or who may be having temporary cash problems, but who fully intend to pay the bill. These second notices should be politely but firmly worded and clearly state that payment is overdue and must be made immediately. You should clearly state on the bill the next phase of collection enforcement that will occur, if and when payment is still not made.

Add Penalties for Late Payment

Penalties can include a percentage of the original amount due (e.g. 15% interest) calculated from the due date until the date payment is received. Penalties can be charged for having to issue a second notice e.g. Rs 10 for a second notice.

Advertise the Delinquency on the Notice Board at the LA

Very effective is the publication of a list of delinquent customers on the notice board at the LA or other public place, such as a library. The public has a right to know who has not paid their bills to the LA. It is unfair for some to pay and some not to.

Terminate the Services of the LA

Obviously, the authority can threaten to refuse to provide the service that is not being paid for. If the service is a utility such as trash disposal, the service can be withheld, but there are important policy considerations for such a step. You must consider if harsh or unpleasant consequences will occur from withholding vital services, especially to tenants in a rental building or children. Another approach is to deny other services provided by the LA. For example, if the water charges are not paid, the LA may also be able to withhold trash pick-up, or the issuance of licenses requested by the delinquent account holder.

Turn the Account Over to Supplemental Collectors

Often, a personal visit from someone asking for the payment can be effective in obtaining compliance. LAs might not have a distaining officer to do this, so contracts are usually entered into with private collection vendors. To pay for this collection service, additional penalties (typically around 10%) can be added to the original bill or the LA can settle 90% of the amount, versus 100% of nothing!

Use the Court System

In many situations the collector has the option of pursuing court action against the delinquent account holder. This option should be reserved for very large and/or commercial accounts, because it is usually more costly than other collection actions, and takes considerable time for the courts to hear the case, and make a ruling. Legal fees can usually be added to the judgment to reimburse the LA for its out-of-pocket costs. Another option is to use the community mediator system which is in place around the country.

Impose Tax Liens

Tax liens prevent the sale of a property by the owner unless the lien has been satisfied and removed by the Collections Officer. It also allows the LA to foreclose on the lien and take possession of the property. The LA can then sell the property and recover the delinquent amounts plus collection costs from the proceeds of the sale.

Offset Any Refunds Due

Any refunds due to the account holder can be turned over to the Collections Officer and credited to account/s that are in arrears.

Withhold Vendor Payments

If the account holder is a private company or an individual who performs work for the LA, payment for the services should be turned over to the Collections Officer and applied to the outstanding account.

Innovative Schemes

There are also other innovative ways to collect money. One potential idea is to have a payment site open on the other side of the LA one day a week. The LA might have a clerk, secretary or some other official located within a well-known business establishment one day per week so that citizens could go there instead of always going to the LA office.

Another idea is to keep the LA open late one or two nights per week, or open on Saturday so that there are more options for people to pay their bills. Keeping different hours will allow citizens the opportunity to pay their bills when it is convenient to them. If your LA does try a new approach, it must be well advertised and time must be given to see whether people appreciate and use the new service.

You might also survey the citizens on additional services they would like the LA to offer, such as late hours or a mobile office site. The main point is not to simply tell citizens they must pay and then wait for them to come and pay. The key is to make it easy for the people to pay the revenues they owe, and the easier it is for them, the more likely they are to pay!

Aging of Accounts Receivable

An important management tool for a collector in the area of delinquent account handling is to track the age of their accounts receivable, recording whether they are 30, 60, 90 or 120 days in arrears. This information helps in developing a management plan, which sets up specific dates and collection procedures for each kind of receivable at each stage of age. This is an important management tool and report for several reasons.

- It clearly sets forth how overdue an account has to be before moving to the next step in the collections procedure. This protects the collector from charges of harassment or favoritism, as it is clear that the account is receiving the next step of collection, due to its age, not the personal preference of the collector.
- It provides LA management with information on whether revenue is being collected according to plan and budget. A slowdown in collections can be a sign to the LA management that changes in expenditure may need to be made, or that investment income will be less than anticipated. It can also signal problems are developing in the economy, or that there are operational problems in the billing and/or collection operation. More rapid collections than anticipated can also be valuable information.
- The overall plan for delinquent collection activities can be useful in planning an adequate budget and staffing for the collections operation. Many of the delinquent account collection methods suggested here, such as printing and mailing second notices and initiating court action, are expensive, and the costs should be anticipated.
- It helps in evaluating the efficiency of different collection actions. Some approaches may have more success than others in encouraging compliance with payment requests.
- It helps the LA have the ability to anticipate cash flow. If patterns of collection rates are established, the collector can advise other finance officials of how much revenue should be collected by certain dates.

A sample collection plan for overdue water accounts might state:

1. All bills still outstanding after 30 days shall be subject to interest penalties and shall receive a second notice demanding payment of the bill.
2. All bills still outstanding after 60 days shall be turned over to a private collections agency for personal calls at the billing address of the account holder. Also, no refunds or vendor payments shall be issued to the account holder until the bill is satisfied.
3. All bills still outstanding after 90 days shall be advertised on the notice board outside the LA and library.
4. All bills still outstanding after 120 days shall be subject to termination of service, followed by initiation of court action by the LA to recover all amounts due, including interest and the costs of collection, such as advertising and court costs.

Different delinquent account strategies should be developed for each type of receivable, depending on legal strategies available and their success. In the case of real estate tax receivables, the tax lien is usually a very strong tool but it may not be available for other types of bills issued.

Low Income Account Holders

LA officials have one particularly important issue to address in delinquent account handling, the case of low income residents. In every community there are those residents who do not have the funds to pay their municipal bills. The cause of this hardship can be short-term (loss of a job, tsunami loss, illness) or long-term (the retired elderly and the disabled). For short-term problems, collectors need to be prepared to offer a payment plan that enables the account holder to pay a small instalment at regular times until they have re-established a regular income and can pay off the accumulated charges and penalties. In this case, the collector is strongly encouraged to develop payment plan policies that, a) require at least monthly small payments to keep the payment plan in place and b) establish a maximum that the account is allowed to reach in total delinquent charges before the payment plan is terminated and more aggressive collection efforts are implemented.

Long-term low income situations require a broader programme be implemented by the LA. One approach is to establish a class of reduced charges for services to those who are certified as low income households. A set of guidelines for certification could be established, and should include such requirements as annual income less than a certain amount, old age or disability, and lack of other assets such as property. Another approach is to allow the elderly and disabled to defer the payment of their charges until they pass away and then the payment of the deferred charges is paid out of the sale of the assets of the account holder. Finally, the LA could look at setting up a fund for low income residents to apply for assistance in paying their municipal charges.

Writing Off Delinquent Accounts

At some point there will also be accounts that are simply not collectable due to the inability of the account holder to ever pay the bill, or the inability of the collector to locate the account holder. There will also be cases where the amount still due after a partial payment is so small, it is not cost effective to pursue collection. Procedures should be developed to allow the collector to write off these amounts and not carry the amounts in the total outstanding reports. These procedures should include the use of a pre-printed form that requires the collector to provide full information on the account holder, including name, address, amount outstanding, reason for the request to write-off the amount due, and a line for the collector to state under oath that the information provided is true and accurate to the best knowledge of the collector. This form should then be submitted to the Bookkeeper and the Secretary of the LA, and to the head of the department overseeing the service (e.g. the Water Superintendent, the Solid Waste Superintendent) for their agreement and approval. The FC and the Council Chairman might also be required to give approval. If the approval is granted, the write-off should be recorded as an abatement on the account in question, and a copy of the abatement should be sent to the Accounting Officer to also reduce the total amount of the receivable. Following is a checklist of issues for you to consider in evaluating how well your delinquent account collection procedures are helping you to maximize the revenues due your LA.

Evaluation Checklist for Delinquent Account Collection Programme

- Are delinquent accounts tracked according to age? Are reports prepared on how old overdue accounts are? Does the collector know approximate collection rates over time?
- Has a management plan for aging overdue accounts been developed?
- Has the Council delegated revenue collection authority to the Secretary/Commissioner so that he/she can administratively pursue collections without additional Council authority?
- Are 90-95% of the charges and taxes collected within six months of billing?
- Is appropriate action taken to collect arrears?
- Are there written policies and procedures on how delinquent charges are pursued?
- Have procedures been developed, written and approved on how uncollectable charges will be written off? What are the safeguards within this process?
- Have plans been developed for handling low income account holders?
- Have the strategies for collecting delinquent accounts been reviewed and approved by top administrative and policy personnel of the LA? Will they support all the strategies?
- Has the collector been given sufficient budgetary resources to pursue collection of all delinquent accounts?

Exercise

Discuss tools to use in collecting revenue in your LA.

Time required: 20 minutes

Purpose: To allow time for participants to discuss delinquent accounts in their LA and the best method for collecting money due to them. By the end of the session, they should have a clear plan on how they want to begin collecting delinquent accounts.

Process: Hand out idea cards to participants and ask them to review the 'Evaluation Checklist for Delinquent Account Collection Programme' presented above. Ask them to take 10 minutes only and answer the questions in order to analyze the present situation in their LA. Next, have them write down ideas on how they will begin to collect delinquent accounts in their LA. They should complete a concrete plan on how they will begin collecting these accounts.

Follow the progress of the groups and ensure they are answering the questions on the evaluation checklist and that they move on to developing a concrete plan for themselves after the original 10-minute discussion. No reporting is necessary, but make sure each group is working well and doesn't have any questions. Remind participants what time to arrive tomorrow and make any announcements necessary.

SESSION 6: REVENUE COLLECTION TECHNIQUES

Exercise

Give me my money!

Summary

This session will discuss tools available to LAs when collecting revenue.

Key Points

- LAs should consider the 80/20 rule when collecting revenues owed – 80% of the money generally can be collected from 20% of the accounts. Concentrate collection efforts in areas that will bring the greatest return for the effort.
- Newer accounts that are delinquent should be addressed quickly to ensure that account holders do not grow accustomed to paying late or not paying at all.
- Work with citizens to allow them every opportunity to pay. Most LAs give a discount for accounts that are paid at the beginning of the year. These types of discounts are very useful in collecting what is owed.
- Cost recovery operations should be utilized to ensure the LA collects revenues from the services it can, in order to support the services that do not bring in revenues.

Focus Collection Efforts with the Largest Return

Ideally, a LA would collect every rupee that is due. However, this is not possible. By focusing efforts on the accounts that are most likely to be collected, a LA can hopefully collect the majority of revenues due. There are three areas a LA can focus collection efforts on to achieve a maximum return – the 80/20 rule, newer accounts and flexible payment schemes.

80/20 Rule

Focus on collecting from the most important accounts i.e. the ones with the largest amount due. If you have two accounts – one that owes Rs 10 and one that owes Rs 1,000 – which one do you want to collect from? It would take one hundred Rs 10 accounts to equal the Rs 1,000 account. Generally, 80% of the amount owed can be collected from 20% of the accounts. When targeting which accounts to focus collection efforts on, always sort the list by the amount owed and contact the largest debtor first. Add up the amount owed from the top 20% of accounts and see what proportion it is of the total amount of arrears – it will probably be near 80%!

Newer Accounts

When deciding on which accounts you will focus on after contacting the citizens that owe the most money, you should focus on the accounts that are the newest. If a person has the money to pay, but does not pay and is not contacted – they will believe it is not necessary to pay. Do not let accounts go unnoticed and without contact for more than 30 days. This is why it is important to set a revenue collection policy regarding the amount of time an account is allowed to be in arrears. We will work on this later in this workshop. The older the arrears, the harder it is to collect. Often a simple request for an amount owed is all that is required for a citizen to pay. The threat of action usually forces a delinquent account holder to pay. Doing nothing, never forces a person to pay what they owe!

Flexible Payment Schemes

Often, citizens are unable, but willing to pay what they owe. If this is the case, a LA should work with the account holder to offer a solution that is mutually acceptable. You might offer the citizen the opportunity to pay a smaller amount than is due in order to receive some payment. If they see the LA is willing to work with them, they will be more willing to pay. If a person owes Rs 100, ask them to pay Rs 10 this week, Rs 20 the following week, Rs 30 in week three, etc., until the account is all paid. This is called a graduated payment plan.

Another option is a reduction or elimination of the interest due on an account if the account holder agrees to cooperate. The key to this idea is to be flexible and offer a unique solution wherever possible. A personal contact from a member of the Council or another LA official might make a delinquent account holder be more willing to pay. Perhaps a LA could ask all council members to make personal visits to account holders for 5 hours each week. If this is done, it is important that council members are not allowed to give a personal amnesty – remember the purpose is not to collect votes, but to collect revenue! This must be the first and foremost rule of anyone working with delinquent account holders. A LA must decide to collect the revenue it is owed in order to use the money to provide services for all citizens. Without revenue, services cannot be provided!

Cost Recovery

LAs are expected to undertake many functions essential for the welfare of the community as a whole. However, according to existing legislation, LAs are only responsible for certain activities, including the provision of physical infrastructure such as roads, drains, parks, housing, public markets, lavatories and bus stands, and for the promotion of public health, through scavenging, conservancy, solid waste disposal, abatement of nuisance, environmental management etc. Although there is a provision for initiating development activities, the majority of LAs have not been keen to take up such activities as they are already hard pressed to provide the basic services that are expected from them. On the other hand, there are many functions that they can handle more effectively but are unable to do so as there is no legal provision for such activities. That being said, in many instances there is no law against LAs taking the initiative to provide new services in their area.

When determining the extent to which a LA can recover costs associated with providing services, we can group the essential services that have to be provided by the LA into three separate categories. Under the first category are activities that can bring in greater revenue, if such activities are performed more efficiently. In the second category are activities or services for which cost recovery is currently not being utilized, but where it can be. In the third category, are activities which are essential but for which charges cannot be levied and therefore should be funded from general revenues collected from other sources, such as rates and taxes. (New services and activities that can be initiated by LAs for earning additional revenue will be discussed in the next session.)

1. Activities that can be Performed more Efficiently

The following activities can be grouped into the first cost recovery category:

1. Assessment rates and warrant costs
2. License fees
3. Vehicle and animal taxes
4. Rents
5. Entertainment taxes
6. Public performance charges

The assessment rates can be increased if property valuation can be made more frequently and the process is simplified. Currently, valuation of property is made once in five years and sometimes even longer if there is a backlog in the Department of Valuation (DV). At present the LA has to make a request to the DV at least two years ahead of time if the valuation is to be completed on time. In practice, LAs do not send the request two years in advance and the process of valuation takes longer to complete, depriving the LA of additional revenue. If the valuation process is simplified, and the time frame for valuation shortened, rate increases could be made more frequently. It is also possible for LAs to hire a private valuator who would charge only 4% for the valuation work, as opposed to the 5% fee the DV charges. However, if a private valuator is used, this person has an incentive to make the values higher than they should be because he/she would then receive more money. To counter this, the LA should state in the tender document that the valuator will be paid a flat rate per parcel. This should discourage the inflated property valuations. Furthermore, due to poor collection efforts, many LAs are unable to collect their dues. Warrant costs from defaulting ratepayers cannot exceed 10% of the assessment rates and therefore is dependent on the existing rates. If assessment rates are increased, the warrant costs would similarly increase.

LAs have been authorized to collect an annual tax from industries, trades and businesses. The tax rates can be increased if the by-laws are amended accordingly. Similarly, vehicle and animal taxes can be increased, if the by-laws are amended. Other revenues such as entertainment and public performance charges are also collected on the basis of existing by-laws. Rents on buildings are authorized by the Acts, but the Council of the LA must pass a resolution to decide on the rent to be charged, which is currently based on the annual value. If the estimated valuation rates are low, as is usually the case, the rental value may not be equal to the market value, resulting in reduced revenue. Currently, certain market stalls are auctioned on an annual basis to the highest bidder. In such cases, LAs can rent their properties at market rates.

2. Activities or Services that are Provided where Cost Recovery Could be Utilized

There are many activities that fall under the second category for which full cost recovery can be made. This group comprises of activities mainly of a service nature and includes such services as clearing of blocked or overflowing latrine pits, clearing of blocked drains and drainage, cutting and clearing obstructions such as trees on roads and by-lanes, garbage collection, provision of street lights, public toilets, visitor rest areas, markets, and regulation and control of commercial and business activities.

3. Activities that are Essential to Provide, but Rarely Bring in Revenue

Thirdly, there are activities that are essential and for which it is difficult to charge a fee. For example, solid waste management, disease prevention activities such as vector control, food inspection and testing, storm water drainage, prevention of public nuisance, maintenance of bathing places and parks, provision and management of public libraries, environmental management and provision and maintenance of roads. For these activities, funds should be provided from general revenues. If feasible, entrance fees, collection fees, etc can be attached to these services, but that should only be a last resort.

The future financial sustainability of LAs depends to a large extent on their ability to substantially improve collection efforts; to recover all taxes and fees as well as all outstanding and current assessment rates; ensure full cost recovery of services provided and embark upon new revenue earning activities. Some legal reforms are needed to assist this process, including the updating of tax rates, fees and duties to current financial or cost levels. Furthermore, the institutional capacity must be improved by introducing more efficient processing and operation of revenue collection efforts, through computerization, training and provision of modern equipment. Dependency on government grants for recurrent expenditure, including salaries should be gradually reduced through the introduction and operation of appropriate incentive schemes.

11 Steps to Talk to Citizens – Techniques for Revenue Collection

1. Be Prepared – know the facts concerning the account you are attempting to collect. When was the last payment, how many payments have been missed, how much is owed in total? Remember that the information you have may not be correct. If the citizen objects to the information you relate, note their objection and move past it. **DO NOT ARGUE!**
2. Greet the person – use a name if at all possible. Inform them who you are, why you are there, who gave you the authority to be there and show them identification. Discuss recent events in the community or mutual friends. Be polite, but always remember why you are there – you have a job to do.
3. If appropriate, use empathy to validate and indicate an interest in resolving the issue. Do not argue with the citizen. Inform them of their obligation to pay and discuss the services the LA performs for them. Be prepared to offer them several options to resolve the issue.
4. Ask questions – using open-ended questions provides the best information. More than likely the citizen will tell you they do not have the money to pay. You should expect this. What is your response going to be? Do not pry into their personal life, but be strong and expect to leave with a mutual agreement. Amounts due to the LA are just as important as amounts due to others. You might ask what they do when other bills become due.
5. Provide feedback and information. Offer to write down their circumstances and report back to the Secretary or City Council.
6. If necessary, disengage or separate from the situation. If the person becomes angry, do not push for an answer from them or get angry yourself. Remove yourself when necessary, but follow up again the next business day.
7. When necessary, refer to a Supervisor. Do not threaten them or hint that you will report them. Simply note the situation as objectively as possible and report back to your supervisor.
8. Keep the situation on target. Do not allow them to become angry with you or with any individuals at the LA. Likewise, do not agree with them if they begin to discuss the failings of LA officials. Keep the focus on the fact that the payment is owed because the law requires it. Steer away from political discussions or individual attacks.
9. Explore alternatives. Offer different solutions for them, as discussed above. Rather than make specific suggestions with a particular amount, start off by saying “If we could work out a payment plan, how much could you pay each week/month?” Make sure you have permission to offer anything that is discussed. Do not promise anything that you have not received permission to promise, prior to arriving. Likewise, do not promise to give them an exemption or to try and get them an exemption from paying. This is not your job. Report objectively.
10. Agree on a plan to solve the issue and ask them to confirm this with their signature. If they tell you they will pay soon, make sure you get them to commit to a date for payment.
11. Follow-up with any agreement made. If a plan is agreed, do not allow that plan to be missed for more than 7 days without following up. Organize yourself so that you know when to return for a follow-up visit to ensure promises are kept.

Delivering Customer Service

- Smile! Not just with your face, but with your voice as well. Be positive and sincere.
- Treat every question or complaint as an opportunity.
- Use their name and personalize what may be an impersonal institution.
- Keep in mind that you may be asked the same questions a hundred times, such as “Why do I have to pay?”

Remember that each customer deserves a thorough answer in a positive way. Find ways to answer questions before they are asked.

- Never say, "I don't know" without following with "but I will try and find out". Follow through with your opportunities for learning experiences and make sure citizens are satisfied with the results.
- When faced with difficult problems or people who are upset:
 - Be empathetic - rephrase their complaint in an understanding way.
 - Use their name, and explain who you are.
 - Put yourself in your customer's shoes, and remember that they may have had an unpleasant experience in the past.
 - Don't interrupt! Assess their needs and the current situation - find out what will satisfy them, but don't assume. Interrupting implies you know what they are thinking.
 - Don't argue their points. Use your problem-solving skills to help you match their expectations with what is available to meet their needs.
 - Communicate what you're doing to help them and what you will do after the meeting is over.
 - Know when to quit, find a supervisor and explain.
 - Exhausted all options? Maybe you can't meet their needs, but explain what you are going to do next, not as a threat, but simply so that they will know the next steps in the process.

Ways of Listening

Defensive vs. Non-Defensive

Listening and NOT hearing others	Listening and hearing others
1. List your facts	1. List others' facts
2. Defend your position	2. Hear others' feelings
3. Use logic on others' feelings	3. Name the feelings you hear them listing
4. Challenge others' facts	4. Accept others' facts
5. Evaluate others by your opinions	5. Disclose your opinions
6. Assume you know what they mean	6. Give and receive feedback
7. Overcome objections	7. Respect differences
8. Push for agreement	8. Respect similarities
9. Strive to win against them	9. Focus on mutual gain
10. Make your points now to build your reputation as a collector	10. Build relationships to create mutual benefits over time

Exercise

Give me my money!

Role Play: Practice revenue collection interactions using the principles discussed in this session.

Time required: 30 minutes

Purpose: To witness and participate in role-play exercises that will help teach the techniques used to collect revenues. By engaging in these simulations, officials will learn collection techniques and how to interact during situations that might be encountered.

Process: Have LA members come to the front and play out the following situations. Assign roles and have the members carry out the conversations as long as possible, hopefully using the techniques taught in this session. The instructors should interrupt often and take the opportunity to offer possible solutions during the role-plays.

Make sure as many participants as possible take part in the role-play exercises. You may choose to use the same situation more than once.

Exercise

Situation 1 (Anger)

Characters

Jayantha	Revenue collector, 23 yrs, cheerful but young character
Sriyani	Revenue collector, 38 yrs, government service for 16 years
Rohan	Head of house, 40 yrs, has outbursts of temper
Susantha	Rohan's uncle, 63 yrs
Mallika	Child, 7 yrs, very disruptive

Script

Jayantha	Hello. We are looking for Mr. Perera I am Jayantha and this is Sriyani. We are from the _____ LA and would like to talk to him.
Rohan	Yes, I'm Mr. Perera (Annoyed and a little nervous).
Sriyani	Mr. Perera, we would like to talk to you about your account. It shows on our records that you have a balance due.
Rohan	So what about it? I haven't got any money. You aren't going to get any money out of me because I don't have any.
Jayantha	Well Mr. Perera, maybe we can first discuss the facts concerning your account. When was the last time you paid for your assessment? (Looking down at his records)
Mallika	(Begins screaming in the background) DADDY – I want to PLAY!!
Rohan	I'm sorry, but I don't have time to talk now. My son needs me.
Sriyani	Perhaps we could give you a minute to talk to him. We'd really like to discuss your account with you today. We came all the way out here to meet you.
Rohan	Well I don't know what to tell you. I haven't got any money.

Susantha Did you know I was almost a council member in this LA? I was cheated out of it in the 1975 election. In my day I wouldn't have pestered people in their homes!

Mallika DADDY!!!

Jayantha Well sir, perhaps we can get back to discussing your account. When do you think you last came in and paid your account?

Rohan I'm not sure. I know I did it recently though.

Jayantha

Exercise

Situation 2 (Sadness)

Characters

Ranil Revenue collector, 30 yrs
 Sarath Home-owner without a job, 45 yrs

Script

Ranil Hello. Are you Mr. Rajapaksha? I am Ranil from the _____ LA and would like to talk to you concerning your account.

Sarath Yes, I'm Mr. Rajapaksha. I'm glad to see you. I need some help.

Ranil Mr. Rajapaksha, I'd like to talk to you about your account. It shows on my records that you have a balance due. Is that correct?

Sarath Yes that's true. I just haven't had any money to pay the assessment. I don't have a job. I'm sorry.

Ranil Well, I am here today to see if we can work out a plan to resolve the problem. When did you make the last payment?

Sarath I believe it was last month. I paid Rs 450.

Ranil Mr. Rajapaksha, my records show you haven't paid for the past 7 months.

Sarath Oh no, that can't be correct. Is that true?

Ranil That's what it says. You paid Rs 250 seven months ago. You owe a total of Rs 2000 in assessments.

Sarath Well I need a job. Do you need any help at the LA? I can collect money just like you.

Ranil No sir, I'm sorry. We should discuss how you might be able to pay your account with money. Is it possible for you to make any payment today?

Sarath Well, I only have Rs 3 in my wallet.

Ranil

Exercise

Situation 3 (Friend)

Characters

Kumar Revenue collector, 33 yrs
 Jayanthi Home-owner without a job, 31 yrs

Script

Kumar Hello. Are you Ms. Perera? I am Kumar from the _____ LA and would like to talk to you concerning your account.

Jayanthi Yes, I'm Ms. Perera, but please call me Jayanthi. I'm glad to see you. Didn't you go to school with my brother Rohan?

Kumar I'm not sure, but I'm here to discuss your account at the LA. My records show you are in arrears with the amount due for your assessment.

Jayanthi Oh, I probably am, but you know how it is? So when did you graduate from school?

Kumar I'd really like to discuss your account Jayanthi. I'm here to collect the arrears on your assessment.

Jayanthi Well, how much is it?

Kumar My records indicate you owe Rs 2,000. When was the last time you paid?

Jayanthi Hey, why don't you sit down and I'll make some tea? I'd love to talk about all this and catch up on other things too.

Kumar

Exercise

Situation 4 (Mean)

Characters

Roshana Revenue collector, 52 yrs
 Anil Home-owner without a job, 27 yrs

Script

Roshana Hello. Are you Mr. Dissanayake? I am Roshana from the _____ LA and would like to talk to you concerning your account.

Anil Who are you? (Angry)

Roshana I'm from the LA. I need to talk to you about the arrears on your account.

Anil Why don't you leave me alone? I'm not going to talk to you. Go away!

Roshana Well, Mr. Dissanayake, I will leave if you absolutely want me to, but I would like to discuss your account. If I leave, I will have to note on your account that you would not talk to me. The LA will then be forced to turn the account over to the courts.

Anil The courts? What for? I only owe 2 months!

Roshana Well, yes, my records show that you do only owe 2 months of assessment payments, but that is Rs 1500. You should have paid by now.

Anil Well I don't have any money. You can't take what I don't have.

Roshana Well, maybe we can discuss other options you might have. Do you mind if I come in?

Anil NO. I don't want you in here searching through my house for money. We can talk right here.

Roshana

Exercise

Situation 5 (Political)

Characters

Anton Revenue collector, 35 yrs, cheerful but a little scared

Jayantha Son of homeowner, 27 yrs, at home with his friends

Rohan Friend of Jayantha, 29 yrs

Ruban Friend of Jayantha, 25 yrs

Script

Anton Hello. Are you Mr. Wijesinghe? I am Anton from the _____ LA and would like to talk to you concerning your account.

Jayantha Well, I am Mr. Wijesinghe, but so is my father. He is the one that owes the money for the assessment. But I want to talk to you.

Anton Well that is good. I would love to discuss the account with you.

Rohan No, let's talk about the Chairman and how he is stealing money.

Ruban Yes, everyone knows he is a crook.

Anton Well, I am not here to discuss that, but we can certainly discuss the account that is due. Perhaps I should come back when your father is home.

Jayantha Well, he won't be back today. I want to talk about how the Chairman of the LA is stealing money from citizens.

Anton Well, I'm not here to talk about that.

Rohan Well don't you think he is? Everyone knows it.

Anton Well I certainly don't want to discuss that with you.

Jayantha Why not, because you know he is stealing?

Anton No, my job is to collect accounts that are not being paid.

Ruban So you can give it to the Chairman?

Jayantha Yeah, do you give the money to him?

Anton

SESSION 7: ALTERNATIVE REVENUE SOURCES

Exercise

Unconventional revenue collection practices

Summary

This session will discuss alternative revenue sources available to LAs. While these options might not be feasible for all LAs, it is a good point of reference for officials to see options available in other parts of the world.

Key Points

- There are several innovative ways for LAs to collect revenues from non-traditional sources. Local officials must analyze their situation and determine their competitive advantage i.e. special situation(s) available in their area.
- LAs must look beyond traditional sources of income and find new ways to enhance their revenues. By discussing these alternatives with officials, they should understand that these are only examples of possible solutions. They should develop their own list of new revenue sources based on their current local situation.
- These revenue sources have all worked elsewhere in the world, but they might not be relevant to Sri Lankan LAs. Nevertheless, officials should not be too quick to dismiss the concepts behind these sources.
- Sri Lankan law gives LAs the right to run their government as they want, within certain guidelines. The law does not forbid LAs to collect revenues from different sources.

What is Available in Your LA?

During the festival period, Nuwara-Eliya MC collects a large portion of its revenue from visitors by imposing parking fees, entrance fees for the festival, etc. They are fortunate because they have a month-long festival period that draws in millions of people. However, they also have to spend large amounts of money for the festival in trash collection, road maintenance, etc., and require revenue from the festival in order to be able to operate these services. Likewise, most LAs have a competitive advantage, a special situation that is available only in their area, that could be taxed in order to bring in additional revenues. What does your LA have that might bring in additional revenues?

These sources of additional income might come from tourism and visits from non-local persons or it might be an additional service your citizens are willing to pay for. These possible alternative sources of revenue include tourist visitor centres (with or without private sector participation), development and management of archaeological and cultural sites, establishment and operation of industrial parks, fire fighting services, establishment and operation of Ayurvedic/herbal/medicinal gardens, or the taxing of services which are already there. In addition, the LA can provide and promote the sale of compost bins, sales of sanitary equipment such as ready-made water seal lavatory equipment, water well construction and cleaning services. All of the above activities can be run on a profitable basis and bring in additional revenue to the LA.

Betterments and Special Assessment Financing (Dedicated Tax)

Betterments and special assessments are compulsory charges levied against specific properties in an effort to defray all or part of the cost of a public improvement that primarily benefits certain properties. Betterments generally refer to the construction of streets, public parks and other public improvements where the taking of land and the payment of damages are required. Special assessments usually apply to the construction and maintenance of sewers, drains,

pavements and water extensions. The purpose of betterments and special assessments is to charge those property owners who receive benefits from a public improvement beyond the general benefits received by a community as a whole. Betterments and special assessments are not considered a tax, but they are similar to the property tax in that once levied, they are due and payable and result in a lien against the property if left unpaid. They are also similar to a user charge in that they are assessed as a result of the provision of a specific service that benefits a particular neighbourhood and/or property owner. An example of a betterment tax might be a replacement scheme for all roads in the LA area over a 10-year period. Each year a certain amount of road is replaced/repared and the residents receiving the benefit should pay a small amount. While this amount might not pay for the entire project each year, it will help pay some of the costs for the project and will help increase the LA's revenues.

Generally, in betterment financing, the local government borrows the funds for the services, provides the improvement and then charges the property owner in the improved district a proportionate share of the total amount borrowed plus interest. Property owners can usually elect to spread the betterment payments over several years, such as 10 to 20 years, or whatever matches the life of the government's borrowing. Like user charge supported services, local government policy makers can decide if the betterment or special assessment should recover all or only part of the total cost of the improvement. If the decision is made not to seek full cost recovery, the government's general fund must subsidize the difference from other revenue sources.

Public-Private Partnerships

Public-private partnerships are another potential source of revenue for local governments, especially for the revenue required to fund capital projects. Three common public-private partnership models are described below.

Build-Operate-Transfer A private sector firm acquires a franchise to finance, design, build and operate a facility for a specified period, during which time the government collects charges and pays the private operator. At the end of the period the facility reverts to the public sector.

Concession A private firm is granted the right to provide and charge for a service. The vendor acquires the existing facility or builds a new one. The arrangement runs for a long period, after which the facility may be returned to the government.

Operating/Management Contract The government retains ownership of the facility, but contracts with a private firm to operate and maintain the facility.

These three arrangements are not true privatization, where the actual facility is sold to a private vendor. In these arrangements, the government retains an interest in the service and ultimately retains ownership of the facility. The benefits of these public-private strategies is to privatize the up-front financing to build or make major improvements to public facilities, as well as tap into the private sector's construction and management expertise.

Exercise

Unconventional revenue collection practices

Time required: 45 minutes

Purpose: To promote new ways of thinking about unconventional revenue collection practices in order to increase the yield from an existing source of revenue.

Process: Read to participants the following description of a practice used by a LA in Brazil (adapted to the Sri Lankan context).

One LA in Sri Lanka draws a substantial portion of its revenues from a tax on parking during its annual festival period. Every vehicle entering the LA area during the festival has to pay a parking fee of Rs 25 per person in the vehicle. For example, if a car enters with 2 people, they are required to pay Rs 50. If a bus enters with 20 people, they must pay Rs 500 (20 x Rs 25 = Rs 500).

In small groups of five or six, ask participants to discuss the situation and to answer the following questions about it. Give the small groups about 20 minutes for the discussion. After 20 minutes, ask for a report from each group with their answers to the questions.

Questions

1. What was the first reaction of members of your group to the situation?
2. What is required in terms of logistics to accomplish the collection of this fee? (Where must the collectors be located? Who will collect the money? How will officials know if a vehicle has paid the tax?, etc).
3. What problems, if any, do you see with a practice of this kind?
4. Is this parking fee a good idea?
5. What similar practices are or might be used by your LA?

SESSION 8: EXAMINING A POLICY STATEMENT

Exercise

Developing a Policy Statement

Summary

This session will be a simple examination of a Policy Statement. It discusses what a Policy Statement looks like and describes each part of the statement. Information will be given on the difference between using Policy Statements as internal work procedures and deciding to pass these policies as formal, official by-laws of the LA. The next session will describe how to develop revenue collection Policy Statements for a LA.

Key Points

- Policy Statements can be formal, official by-laws of the LA adopted according to the proper procedures or can be informal working procedures for completing a certain task.
- Policy Statements should consist of four main parts and should answer the four questions – ‘who’, ‘what’, ‘when’ and ‘why’.
- The answer to the ‘what’ question should directly relate to the ‘why’ question.
- Policy Statements should not be long, in-depth paragraphs. They should be simple, easy to understand and describe what the LA will do.

LA Council Policy Statements are important tools in the administration of local government. These statements might be in the form of official by-laws of the LA or they might be informal, internal operating procedures used only to carry out work in the LA. Pages 136 – 141 (English version) of the manual Work Procedures for Local Authorities produced by the Sri Lanka Institute of Local Governance details by-law procedures and how to officially adopt new by-laws. This might be a good way to adopt Policy Statements so that all citizens know how the LA will address their work. On the other hand, a LA might choose to only set policy guidelines in the form of Policy Statements adopted by the Council of the LA. Secretaries and Commissioners have the responsibility to ask the LA Council to adopt operating procedures, including any Policy Statements. It is very important to have policies in place that describe the procedures that will be used by the LA.

Policy Statements should Include the Answers to Four Main Questions

Who? ‘Who’ or ‘which’ group is responsible for completing the task?

What? ‘What’ will that person or group do? ‘What’ is done, directly answers the ‘why’ question.

When? ‘When’ will the work be started/completed? (Timeframe).

Why? ‘Why’ is this work being done? ‘Why’ is an answer to the ‘what’ question.

Taken together, the answers to these four questions will form the Policy Statement being developed. When trying to create a Policy Statement, officials should be sure to include the answers to all four of these questions. Policy Statements should not be abstract or theoretical, but should be specific and exact statements that state what will be done.

Sample Policy Statement

[WHO] The LA will **[WHAT]** produce data on the revenues it collects **[WHEN]** monthly and the Secretary/Commissioner will then analyze the information, including how much revenue each source is providing, **[WHY]** so that information can be provided to Elected Officials, Finance Committee and the public concerning revenues for the year-to-date.

Exercise

Developing a Policy Statement

Time required: 30 minutes

Purpose: To practice developing a Policy Statement that includes all four components, 'who', 'what', 'when' and 'why'.

Process: Pass out Idea Cards. Divide the room into four groups. Have each group take one of the four questions – 'who', 'what', 'when' and 'why' – and develop hypothetical Policy Statement components. For example, the 'who' group should write down titles of different officials, groups, committees or people that will perform a task. These do not have to be related to Sri Lankan LAs. In fact, they should be encouraged to think outside of this context, to be as silly as possible. Possible answers are: Mickey Mouse, Tom Cruise, etc. The 'when' group should write down different timeframes for completion of a task, such as monthly, weekly, hourly, every 10 minutes, etc. Give each group 5 minutes to write sample answers. After five minutes, each group changes their question to be answered. The 'who' group should now do 'what'. The 'what' group becomes 'when', etc.

Do this for all four questions so that each group has written down on idea cards answers to each of the four questions. Then have them create sample Policy Statements by putting together one answer from each question. A sample Policy Statement might be:

Mickey Mouse will brush his teeth once a year so that the snow melts in the mountains.

After completing the Policy Statements they should be examined and corrected so that the 'why' components directly answer the 'what' is being done. While the silly statements might be funny, the point should be made that 'what' you do is done for a reason. This reason must always answer the 'why' component.

SESSION 9: DEVELOPING REVENUE COLLECTION POLICY STATEMENTS

Exercise

Developing Revenue Collection Policy Statements

Summary

This session will provide an introduction to revenue collection Policy Statements, beginning with a discussion about what Policy Statements the LAs currently have in place and how often these policies are reviewed. The discussion then leads to a practice session where participants are given time to either develop actual revenue collection Policy Statements that they hope to use in their LAs or to review and discuss Policy Statements suggested by the project, depending on the curriculum decisions. Participants then report on their discussions and findings.

Key Points

- Policy Statements should be specific, actionable items that will be carried out under certain circumstances.
- Policy Statements must be agreed by all members of the LA – Council Members, Secretary/Commissioner, Revenue Officers etc.
- Remember to answer the four questions discussed in the previous session – ‘who’, ‘what’, ‘when’ and ‘why’.

Introduction

Policy Statements can be used very effectively to detail how LA workers will respond to certain circumstances. Revenue collection Policy Statements should be focused on the events that will happen if account holders do not pay their bills. They should also discuss the reports and forms that will be prepared for Council Members and the Finance Committee giving them the necessary information to decide on budget adjustments.

What general policies does your LA currently have in place? Who makes the policies of the LA? How often are these policies reviewed and updated?

What revenue collection Policy Statements do you currently follow? Are these official policies or simple work procedures? Is there a need to make them official by-laws of the LA or official policies that are written down in a procedure manual?

Exercise

Developing Revenue Collection Policy Statements

Time required: 1 hour 45 minutes

Purpose: To practice developing Revenue Collection Policy Statements

Process: Each of the following pages contain a Policy Statement on revenue maximization. Read the first Policy Statement and answer the questions that follow. Make your answers as specific as possible. When you have answered all of the questions related to the first Policy Statement, move on to the second Policy Statement and follow the same procedure. Continue until you have answered all of the questions for all of the Policy Statements included in the handout.

Reporting on Policies

Policy Statement 1

The LA will produce data monthly on the revenues it collects and will then analyze the information, including how much revenue each source is raising, so that information can be provided to elected officials and the public concerning revenues for the year.

1. Is your LA doing this?

(Tick one) Yes No

2. If yes, how often is the information collected and what is it being used for?

3. If no, do you think your LA should be doing this?

(Tick one) Yes No

4. If yes, what will it take to implement such a policy?

5. If no, why do you feel your local government cannot or should not engage in this practice?

Policy Statement 2

The LA will produce and analyze quarterly information on the revenues it should be receiving from outside offices such as the PC, DS and the Ministry so that it can ensure it is receiving all of the funds due.

1. Is your LA doing this?

(Tick one) Yes

No

2. If yes, how often is the information collected and what is it being used for?

3. If no, do you think your LA should be doing this?

(Tick one) Yes

No

4. If yes, what will it take to implement such a policy?

5. If no, why do you feel your local government cannot or should not engage in this practice?

Policy Statement 3

The LA will establish a professional and aggressive programme for recovery of delinquent accounts in all revenue categories, with reports being prepared twice a year on efforts and results for Council Members and the public so that delinquent accounts can be targeted and revenue collection maximized.

1. Is your LA doing this?

(Tick one) Yes No

2. If yes, how often is the information collected and what is it being used for?

3. If no, do you think your LA should be doing this?

(Tick one) Yes No

4. If yes, what will it take to implement such a policy?

5. If no, why do you feel your local government cannot or should not engage in this practice?

Policy Statement 4

The Council of _____ LA hereby grants the Secretary/Commissioner the authority to independently initiate a revenue collection programme so that revenues can be maximized and additional services can be provided to its citizens.

1. Is your LA doing this?

(Tick one) Yes No

2. If yes, briefly outline below the level of authority given to the Secretary/Commissioner

3. If no, do you think your LA should be doing this?

(Tick one) Yes No

4. If yes, what will it take to implement such a policy?

5. If no, why do you feel your local government cannot or should not engage in this practice?

Policy Statement 5

Delinquent Accounts

For accounts that are 30 days in arrears, the Revenue Officer will send a second notice to inform the account holder of the status.

For accounts that are 60 days in arrears, a revenue staff member will visit the account holder within 10 days in order to encourage payment and to determine if an alternative arrangement for payment might be made.

For accounts that are more than 90 days in arrears, account holders' names will be posted on the notice board of the LA and at the library so that citizens can see who has not paid their bills.

For accounts that are 120 days in arrears, the Secretary is authorized to initiate the taking of the property or the cancellation of service provision in order to encourage the account holder to settle the bill.

1. Does your LA have a policy for delinquent accounts?

(Tick one) Yes No

2. If yes, briefly outline below the policy

3. If no, do you think your LA should implement such a policy?

(Tick one) Yes No

4. If yes, what will it take to implement such a policy?

5. If no, why do you feel your local government cannot or should not engage in this practice?

Policy Statement 6

The LA will conduct an annual review of fees and charges for services it performs for citizens to determine if the full cost of associated services is being recovered by revenue.

1. Is your LA doing this?

(Tick one) Yes

No

2. If yes, how often is the review completed?

3. If no, do you think your LA should be doing this?

(Tick one) Yes

No

4. If yes, what will it take to implement such a policy?

5. If no, why do you feel your local government cannot or should not engage in this practice?

Policy Statement 7

The LA will review all fees and charges at least once every four years to determine if these fees are set at the correct rates.

1. Is your LA doing this?

(Tick one) Yes

No

2. If yes, how often is the review completed?

3. If no, do you think your LA should be doing this?

(Tick one) Yes

No

4. If yes, what will it take to implement such a policy?

5. If no, why do you feel your local government cannot or should not engage in this practice?

Policy Statement 8

The LA will place increased emphasis on user charges to finance the cost of municipal services so that citizens using the highest level of municipal services will be the ones paying for the service.

1. Is your LA doing this?

(Tick one) Yes

No

2. If yes, briefly outline the policy.

3. If no, do you think your LA should be doing this?

(Tick one) Yes

No

4. If yes, what will it take to implement such a policy?

5. If no, why do you feel your local government cannot or should not engage in this practice?

Policy Statement 9

Develop a new Revenue Collection Policy Statement:

The LA will...

1. Is your LA doing this?

(Tick one) Yes No

2. If yes, how often is the information collected and what is it being used for? OR

If yes, briefly outline the policy.

3. If no, do you think your LA should be doing this?

(Tick one) Yes No

4. If yes, what will it take to implement such a policy?

5. If no, why do you feel your local government cannot or should not engage in this practice?

CONCLUDING EXERCISE

The following concepts are lessons discussed in this workshop. Discuss all **six** of these with the other members of your LA and decide which of the concepts you need to implement most. You should decide the **three** most important revenue collection concepts for your LA.

Key Concepts

- Revenue maximization means undertaking management improvements to ensure that the current revenue sources are producing the most they can for the LA.
- The success of efforts to improve revenue production will be enhanced significantly by the implementation of a sound revenue reporting system.
- Revenue manuals and revenue surveys will identify information about current and potential revenue sources that can help local officials keep taxes, fees and charges at levels intended by policymakers.
- Cost finding analysis is an important technique for improving a LA's cost recovery efforts, as well as providing information for making informed decisions about privatizing service provision and efficiency improvements.
- Professional staff, procedures and internal controls in the areas of billing, collection and delinquent account collection can produce revenue for the authority that is often overlooked.
- LA officials should be continuously working towards obtaining revenue sources that are politically feasible, administratively possible, equitable, efficient, stable and neutral in their impact on the local economy.

