Financial Sustainability of Municipalities and Local Governments in Small-Sized Cities; a Case of Shabestar Municipality

MAHRAN HAJILOU, MOHAMMAD MIREHEI, SOHRAB AMIRIAN & MEHDI PILEHVAR

Abstract Lack of a comprehensive approach to municipalities’ revenue sources in the form of macro-economic system, changes and interventions, self-reliance and self-sufficiency policy enforcement have put financial sector of municipalities in unsustainable situation. Continuing of this situation will have undesirable consequences on cities and urban management. Access to favorable and sustainable revenue sources leads municipalities to play a more active role in urban environment and properly meet the needs of citizens. In this regard, this research intends to analyze Shabestar Municipality’s revenue sources in terms of sustainability measures during 2004-2014. Type of the research is applicable and the method is descriptive-analytic and exploratory. Data collection has been carried out either documentary or field survey by using scoring forms and interviews with Municipality officials. Data analysis has been conducted by using Excel, Shannon Entropy and TOPSIS techniques. The results obtained showed that the trend toward financial independence of municipalities and decentralization of sub-national authorities has had some trouble and now municipalities need financial support from central government to fulfill their obligations. Shabestar Municipality like many other municipalities in Iran depends strongly on low favorable and unsustainable revenue sources such as sale of municipal immovable properties, charges on surplus density, charges on removing parking etc.

Keywords: • Shabestar municipality • sustainable revenues • financial sustainability • urban sustainable development • small-sized cities • urban economy

CORRESPONDENCE ADDRESS: Mehran Hajilou, M.Sc., University of Tehran, College of Farabi, 16th Azar St., Enghelab Sq., 14155-6619, Tehran, Islamic Republic of Iran, email: hajiloo_mehran@ut.ac.ir. Mohammad Mirehei, Ph.D., Assistant Professor, University of Tehran, College of Farabi, 16th Azar St., Enghelab Sq., 14155-6619, Teheran, Islamic Republic of Iran, email: mirehei@ut.ac.ir. Sohrab Amirian, Ph.D., Assistant Professor, Payame Noor University, 19395-3697, Teheran, Islamic Republic of Iran, email: s.amirian@pnu.ac.ir. Mehdi Pilehvar, M.Sc., University of Tehran, College of Farabi, 16th Azar St., Enghelab Sq., 14155-6619, Teheran, Islamic Republic of Iran, email: mehdi.pilevar@ut.ac.ir.

https://doi.org/10.4335/16.1.77-106(2018)
ISSN 1581-5374 Print/1855-363X Online © 2018 Lex localis
Available online at http://journal.lex-localis.press.
Introduction

According to United Nations estimates, in 2014 about 53.6 percent of The World population live in urban areas and this amount will be increase to 66.4 percent in 2050 (U.N., 2015). Rapid increase of cities and their population will lead to problems such as determining location of production units and households, emigration and marginalization, desired size of cities, distribution system of cities, pollution and city finance which must be exactly examined (Abedin Dorkosh, 2011). From the view of urban economics the factors such as increasing range of municipalities and local governments’ activities, expectations of people and problems caused by increasing urban population have led to necessity for expanding revenue resources of municipalities and local governments (Qaleh Dar, 2003). In fact, recent papers and international pronouncements have identified high volume of debt and deficit as two essential problems for local governments, encouraging the opportunity and the interest of studying its repercussion on financial sustainability of these organizations (Bailey, Valkama, and Salonen, 2014; Checherita-Westphal, Hallett, and Rother, 2014; IMF, 2014; Pérez-López et al., 2013). Among different sections of urban management, municipal finance has a special importance. Because, on one hand, income earning of municipalities has main effect on providing services to citizens and on the other hand lack of sufficient income and financial sustainability doesn’t lead to implementing all urban plans and programs (Jamshid Zadeh, 2003).

The economic crisis, especially the debt and deficit in government finances, has led international organizations to point out the need for sustainability policies to be implemented (CICA, 2009; EC, 2011; EU, 2012; IFAC, 2014), in order to create the necessary conditions for achieving financial health and ensuring intergenerational equity (Groves and Valente, 2003; Cabaleiro, Buch, and Vaamonde, 2013), particularly in local governments which have been involved in a context of a decrease of public revenues followed by public expenditure cuts. Local authorities also provide discretionary services, according to local priorities. To remain financially sustainable, local authorities must be able to meet their statutory service obligations. This is becoming more challenging in the current financial context (The National Audit Office, 2014).

Municipal finance is actually the innate part of the financial decentralization. As far as efficiency gains and public sector performance concerned, in order to provide public goods and services, financial decentralization and shifting assignment of financial responsibilities to local level is assumed to be the better option even in the developing countries (Oates, 1993; Bahl and Linn, 1992; Slater, 1997;). Oates (1993, 1999) argued that public services should be provided by the lowest level of the government for efficiency gains, as tastes, incomes and other needs vary across jurisdictions and local governments are the best one to provide public services in response to local needs and priorities. Financial sustainability is
necessary for the energizing of both the private and public sector economies, for allowing state and local governments to have enough autonomy to act as laboratories for examining different public policies, and for encouraging the economic growth needed for the well-being of future generations. At the state and local level, financial sustainability is the long-run capability of a government to consistently meet its financial responsibilities. It reflects the adequacy of available revenues to ensure the continued provision of the service and capital levels that the public demands. Financial sustainability must focus both on revenues to meet this demand and potential changes in expenditure patterns (Fisher, 2007).

Related to financial sustainability for local governments and municipalities, several researches and entries have been done around the world. For example, United Nations Human Settlements Program (2009) by sum up conducted studies has provided guidelines to finance the municipalities’ expenses in which various matters such as city financing function of local governments in economics and useful pattern of local governance have been studied. The scholars in this study indicate that the main way of financing municipalities is to get local taxes. In Spain, as in other European Union countries, public sector revenues and expenditures have increased significantly in the recent years as a result of the increased functions undertaken and the expanding role of the public sector in economic activity. This behavior is not consistent with the real capacity of the economy, and it has led to high levels of public debt, which will have a very negative effect on future service provision by all levels of government. In the case of Spanish municipalities, a great part of this deficit has been generated by the difference between the increase in expenditure and the decrease of revenue that has been a consequence of the ‘property bubble’ (Guillamón, Benito, and Bastida, 2011, Ruiz-Huerta and García, 2012, Solé-Ollé and Sorribas-Navarro, 2012 and the Bank of Spain, 2014, Bastida, Guillamón, and Benito, 2014, Navarro-Galera, 2016).

There are some pieces that focus on financial sustainability in transition countries (for some early attempts, see Fanizza and Mourmouras, 1994; Buiter, 1996; Budina and van Wijnbergen, 1997; Pasinetti, 1998; Green et al., 2000, etc.) Aristovnik (2006) suggested that financial sustainability has drawn increased attention in transition countries, recently. Accordingly, almost all transition economies, i.e. Central and Eastern Europe (CEE), Southern and Eastern Europe (SEE) and the Commonwealth of Independent States (CIS), have experienced large deficits in both balances since the start of the transition process. The results indicate that financial sustainability seems to be a problem in many transition countries.

In Bangladesh, as one of the Asian countries, Municipalities cannot fulfill the increasing demand for infrastructure facilities and other services (Siddique, 2005;
Transfer revenues are proved inadequate and unstable because of government incapacity to allocate adequate funds. This situation is recently aggravated by donor countries unwillingness to provide grants and concessionary loans (Billand, 2005). Municipal spending capabilities are, thus, very poor to meet widening infrastructure needs. In addition, continuous financial deficits with poor economic growth and other investment priorities such as energy and transportation investment have significantly limited central government transfers to municipalities (Hossain, 2013).

Schoeman (2011) analyses financial performance in terms of own-revenue collection and sustainability of local municipalities in South Africa. Criteria such as gross value added, revenue collected from own sources, debtors outstanding, the ageing of debt and dependency on grants are considered. The conclusion is that a large number of municipalities do not comply with the requirement that a “reasonable” amount of current expenditures should be financed by means of own resources.

It can be seen similar studies in Peru (see Ruhling, 2005), Columbia (see Gonzalez & Mesa Callejas, 2008), Canada (Fletcher & McArthur, 2010), the U.S. (Cianciara, 2010), E.U. (see CIGU, 2014), Australia (see Drew, Dollery, & Kortt, 2016), Czech (see Krejdl, 2006) and Nigeria (Atakpa et al, 2012) etc.

As it is seen the matter of urbanism & financial autonomy and revenue generation is one of the most important challenges of local governments in all over the world. This is true about Iran, as one of the developing countries in the Middle East. Studying the trend of population growth in Iran, indicates that urban population percentage has reached to 71.4 in 2012, however this amount was 68.5 in 2007 which implies more and more increasement in urban population during last years(Statistics Center of Iran, 2012). The main reason for the increasement of urban population is transformation of the countryside to the cities by the Government, so that during 2007 to 2012 the number of cities has reached from 1012 to 1139(Mousa Kazemi, 2013) and now to 1245(Statistics Center of Iran, 2017). During a period (from 1983), the Government came to conclude that municipalities must be self-sufficient and independent but the problem was that the government did not consider sustainable revenue sources for municipalities. After years it is evident that there is not a balance between municipalities’ activities and their earning incomes; so this has become one of the main challenges of municipalities and so it has led to increasing growth in studies about financial sustainability of municipalities in Iran (i.e. Qorbani & Azimi, 2014; Danesh Jafari et al., 2014; Negin Taji et al., 2013; Akbari & Moazen Jamshidi, 2013; Montazeri & Khodaei, 2012; Malazem Alhoseini & Faraji Mollaei, 2012; Molla Zadeh et al., 2012; Resa Qaamat, 2012; Vaghefi, 2012; Mehraei & Maharati; 2012; Noaeeen, 2012; Davodi, 2011; Qanbari et al., 2011; Nasr Esfehani et al., 2011; Danesh Jafari & Karimi, 2011, Mahmoudi et al., 2011; Yeganeghi

However, studies indicate that municipalities of small-sized cities experience some different situations (Masoum Zadeh, 2001). There are about 860 cities under 25000 population (Mousa Kazemi, 2013), that constraints and lack of financial resources and limited opportunities for financing municipalities are common features of these cities and their main concerns for urban managers. Shortage of sustainable revenue sources in many small-sized cities leads to urban management financial inefficiency and municipalities’ dependence on unsustainable revenue sources to implement their programs. As studies in small-sized cities such as Buin Zahra (Faraji Mollaei & Azimi, 2011), Zarach (Qanbari et al., 2011), Firozkoh (Zakeri et al., 2012), Mahabad (Ziari et al., 2013), Juybar (Bakh’shi & Sahraei, 2014), Shahediyyeh (Mousavi et al., 2011) etc. confirm this situation.

Shabestar Municipality is one of these small municipalities in which there are many constraints for a good urban management and much of these are related to their dependence of government aids as well as low favorable revenue sources such as revenue from surplus density and revenue from construction crimes. Accordingly, this study intends to evaluate trends of Shabestar Municipality revenue sources during the years 2004-2014 and analyze them in terms of sustainability criteria. Finally, pathology of existing situation is expressed and executive guidelines to access municipality to favorable and sustainable revenue sources is offered.

Theoretical bases

Local government revenue sources

For determining local government revenues there are two basic principles:

1. Revenues from internal resources received by local governments to finance activities that provide basic services for citizens. In fact, these are resources acquired from current processes in cities and usually determining the criteria for receiving them is in hands of local government; such as taxes and charges received from citizens.

2. Revenues from external resources that generally are provided by institutions outside the governance framework of local governments and they have less significant role in deciding for the amount and ways of receiving them; such as intergovernmental aids (Montazeri & Khodaei, 2012).
Traditional sources of local government revenue are:
- User charges – water, sewerage, refuse, market fees, property taxes etc.
- Tax revenues – local taxes or shared national taxes.
- Central government development loans and grants.
- Overdraft facilities and short-term loans from banks and building societies.
- Long-term borrowing and other sources of revenue for capital expenditure – local government can use relatively well-developed financial markets to raise funds (e.g. stocks, bonds and loans). This requires a legislative and policy framework for local government borrowing and access to capital markets.
- Municipal property assets (e.g. buildings, land etc.).
- Donor funding – grants, loans, and more recently HIPC funds (Dirie, 2005).

Table 1 shows the main internal and external sources of local government revenues.

**Table 1:** Sources of local government revenues

<table>
<thead>
<tr>
<th>Internal sources</th>
<th>External sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land-based revenues</td>
<td>User charges</td>
</tr>
<tr>
<td>Property taxes</td>
<td>Taxes on households, vehicles, animals etc. License fees for various businesses and occupations</td>
</tr>
<tr>
<td>Land fees</td>
<td></td>
</tr>
</tbody>
</table>

Source: Dirie (2005)

**Sustainability**

The term ‘sustainability’ was introduced into the public policy context by the World Commission on Environment and Development in 1987 (World Commission on Environment and Development, 1987). It is most often used in the context of environmental management. We can easily understand, for example, that fossil fuels such as oil and coal are finite resources. Therefore, considerable effort is devoted to seeking alternative renewable energy resources, along with energy-saving practices and technologies, to try to make our energy consumption practices sustainable. In general terms we use ‘sustainable’ to mean that we can continue our current practices (LGA, 2012).
A development - meant broadly as a change in any environment - was deemed sustainable if it satisfied present generation needs without compromising the ability of future generations to satisfy theirs. This concept signaled to policymakers and analysts a way of discussing environmental and economic development goals simultaneously (Dollery and Grant, 2011) without juxtaposing them or looking for a tradeoff. It also yielded a new normative orientation for managing public resources.

For Robert Solow (1974, 1991), sustainability is simply a matter of distributional equity, about sharing the capacity for wellbeing between present people and future people:

"[It is] an obligation to conduct ourselves so that we leave to the future the option or the capacity to be as well off as we are. It is not clear [to me] that one can be more precise than that. Sustainability is an injunction not to satisfy ourselves by impoverishing our successors. (Solow, 1991, p. 3)"

Other significant definition has been expressed by Heffernon, Welch, and Melnick (2007):
Sustainability---meeting the needs of the present generation without compromising the ability of future generations to meet their own needs---is an overarching value that requires best practices at every level of organization.

**Financial sustainability in national and local level**

The idea that “income” is what can be spent while leaving the asset base intact is precisely the concept of sustainable income established by John Hicks (1946, p. 172) more than 50 years ago:

"The purpose of income calculations in practical affairs is to give people an indication of the amount which they can consume without impoverishing themselves. Following out this idea, it would seem that we ought to define a man's income as the maximum value that he can consume during a week, and still expect to be as well off at the end of the week as he was at the beginning. Thus, when a person saves, he plans to be better off in the future; when he lives beyond his income, he plans to be worse off. Remembering that the practical purpose of income is to serve as a guide for prudent conduct, I think it is fairly clear that this is what the central meaning must be."

Sustainability has become one of the most widely used terms in the assessment of financial policy. However, it is hardly ever explained what sustainability actually means. In the literature, we encounter various definitions of financial sustainability. According to León (2001) financial sustainability means:

“Ensuring the longevity of the organization” (León, 2001)

Patricia León (2001) suggested that there are four fundamental pillars for the financial sustainability of an organization.
1st Pillar: Financial and Strategic Planning
2nd Pillar: Income Diversification
3rd Pillar: Sound Administration and Finance
4th Pillar: Own Income Generation

According to Balassone and Franco (2000), there are different conditions for sustainability – from a non-ever-rising tax rate to an intertemporal discounted budget constraint. The requirement that the tax rate should not rise forever is one of the first definitions of sustainable financial policy.

According to Blanchard (1990), sustainability is about whether, based on current financial policy, a government is headed towards excessive debt accumulation. To make this rather general statement operational, Blanchard defines sustainable financial policy as a policy that ensures that the ratio of debt to GDP converges back towards its initial level. A similar definition is provided in Buiter (1985), who calls a financial policy sustainable if it maintains the ratio of government net worth to GDP at the present level. These definitions are essentially the same.

Financial policy is called sustainable if the present value of future primary surpluses equals the current level of debt (the so-called intertemporal budget constraint). If this condition is met, the government avoids excessive debt accumulation, is able to roll over its debt and there is no risk of insolvency (Lrejdl, 2006). ‘Financial sustainability’ is a similar concept. For community members, financial sustainability is probably thought of as whether we can afford our current lifestyle: whether we can pay for rent, food and other expenses with the income we receive each year. For those of us who own homes, farms or businesses, we may think in longer terms as to whether we will be in a position to repay debts by the time we retire. This type of thinking is practical for individuals or families where long-term planning is probably in the order of 15-20 years. However, most of us probably plan on a shorter basis than that (LGA, 2012).

Based on CICA (1997), Bath (2001) and Stavins, Wagner, and Wagner (2003), financial sustainability can be defined as the ability of government to finance the provision of public services at present without compromising the ability to do so in the future.

Financial sustainability is defined as a type of financial condition that allows a government to continue service provision now and in the future without introducing disruptive revenue or expenditure patterns. An assessment of local financial sustainability is based on three types of indicators: pension liability funding, debt burden, and budgetary balance. Three main factors affect a government’s long-term financial condition: government structure, financial structure and performance, and local economic base (Gorina, 2013).
Chapman (2008) offers its definition as “the long-run capability of a government to consistently meet its financial responsibilities” and identifies three types of pressures that governments face: cyclical, structural, and intergovernmental. Cyclical pressures reflect the influence of the business cycle on governmental finance and are often common for all the three levels of government. Structural pressures that affect financial sustainability include demographic changes, suburbanization trends, overall mobility of population and businesses, structural shift from the consumption of goods to the consumption of services, and the rise of new revenue sources such as e-commerce.

It referred to several government definitions including the following Commonwealth Government definition:
“...a government’s ability to manage its finances so it can meet its spending commitments, both now and in the future. It ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation (LGA, 2012).”

Three essential elements of the above discussion are services; taxes; and impacts on future generations:
- Quality services;
- Reasonable taxes to fund them; and,
- Sound long-term financial management (LGA, 2012).

As we see there are quite formal definitions of financial sustainability at the national level, which are typically oriented around the ability of a country to remain solvent when considering its national debt (Burnside, 2005), While there is some discussion of financial sustainability at the local government level, it is never precisely defined (Clifford, 2005). One of the key initial tasks facing the recent local government inquiries has been to define “financial sustainability” in the local government sector (Coopers, 2006). Typical definitions of financial sustainability in local government focus on the long-run financial viability of municipal entities. For example, Access Economics (2006: 55) defined financial sustainability as follows: ‘a council’s finances are sustainable in the long term only if its financial capacity is sufficient – for the foreseeable future – to allow a council to meet its expected financial requirements over time without having to introduce substantial or disruptive revenue (and expenditure) adjustments’

The FRSB (2005, 10) proposed that the following definition of financial sustainability in local government:
A council’s long-term financial performance and position is sustainable where: (i) continuation of the council’s present spending and funding policies; (ii) likely developments in the council’s revenue-raising capacity and the demand for and costs of its services and infrastructure; and (iii) normal financial risks and
financial shocks, altogether are unlikely to necessitate substantial increases in
council rates (or, alternatively, disruptive service cuts).

Studies indicate that public finance system is an important and integral part of the
functioning of governments in various countries. It is organized in different ways
in different countries depicting the peculiar institutional arrangements and
structure to manage the finances at each level in an inter-government system of
political institutions. These institutional peculiarities of local government are
embedded into the multi-tiered and hierarchical structure of government with
different arrangement of powers to raise revenue, to incur expenditure and to
finance the development activities. Therefore, the various levels of government
tend to pre-occupy with different kinds of responsibilities with reference to (a)
revenue generation, (b) expenditure making, (c) debt raising (d) grants/ aid/
resource transfer and (e) recent reforms (Nallathiga & NICMAR, 2012). The most
accepted definition of financial sustainability in Iran is as follows.

Sustainable revenues are those of municipalities’ revenues that have the following
characteristics:

1. Continuity. It means it is somewhat stable and at least does not have short-
term fluctuations.
2. Resiliency. It means to increase revenue base throughout the time and to
expand along with expanding expenditure to avoid financial hardship and
ability to define necessary operational planning to collect it.
3. Favorability. It means making an earning through it, leads to enhancing
justice and does not be harm the environmental, physical, social and
economic structures (Comprehensive Plan for Sustainable Revenues and
Other Financing Sources, 2007).

Therefore, we can divide favorability index to four sub-index i.e. economic
favorability, physical favorability, environmental favorability and social
favorability of a city. Economic favorability is to pay attention to economic
structures by taking measures such as revenue increased, unemployment rate
reduced, budget increased for urban management, increased in the number of
developmental projects in the city, reduced in the rate of inflation (Sepah Vand
&Aref Nejhad, 2013) etc. Physical favorability is to consider physical
structures in the city and is achieved by taking measures such as increasing the
length of passages, pedestrian areas, reducing the number of zones of old
ones (Maleki & Daman Bagh, 2013) and so on. Environmental favorability is
defined as considering environmental structures by taking measures such as
proper disposal of wastewater, reducing pollution, waste products, energy
consumption (Sepah Vand & Aref Nejhad, 2013) and so on. Social favorability
is to consider social structure by taking measures such as help to increase
citizen participation, social security, education, cultural centers and proper
population density in different regions of the city (Sepah Vand & Aref Nehjad,
2013); help to solidarity and social cohesion, social and economic justice, quality of life, social security and social development ethics (Azad Armaki et al., 2012) etc.

Methodology

This research has been conducted during the years 2004-2014 to study the status of revenue sources of Shabestar municipality in terms of sustainability indicators. Type of the research is applicable and the method is descriptive-analytic and exploratory. Data collection was carried out either documentary or field survey by using scoring forms and irregular interviews with the Municipality officials to identify financial problems and find operational solutions. Statistical population is all of Shabestar municipality’s experts and sampling is judgmental conducted by snowball method. The number of samples that had sufficient information about financial status of the Municipality is eight. Data analysis was conducted by using Excel, Shannon Entropy and TOPSIS techniques. To assess continuity, we examined the number of being active of every revenue sources during 2004-2014.

To assess resiliency, we measure ratio of revenue sources to total revenues for years and then calculate 11-year average by percentage. However, in order to assess favorability, each of sub-criteria of favorability, i.e. environmental, social, economic and physical favorability has been scored by the Municipality’s experts in scoring forms. The forms have been rated from 1 to 9 which represent the least favorable to the most favorable. Steps of TOPSIS technique are following:

Step 1: Construct normalized decision matrix.
\[ r_{ij} = x_{ij} / (\sum x_{ij}^2) \quad \text{for } i = 1, \ldots, m; \ j = 1, \ldots, n \]

Step 2: Construct the weighted normalized decision matrix (in this case calculated by Shannon Entropy).
\[ v_{ij} = w_j \cdot r_{ij} \]

Step 3: Determine the ideal and negative ideal solutions.

- **Ideal solution.**
  \[ A^* = \{ v_1^*, \ldots, v_n^* \}, \quad \text{where} \]
  \[ v_j^* = \{ \max (v_{ij}) \text{ if } j \in J; \ \min (v_{ij}) \text{ if } j \in J' \} \]

- **Negative ideal solution.**
  \[ A' = \{ v_1', \ldots, v_n' \}, \quad \text{where} \]
  \[ v' = \{ \min (v_{ij}) \text{ if } j \in J; \ \max (v_{ij}) \text{ if } j \in J' \} \]
Step 4: Calculate the separation measures for each alternative.

- **The separation from the ideal alternative is:**
  \[ S_i^* = \left[ \sum (v_j^* - v_{ij})^2 \right]^{\frac{1}{2}} \quad i = 1, \ldots, m \]

- **Similarly, the separation from the negative ideal alternative is:**
  \[ S'_i = \left[ \sum (v_j' - v_{ij})^2 \right]^{\frac{1}{2}} \quad i = 1, \ldots, m \]

Step 5: Calculate the relative closeness to the ideal solution \( C_i^* \)

\[ C_i^* = \frac{S'_i}{(S_i^* + S'_i)} \quad 0 < C_i^* < 1 \] (Select the option with \( C_i^* \) closest to 1)

Results

1. Trend of Shabestar Municipality’s revenues

Shabestar municipality revenues are made up of seven main groups and each group is divided into several sub-groups and revenue codes. The trend shows that the major revenue sources of the Municipality are obtained from two groups, i.e. Incomes from general charges and other sources of financing:

- About 39.25 percent obtained from group of Incomes from general charges and from which 30 percent is related to sub-group of land and buildings charges.
- About 25.36 percent obtained from group of other sources of financing and from which 24.35 percent is related to sub-group of sale of municipality’s properties (Figure 1). Municipality’s properties include urban land and facilities.

These two main groups totally provide 65 percent of Shabestar municipality’s revenues.
Figure 1: Trend of Shabestar Municipality’s revenue sources during 2004-2014

Figure 1 shows that in 2010 the Municipality encountered a sharp drop in Incomes from general charges which from 53 percent in 2009 has decreased to 20 percent. A closer look to sub-groups indicate that this mostly due to a sharp decline in incomes from charges on land and buildings so that in 2009 revenues from sub-group of charges on land and construction had been 46 percent but they decreased to 13 percent in 2009. Shabestar municipality to offset a sharp drop in other sectors especially Incomes from charges on land and buildings have sold Municipality’s properties that were most of all as immovable properties. So much that in 2010 about 71 percent of Municipality’s revenues is supplied by this sub-group.

2. Analyzing continuity of Shabestar Municipality’s revenues

In terms of continuity, revenues such as charges on official documents, charges on construction permits, charges on surplus density, and charges on land & building subdivisions, charges on balcony etc. have the most continuity for Shabestar Municipality in 2004-2014. Table 2 shows continuity of revenues in the past 11 years respectively. As it can be seen in figure 1, there have been large fluctuations in revenues from land and buildings in recent years so that in 2010 we have seen a sharp drop in incomes from charges on land & buildings.
These indicate that although charges on land & buildings have been existed in recent years but high dependence on such incomes encounter urban management with serious threatens. Therefore, reducing dependency on such revenues and considering new revenue sources that have less fluctuation seems to be necessary.

**Table 2:** Continuity of Shabestar Municipality’s revenue sources during 2004-2014

<table>
<thead>
<tr>
<th>No</th>
<th>Revenues</th>
<th>Continuity (years)</th>
<th>No</th>
<th>Revenues</th>
<th>Continuity (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Charges on official Documents, Charges on construction permits, Charges on surplus density, Charges on land &amp; building subdivisions, Charges on balcony, Charges on real estate transactions, Charges on travel tickets and freight, Annual charges on cars and other vehicles, Charges on businesses licenses and licensing right, 3% Charges monitor paying of supervising engineers and other monitor paying, Charges on removing parking, Fee on asphalt &amp; repairing and drilling repair, Fee on expertise and buying maps, Income from sale of collected waste, Income from provisioning services, Income from mortuary and cemetery, Rent of buildings and facilities, Income from daily and weekly markets, Article 100 commission fines, Sale of municipal</td>
<td>11</td>
<td>Charges on car inspection, Charges on driving test registration, Charges on parking and parking meters, Sale of profit rights</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6</td>
<td>Charges on gas, Charges on water subscribers, Charges on telephone and mobile, Charges on passport, Charges on electricity, Charges on sale of goods and services(paragraph An Article 38 of the Law on VAT), Charges on taxi licensing, Aid to municipality budget, Income from minibus and taxi driving services, Taxi royalty, Royalty on inner-city passenger transport</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>Access to public transportation system and urban traffic, Aid to civil &amp; construction development projects and municipal services</td>
<td>8</td>
<td>Access to public transportation system and urban traffic, Aid to civil &amp; construction development projects and municipal services</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>Revenues</td>
<td>Continuity (years)</td>
<td>No</td>
<td>Revenues</td>
<td>Continuity (years)</td>
</tr>
<tr>
<td>----</td>
<td>--------------------------------------------------------------------------</td>
<td>--------------------</td>
<td>----</td>
<td>---------------------------------------------------------------------------------------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>1</td>
<td>immovable properties, Sale of movable and worn-out properties</td>
<td></td>
<td>9</td>
<td>Municipality’s share of centralized charges(Claus 2 of Article 39 of the Law on VAT), Income from autobus and minibus driving, Excess income over expenses for prior period</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Income from urban services, Income from slaughterhouse, Income from rent of machines and vehicles, Self-help of citizens and gifts received, Income from changing urban land uses, Fines on delaying in paying 2.5 percent charges</td>
<td></td>
<td>10</td>
<td>Charges on Urban Areas, Charges on vehicles trading, Charges on fire insurance premiums, Income from Taxi transfers, Incomes from sale of asphalt factories’ products, Investment income in private sector, Civil &amp; construction budgets from Twelve Thousand Customs(code 501005), Civil &amp; construction budgets from twelve thousand customs(code 501006), Passage barrier fine</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Income from parks, Income from sale of municipality factories’ products</td>
<td>9</td>
<td>10</td>
<td>Increase in annual charges for passenger cars, Equip municipality to machinery (civil-service-computer, etc.), Income from offering educational services, Income from sale of flowers, plants and other products, Investment income in public sector Right of access to municipal facilities, Other aid granted by the</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>Charges on development of fire stations, Rehabilitation charges, Charges on contracts, Income from commercial advertisement, Capturing lift, Fines on cutting down urban trees</td>
<td>8</td>
<td>11</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>5</td>
<td>Charges on production or sale of products, Income from other municipal facilities, Government development grant(all national and provincial development budget), Sale of goodwill</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. Analyzing resilience of Shabestar Municipality’s revenues

According to table 3, it can be seen among all of Shabestar Municipality’s revenues, revenues from sale of municipality’s immovable properties (21.51 percent), charges on construction permits (13.69 percent), charges on surplus density (8.38 percent), incomes from land use changes (4.57 percent), charges on sale of goods and services (3.38 percent), charges on removing parking (3.49 percent), charges on real estate transactions (3.49 percent), government development grant (all national and provincial development budget) with 3.39 percent, aid to municipality budget with 2.71 percent and income from sale of municipality factories’ products (2.29 percent) have had the most resiliency and most of Municipality costs have been covered by such revenues.

Table 3: Resiliency of Shabestar Municipality’s revenue sources during 2004-2014
<table>
<thead>
<tr>
<th>No</th>
<th>Revenues</th>
<th>Resiliency (%)</th>
<th>No</th>
<th>Revenues</th>
<th>Resiliency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Charges on removing parking</td>
<td>3.49</td>
<td>44</td>
<td>Sale of profit rights</td>
<td>0.27</td>
</tr>
<tr>
<td>7</td>
<td>Charges on real estate transactions</td>
<td>3.46</td>
<td>45</td>
<td>Charges on electricity</td>
<td>0.26</td>
</tr>
<tr>
<td>8</td>
<td>Government development grant(all national and provincial development budget)</td>
<td>3.39</td>
<td>46</td>
<td>Income from slaughterhouse</td>
<td>0.21</td>
</tr>
<tr>
<td>9</td>
<td>Aid to municipality budget</td>
<td>2.71</td>
<td>47</td>
<td>Charges on development of fire stations</td>
<td>0.19</td>
</tr>
<tr>
<td>10</td>
<td>Income from sale of municipality factories’ products</td>
<td>2.29</td>
<td>48</td>
<td>Charges on Gas</td>
<td>0.16</td>
</tr>
<tr>
<td>11</td>
<td>Sale of movable and worn-out properties</td>
<td>1.97</td>
<td>49</td>
<td>Passage barrier fine</td>
<td>0.13</td>
</tr>
<tr>
<td>12</td>
<td>Fee on asphalt &amp; repairing and drilling repair</td>
<td>1.97</td>
<td>50</td>
<td>Charges on Passport</td>
<td>0.11</td>
</tr>
<tr>
<td>13</td>
<td>Fee on asphalt &amp; repairing and drilling repair</td>
<td>1.63</td>
<td>51</td>
<td>Income from Parks</td>
<td>0.11</td>
</tr>
<tr>
<td>14</td>
<td>Charges on land &amp; building subdivisions</td>
<td>1.54</td>
<td>52</td>
<td>Fee on expertise and buying maps /</td>
<td>0.09</td>
</tr>
<tr>
<td>15</td>
<td>Municipality’s share of centralized charges(Claus 2 of Article 39 of the Law on VAT)</td>
<td>1.47</td>
<td>53</td>
<td>Other aid granted by the government and governmental organization</td>
<td>0.08</td>
</tr>
<tr>
<td>16</td>
<td>Income from sale of collected waste</td>
<td>1.37</td>
<td>54</td>
<td>Charges on contacts</td>
<td>0.08</td>
</tr>
<tr>
<td>17</td>
<td>Rehabilitation charges</td>
<td>1.37</td>
<td>55</td>
<td>Incomes from sale of asphalt factories’ products</td>
<td>0.08</td>
</tr>
<tr>
<td>18</td>
<td>Article 100 commission fines</td>
<td>1.33</td>
<td>56</td>
<td>Charges on car inspection</td>
<td>0.08</td>
</tr>
<tr>
<td>19</td>
<td>Income from provisioning services</td>
<td>1.18</td>
<td>57</td>
<td>Charges on parking and parking meters</td>
<td>0.08</td>
</tr>
<tr>
<td>20</td>
<td>Charges on businesses licenses and licensing right</td>
<td>1.1</td>
<td>58</td>
<td>Charges on water subscribers</td>
<td>0.07</td>
</tr>
<tr>
<td>21</td>
<td>Excess income over expenses for prior period</td>
<td>1.01</td>
<td>59</td>
<td>Income from commercial advertisement</td>
<td>0.07</td>
</tr>
<tr>
<td>No</td>
<td>Revenues</td>
<td>Resiliency (%)</td>
<td>No</td>
<td>Revenues</td>
<td>Resiliency (%)</td>
</tr>
<tr>
<td>----</td>
<td>--------------------------------------------------------------------------</td>
<td>----------------</td>
<td>----</td>
<td>--------------------------------------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>22</td>
<td>Income from daily and weekly markets</td>
<td>0.91</td>
<td>60</td>
<td>Income from minibus and taxi driving services</td>
<td>0.05</td>
</tr>
<tr>
<td>23</td>
<td>Charges on travel tickets and freight</td>
<td>0.88</td>
<td>61</td>
<td>Equip municipality to machinery (civil-service-computer, etc.)</td>
<td>0.04</td>
</tr>
<tr>
<td>24</td>
<td>Charges on production or sale of products</td>
<td>0.82</td>
<td>62</td>
<td>Charges on taxi licensing</td>
<td>0.04</td>
</tr>
<tr>
<td>25</td>
<td>Annual charges on cars and other vehicles</td>
<td>0.77</td>
<td>63</td>
<td>Investment income in Private sector</td>
<td>0.03</td>
</tr>
<tr>
<td>26</td>
<td>Charges on balcony</td>
<td>0.73</td>
<td>64</td>
<td>Charges on driving test registration</td>
<td>0.03</td>
</tr>
<tr>
<td>27</td>
<td>Charges on urban areas</td>
<td>0.62</td>
<td>65</td>
<td>Charges on driving test registration</td>
<td>0.03</td>
</tr>
<tr>
<td>28</td>
<td>Sale of Goodwill</td>
<td>0.59</td>
<td>66</td>
<td>Taxi royalty</td>
<td>0.02</td>
</tr>
<tr>
<td>29</td>
<td>Aid to public transportation system and urban traffic</td>
<td>0.59</td>
<td>67</td>
<td>Fines on cutting down urban trees</td>
<td>0.02</td>
</tr>
<tr>
<td>30</td>
<td>Rent of buildings and facilities</td>
<td>0.57</td>
<td>68</td>
<td>Income from autobus and minibus driving</td>
<td>0.01</td>
</tr>
<tr>
<td>31</td>
<td>Investment income in Public sector</td>
<td>0.55</td>
<td>69</td>
<td>Charges on fire insurance premiums</td>
<td>0.01</td>
</tr>
<tr>
<td>32</td>
<td>Income from other municipal facilities</td>
<td>0.52</td>
<td>70</td>
<td>Income from offering educational services</td>
<td>0</td>
</tr>
<tr>
<td>33</td>
<td>Fines on delaying in paying 2.5 percent charges</td>
<td>0.47</td>
<td>71</td>
<td>Right of access to municipal facilities</td>
<td>0</td>
</tr>
<tr>
<td>34</td>
<td>Income from mortuary and cemetery</td>
<td>0.46</td>
<td>72</td>
<td>Fines on constructional and urban crimes</td>
<td>0</td>
</tr>
<tr>
<td>35</td>
<td>Income from rent of machines and vehicles</td>
<td>0.44</td>
<td>73</td>
<td>Royalty on inner-city passenger transport</td>
<td>0</td>
</tr>
<tr>
<td>36</td>
<td>Civil &amp; construction budgets from Twelve Thousand Customs (code 501005)</td>
<td>0.35</td>
<td>74</td>
<td>Income from taxi transfers</td>
<td>0</td>
</tr>
<tr>
<td>37</td>
<td>Charges on telephone and mobile</td>
<td>0.33</td>
<td>75</td>
<td>Increase in annual charges for passenger cars</td>
<td>0</td>
</tr>
</tbody>
</table>
4. Analyzing favorability of Shabestar Municipality’s revenues

In terms of favorability, it can be seen that over the past years some low favorable revenues or revenues with low & medium favorability have constituted the main revenue sources of Shabestar Municipality. If revenue sources of Municipality are divided into three groups of low favorable revenues, fairly favorable revenues and high favorable revenues, about 43 percent of Municipality revenues come from low favorable sources (Table 4), 10.85 percent from fairly favorable sources (Table 4) and 46.15 percent from high favorable sources (Table 5).

Table 4: Low favorable or fairly favorable revenues of Shabestar Municipality during 2004-2014

<table>
<thead>
<tr>
<th>No</th>
<th>Revenues</th>
<th>Resiliency (%)</th>
<th>No</th>
<th>Revenues</th>
<th>Resiliency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>38</td>
<td>Self-help of citizens and gifts received</td>
<td>0.32</td>
<td>76</td>
<td>Income from sale of flowers, plants and other products</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Shabestar Municipality budgets and authors’ calculations
### Table 5: High favorable revenues of Shabestar Municipality during 2004-2014

<table>
<thead>
<tr>
<th>High favorable revenues</th>
<th>Resiliency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government development grant (all national and provincial development budget)</td>
<td>3.39</td>
</tr>
<tr>
<td>Aid to municipality budget</td>
<td>2.71</td>
</tr>
<tr>
<td>Investment income in private sector</td>
<td>0.03</td>
</tr>
<tr>
<td>Municipality’s share of centralized charges (Claus 2 of Article 39 of the Law on VAT)</td>
<td>1.47</td>
</tr>
<tr>
<td>Investment income in public sector</td>
<td>0.55</td>
</tr>
<tr>
<td>Aid to civil &amp; construction development projects and municipal services</td>
<td>1.63</td>
</tr>
<tr>
<td>Civil &amp; construction budgets from Twelve Thousand Customs (code 501005)</td>
<td>0.35</td>
</tr>
<tr>
<td>Charges on sale of goods and services (paragraph An Article 38 of the Law on VAT)</td>
<td>3.83</td>
</tr>
<tr>
<td>Income from sale of collected waste</td>
<td>1.37</td>
</tr>
<tr>
<td>Income from urban services</td>
<td>0.28</td>
</tr>
<tr>
<td>Charges on urban area</td>
<td>0.62</td>
</tr>
<tr>
<td>Other aid granted by the government and governmental organization</td>
<td>0.08</td>
</tr>
<tr>
<td>Rehabilitation charges</td>
<td>1.37</td>
</tr>
<tr>
<td>Income from sale of municipality factories’ products</td>
<td>2.29</td>
</tr>
<tr>
<td>Civil &amp; construction budgets from twelve thousand customs (code 501006)</td>
<td>0.29</td>
</tr>
<tr>
<td>Equip municipality to machinery (civil-service-computer, etc.)</td>
<td>0.04</td>
</tr>
<tr>
<td>Income from sale of flowers, plants and other products</td>
<td>0</td>
</tr>
<tr>
<td>High favorable revenues</td>
<td>Resiliency (%)</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Charges on construction permits</td>
<td>13.69</td>
</tr>
<tr>
<td>Charges on businesses licenses and licensing right</td>
<td>1.1</td>
</tr>
<tr>
<td>Income from rent of machines and vehicles</td>
<td>0.44</td>
</tr>
<tr>
<td>Fee on asphalt &amp; repairing and drilling repair</td>
<td>1.97</td>
</tr>
<tr>
<td>Income from mortuary and cemetery</td>
<td>0.46</td>
</tr>
<tr>
<td>Income from commercial advertisement</td>
<td>0.07</td>
</tr>
<tr>
<td>Income from daily and weekly markets</td>
<td>0.91</td>
</tr>
<tr>
<td>Self-help of citizens and gifts received</td>
<td>0.32</td>
</tr>
<tr>
<td>Capturing lift</td>
<td>0.27</td>
</tr>
<tr>
<td>Charges on land &amp; building subdivisions</td>
<td>1.54</td>
</tr>
<tr>
<td>Income from provisioning services</td>
<td>1.18</td>
</tr>
<tr>
<td>Income from parks</td>
<td>0.11</td>
</tr>
<tr>
<td>Aid to public transportation system and urban traffic</td>
<td>0.59</td>
</tr>
<tr>
<td>Income from slaughterhouse</td>
<td>0.21</td>
</tr>
<tr>
<td>Charges on development of fire stations</td>
<td>0.19</td>
</tr>
<tr>
<td>Right of access to municipal facilities</td>
<td>0.00</td>
</tr>
<tr>
<td>Income from offering educational services</td>
<td>0.00</td>
</tr>
<tr>
<td>Charges on travel tickets and freight</td>
<td>0.88</td>
</tr>
<tr>
<td>Rent of buildings and facilities</td>
<td>0.57</td>
</tr>
<tr>
<td>Charges on fire insurance premiums</td>
<td>0.01</td>
</tr>
<tr>
<td>3% Charges monitor paying of supervising engineers and other monitor paying</td>
<td>0.29</td>
</tr>
<tr>
<td>Excess income over expenses for prior period</td>
<td>1.01</td>
</tr>
<tr>
<td>Charges on taxi licensing</td>
<td>0.04</td>
</tr>
<tr>
<td>Total</td>
<td>46.15</td>
</tr>
</tbody>
</table>

Source: Shabestar Municipality Budgets and authors’ calculations

**Conclusion**

Municipalities in the developed countries, with the full co-ordination of the relevant administrative agencies, carry out extensive tasks related to urban management. In these countries, municipalities and mayors have high status and special powers, while in Iran the excessive reliance on incomes from housing and the sale of surplus density has led to an increase in the price of housing and the occurrence of financial crises for municipalities in different period. Although in recent years municipalities’ revenues have been multiplied by various charges and other sources, the costs have risen mutually and today the achievement of new methods and the prediction of reliable and sustainable revenue sources and the adjustment of municipal expenditures are the main concerns of urban managers and planners as well as city councils and mayors.
The most important issues of municipalities are:

- Old rules and regulations of the municipalities and failure to comply with the law
- Lack of coordination between executive authorities and municipalities
- Not having the general status of the municipalities and mayors unlike the developed countries
- Not having single urban management (there are a lot of authorities that interfere in urban affairs)
- The weakness and lack of relevant expertise among elected mayors from the councils (During the last years, individuals have been elected as City Council members who have had no knowledge about urban mechanisms and have become a member of the Council more based on tribal supports and they have had low education. Therefore, the mayors have been elected more because of individual interests of City Council members. Accordingly, we have seen no efforts in achieving new & sustainable revenue sources for Shabestar Municipality. It is recommended that City Council Election Law be corrected and both scientific and expertise competence to participate in the elections be checked and qualified individuals be elected as candidates.)
- Lack of public culture in recognizing the municipality as a public elected local organization and lack of coordination with the municipality
- Financial problems of municipalities stem from government decisions regarding the independence of municipalities and Lack of government funding to municipalities
- Removing some of the charges of the municipalities in the Aggregation Law and many other basic problems that have led the municipalities of our country to earn money by unconventional and irrational methods, especially increasing the sales of surplus density, and earning income from removing parking
- Lack of proper infrastructure to raise funds
- Not having the right ideas or inability to apply the right ideas
- Lack of support from supporting centers outside the cities
- Sectorial attitude and focusing resources at an area of the city
- Misalignment of organizational status of municipalities in comparison with a wide range of assigned tasks
- Improper performance and productivity of the projects due to weakness and shortage in expert and enthusiastic human resources
- The general lack of awareness of citizens about citizenship duties and urbanization practices
- The inability of cooperating and volunteering groups in the form of NGOs in order to fill the vacancy of doing things that the municipality is not active
- Implementation of urban planning policy in the form of a horizontal development that increases the public expenditure of the city instead of encouraging the verticalization and expansion of the construction of
apartments and the reduction in urban costs resulting from saving asphalt, road, transportation etc.

By analyzing three main indicators of sustainability, i.e. continuity, resiliency and favorability, based on revenue sources of Shabestar Municipality during 2004-2014, it is observed that about 67.32 percent of total cost of Municipality is covered by only 10 revenue sources. Among these revenues there are many low favorable revenues such as sale of immovable properties, charges on surplus density, income from land use changes, charges on removing parking which indicate that a large proportion of municipality’s expenditures have been covered by low favorable revenues. Municipal properties are part of national sources and citizens’ wealth and they can be sustainable revenue sources for Municipality by tenure or investment plans.

During last years, about 39.25 percent of Shabestar Municipalities’ revenues have been provided by Incomes from Public Charges and from which about 30 percent have been share of Charges on Land & Buildings. Comparing these results with other studies conducted in small-sized cities i.e. Buin Zahra (Faraji Mollaei & Azimi; 2011), Zarach (Qanbari et al., 2011), Firozkoh (Zakeri et al., 2012), Mahabad (Ziari et al., 2013), Juybar (Bakh’shi & Sahraei, 2014), Shahediyyeh (Mousavi et al., 2011) etc. indicates that these municipalities also have high dependence on Charges on Land & Buildings. While comparing with studied conducted in metropolises’ municipalities in Iran i.e. in Tehran (Khosroshahi, 2008; Jalali, 2009; Danesh Jafari & Karimi, 2011; Mahmoudi et al., 2011), Esfehan (Nasr Esfahani et al., 2011; Akbari & Moazen Jamshidi, 2013), Mash’had (Qorbani & Azimi, 2014), Shiraz (Safari, 2003), Qom (Ahadi Nia et al., 2011; Akbari Nasab et al., 2015) also indicates that revenue sources of these municipalities are highly dependent on revenues from charges on land & buildings.

According to results of experts’ views, it can be seen that they more tend to receive governmental aids and inter-governmental transfers to finance the Municipality. Given to centralized system of the government in Iran, many tax revenue bases is on the hand of central government and neither sufficient & sustainable revenues nor necessary authority for municipalities have been prospected. This is more prominent in small-sized cities where there is not sufficient revenue generating opportunities than big cities. Totally, we can say financial & administrative independence in many cities of Iran have had adverse trend and practically they need financial support from central government to fulfill their obligations.

Some of the most important guidelines for creating revenues are:

- Given that revenue opportunities in small-sized cities is more limited than big cities and metropolitan areas, so it is suggested that revenue share of these cities from VAT be considered much more than big cites.
• Increased revenue through building factories commensurate with Municipality tasks such as sand & gravel and concrete components and sale of asphalt to demanding organizations.
• Bonds can be used as a means of financing municipalities. Sales of bonds in which people’s money is collected and spent on municipal construction projects.
• City Council and Shabestar Municipality given to cultural atmosphere of city can create revenue by holding exhibitions, cinemas and festivals.
• The sale of municipal properties, especially real estate is on the top of the Municipality’s revenue sources. In fact, these resources are national resources and citizens’ wealth that can be sustainable revenue resources by investing plans especially on creating recreational spaces for the citizens.

Openness to national and international communities and organizations for investment and partnership in all levels of urban management can be very useful in urban sustainable development.

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