

**ANALYSIS OF REVENUE AND EXPENDITURE OF
BHIMAD MUNICIPALITY, TANAHUN DISTRICT,
NEPAL**

A Research Report

Submitted to the Centre for Economic Development and Administration (CEDA)

Kirtipur, Kathmandu, Nepal

Submitted by

Dil Nath Dangal, PhD

Shiva Dutta Chapagai

Padma Kumar Adhikari, PhD

Ram Prasad Gajurel

Krishna Prasad Ghumire

May, 2025

ANALYSIS OF REVENUE AND EXPENDITURE OF BHIMAD MUNICIPALITY, TANAHUN DISTRICT, NEPAL

A Research Report

Submitted to the Centre for Economic Development and Administration (CEDA)
Kirtipur, Kathmandu, Nepal



Submitted by

Dil Nath Dangal, PhD

Shiva Dutta Chapagai

Padma Kumar Adhikari, PhD

Ram Prasad Gajurel

Krishna Prasad Ghimire

May, 2025

DECLARATION

We hereby state that the Research Report on ANALYSIS OF REVENUE AND EXPENDITURE OF BHIMAD MUNICIPALITY, TANAHUN DISTRICT, NEPAL submitted to the Centre for Economic Development and Administration (CEDA) Kirtipur, Kathmandu, Nepal is our original work and is based on secondary data gathered through the research process.



Dil Nath Dangal, PhD

Lecturer, Ratna Rajyalaxmi Campus, TU.



Shiva Dutta Chapagai

Lecturer, Janjyoti Campus, Tanahun



Padma Kumar Adhikari, PhD

Associate Professor, Ratna Rajyalaxmi Campus, TU.



Ram Prasad Gajurel

Lecturer, Ratna Rajyalaxmi Campus, TU.



Krishna Prasad Ghimire

Lecturer, Ratna Rajyalaxmi Campus, TU.



Ref.No.:-

Kirtipur, Kathmandu

Date: 15th Jestha, 2082

CERTIFICATION SHEET

The undersigned certifies that I have read, approved, and hereby recommend the Centre for Economic Development and Administration (CEDA), Tribhuvan University, to accept the research report entitled:

"Analysis of Revenue and Expenditure of Bhimad Municipality, Tanahun District, Nepal"

Submitted by:

- **Dr. Dil Nath Dangal**, Ratna Rajyalaxmi Campus, Kathmandu
- **Shiva Datta Chapagai**, Lecturer, Janjyoti Campus, Tanahun
- **Dr. Padma Kumar Adhikari**, Associate Professor, Ratna Rajyalaxmi Campus, Kathmandu
- **Ram Prasad Gajurel**, Lecturer, Ratna Rajyalaxmi Campus, Kathmandu
- **Krishna Prasad Ghimire**, Lecturer, Ratna Rajyalaxmi Campus, Kathmandu

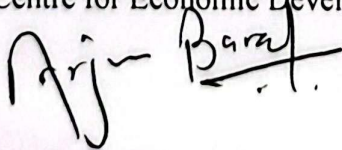
The study has been conducted under the academic and institutional affiliation of Tribhuvan University and contributes to enhancing the understanding of local-level public finance in Nepal.

Name: Prof. Arjun Kumar Baral, PhD

Designation: Executive Director

Affiliation: Centre for Economic Development and Administration (CEDA)

Signature:



Date:

ACKNOWLEDGEMENTS

We want to begin by expressing our profound gratitude to CEDA for providing the invaluable opportunity and resources that made this study possible. Our deepest thanks are extended to Prof. Dr. Arjun Kumar Baral, the esteemed Director of CEDA, whose leadership and support were crucial to our work. We are also incredibly grateful to Prof. Dr. Chakrapani Luitel, whose insightful guidance and inspiration were instrumental in shaping the direction of this research. Furthermore, we extend our sincere appreciation to all the dedicated employees and staff at CEDA, whose assistance facilitated our progress.

Finally, this project would not have reached its successful completion without the unwavering encouragement and benevolent aid of our friends, colleagues, and families. Their patience, understanding, and support throughout this endeavor were truly invaluable.

Dil Nath Dangal, PhD

Shiva Dutta Chapagai

Padma Kumar Adhikari, PhD

Ram Prasad Gajurel

Krishna Prasad Ghimire

Abstract

The study critically examines the revenue generation and expenditure patterns of Bhimad Municipality, situated in the Tanahun District of Nepal. Although local government finance has been widely examined in the Nepalese context, municipality-specific empirical analyses remain notably underdeveloped. In particular, Bhimad Municipality has received limited scholarly attention, resulting in a critical gap in localized fiscal understanding necessary for informed policy formulation and effective decentralization.

The objective of this study is to comprehensively assess the revenue generation and expenditure management of Bhimad municipality in Tanahun District, Gandaki Province, Nepal,

This study employs a descriptive research design within a case study framework to analyze the revenue and expenditure patterns of Bhimad Municipality in Tanahun District, Nepal. The findings indicate an overwhelming dependence on external revenue, which consistently accounted for over 90% of total municipal income, exposing the municipality to fiscal vulnerability. Tax and non-tax revenues contributed minimally and were marked by high volatility and administrative inefficiencies. On the expenditure side, recurrent costs, primarily salaries and operational expenses dominated the budget, while capital investment in infrastructure showed inconsistent growth and decline in the final year. These trends highlight the need for improved revenue mobilization, strategic expenditure planning, and institutional capacity-building to ensure long-term fiscal sustainability and effective local governance.

Keywords: fiscal decentralization, local government finance, revenue mobilization, expenditure analysis, Bhimad Municipality, Nepal, federalism

TABLE OF CONTENTS

Declaration	i
Acknowledgement	ii
Table of Contents	iii
Executive Summary	
CHAPTER 1: INTRODUCTION	
Background of the Study	1
Statement of Problems	2
Objectives of the study	3
Limitations of the Study	3
CHAPTER 2: Literature Review	
Background	5
Conceptual Framework	8
CHAPTER 3: RESEARCH METHODOLOGY	
Research Design	9
Data Collection	9
Data Analysis	9
CHAPTER 4: DATA PRESENTATION AND ANALYSIS	
Sources of Revenue	10
Tax Revenue Analysis	12
Non-Tax Revenue Analysis	14
Analysis of External Revenue	16
Analysis of Internal Revenue	18
Expenditure Pattern	20
Capital Expenditure Analysis	27
Chapter Summary	30
CHAPTER 5: MAJOR FINDINGS AND CONCLUSIONS	
Major Findings	32
Summary	36
Conclusion	37
Recommendations	38
Implications for future Research	39

REFERENCES

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

In a federal system, there are different levels of government, including local, provincial, and federal government. Each level of government aims to provide effective governance ([Sisk, 2001](#)). The Constitution of Nepal 2015 defined Nepal as a federal democratic republic with three levels of government: federal, provincial, and local ([Nepal Constitution, 2015](#)). The authority to make and enforce decisions within a specific area smaller than a whole state is known as local government. Every country in the world has some form of local government, though the extent of its authority varies significantly.. Local governments prioritise the autonomy of a community to make its own decisions and take action ([Britannica, 2024, May 17](#)). The government comprises elected officials and representatives, and governance is the process through which elected officials, bureaucrats, members of civil society, and business people deliver goods and services to the people ([Wolman, 1995](#)). The lowest level of government is the local government, which deals with issues directly affecting the people in a specific area. These governments are taking on more responsibilities, leading to an improved quality of life for the people in the country ([Young & Kaczmarek, 2000](#)). Local government is responsible for formulating local public policies and strategies to manage the local-level government's stockholders, supervising administrative offices, establishing local governance systems, and exercising local government powers and functions for effective service delivery ([Pandeya, 2015](#)). In 2008, the Constituent Assembly declared the country a Federal Democratic Republic. In 2015, the federal constitution was announced providing a three-tier governing structure incorporating the federal, provincial, and local governments ([Kelly, 2016](#)).

According to Makushkin et al. ([2016](#)), the local government is an institution that has ancient roots but operates based on modern principles. It carries out a wide range of political, economic, social-cultural, and administrative activities, making it a multifaceted entity within the community. It is responsible for providing

administrative services and developing infrastructure at the local level. Federal, provincial, and local governments operate within constitutional and legislative frameworks in a federal system. They are interconnected and interdependent and function in partnership with different levels of government ([Acharya & Zararullah, 2020](#)). The constitution anticipated that the local governments would operate as functional institutions at the community level. Local governments are responsible for providing services by establishing governance systems and also hold legislative, executive, and judicial powers as the most reliable representatives of grassroots communities ([Acharya, 2018](#)).

The financial status of local urban governments in Nepal, based on the Local Government Financial Condition Index (LGFCI), reveals no significant differences across municipal types. Most local governments are classified as having an average financial condition, with only a small number categorized as either good or poor. Over the two fiscal years studied, few local governments demonstrated changes in their financial status, emphasizing the need for improved financial management practices to enhance stability ([Poudel et. al., 2025](#)).

The study revealed that Nepal's provincial and local governments allocate relatively limited resources to key subnational service delivery areas. This pattern of spending underscores the need for increased investment in capital formation. Specifically, greater emphasis should be placed on sectors that directly influence future growth and long-term prosperity ([Bhattarai, 2024](#)). The local Governments in Nepal play a vital role in the country's federal democratic system by bringing governance closer to the people and addressing local needs effectively.

1.2 Statement of the Problem

Even though federalism has been formally introduced in Nepal, the political debate continues. Some political parties strongly advocate for the dissolution of the federal structure. While opponents of federalism only focus on its drawbacks, supporters argue that it has achieved its intended outcomes. This study addresses the assessment of revenue and expenditure in the Bhimad municipality of Tanahun district, Nepal. Bhimad municipality, located in the heart of Tanahun District, offers a unique combination of cultural richness and economic potential. The vibrant community, primarily engaged in agriculture and local traditions, demonstrates the resilience and adaptability of its residents. As the municipality continues to develop its infrastructure and improve access to education and healthcare, it aims to enhance the quality of life for its inhabitants. Bhimad's dedication to sustainable development and cultural preservation ensures its significance in Nepal's diverse landscape, making it an area of great interest for locals and visitors. The municipality's natural beauty and dynamic community provide a glimpse into the spirit of Nepal, fostering a sense of pride and connection among its people.

Specifically, the study aims to answer the following research questions:

1. What are the primary sources of revenue for Bhimad municipality, and how reliable and sustainable are these sources?
2. How does Bhimad municipality prioritize and allocate its expenditures across different sectors such as infrastructure development, social services, administrative costs, and others?
3. What are the trends in revenue growth or decline over the past five fiscal years?

1.3 Objectives of the Study

The main objective of this study is to comprehensively assess the revenue generation and expenditure management of Bhimad municipality in Tanahun District, Gandaki Province, Nepal, to identify key areas for improvement to promote sustainable local development.

Specifically, the study aims to:

1. Identify and evaluate the primary sources of revenue.
2. Examine the municipality's expenditure priorities and allocation across key sectors such as infrastructure development, social services, and administrative functions.
3. Assess the trends in revenue growth or decline over the past five fiscal years.

1.4 Limitations of the Study

- The research relies on municipal financial reports, budget documents, and government publications. Any errors, inconsistencies, or omissions in these records may affect the accuracy of the analysis.
- The study does not incorporate primary data sources, such as interviews with municipal officials or taxpayers. Such insights could enhance understanding of policy effectiveness, enforcement challenges, and revenue collection inefficiencies.
- Revenue fluctuations, particularly in external funding and tax collection, may be influenced by broader economic trends, national fiscal policies, and political decisions. These factors are beyond the municipality's control but significantly impact financial stability.
- Although the study highlights the volatility of external and non-tax revenues, it does not conduct a thorough feasibility assessment of alternative revenue sources, such as expanding municipal businesses or forming public-private partnerships.
- The study covers a six-year period (2018/2019 to 2023/2024), which may not be sufficient to capture long-term revenue patterns or structural fiscal shifts. A more extended time frame could provide deeper insights into financial sustainability.
- Changes in local governance, administrative efficiency, and enforcement policies over the years may have influenced revenue collection trends. However, the study does not analyze the direct impact of these policy modifications on revenue fluctuations.

1.4 Organization of the Study

This study is structured into five distinct chapters. The introductory framework is laid out in Chapter One. Chapter Two offers a thorough review of existing literature, examining both theoretical concepts and empirical evidence pertaining to the revenue and expenditure patterns of Bhimad Municipality, Tanahun District, Nepal. Chapter Three is dedicated to elucidating the research methodology utilized. Chapter Four presents and analyzes the collected data. Concluding the study, Chapter Five synthesizes the primary findings, provides a

concise summary, draws conclusions, and discusses the implications of this research.

CHAPTER 2

LITERATURE REVIEW

2.1 Conceptual and Empirical Review

The government requires funds to finance public services and capital expenditure. Tax revenue pertains to mandatory payments imposed by the government on individuals or entities to gather funds for public expenses and development projects. Non-tax revenue refers to the revenue generated by the government from sources other than taxation. The primary purpose of taxation is to create government revenue (Dhakal et al., 2024). Tax is the imposition of compulsory levies on individuals or entities by governments. Taxes are levied in almost every country in the world, primarily to raise revenue for government expenditures, although they serve other purposes as well (Pandey & Sapkota, 2020). The possibility of raising municipal revenue has been recognized in several studies. Bhandari (2010), in a case study of Dhangadhi Municipality, concluded that there were various untapped sources of revenue that local authorities had not appropriately targeted. He advocated for a clear taxation policy to boost revenue collection. Koirala and Acharya (2021) analyzed the effectiveness of local government expenditure in delivering public services following the 2015 federal restructuring.

In the Intergovernmental Financial Management Tax Act 2074, local governments in Nepal generate revenue through tax and non-tax sources. The taxes include wealth tax, house rent tax, house land registration fee, motor-vehicle tax, land revenue, entertainment tax, advertisement tax, and business tax. Non-tax revenue is generated through service and tourism fees, penalties, and fines. Other taxes and non-tax revenue may be imposed based on local laws and regulations. Municipalities receive four types of grants from both federal and provincial governments. These grants include fiscal equity, conditional, additional, and special grants to meet their financial needs ([Nepal Law Commission, 2074](#)). The role and responsibilities of local governments are designated to address the needs of the citizens and provide services directly to them. It is important to expand the scope, coverage, and quality of services, increase investment in services and development projects, and generate additional

internal revenue to meet these needs ([Acharya & Zafarullah, 2020](#)). The study shows that local government relies on revenue from external sources to meet its financial needs ([Sharma, 2018](#)).

The study of [Klenhans & Coetzee\(2019\)](#) developed two indices, the Composite Financial Condition Index (CFCI) and the Financial Conditions Management Index (FCMI)—to assess municipal financial health. It applied this framework to 51 municipalities in the KwaZulu-Natal (KZN) province, covering the period from 2009 to 2015, using a panel data approach. The two financial condition indices served as key indicators. The findings suggest that, in the absence of individual municipal effects, most of the selected socio-economic variables are relevant in explaining variations in municipal financial conditions. However, the inclusion of cross-section fixed effects significantly improved the overall performance of the model, indicating that unobservable, municipality-specific factors play a crucial role in influencing municipal financial conditions.

[Lamichhane and Tamang \(2019\)](#) analyzed the expenditure efficiency of local government basic service delivery in Nepal and found that the optimal utilization of available resources plays a critical role in enhancing the efficiency and effectiveness of service delivery at the local level. [Dahal \(2021\)](#) revealed that local governments are struggling with inadequate financial and human resources, which makes self-sustainability difficult. He recommended that municipalities explore new sources of revenue generation to ensure financial stability. The Asian Development Bank (ADB) (2022) showed that while some municipalities had successfully implemented measures to enhance revenue collection, such as improving local business tax assessments, significant disparities remained among municipalities. These disparities were attributed to variations in tax collection efficiency, corruption control, and personnel skills. The report suggested that these gaps could be addressed through targeted local efforts, support from higher levels of government, and equalization grants. The study by [Dahal and Budhathoki \(2022\)](#) examines the impact of government expenditure and revenue on Nepal's public resource gap. The findings indicate a moderately positive relationship between government expenditure and the resource gap, suggesting that higher spending tends to widen the gap. Conversely, government revenue has a negative effect on the resource gap, implying that increased revenue helps to reduce it. Both expenditure and revenue were found to be statistically

significant factors in determining the size of Nepal's fiscal resource gap. Similarly [Dhungel \(2022\)](#) investigates the impact of public expenditure on Nepal's GDP growth, focusing on key sectors such as agriculture, education, health, and transportation and communication. The study found that all these components of government spending have a positive effect on economic growth. Multivariate regression analysis reveals that increased public investment in the education and health sectors significantly contributes to the development of human capital, which in turn positively influences the overall economic growth of Nepal.

The study of [Bhattarai \(2024\)](#) using panel data employed a descriptive method to examine the spending patterns of Nepal's provincial and local governments from 2018/2019 to 2021/2022. Provincial governments allocated 42.5% of their budget to recurrent expenditures and 57.5% to capital expenditures, while local governments spent 60.5% on recurrent and 39.5% on capital expenditures. The expenditure framework of both governments requires a comprehensive revision to align with evolving fiscal demands. [Ghimire \(2024\)](#) highlighted the critical interdependence between public policy and local development in Nepal, emphasizing that well-formulated and effectively implemented policies are essential for sustainable economic growth and grassroots democracy. However, it reveals existing gaps in policy design and execution, calling for a more scientific, people-centered approach that aligns with local priorities to enhance development outcomes and ensure legitimacy in Nepal's federal context.

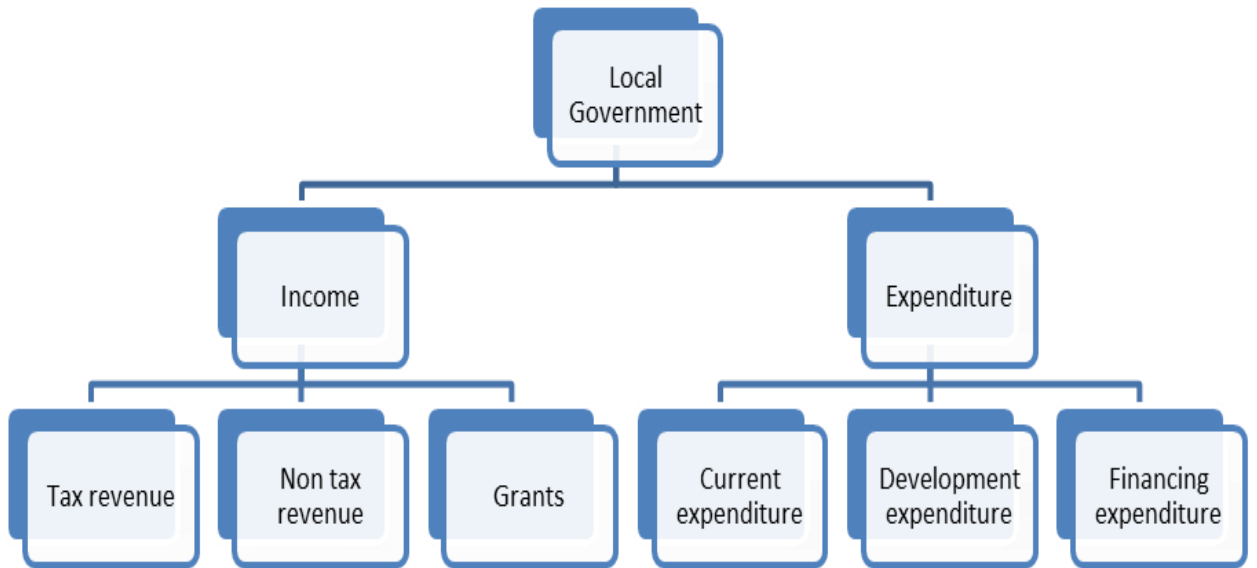
[De Xavier et al. \(2021\)](#) analyzed how decentralization affects subnational economic growth in India. Utilizing a panel dataset from 1981/082 to 2015/2016, they gathered data from Indian states. Their findings indicated a positive correlation between expenditure decentralization, revenue decentralization, the proportion of capital expenditure to total expenditure, social expenditure to total state expenditure, and liberalization with economic growth. This study examines the financial conditions of municipalities in Nepal and proposes strategies to improve fiscal efficiency and support their socioeconomic development. To enhance the fiscal health of urban municipalities and enable them to contribute more effectively to the nation's broader development goals, it is essential for both provincial and central governments to implement comprehensive policy reforms. These reforms should focus on granting

greater autonomy to local governments in governance and financial management practices ([Sharma et al., 2025](#)).

Revenue is the financial backbone of any government, enabling it to perform its functions and fulfil its responsibilities. In the context of local governments, revenue is primarily categorized into two types: tax revenue and non-tax revenue. Tax revenue includes compulsory levies such as property tax, business tax, vehicle tax, land registration fees, and entertainment tax. These taxes are imposed based on local laws and are essential for generating internal resources. Non-tax revenue, on the other hand, comprises income from service charges, tourism fees, fines, penalties, and income from municipal assets such as rent from public buildings or lease of land ([Dhakal et al., 2024](#)). The study evaluates government revenue in relation to GDP, assesses the efficiency of tax revenue collection, and analyzes the role of Internal Revenue Department (IRD). Additionally, it investigates the composition of national revenue, distinguishing between tax and non-tax sources. The results show a positive trend in revenue mobilization, with tax revenues making a significant contribution. These findings enhance our understanding of Nepal's revenue mobilization strategies and the structure of its revenue sources, providing valuable insights into the nation's fiscal policies and long-term financial sustainability ([Nepal et al., 2024](#)).

[Upadhyaya \(2025\)](#) conducted a comprehensive analysis of government expenditure and revenue trends in Nepal from Fiscal Year 1975/76 to 2024/25. The study identified structural shifts in fiscal priorities, noting that recurrent expenditure began to surpass capital expenditure after 1995/96. It also highlighted the challenges of balancing operational costs with long-term investments and emphasized the need for strategic fiscal management to address rising recurrent expenses and slower revenue growth.

2.2 Conceptual Framework



2.3 Research Gap

The prior researchers have broadly covered local government finances, but specific municipal case studies remain limited. A notable research gap exists for Bhimad Municipality, Tanahun District, Nepal. This study is the first comprehensive empirical investigation into its unique revenue and expenditure landscape, offering novel data and insights crucial for understanding its developmental trajectory and informing future policy interventions within its distinct local context.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Research Design

This study adopts a descriptive research design to analyze the revenue and expenditure patterns of Bhimad Municipality. A case study approach is utilized, focusing on 753 local-level governments in Nepal, with Bhimad Municipality selected as a sample using convenience sampling. The research examines the municipality's reliance on external revenue, assesses the efficiency of tax and non-tax revenue, and investigates how these revenue streams impact the municipality's fiscal stability. Additionally, the study analyzes expenditure allocation, particularly concerning salaries, allowances, capital investments, and infrastructure development.

3.2 Data Collection

Data for this study is gathered from secondary sources, including financial reports, budget documents, and annual expenditure statements of the municipality. These documents cover several fiscal years, from 2018/2019 to 2023/2024, and provide a comprehensive overview of revenue generation, expenditure allocations, and trends in fiscal management. The study also incorporates data on government transfers, tax collection records, and non-tax revenue items such as service fees, penalties, and business fees to analyze revenue fluctuations and their underlying causes.

3.3 Data Analysis

The analysis employs quantitative techniques to assess revenue and expenditure patterns over time. Basic descriptive statistics summarize key financial data, including the percentage trend analysis and change in growth are used. Lastly, the study analyzes the allocation of expenditures, focusing on the breakdown of current and capital expenditures, and investigates the volatility in expenditure categories and their potential impact on fiscal planning.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

The main objective of this study is to examine the present practice of revenue generation and its utilization in Bhimad municipality. To achieve the said objective, this section presents the data regarding the sources of revenue and their utilization.

4.1 Sources of Revenue

The municipality's revenue comes from three main sources: external revenue, tax revenue, and non-tax revenue. While these sources contribute to the municipality's overall financial health, they exhibit significant volatility and growth discrepancies that notably affect fiscal stability.

Table 1

Sources of Revenue

"000"

Fiscal year	External revenue	Growth	%	Total tax	Growth	%	Non-tax revenue	Growth	%	Total revenue
2018/2019	435,894.91		93.65	4,273.53	-	0.92	25,271.59	-	5.43	465,440.00
2019/2020	418,390.27	(0.04)	92.92	2,998.82	(0.30)	0.67	28,857.15	0.14	6.41	450,246.20
2020/2021	494,918.17	0.18	97.72	3,539.82	0.18	0.70	8,006.88	(0.72)	1.58	506,464.90
2021/2022	521,619.83	0.05	96.97	3,651.44	0.03	0.68	12,650.93	0.58	2.35	537,922.20
2022/2023	528,312.39	0.01	94.85	4,931.89	0.35	0.89	23,756.23	0.88	4.27	557,000.50
2023/2024	475,056.56	(0.10)	97.14	4,771.89	(0.03)	0.98	9,237.70	(0.61)	1.89	489,066.20

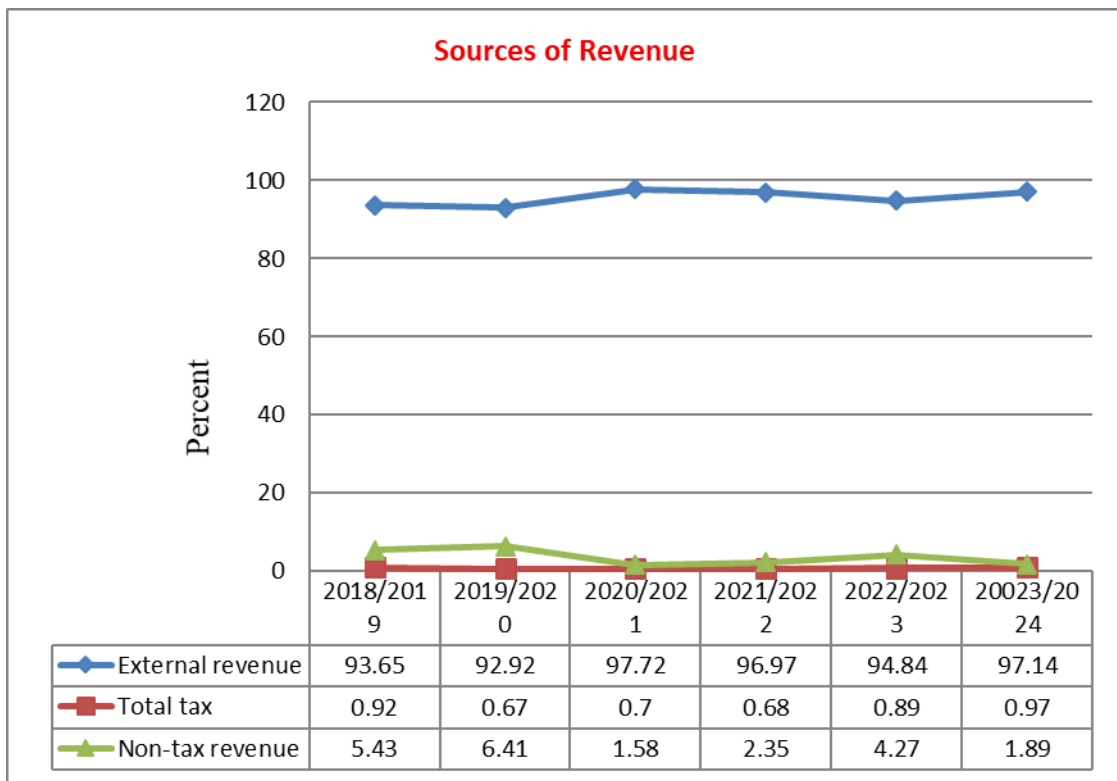
Note. Audit report 2018/2019 to 2023/2024.

The data highlights varying growth rates and percentage contributions across different revenue streams, revealing key trends and dependencies. External revenue, which consistently accounts for the largest share of total revenue (92.92 %—97.72%), shows fluctuation in growth. It peaked at an 18% increase in 2020/2021 but showed a decline of 10% in 2023/2024. This significant reliance on external sources emphasized their crucial role in revenue generation; however, their volatility risks fiscal stability. Tax revenue made minimal contributions to total revenues, ranging from 0.67% to 0.98%. Growth rates varied greatly, including a sharp 29% decline in 2019/2020, which may indicate inefficiencies in tax collection. Non-tax revenue has displayed the most inconsistency, with contributions ranging from as little as 1.58 %

in 2020/2021 to 6.41% in 2019/2020. Growth rates are a 72% decrease in 2020/2021 to an 88% increase in 2022/2023, suggesting a lack of stable revenue strategies. Overall, total revenue, predominantly driven by external sources, grew steadily from 2018/2019 to 2022/2021, peaking at Rs. 556,990,515.66. However, it declined by 10% in 2023/2024 due to decreases in external and internal revenue.

Figure 1

Trend of sources of revenue



Note. Figure 1 drawn using Table 1.

Local governments face significant revenue challenges due to their heavy reliance on external funding, which serves as a primary source of income and creates economic instability. This dependence is illustrated by fluctuating growth rates, with periods of substantial increases followed by a notable decline, highlighting the volatility of external funding. Additionally, tax revenue minimizes the overall revenue, indicating inefficiencies in collection and processes. Sharp drops in tax revenue during certain periods emphasize the necessity for a more robust and efficient tax administration system. Non-tax revenue adds to the challenges, as its contributions remain inconsistent, fluctuating widely over time. This lack of stability across all revenue

streams underscores the vulnerability of local government finances and the urgent need for diversification and improved revenue strategies.

To reduce reliance on external revenue, local governments should promote local economic activities such as tourism, agriculture, and small business, which can help generate internal revenue. Public-private partnerships (PPPs) can also be crucial in financing and managing local development projects. To enhance tax revenue, it is essential to modernize tax collection systems through digital tools and automated processes. To enhance tax revenue, it is necessary to modernize tax collection systems through digital tools and automated processes. Public awareness campaigns should be implemented to educate citizens about the benefits of taxes and compliance. Expanding the tax base by identifying untapped sectors and strictly enforcing tax regulations can improve contributions. Municipalities should leverage their assets, such as renting public properties, to stabilize nontax revenue while introducing predictable pricing policies for local services. These measures will help ensure consistent and reliable non-tax income. Building institutional capacity is crucial to addressing inefficiencies. Local government officials need training in resource mobilization and financial management. Strengthened monitoring systems can help track revenue trends and support data-driven decision-making—lastly, policy reforms are necessary to create a sustainable revenue framework. Updating local taxation laws, diversifying revenue sources, and collaborating with higher levels of government for technical and financial are critical steps toward achieving financial independence.

4.2 Tax Revenue Analysis

Constitution 2072 allows local governments to impose and collect tax revenue from various sources. The revenue is raised from property tax, land tax, rent tax, entertainment tax, advertisement tax, and other taxes.

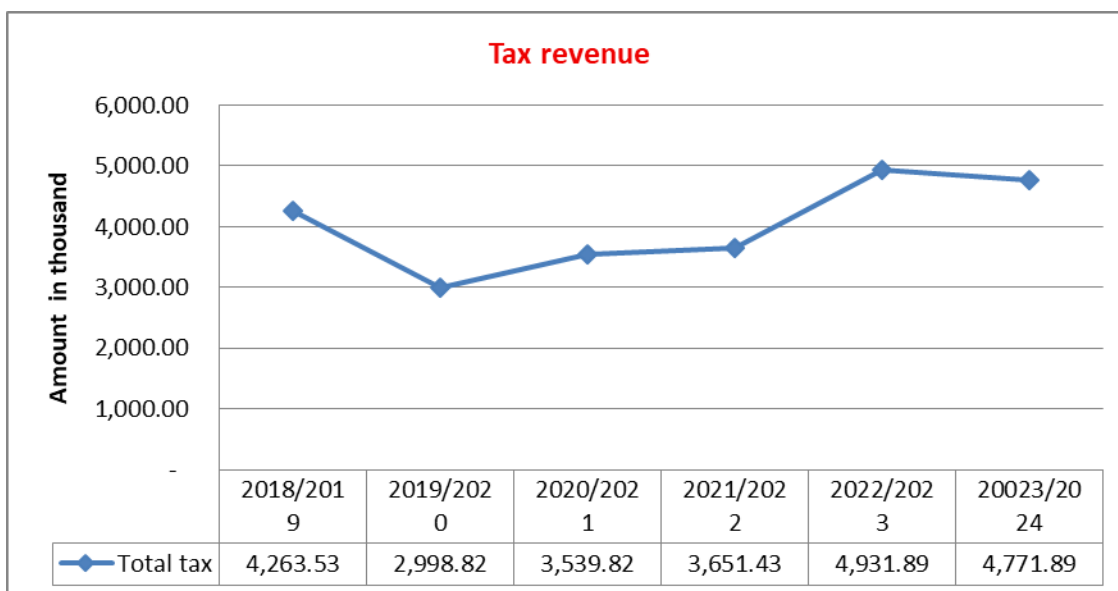
Table 2*Sources of Tax Revenue*

Fiscal year	Property tax	%	Land tax	%	Rent tax	%	Rent tax for Birauta	%	Infrastructure Service Tax	%	Other and entertainment tax	%	Total tax
2018/2019	1,198.36	28.11	788.29	18.49	1,063.63	24.90	-	-	1,202.25	28.20	11.00	0.26	4263.53
2019/2020	807.42	26.92	798.94	26.64	1,392.46	46.40	-	-	-	-	-	-	2,998.82
2020/2021	1,074.66	30.36	1,130.21	31.93	1,268.43	35.80	66.52	1.88	-	-	-	-	3,539.82
2021/2022	811.52	22.22	919.37	25.18	1,696.91	46.50	223.64	6.12	-	-	-	-	3,651.43
2022/2023	1,062.01	21.53	988.22	20.04	2,561.93	51.90	319.74	6.48	-	-	-	-	4,931.89
2023/2024	1,333.05	27.94	1,514.43	31.74	1,496.92	31.40	427.38	8.96	-	-	0.10	-	4,771.89

Note. Audit report 2018/2019 to 2023/2024

The analysis of tax revenue data from the fiscal year 2018/2019 to 2023/2024 reveals that property tax has consistently been a major contributor to tax revenue, running between 21.53 % and 30.36 %. The land tax also shows considerable variation, peaking at 31.0% in 2020/2021, which indicates its increasing relevance and impact on overall revenue. Rent tax has emerged as a dominant source of tax revenue, at a peak of 51.9% in 2022/2023. This significant increase suggests a rise in rental activities at the local level. Tax for *Birauta* began being recorded in 2020/2021 and has shown steady growth, reaching 8.96% by 2023/2024. Infrastructure services and other entertainment-related taxes remain minor contributors to the total tax revenue.

Figure 2*Trend of tax revenue*



Note. Figure 2 drawn using Table 2.

A notable dependence on property and rent taxes underscores a lack of revenue diversification, which makes the system particularly vulnerable to market fluctuations. Additionally, other taxes, such as the infrastructure service and entertainment tax, contribute only a small portion of total tax revenue, pointing to possible gaps in enforcement and revenue optimization efforts. To increase tax revenue local governments need to enhance administrative efficiency and strengthen enforcement mechanisms to ensure a stable and sustainable flow of revenue. This approach will help build a more resilient local economy adapting to hinging market conditions and local-level industries.

4.3 Non-Tax Revenue Analysis

Non-tax revenue generated from various sources over the fiscal year 2018/2019 to 2023/2024

Table 3

Sources of Non-Tax Revenue

Fiscal year	Business to pay	%	Other sales	%	Judicial fees	%	Income from Education	%	Exam fees	%	ASF	%	Naksha pass fees	%	Non-tax revenue
2018/2019	132.65	0.52	-	-	-	-	-	-	-	-	-	-	679.11	2.69	25,271.59
2019/2020	583.19	2.02	-	-	-	-	-	-	-	-	-	-	2,354.84	8.16	28,857.15
2020/2021	465.52	5.81	-	-	-	-	-	-	-	300.00	3.75	593.32	7.41	8,006.88	

2021/2022	463.12	3.66	910.06	0.07	2.30	0.02	0.90	0.01	1.76	0.14	153.00	1.21	372.32	2.94	12,650.93
2022/2023	652.77	2.75	582.73	0.02	4.81	0.02	6.20	0.03	4.54	0.19	124.97	0.53	887.35	3.74	23,756.23
2023/2024	505.32	5.47	3.00	-	10.53	0.11	13.40	0.15	29.90	0.32	268.40	2.91	56.38	0.61	9,237.70

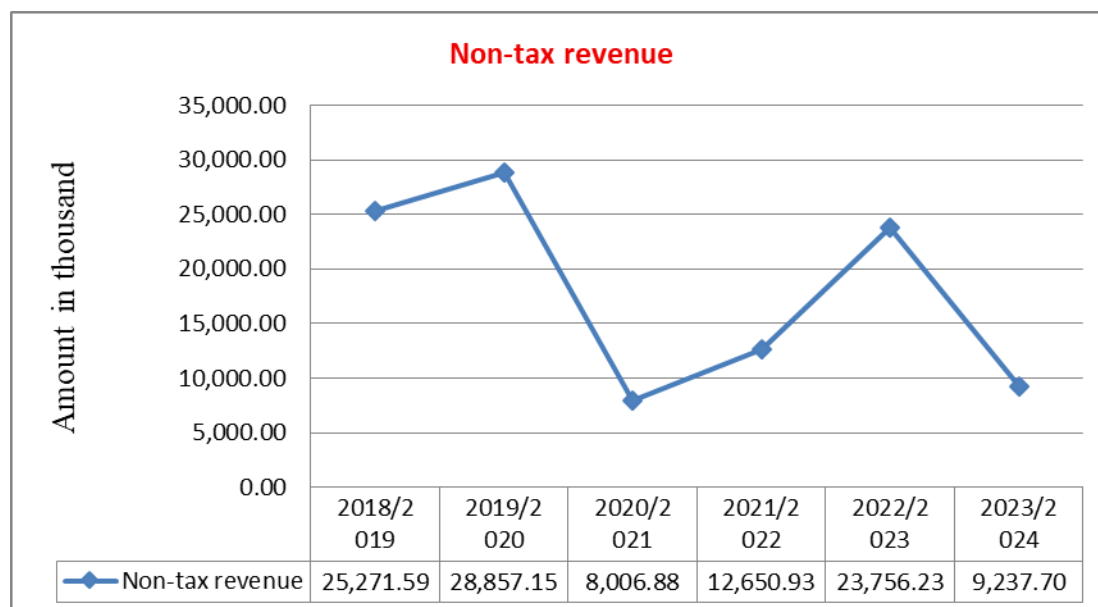
Fiscal year	Recommendation fees	%	personal events records fees	%	RVF	%	other fees	%	Penalty	%	other revenue	%	Non-tax revenue
2018/2019	3,270.00	12.9	0.5	0	149.37	0.59	398.44	1.58	500.00	1.98	20,274.18	80.23	25,271.59
2019/2020	2,847.68	9.87	66.83	0.23	141.30	0.49	239.07	0.83	0	0	22,624.22	78.4	28,857.15
2020/2021	2,405.42	30	133.86	1.67	174.54	2.18	86.73	1.08	412.20	5.15	3,435.29	42.9	8,006.88
2021/2022	3,223.95	25.5	523.13	4.14	300.86	2.38	274.60	2.17	1,277.45	10.1	5,131.65	40.56	12,650.93
2022/2023	3,108.89	13.1	574.50	2.42	365.25	1.54	426.68	1.8	544.64	2.29	16,432.04	69.17	23,756.23
2023/2024	4,143.70	44.9	905.05	9.8	428.20	4.64	654.55	7.09	109.85	1.19	2,109.41	22.83	9,237.70

Note. Audit report 2018/2019 to 2023/2024. ASF = Administrative service fees, RVF= Relationship verification fees.

The analysis of non-tax revenue from 2018/2019 to 2023/2024 reveals significant fluctuations due to changes in policy implementation, economic conditions, and administrative efficiency. The highest revenue was recorded in 2019/2020 at Rs. 28,857.15 thousand and again in 2022/2023 at Rs. 23,756.23 thousand. However, there was a steep decline in 2023/2024, with revenue dropping to Rs. 9,237.70 thousand, which may point to challenges in revenue collection or policy enforcement. Among the key contributors, recommendation fees have shown the most consistent growth, making up 44.9% of total non-tax revenue in 2023/2024, highlighting their increasing significance. Business-to-pay fees have varied considerably, peaking at 5.81% in 2020/2021 and again at 5.47% in 2023/2024, suggesting occasional spikes in business compliance or regulatory enforcement. Other revenue sources, such as judicial fees, personal event record fees, and administrative service fees, have exhibited gradual increases, indicating a growing reliance on public service-related revenues. In contrast, naksha pass fees and penalties displayed inconsistent trends, with penalties peaking at 10.1% in 2021/2022 before sharply declining. This revenue volatility suggests the need for a more structured and diversified revenue model. Expanding reliable income streams, such as education-related fees and administrative services, could enhance financial stability. Additionally, strengthening fee collection mechanisms, enforcing compliance, and refining policies will be essential for ensuring sustained growth and reducing dependency on fluctuating revenue sources.

Figure 3

Trend of non-tax revenue



Note. Figure 3 drawn using Table 3.

4.4 Analysis of External Revenue

External revenue is a valuable resource for local-level governments, especially in developing regions with minted internal revenue.

Table 4

External Revenue

Fiscal year	External revenue	Growth
2018/2019	435,894,911.34	0
2019/2020	418,390,269.64	-4.02
2020/2021	494,918,169.90	18.29
2021/2022	521,619,827.42	5.4
2022/2023	528,312,392.54	1.28
2023/2024	475,056,563.06	-10.08

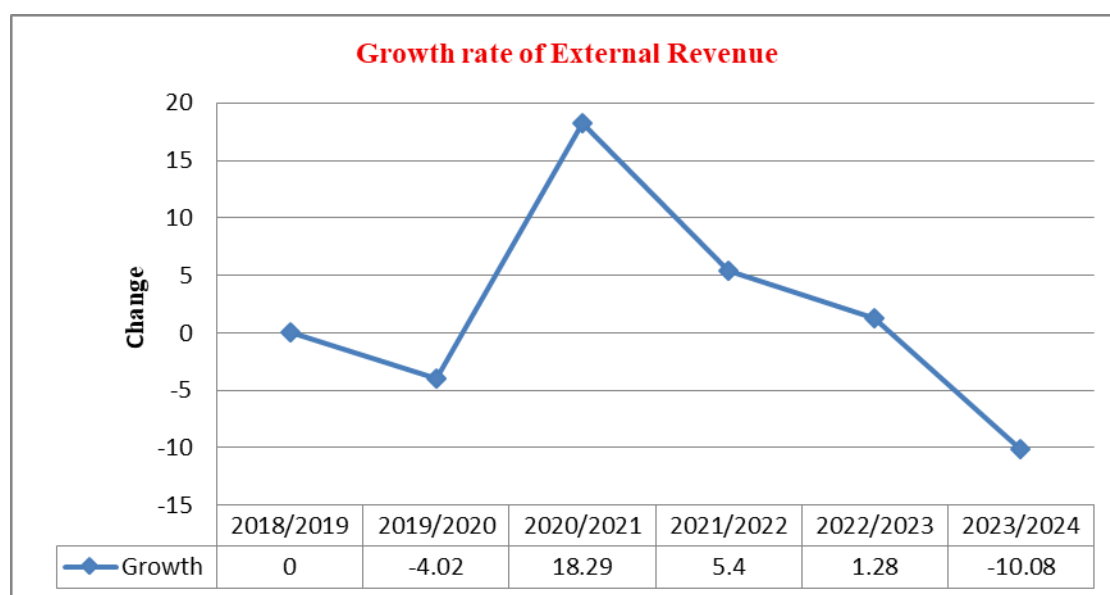
Note. Audit report 2018/2019 to 2023/2024

The above table shows that in the fiscal year 2018/2019, external revenue amounted to Rs. 435, 894,911. In the year 2019/2018 was Rs. 418,390,2690.64, resulting in a negative growth rate of 4.02. In the year 2020/2021 revenue increased to Rs.

494,918,169.90, which marked an impressive growth rate of 18.29 %. The upward trend continued into 2021/2022 reached Rs. 521,619,827.42, showing moderate growth of 5.40%. In 2022/2023, revenue peaked at Rs. 528,312,392.54, although growth slowed to 1.28%, indicating a stabilization of revenues. Unfortunately, in the fiscal year 2023/2024, there was a sharp decline in revenue to Rs. 475,056,563.06, resulting in the most significant drop with a growth rate of -10.08%. The fluctuation in external revenue underscores the volatility of funding resources and highlights the need for robust strategies to stabilize revenue generation and reduce dependency on external factors.

Figure 4

Trend of growth of external revenue



Note. Figure 4 drawn using Table 4.

The data on the growth of external revenue for local-level governments from 2018/2019 to 2023/2024 shows significant fluctuations, reflecting changes in external funding sources such as grants, aid, and financial transfers from higher levels of government. The initial decline of -4.02% in 2019/2020 indicates a reduction in external support, possibly due to shifts in national budget allocations, delays in fund disbursement. However, in 2020/2021, there was a strong recovery with an 18.29% increase, likely driven by post-pandemic financial support, increased project funding. Despite this rebound, growth slowed to 5.4% in 2021/2022 and further declined to 1.28% in 2022/2023, which suggests challenges in securing sustained external

revenue. The most concerning trend is the sharp decline of -10.08% in 2023/2024. This decrease may be attributed to budget cuts, policy shifts prioritizing internal revenue generation over reliance on external funding. These fluctuations highlight the need for strategic planning to diversify revenue sources, strengthen financial negotiations with external entities, and improve the efficiency of fund utilization. This approach is essential to ensure stable and predictable external revenue inflows for local governments.

4.5 Analysis of Internal Revenue

Internal revenue is a valuable resource for local-level governments, especially in developing regions with minted internal revenue.

Table 5

Internal Revenue

Fiscal year	Total tax	Non-tax revenue	Total revenue	Growth of internal revenue
2018/2019	4,273.53	25,271.59	29,545.12	0
2019/2020	2,998.82	28,857.15	31,855.97	7.82
2020/2021	3,539.82	8,006.88	11,546.70	-63.75
2021/2022	3,651.44	12,650.93	16,302.37	41.19
2022/2023	4,931.89	23,756.23	28,688.12	75.98
2023/2024	4,771.89	9,237.70	14,009.59	-51.17

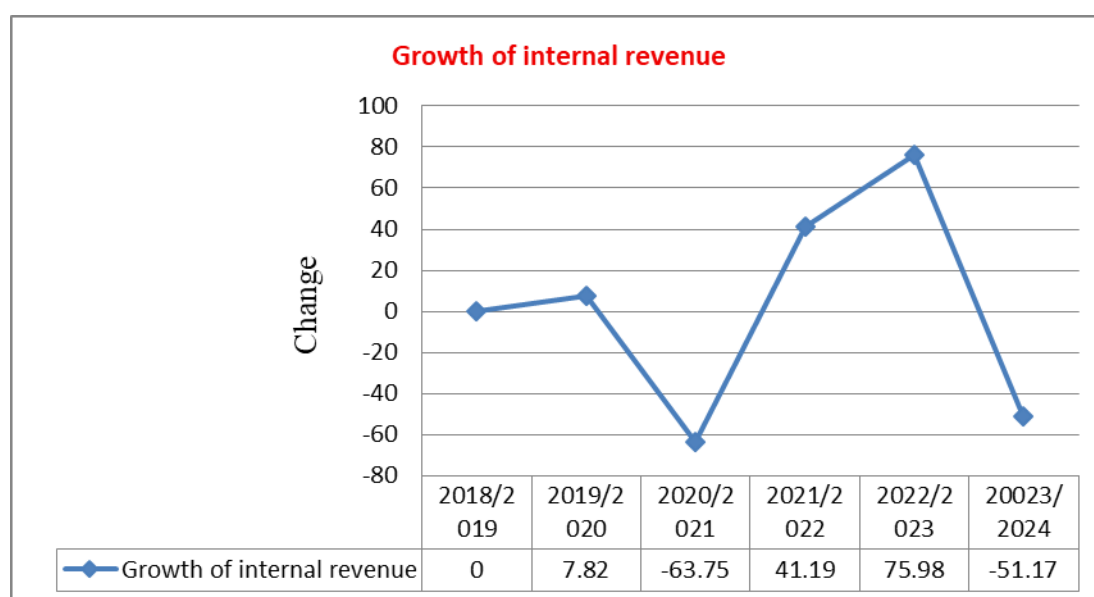
Note. Audit report 2018/2019 to 2023/2024.

The analysis of internal revenue trends (both tax and non-tax revenue) from 2018/2019 to 2023/2024 reveals significant fluctuations, highlighting instability in revenue collection. In the 2018/2019 fiscal year, total revenue amounted to Rs. 29,545.12 thousand, with a relatively high contribution from non-tax revenue. The following year, 2019/2020, saw a growth of 7.82% in internal revenue, primarily driven by an increase in non-tax revenue, which rose to Rs. 28,857.15 thousand, offsetting a decline in tax revenue. However, the 2020/2021 fiscal year experienced a sharp contraction of -63.75%, as non-tax revenue fell drastically to Rs. 8,006.88 thousand. This resulted in a significant drop in total revenue to Rs. 11,546.70 thousand, indicating weaknesses in non-tax revenue generation. A recovery occurred in 2021/2022, with a growth of 41.19%, followed by an even stronger rebound of

75.98% in 2022/2023, where total revenue surged to Rs. 28,688.12 thousand, largely due to a substantial increase in non-tax revenue. Despite this recovery, the most concerning trend emerged in 2023/2024, where internal revenue declined sharply by -51.17%. Non-tax revenue fell drastically to Rs. 9,237.70 thousand, leading to a total revenue of Rs. 14,009.59 thousand. This decline suggests a failure to sustain previous revenue sources, possibly due to decreased economic activity, and ineffective collection mechanisms. To ensure long-term stability, the local government must diversify its revenue sources, strengthen tax collection policies, and develop a more sustainable non-tax revenue strategy. This approach would help reduce dependence on unpredictable revenue streams.

Figure 5

Trend of growth of internal revenue



Note. Figure 5 drawn using Table 5.

The growth trend of internal revenue from 2018/2019 to 2023/2024 shows significant fluctuations, reflecting instability in revenue collection and financial sustainability. In 2019/2020, internal revenue increased by 7.82%, likely due to a rise in non-tax revenue, despite a decline in tax revenue. However, 2020/2021 saw a drastic drop of -63.75%, indicating a severe decrease in non-tax revenue sources. This decline may have resulted from policy changes, economic downturns, and administrative inefficiencies in collection. The government managed to rebound in 2021/2022 with a 41.19% increase, followed by a remarkable surge of 75.98% in 2022/2023, marking

the highest growth in the observed period. This recovery was likely driven by improved revenue collection mechanisms, increased tax compliance, and higher administrative fees and service charges. Unfortunately, in 2023/2024, the trend reversed sharply, resulting in a steep decline of -51.17%. This suggests significant challenges in revenue collection, reduced economic activity, and ineffective enforcement of revenue policies. These extreme fluctuations highlight the urgent need for better financial planning, diversification of revenue sources, and stronger enforcement of both tax and non-tax revenue collection to achieve more stable and predictable internal revenue growth.

4.6 Expenditure Patten

Local government expenditures include current and capital expenditures. They are primarily funded through local taxes and grants from the federal and provincial governments.

Table 6

Expenditure Patten

Particulars	Current Expenditure	%	Growth	Total capital expenditure	%	Growth	Total Expenditure	Growth
2018/2019	280543.07	61.99	0.00	172030.72	38.01	0.00	452573.79	0.00
2019/2020	251990.41	61.56	-10.18	157376.18	38.44	-8.52	409366.59	-9.55
2020/2021	316896.25	63.84	25.76	179489.37	36.16	14.05	496385.62	21.26
2021/2022	339290.54	61.66	7.07	210984.38	38.34	17.55	550274.92	10.86
2022/2023	376213.22	63.04	10.88	220597.92	36.96	4.56	596811.14	8.46
2023/2024	362640.80	67.93	-3.61	171242.70	32.08	-22.37	533883.50	-10.54

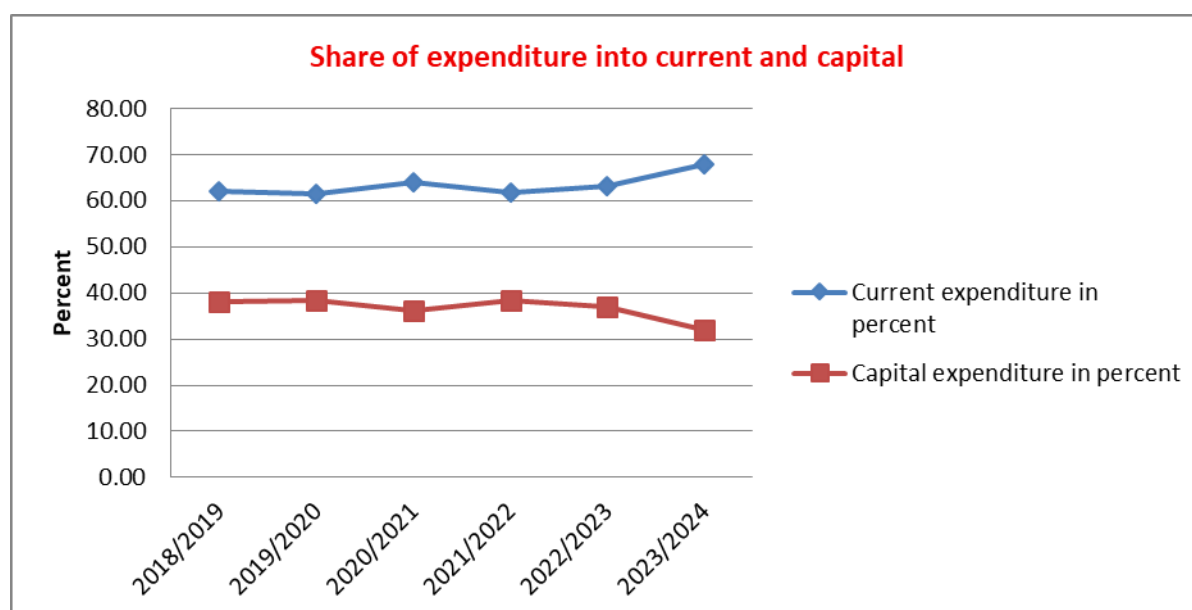
Note: Audit report 2018/2019 to 2023/2024

The data analysis indicates significant trends and fluctuations in expenditure patterns over the years. Current expenditure has consistently represented a substantial portion of total expenditure, ranging from 61.50 in 2019/2020 to 67.93% in 2023/2024. This trend reflects a growing reliance on recurrent expenditure rather than capital investments. Growth in current expenditure has been volatile, with a sharp decline of -10.18 % in 2019/2020, followed by a string recovery of 25.76% in 2020/2021. However, growth slowed in the subsequent years, peaking at 10.88% in 2020/2023 before declining again by -3.61% in 2023/2024. Capital expenditure trends have

shown a declining share of total decreasing from 38.01% in 2018/2019 to 32.08% in 2023/2024. Capital expenditure growth has been inconsistent, featuring a decline of -8.52% in 2019/2020, followed by an increase of 14.05 and 17.55% in the next two years. However, the growth rate dropped to 4.55 % in 2022.20232 and then sharply fell by -22.37% in 2023.2024, indicating a significant reduction in capital expenditure. Overall, total expenditure has reflected these fluctuations, with a -9.55% decline in 2019/2020, a strong rebound of 21.26% in 2020/2021, and subsequent positive growth rates that solved to 8.46% in 2022/2023 before experiencing another drop of -10.54% in 2023/2024.

Figure 6

Trend of current and capital expenditure



Note. Figure 6 drawn using Table 6.

4.7 Current Expenditure Analysis

Local governments, especially in a federal system like Nepal's, play a crucial role in delivering public services and implementing development activities at the grassroots level. Their current expenditure, often referred to as recurrent expenditure, covers the day-to-day operational costs of running the local government and providing essential services.

Table 7

Trend of current Expenditure

Heads of Current Expenditure	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
Salary	128924	155444.2	160123.5	173325.3	208373.2	206954.9
Officer salary	7150	2820	17412			
Dress	710	670.5	790	880	800	800.1
Food	0	164.7	328.5	329.4	317.25	319.35
Local allowance	227.284				8.449	
Dearness allowance	827.278	406.867	387.744	370.8	821.382	764.465
Filed allowance	110	505.3	1030.532	1044.48	504.891	621
Employee meeting allowance	223	356	500	332.5	609.2	689.248
Employee encouragement and reward	273	116.232	153.9	325.249	175	134.57
Other allowance	34.1		5	46.7	4.5	26
Officer meeting allowance	907	2263	2300	2227	2453	2107
Officer allowance & other benefits	0		2707.5	11669.91	12152.55	12085
Social welfare fund	250					
Water and electricity	332.627	602.031	770.579	935.841	868.925	786.605
Communication charges	798.202	688.783	813.863	607.252	790.874	832.59
Fuel (officer used)	433.373	274.002	368.073			
Fuel (office used)	467.359	778.454	799.782	1564.086	1473.747	1665.147
Vehicle repair and maintenance	0	785	1201.386	1357.84	1863.283	1303.526
Insurance & renewable expenses	132.466	200.438	185.17	280.746	359.095	246.783
Machinery equipment repair maintenance and Operation expenses.	682.716	388.479	368.026	550.37	600	603.362
Maintenance expenses of constructed public property	45.75	85.745	321.267	127.647	851.038	779.912
Office-related expenses	2274.374	3611.262	4341.167	3667.544	4381.426	3963.436
Books and material expenses	11.782	25.7	19.878	43.242		15
Fuel-other use	0	5.5	19.354	3.15	39.297	5.684
Newspaper, printing, and information publishing expenses	1176.316	651.668	999.779	1843.324	1963.933	1500
Other office operating expenses	253.375	342.261	171.49	604.135	462.25	106.341
Service and consultancy expenses	1484.466	1000	508.07	15	583.695	297.755
Information system and software operation expenses	0	50	232.2	944.258	464.346	620.85

Contract service fee	9656.251	17163.23	23963.03	49396.59	54351.28	36600.63
Other service fees	688.98	1537.8				
Employees training	627.6	200				258.71
Skill development and public awareness training and seminar expenses	135.885			22681.94	13498	12165.91
Program expenses	57041.95	49535.98	84376.22	46953.5	57681.98	63744.18
Other program expenses	930	190.626	689.715	274.965	360.01	606.456
Supervision and evaluation expenses	410.73		39.8	312.8	126.148	493.575
Traveling expenses	2997.125	2842.996	2944.341	3075.325	2668.15	3958.675
Miscellaneous expenses	1637.963	1943.42	1878.045	1794.875	1527.355	1534.281
Generous, Relief and rehabilitation expenses	0			5560		
Assembly/Meeting operating expenses	256.465	106	149.386	298.85	184.889	44.275
Assistance to educational institutions	0	1000				
Unconditional regular grants to government bodies, committees, foundations, and boards	0	591.5		0	0	0
conditional regular grant to government bodies, committees, foundations, and boards	0	1456				
Social security	57107.4					
Medicine purchase expenses	500	2374.804	5006.824	4580.648	3550.291	4561.363
House rent	757.933	748.6	932.666	1173.424	1303.096	1444.156
Rent vehicles, machinery, and other capital assets	66.3	63.3	57.5	91.9	40.65	
Current Expenditure	280543.1	251990.4	316896.2	339290.5	376213.2	362640.8

Note. Audit report 2018/2019 to 2023/2024.

The study of current expenditure trends over six fiscal years reveals significant variations in spending across different categories. The total current expenditure initially decreased from Rs. 280,543.07 thousand in 2018/19 to Rs. 251,990.41 thousand in 2019/20, before rising sharply to Rs. 376,213.22 thousand in 2022/23 and slightly decreasing to Rs. 362,640.80 thousand in 2023-24. This variation highlights changes in budget allocations, priorities, and economic conditions.

Salary expenses constitute the largest portion of current expenditure, steadily rising from Rs. 128,924.01 thousand in 2018/19 to a peak of Rs. 208,373.24 thousand in

2022/23. There was a slight decrease to Rs. 206,954.86 thousand in 2023/24. This increase suggests annual salary increments, new recruitments, and possible adjustments in wage structures. Officer salaries exhibited fluctuations, reaching a high of Rs. 17,412 thousand in 2020/21; however, there is no data available for subsequent years, indicating potential restructuring or reallocation. Several allowances are included in the total expenditure. The dearness allowance, designed to offset inflation, showed variability, peaking at Rs. 821.38 thousand in 2022/23 before declining slightly in 2023/24. The field allowance, intended for employees working outside office premises, reached a peak of Rs. 1,030.53 thousand in 2020/21 but decreased in the following years, suggesting reduced fieldwork activities. The meeting allowance for employees and officers also fluctuated, reflecting changing policies regarding administrative meetings. The officer allowance and other benefits saw a significant increase from Rs. 2,707.5 thousand in 2020-21 to Rs. 12,152.55 thousand in 2022/23, indicating enhanced financial support for officers.

Administrative expenses encompass costs related to office operations, including utilities, communication, and office maintenance. The expenses for water and electricity increased from Rs. 332.63 thousand in 2018/19 to Rs. 935.84 thousand in 2021/22, followed by a decline, suggesting fluctuations in consumption or the implementation of cost-saving measures. Communication charges showed slight variation, with amounts of Rs. 798.20 thousand in 2018/19 and Rs. 832.59 thousand in 2023/24. Meanwhile, fuel expenses for office use rose significantly, from Rs. 467.36 thousand in 2018/19 to Rs. 1,665.15 thousand in 2023/24, indicating increased transportation and machinery usage. Office-related expenses, which include costs for stationery, equipment, and general office management, experienced fluctuations, reaching a peak of Rs. 4,381.43 thousand in 2022/23 before seeing a slight reduction in 2023/24. Additionally, expenses for newspapers, printing, and information publishing rose notably from Rs. 999.78 thousand in 2020/21 to Rs. 1,963.93 thousand in 2022/23, reflecting a greater emphasis on information dissemination.

Maintenance expenses encompass vehicle repairs, machinery servicing, and the upkeep of public infrastructure. The costs for vehicle repair and maintenance rose from Rs. 785 thousand in 2019/20 to Rs. 1,863.28 thousand in 2022/23, before declining to Rs. 1,303.53 thousand in 2023/24. This decrease may be attributed to policy changes or reduced vehicle usage. In contrast, expenses for machinery and

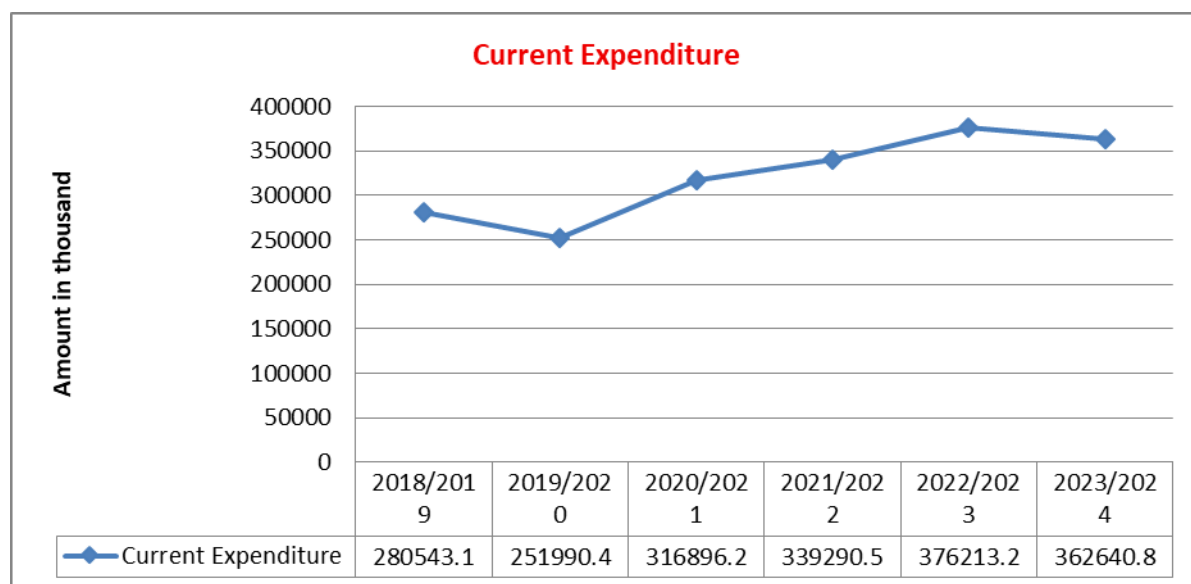
equipment repairs remained relatively stable, fluctuating between Rs. 368.03 thousand and Rs. 603.36 thousand over the years. Additionally, maintenance costs for public property saw a significant increase, rising from Rs. 45.75 thousand in 2018/19 to Rs. 851.04 thousand in 2022/23, indicating a greater investment in the maintenance of infrastructure.

Expenditure on professional services, including consultancy, information systems, and training, varied significantly over the years. Service and consultancy costs saw a dramatic decrease, dropping from Rs. 1,484.47 thousand in 2018/19 to Rs. 15 thousand in 2021/22, before rising again in subsequent years. In contrast, expenses for information systems and software operations increased markedly, climbing from Rs. 232.2 thousand in 2020/21 to Rs. 944.26 thousand in 2021/22, indicating a greater adoption of digital technologies. While employee training expenses decreased over time, there was a substantial increase in spending on skill development and public awareness programs in 2021/22, amounting to Rs. 22,681.94 thousand. However, this expenditure declined in the following years.

Program expenses, which encompass various development and operational projects, experienced significant fluctuations over the years. Spending reached its peak in the fiscal year 2020/21 to Rs. 84,376.22 thousand before declining afterward. Similarly, contract service fees for outsourced work increased dramatically from Rs. 9,656.25 thousand in 2018/19 to Rs. 54,351.28 thousand in 2022/23, then showed a subsequent decrease, indicating changes in outsourcing policies. Travel expenses varied between Rs. 2,997.13 thousand in 2018/19 and Rs. 3,958.67 thousand in 2023/24, reflecting shifts in official travel needs. Miscellaneous expenses remained relatively stable, generally hovering around Rs. 1,500 thousand throughout the years. Social security expenses were reported only in 2018/19 at Rs. 57,107.4 thousand, suggesting a one-time allocation. Medical purchases saw a significant increase, rising from Rs. 500 thousand in 2018/19 to Rs. 4,561.36 thousand in 2023/24, which highlights the growing healthcare needs. Additionally, house rent expenses showed a steady upward trend, reaching Rs. 1,444.16 thousand in 2023/24.

Figure 7

Trend of current Expenditure



Note. Figure 7 drawn using Table 7.

The overall analysis of current expenditures from 2018/19 to 2023/24 shows a pattern of increasing salary costs, fluctuating program expenses, rising operational costs, and shifting priorities in training and consultancy. There has been a notable rise in contract services and training programs during certain years, indicating that expenditures are driven by policy changes. Additionally, the increase in medicine purchases and maintenance of public infrastructure suggests a growing emphasis on healthcare and development. These trends offer valuable insights into financial management strategies and the evolving priorities of budget allocation over time. Future research should investigate the reasons behind these fluctuations, assess the effectiveness of spending, and evaluate the long-term sustainability of financial policies.

4.8 Capital Expenditure Analysis

Capital expenditure refers to long-term investments in infrastructure, assets, and development projects that are essential for driving economic growth and enhancing

public services. The provided data details the allocation and utilization of funds for various capital projects over six fiscal years, revealing priorities, policy shifts, and financial limitations. This analysis focuses on trends in capital expenditure, emphasizing infrastructure development, technological investments, improvements in public services, and overall fiscal sustainability.

Table 8

Capital Expenditure Analysis

	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
Construction or purchase of residential buildings				0	7020	
Construction or purchase of non-residential buildings	30274.38	29265.54	41574.74	50902.52	49228.62	29568.29
Non-residential building purchase/construction	641.558					
Vehicle	4777	751.3	2566.8		2478.1	851.7
Machinery equipment	4965.524	5008.476	7265.667	4288.973	8790.547	7188.448
Furniture and fixture	2778.965	2413.772	2252.586	1697.5	3112.37	2599.773
Computer software development and purchase costs		305.1	1934.56			
Capital consultancy expenses		447.48	2175.815	390.98	1000	
Road and bridge construction	66041.61	74482.46	53152.32	60232.69	70587.79	62020.06
Construction of electricity structure	322.9		498.52			
Embankment and embankment construction	3290.553	2275	982.105	1167.337	3830.596	2832.482
Irrigation structure construction	5091.243	3045.838	3563.182	6323.581	3977.745	3822.526
Construction of drinking water structure	20098.23	6462.98	8777.197	6866.693	16502.29	13066.09
Sanitation structure construction	109.24			586.504		
Other public works	33272.9	31973.98	54745.88	77630.67	53800.82	48778.63
Capital Improvement Expenditure Public Works	366.623	944.252		496.933	269.051	514.697
Land acquisition expenses	0		0	400	0	0

Total capital expenditure	172030.7	157376.2	179489.4	210984.4	220597.9	171242.7
Total Expenditure	452573.8	409366.6	496385.6	550274.9	596811.1	533883.5

Note. Audit report 2018/2019 to 2023/2024.

A significant portion of capital expenditure has been allocated to the construction and maintenance of public infrastructure, including roads, bridges, irrigation systems, drinking water supply, and government buildings. These investments play a vital role in supporting economic activities, enhancing connectivity, and improving public welfare.

Road and Bridge Construction has consistently received the largest share of capital allocation, reflecting the government's prioritization of transportation infrastructure. In the fiscal year 2018/19, the expenditure amounted to Rs. 66,041.61 thousand, reaching a peak of Rs. 74,482.46 thousand in 2019/20. While there was a slight decline in the following years, Rs. 62,020.06 thousand was allocated in 2023/24, reinforcing the government's long-term commitment to expanding and maintaining infrastructure. - Investments in embankments and irrigation structures have varied over the years, indicating a need-based allocation approach. Expenditure on embankment construction fluctuated between Rs. 982.10 thousand in 2020/21 and Rs. 3,830.60 thousand in 2022/23. Similarly, funding for irrigation infrastructure peaked at Rs. 6,323.58 thousand in 2021/22 but declined to Rs. 3,822.53 thousand in 2023/24. These variations may be influenced by agricultural priorities, climate conditions, or the timelines for project completion. - Ensuring access to clean drinking water remains a priority, with expenditures reaching Rs. 20,098.23 thousand in 2018/19 and Rs. 16,502.29 thousand in 2022/23. The fluctuations in allocation suggest targeted interventions in specific areas rather than continuous nationwide expansion. In contrast, investment in sanitation infrastructure has been significantly lower, with Rs. 586.50 thousand in 2021/22 being the only notable allocation.

The construction and purchase of non-residential buildings, such as government offices and institutional facilities, has been a significant area of capital investment. Expenditure in this sector ranged from Rs. 29,265.54 thousand in 2019/20 to a peak of Rs. 50,902.52 thousand in 2021/22. However, the decline to Rs. 29,568.29 thousand in 2023/24 suggests either the completion of major projects or a shift in priorities

toward other infrastructure needs. Notably, there had been no recorded expenditure for residential buildings until 2022/23, when an allocation of Rs. 7,020 thousand was made. This may indicate a new policy direction aimed at providing housing facilities for government employees or vulnerable communities.

Investment in machinery and equipment has steadily increased over time, demonstrating a commitment to modernization and operational efficiency. Expenditure rose from Rs. 4,965.52 thousand in 2018/19 to Rs. 8,790.55 thousand in 2022/23, followed by a slight decline to Rs. 7,188.45 thousand in 2023/24. This indicates that while modernization remains a priority, spending is being adjusted according to immediate needs and available resources. The budget for vehicle acquisition has shown significant variation, with Rs. 4,777 thousand allocated in 2018/19, which dropped to Rs. 751.3 thousand in 2019/20. There was a subsequent increase to Rs. 2,566.80 thousand in 2020/21, but this was followed by another decline. This pattern suggests an emphasis on cost efficiency, likely through maintaining existing vehicles rather than making new purchases. Digital transformation efforts appear limited, with software development expenditures recorded only in 2019/20 Rs. 305.1 thousand and 2020/21 (Rs. 1,934.56 thousand). This implies that while some investment was made in digital infrastructure, it has not been a sustained priority.

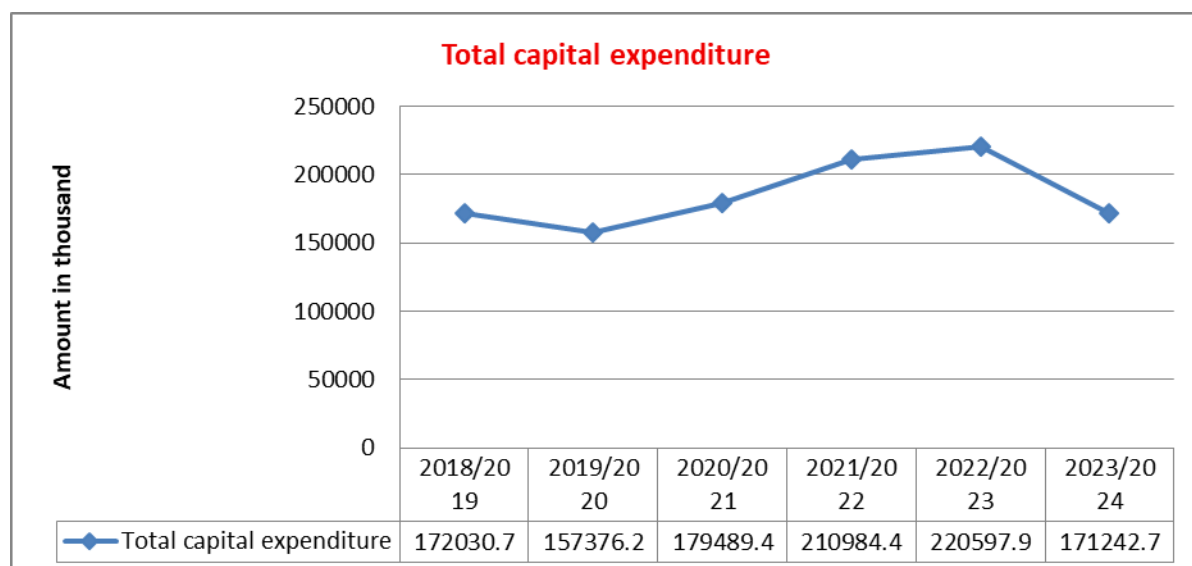
General Public Works have consistently received substantial funding, with allocations of Rs. 54,745.88 thousand in 2020/21 and peaking at Rs. 77,630.67 thousand in 2021/22. This trend indicates ongoing development projects, which include public spaces, community centers, and essential infrastructure improvements. The expenditure on consultancy services varied significantly, reaching a peak of Rs. 2,175.82 thousand in 2020/21, before declining to Rs. 1,000 thousand in 2022/23. This variation suggests that consultancy services are utilized selectively, depending on the complexity of the projects and the need for expert guidance.

Investments in improving existing public infrastructure have varied over the years. In 2019/20, Rs. 944.25 thousand was allocated, while in 2023/24, only Rs. 514.70 thousand was spent. This decline suggests that there is a greater focus on new construction projects, with relatively less attention given to the maintenance and enhancement of existing structures. Additionally, land acquisition expenses were only

reported in 2021/22, totaling Rs. 400 thousand. This may indicate limited land expansion projects or a dependence on previously owned government land for infrastructure development.

Figure 8

Trend of capital expenditure



Note. Figure 8 drawn using Table 8.

The total capital expenditure has experienced fluctuations over the years, reflecting changes in financial allocations, project completions, and policy shifts. It started at Rs. 172,030.7 thousand in 2018/19, peaked at Rs. 220,597.9 thousand in 2022/23, and then declined to Rs. 171,242.7 thousand in 2023/24. This decline suggests potential budget constraints or a reduction in large-scale projects. Similarly, total expenditure has shown an increasing trend, rising from Rs. 452,573.8 thousand in 2018/19 to Rs. 596,811.1 thousand in 2022/23, before decreasing to Rs. 533,883.5 thousand in 2023/24. The drop in the final year raises questions about budgetary restrictions and shifts in spending priorities.

4.9 Chapter Summary

This chapter offers a detailed analysis of the financial management practices of Bhimad Municipality for the fiscal year 2018/2019 to 2023/2024, focusing on revenue generation, utilization, and expenditure patterns. It highlights the municipality's significant reliance on external revenue, which contributed between 92.92% and

97.72% of total income. However, this revenue showed considerable fluctuations, peaking with an 18.29% growth in 2020/2021 and declining sharply by -10.08% in 2023/2024, indicating fiscal vulnerability.

Tax revenue, despite constitutional mandates, remained minimal (0.67% to 0.98%) and unstable due to weak collection mechanisms and limited enforcement, with property and rent taxes being the primary sources. Non-tax revenue also demonstrated volatility, with inconsistent contributions (1.58% to 6.41%) and unpredictable growth, primarily derived from recommendation fees and administrative charges. Internal revenue overall followed erratic trends, including a significant drop of -63.75% in 2020/2021, a temporary rebound, and another steep decline of -51.17% in 2023/2024. These patterns highlight the municipality's challenges in sustaining internal income and reflect systemic issues in revenue collection, economic policy, and fiscal planning.

The examination of expenditure patterns for Bhimad Municipality during the same period reveals trends in current and capital spending, funded mainly by local taxes and government grants. Current expenditure consistently dominated total spending, ranging from 61.50% to 67.93%. This expenditure exhibited volatile growth, marked by sharp declines and rebounds that reflected shifting budget priorities and economic conditions. Salary costs formed the largest share of current expenditure, steadily increasing with fluctuations in allowances and operational costs, including utilities, communication, fuel, maintenance, and administrative expenses. Program expenses and contract services varied significantly, indicating policy-driven shifts, while rising medical purchases and infrastructure maintenance showcased an increasing emphasis on health and development. Capital expenditure, which focused on infrastructure such as roads, bridges, irrigation, drinking water, and government buildings, demonstrated fluctuating but generally declining shares. The municipality made peak investments in road construction and public works. Variations in spending for irrigation, embankments, sanitation, machinery, and digital infrastructure reveal adaptive budgeting aligned with evolving priorities. Total capital outlay peaked in 2022/2023 before declining in 2023/2024, mirroring broader expenditure trends that suggest budget constraints and reprioritization. This chapter emphasizes the importance of balancing recurrent and development expenses and calls for further research into expenditure effectiveness and long-term fiscal sustainability.

CHAPTER 5

MAJOR FINDINGS, SUMMARY, CONCLUSION AND IMPLICATIONS

5.1 Major Findings

- The study reveals a substantial reliance on external revenue, which consistently accounts for the majority of total revenue, ranging from 92.92% to 97.72%. Despite periods of growth, external revenue exhibits high volatility. For instance, in 2020/2021, external revenue increased by 18%, likely due to post-pandemic financial support and increased project funding. However, this trend reversed in 2023/2024, with a sharp decline of 10%, reflecting reductions in government transfers, budget reallocations, or delays in fund disbursement. This heavy reliance on external funding poses a risk to fiscal stability, as fluctuations in grants and aid can lead to significant budget constraints. The findings suggest that while external funding is crucial for local governance, the lack of predictability in fund allocation necessitates the diversification of revenue sources to ensure long-term financial sustainability.
- The study identifies tax revenue as a minor component of the municipality's total income, contributing between 0.67% and 0.98%. A notable finding is the 29% decline in tax revenue in 2019/2020, signaling inefficiencies in tax collection mechanisms. A breakdown of tax revenue sources reveals that property tax and rent tax contribute the most. Property tax consistently represents 21.53% to 30.36% of total tax revenue, while rent tax saw a significant increase, peaking at 51.9% in 2022/2023, indicating a rise in rental activities. However, reliance on a limited number of tax sources increases the system's vulnerability to market fluctuations and economic downturns. Additionally, other potential tax revenues, such as entertainment and infrastructure service taxes, remain underutilized. Their minimal contributions suggest weaknesses in enforcement and a lack of structured policies to maximize tax collection. Enhancing the efficiency of tax administration, broadening the tax base, and strengthening enforcement mechanisms are critical for improving tax revenue contributions.

- Non-tax revenue, which includes recommendation fees, business fees, judicial fees, administrative service charges, and penalties, shows significant instability. Its contribution fluctuates between 1.58% (2020/2021) and 6.41% (2019/2020), reflecting policy inconsistencies and administrative inefficiencies. The study highlights the most substantial decline in non-tax revenue in 2020/2021 (-72%), followed by an 88% increase in 2022/2023. This extreme variation underscores a lack of structured and sustainable revenue strategies. The recommendation fee has shown the most consistent growth, contributing 44.9% of total non-tax revenue in 2023/2024, demonstrating the increasing significance of public service-related fees. Other revenue sources, such as penalties and naksha pass fees, exhibit irregular trends. Penalties peaked at 10.1% in 2021/2022, only to decline sharply thereafter, suggesting weak enforcement mechanisms. To ensure revenue stability, the municipality must expand reliable income streams, implement predictable pricing policies, and strengthen collection mechanisms for non-tax revenue sources.
- The study finds that internal revenue (both tax and non-tax) has been highly unstable, showing periods of sharp declines and rapid recoveries. The total internal revenue amounted to Rs. 29,545.12 thousand in 2018/2019. However, in 2020/2021, internal revenue fell drastically by 63.75%, primarily due to a significant drop in non-tax revenue to Rs. 8,006.88 thousand. Following this decline, internal revenue rebounded in 2021/2022 (+41.19%) and 2022/2023 (+75.98%), largely due to improved collection mechanisms and increased administrative fees. However, 2023/2024 witnessed another sharp decline of -51.17%, emphasizing the municipality's struggle to sustain stable internal revenue generation. The volatility in internal revenue highlights the municipality's over-reliance on fluctuating revenue streams, weak collection mechanisms, and potential economic downturns. To address this challenge, the local government needs to diversify revenue sources, strengthen tax policies, and enhance enforcement mechanisms for both tax and non-tax revenues.
- The proportion of current expenditure in total government spending has demonstrated a consistent upward trajectory, increasing from 61.50% in the fiscal year 2019/20 to 67.93% in 2023/24. This trend indicates an increasing reliance on recurrent costs as opposed to capital investments. However, the growth rate of

current expenditure has exhibited significant volatility. A sharp contraction of -10.18% was recorded in 2019/20, followed by a substantial recovery of 25.76% in 2020/21. Subsequent fiscal years experienced slower growth, peaking at 10.88% in 2022/23, before experiencing a moderate decline of -3.61% in 2023/24.

- Conversely, capital expenditure has declined as a share of total spending, decreasing from 38.01% in 2018/19 to 32.08% in 2023/24. The growth rate of capital expenditure has been highly inconsistent, characterized by an initial decline of -8.52% in 2019/20, followed by growth rates of 14.05% and 17.55% in the subsequent two years. However, capital expenditure growth slowed to 4.55% in 2022/23, before experiencing a significant contraction of -22.37% in 2023/24, suggesting a decline in long-term development investments.
- Total government expenditure followed a comparable pattern, with a contraction of -9.55% in 2019/20, followed by a strong rebound of 21.26% in 2020/21. This positive trajectory continued through 2022/23, with a growth rate of 8.46%, before a subsequent sharp decline of -10.54% in 2023/24.
- A significant portion of current expenditure is allocated to salaries and allowances. The total salary expenditure increased from Rs. 128,924.01 thousand in 2018/19 to a peak of Rs. 208,373.24 thousand in 2022/23, before experiencing a minor decrease to Rs. 206,954.86 thousand in 2023/24. This slight reduction may be attributed to budgetary adjustments or workforce restructuring.
- Officer salaries exhibited fluctuations, peaking at Rs. 17,412 thousand in 2020/21, though subsequent data is unavailable, possibly due to institutional restructuring.
- Allowances (including dearness, field, meeting, and officer benefits) displayed notable variations, potentially reflecting administrative policy adjustments and inflationary influences. The dearness allowance peaked at Rs. 821.38 thousand in 2022/23, before undergoing a marginal decline. Field allowances peaked at Rs. 1,030.53 thousand in 2020/21, indicative of higher fieldwork intensity, though this amount subsequently decreased. Meeting allowances fluctuated over the observed period, signaling changes in governance practices and administrative protocols.
- Officer allowances and benefits exhibited a substantial increase, rising from Rs. 2,707.5 thousand in 2020/21 to Rs. 12,152.55 thousand in 2022/23, suggesting enhanced financial provisions for government personnel.

- Utility expenses (water and electricity) increased from Rs. 332.63 thousand in 2018/19 to Rs. 935.84 thousand in 2021/22, before declining in subsequent years, possibly reflecting efficiency improvements or cost-reduction initiatives. Communication expenses remained relatively stable, increasing marginally from Rs. 798.20 thousand in 2018/19 to Rs. 832.59 thousand in 2023/24. Fuel expenses for official purposes increased considerably, rising from Rs. 467.36 thousand in 2018/19 to Rs. 1,665.15 thousand in 2023/24, suggesting greater reliance on transportation and machinery. Office-related expenses, including stationery and equipment, reached a peak of Rs. 4,381.43 thousand in 2022/23, before undergoing a slight decline in 2023/24. Expenditures on printing and information dissemination doubled, increasing from Rs. 999.78 thousand in 2020/21 to Rs. 1,963.93 thousand in 2022/23, highlighting an emphasis on public communication and outreach.
- Vehicle maintenance costs increased from Rs. 785 thousand in 2019/20 to Rs. 1,863.28 thousand in 2022/23, before declining in 2023/24, possibly due to budget constraints or cost-cutting measures. Public infrastructure maintenance expenditure rose significantly, increasing from Rs. 45.75 thousand in 2018/19 to Rs. 851.04 thousand in 2022/23, indicating heightened investments in asset upkeep. Consultancy service expenditures fluctuated, with a sharp decline from Rs. 1,484.47 thousand in 2018/19 to Rs. 15 thousand in 2021/22, before increasing again, suggesting an inconsistent reliance on external expertise. Investments in information systems and software expanded from Rs. 232.2 thousand in 2020/21 to Rs. 944.26 thousand in 2021/22, underscoring efforts toward digital transformation.
- Program expenditures peaked at Rs. 84,376.22 thousand in 2020/21, before declining in subsequent years, reflecting shifts in policy priorities. Contract service expenditures grew from Rs. 9,656.25 thousand in 2018/19 to Rs. 54,351.28 thousand in 2022/23, before experiencing a downturn, implying fluctuating dependence on external service providers. Medical purchases increased considerably, rising from Rs. 500 thousand in 2018/19 to Rs. 4,561.36 thousand in 2023/24, indicating a growing focus on healthcare investments. House rent expenditures steadily increased, reaching Rs. 1,444.16 thousand in 2023/24, possibly due to rising demand for leased office spaces.

- Road and bridge construction remained a priority, with expenditures peaking at Rs. 74,482.46 thousand in 2019/20. While there was a slight decline, Rs. 62,020.06 thousand was allocated in 2023/24, emphasizing continued investment in transportation infrastructure. Investments in embankment and irrigation infrastructure fluctuated, reaching Rs. 6,323.58 thousand in 2021/22, before declining in subsequent years. Funding for drinking water projects remained irregular, with Rs. 16,502.29 thousand allocated in 2022/23, indicating localized project-based interventions. Sanitation sector investment was minimal, with a peak of only Rs. 586.50 thousand in 2021/22.
- Expenditures on machinery and equipment reached Rs. 8,790.55 thousand in 2022/23, before declining, reflecting variable modernization needs. Vehicle procurement spending fluctuated, decreasing from Rs. 4,777 thousand in 2018/19 to Rs. 751.3 thousand in 2019/20, suggesting cost-efficiency initiatives. Digital transformation investments remained limited, with software-related expenditures recorded only in 2019/20 and 2020/21. Public works investment peaked at Rs. 77,630.67 thousand in 2021/22, signifying a substantial commitment to infrastructure projects.

5.2 Summary of the Study

This study examines the revenue and expenditure patterns of Bhimad Municipality in Tanahun District, within the framework of Nepal's federal governance. Local governments play a crucial role in implementing policies, developing infrastructure, and delivering services. Despite the formal adoption of federalism, there are ongoing debates about its effectiveness. The research focuses on the financial sustainability of the municipality by analyzing revenue sources, expenditure allocation, and fiscal trends over a five-year period. Existing literature indicates that local governments depend on taxation, non-tax revenues, and grants, but often experience financial reliance and imbalances between recurrent and capital expenditures. Using a descriptive case study approach, this research utilizes secondary data from municipal reports and government records spanning from 2018 to 2023. The aim is to provide insights into fiscal management and promote sustainable local development. The study reveals a heavy dependence on external revenue, consistently forming the majority of total municipal income. While external funding has contributed to growth,

it remains highly volatile, influenced by factors such as government transfers, budget reallocations, and fund disbursements. This unpredictability poses risks to fiscal stability, emphasizing the need for revenue diversification. Tax revenue remains a minor component of total income, showing inefficiencies in collection mechanisms. Property and rent taxes are the primary sources, with rent tax increasing significantly in recent years. However, the narrow tax base and underutilization of other potential tax sources, such as entertainment and infrastructure service taxes, highlight weaknesses in policy enforcement. Strengthening tax administration and expanding the tax base are critical for revenue sustainability.

Non-tax revenue exhibits significant fluctuations due to policy inconsistencies and administrative inefficiencies. While recommendation fees have shown consistent growth, other sources, such as penalties and administrative service charges, remain unpredictable. The sharp variations in non-tax revenue underscore the need for structured revenue strategies and improved collection mechanisms. Internal revenue, comprising both tax and non-tax income, has shown extreme volatility. Periods of sharp decline have been followed by rapid recoveries, largely due to adjustments in collection mechanisms and administrative fees. However, the instability of internal revenue highlights the municipality's reliance on inconsistent income streams, reinforcing the need for stronger tax policies and enforcement. Current expenditure has steadily increased, indicating a growing reliance on recurrent costs over capital investments. Salaries and allowances account for a significant share of spending, with fluctuations influenced by budgetary adjustments and administrative policies. Allowances and benefits for government personnel have risen substantially, reflecting shifts in financial provisions. Operational costs, including utility, fuel, and office-related expenses, have generally increased over time. Spending on public communication, digital transformation, and infrastructure maintenance has expanded, signaling evolving administrative priorities. However, fluctuations in vehicle maintenance, consultancy services, and public works investments suggest inconsistencies in financial planning. Infrastructure development remains a key focus, with continued investment in road, bridge, and public works projects. However, funding for essential services such as drinking water, sanitation, and irrigation has remained inconsistent. Investments in machinery, vehicles, and digital transformation have declined in some years, reflecting cost-control measures. Overall, the findings

highlight financial instability resulting from an overreliance on external revenue, weak internal revenue generation, and fluctuating expenditure patterns. To achieve long-term financial sustainability, policy measures should focus on revenue diversification, tax system improvements, and balanced fiscal planning.

5.3 Conclusion

The study highlights significant financial challenges and trends within the municipality, particularly its heavy reliance on external revenue. With most of its total revenue stemming from external funding, the volatility of these sources presents a substantial risk to fiscal stability. Fluctuations in government grants and aid emphasize the need for revenue diversification to ensure sustainable financial management.

Tax revenue constitutes a minor portion of the municipality's income, with persistent inefficiencies in collection mechanisms. Although property and rent taxes contribute significantly, the municipality's narrow tax base and underutilization of potential tax sources hinder revenue growth. Strengthening tax administration and enforcement is crucial for improving fiscal health. Non-tax revenue also demonstrates instability, with significant fluctuations observed over the years. The inconsistency in revenue from fees and penalties indicates weak enforcement mechanisms and policy gaps. To enhance revenue stability, the municipality should develop structured pricing policies and improve collection efficiency.

Internal revenue generation, encompassing both tax and non-tax sources, has been highly volatile, reflecting weak financial sustainability. The sharp declines and recoveries in internal revenue underscore the need for robust financial policies, improved enforcement, and revenue diversification to lessen reliance on unpredictable income streams.

Expenditure trends reveal a growing share of current expenditures in total government spending, often at the expense of capital investments. While salaries and allowances account for a significant portion of expenses, other operational costs, such as utilities, fuel, and office maintenance, show variable trends. The municipality's increasing reliance on recurrent expenditures raises concerns about long-term financial sustainability and the efficient allocation of resources.

Capital expenditure, which is critical for infrastructure development, has demonstrated a declining trend. The inconsistent investment in key sectors like roads, bridges, water supply, and digital transformation highlights an urgent need for strategic planning to effectively balance current and capital expenditures.

The study underscores the importance of adopting comprehensive fiscal reforms to enhance revenue stability and expenditure efficiency. Strengthening tax policies, broadening the revenue base, improving enforcement mechanisms, and ensuring a balanced allocation of resources between recurrent and capital expenditures are essential for achieving long-term financial sustainability and effective local governance.

5.4 Recommendations

- The municipality should aim to reduce its over-reliance on external revenue sources, which tend to be highly volatile. This can be achieved by identifying and developing alternative income streams, such as enhancing tax revenue collection by broadening the tax base and improving tax administration, exploring new non-tax revenue sources, and utilizing public-private partnerships for infrastructure development.
- To address inefficiencies in tax collection, the municipality should adopt a more structured approach to tax administration, implement comprehensive tax policies, and invest in modernized systems to enhance efficiency. Additionally, expanding the range of taxes (such as entertainment and infrastructure service taxes) would help mitigate vulnerabilities to market fluctuations.
- The municipality should develop a more predictable and sustainable revenue generation strategy for non-tax sources, like service fees, fines, and penalties. Improving enforcement mechanisms and adopting regular review practices could help stabilize these revenue streams.
- The declining trend in capital expenditure indicates a need for renewed investment in long-term development projects. Prioritizing capital expenditure in areas such as infrastructure, healthcare, and digital transformation will help ensure sustained growth and improvements in service delivery.
- While expenditure on salaries and allowances has increased, greater scrutiny and restructuring may be necessary to maintain financial sustainability. More attention

should also be given to optimizing utility and vehicle maintenance costs, as well as ensuring that allocations for consultancy services align more closely with long-term strategic priorities.

- Investments in information systems and software should be scaled up to modernize administrative processes, improve service delivery, and ensure efficient public service management.

5.5 Implications for Future Research

- Future research could investigate the relationship between effective tax and non-tax revenue management and fiscal stability in local governments. Studies may assess the impact of different taxation models and revenue diversification strategies on the long-term sustainability of municipal finances.
- Further investigation into the potential role of public-private partnerships (PPPs) in alleviating financial constraints and supporting infrastructure development could provide valuable insights for municipalities facing similar challenges.
- Research into the cost-effectiveness of current expenditures, particularly in areas such as salaries, allowances, and program funding, would help identify opportunities for cost reduction without compromising service delivery.
- Future studies could concentrate on sector-specific models for revenue generation, especially in areas like sanitation, healthcare, and education, to identify innovative ways to fund essential services while enhancing efficiency and accountability.
- Examining how municipalities can leverage technology for improved financial management, from tax collection to resource allocation, could reveal new opportunities for enhancing transparency and efficiency in government operations.
- A comparative study involving municipalities or regions with similar reliance on external revenue could help identify best practices for balancing external funding against the development of self-sustaining local government revenue models.
- Investigating how fiscal instability, stemming from volatile revenue, affects the achievement of development goals and service delivery could inform more resilient budgeting and planning processes for local governments.

REFERENCES

- Acharya, K. K. (2018). Local governance restructuring in Nepal: From government to governmentality. *Dhaulagiri Journal of Sociology and Anthropology*, 12(0), 37-49.
- [Acharya, K.K.](#) and [Zafarullah, H.](#) (2020), "Institutionalising federalism in Nepal: operationalizing obstacles, procrastinated progress", [Public Administration and Policy: An Asia-Pacific Journal](#), Vol. 23 No. 2, pp. 125-139. <https://doi.org/10.1108/PAP-03-2020-0013>
- Bhandari, T. (2010). *Municipality finance in Nepal: A case study of Dhangadhi Municipality* [Unpublished master's thesis]. Tribhuvan University.
- Bhattarai, K. (2024). Expenditure Practices of Provincial and Local Governments: The Case of Nepal. *Journal of Political Science*, 24(1), 74–85. <https://doi.org/10.3126/jps.v24i1.62855>
- Britannica, T. Editors of Encyclopaedia (2024, May 17). local government. Encyclopedia Britannica. <https://www.britannica.com/topic/local-government>
- Dahal, A. K., & Budhathoki, P. B. (2022). Economic Analysis of Public Expenditure, Revenue, and Resource Gap in Nepal. *Dristikon: A Multidisciplinary Journal*, 12(1), 10–24. <https://doi.org/10.3126/dristikon.v12i1.46121>
- Dahal, G. (2021). Local governance in Nepal: A study of Machhapuchre rural municipality, Kaski. *Journal of Political Science*, 21, 31-38. <https://doi.org/10.3126/jps.v21i0.35261>
- De Xavier, F. A., Lolayekar, A. P., & Mukhopadhyay, P. (2021). Decentralization and its impact on growth in India. *Journal of South Asian Development*, 16(1), 130–151. <https://doi.org/10.1177/09731741211013210>
- Dhakal, K.D., Bhattarai, I. P., Koirala, G.P., Pandey, B. & Bhattarai, R. (2021). *Fundamental of taxation & auditing*, Asmita Books Publishers and Distributions (p). Ltd.
- [Dhakal, R.](#), Kandel, P., & Adhikari, S. (2024). Principles of public finance and taxation in Nepal. Kathmandu: Academic Press Nepal.

- Dhungel, B. D. (2022). Government Expenditure and Economic Growth of Nepal. *Humanities and Social Sciences Journal*, 13(2), 1–14. <https://doi.org/10.3126/hssj.v13i2.49820>
- Ghimire, B. R. (2024). Public Policy and Governance: Catalyzing Local Development and Economic Growth. *Journey for Sustainable Development and Peace Journal*, 2(2), 39–53. <https://doi.org/10.3126/jsdpj.v2i2.69562>
- Kelly, R. (2016). Stock-taking of fiscal decentralization policy in Nepal. *Journal of Fiscal Federalism*, 1(1), 1.
- Kleynhans, E. P., & Coetzee, C. (2019). Assessment of Financial Conditions of South African Municipalities: A Unique Model for KwaZulu-Natal. *Southern African Business Review*, 23, 25 pages. <https://doi.org/10.25159/1998-8125/4396>
- Koirala, B., & Acharya, S. (2021). Public expenditure effectiveness in local governments of Nepal. *Nepalese Journal of Public Policy and Governance*, 9(2), 45–62.
- Lamichhane, H. R., & Tamang, G. (2019). Expenditure efficiency of Local Government's Basic Service Delivery in Nepal. *International Journal of Operational Research Nepal*, 8(1), 39–51. <https://doi.org/10.3126/ijorn.v8i1.51850>
- Makushkin, S. A., Kirillov, A. V., Novikov, V. S., Shaizhanov, M. K., & Seidina, M. Z. (2016). Role of inclusion “Smart city” concept as a factor in improving the socio-economic performance of the territory. *International Journal of Economics and Financial Issues*, 6(1), 152-156.
- Nepal Law Commission. (2015). Constitution of Nepal 2015. Kathmandu: Nepal Law Commission. <https://lawcommission.gov.np/en/>
- Nepal Law Commission. (2074). Intergovernmental Financial Management Tax Act 2074. Kathmandu: <https://lawcommission.gov.np/en>

- Nepal, P., Upadhyaya, Y. M., & Dhakal, H. C. (2024). Revenue Mobilization and Contribution Patterns in Nepal. *Interdisciplinary Journal of Management and Social Sciences*, 5(1), 119–130. <https://doi.org/10.3126/ijmss.v5i1.62668>
- Pandeya, G. P. (2015). Does citizen participation in local government decision-making contribute to strengthening local planning and accountability systems? An empirical assessment of stakeholders' perceptions in Nepal. *International Public Management Review*, 16(1), 67-98. Retrieved from <https://ipmr.net/index.php/ipmr/article/view/247>
- Pandey D.L & Sapkota P.P. (2021). *Fundamental of taxation & auditing*, Buddha publications.
- Poudel, R. L., G.C, S. B., Sharma, D. L., Yadav, U. S., Tiwari, I. P., & Thapa, A. (2025). Assessing the financial condition of municipalities in Nepal. *International Journal of Research in Business and Social Science* (2147- 4478), 14(3), 174–186. <https://doi.org/10.20525/ijrbs.v14i3.4041>
- Sisk, T. D. (2001). Democracy at the local level. International Institute for Democracy and Electoral Assistance. <https://www.idea.int/sites/default/files/publications/democracy-at-the-local-level-handbook.pdf>
- Sharma, D. L. (2018). Revenue and Expenditure Structure of Vyas Municipality. *Journal of Nepalese Business Studies*, 10(1), 42–55. <https://doi.org/10.3126/jnbs.v10i1.19132>
- Young, C., & Kaczmarek, S. (2000). Local government, local economic development and quality of life in Poland. *GeoJournal*, 50, 225-234. <https://doi.org/10.1023/A:1007197330116>
- Sharma, D., Paudel, R. L., Yadav, U. S., G C, S. B., Tiwari, I. P., & Thapa, A. (2025). Exploring the Financial Health of Municipalities in Nepal. *Journal of Political Science*, 25(1), 26–45. <https://doi.org/10.3126/jps.v25i1.75771>
- Upadhyaya, G. (2025). An Analysis of Government Expenditure and Revenue in Nepal: Trends, Challenges and Policy Implications. *Journal of Political Science*, 25(1), 102–116. <https://doi.org/10.3126/jps.v25i1.75776>

Wolman, H. (1995). Local government institutions and democratic governance.
Theories of urban politics, 135, 138-39.