POLICY BRIEF

STRENGTHENING MUNICIPAL REVENUES

Recommendations for
Own Source Revenue Reforms – Punjab

AUGUST 2025

Abstract

Enhancing Own Source Revenue in Punjab's Local Governments: challenges and opportunities

This policy brief examines the challenges and opportunities in enhancing Own Source Revenue (OSR) for local governments in Punjab. Municipal revenues have long been constrained by weak governance, fragmented mandates, outdated data, and institutional inertia, resulting in local government reliance on provincial transfers and limited capacity to deliver public services.

Through the piloting of 'end-to-end' policy cycle support – covering problem diagnosis, analysis, planning and budgeting, execution support, and capacity building - the Sub National Governance (SNG) programme has demonstrated that significant untapped revenue potential exists in key OSR areas, such as building plan approvals, land-use fees, and rent for commercial premises. Regular 'stocktakes' with Deputy Commissioners were introduced to track OSR performance against agreed targets, leading to some improvements in OSR collection. These initial efforts highlighted the need for more reliable data to further enhance OSR collection.

In response, the SNG programme commissioned GIS surveys in four local governments. The findings revealed that 5-8% of households surveyed had registered water connections, contributing to deficits of up to 90% between service delivery costs and revenue collected. For example, a building survey in Sambrial (District Sialkot) identified 23,733 buildings (both residential and commercial), of which 14,700 lacked approved plans – representing a loss of potential revenue of PKR 938 million. In Rahim Yar Khan, revenue from building plan approvals doubled following targeted interventions, while shop rent revisions in Kasur have resulted in a one-thousand percent increase in projected revenue from shops' rental.

These reforms have not only increased revenue, but also strengthened monitoring, organisational capacities, and citizen engagement. The roadmap approach, based on 'deliverology' principles, has established measurable targets, enforced accountability through regular stocktakes, and promoted a data-driven, results-oriented culture within municipal administrations.

The following recommendations are made to enhance OSR performance across Punjab's Local Governments:

- **Provincial government/Local government & Community development department:** Adopt the roadmap approach and undertake regular stocktakes and reviews, update legal frameworks, mandate periodic GIS-based surveys, strengthen OSR monitoring.
- Digitize records, improve compliance, engage citizens and reinvest OSR in public services to strengthen the social contract between local governments and citizens.
- **Finance department:** Align vertical fiscal transfers with OSR performance, build LG financial capacity to realistically forecast and collect revenue.
- **Key stakeholders:** Deputy Commissioners, PMDFC, and development authorities to champion reforms, support implementation, and address institutional bottlenecks.
- **Knowledge brokers:** Document lessons, provide technical advice and foster cross-learning.
- **Citizens and civil society:** Promote awareness and transparency and ensure timely payments of municipal fees for better services.

List of Abbreviations

DPDC	District Planning & Design Committee
DRAC	District Rent Assessment Committee
FCDO	Foreign, Commonwealth & Development Office
GIS	Geographic Information System
KP	Khyber Pakhtunkhwa
LDA	Lahore Development Authority
LG	Local Government
LG&CD	Local Government & Community Development Department
MC	Municipal Committee
OSR	Own Source Revenue
PMDFC	Punjab Municipal Development Fund Company
PFM	Public Financial Management
PKR	Pakistani Rupee
SNG	Sub-National Governance Programme

CONTENTS

1. INTRODUCTION

This report highlights the challenges and opportunities associated with enhancing Own Source Revenue (OSR) in Pakistan, drawing on the experience of the Sub-National Governance (SNG) Programme, funded by the UK's Foreign, Commonwealth & Development Office (FCDO). It highlights lessons from pilot initiatives and outlines a reform model that supports local governments across the entire policy cycle, demonstrating promising outcomes in selected municipalities.

Local governments play a pivotal role in service delivery and infrastructure provision. However, their effectiveness depends on their ability to generate own-source revenue (OSR). Evidence suggests that increased OSR not only enhances financial autonomy, but also promotes accountability, citizen participation, and improved service delivery outcomes (Dick-Sagoe, 2017; Uhahula et al., 2025).

Many local governments struggle with revenue collection, leading to high dependence on intergovernmental transfers and inefficiencies in service delivery (Elhiraika, 2007; Schoeman, 2011). Strategies to improve OSR collection include close monitoring and supervision, technological innovations and outsourcing (Uhahula et al., 2025; Olugboyega, 2022). Despite reform efforts, local governments face challenges in meeting OSR targets, resulting in poor service delivery and infrastructure development (Mbegu & Komba, 2017).

Addressing these challenges requires a fiscal strategy that clearly defines revenue assignment responsibilities, enhances administrative efficiency, and ensures institutional accountability (Taliercio, 2005). While the evidence suggests most local governments have the potential to raise additional revenues, to maintain public trust these efforts must be balanced with community expectations regarding service delivery and ability to pay (Productivity Commission, 2008).

In Pakistan, and particularly in Punjab, the absence of elected local bodies has undermined OSR collection. Coupled with entrenched governance weaknesses, fragmented institutional roles, outdated administrative systems, and weak enforcement mechanisms, this has severely constrained the ability of local governments to respond effectively to citizen needs.

SNG has been working since 2019 to strengthen public financial management, fiscal decentralization and service delivery in Pakistan at federal, provincial, and local levels. Within this framework, OSR reforms have emerged as a critical priority for enhancing local government financial autonomy and ensuring sustainable, citizen-responsive service delivery.

Building on successful interventions in areas such as solid waste management and land use/building control, OSR reforms adopt a comprehensive end-to-end policy cycle approach. The approach equips local governments with the tools, institutional capacity and governance mechanisms necessary to mobilise own source revenues. The approach recognises OSR as a 'wicked problem', embedded in complex political, institutional, and social systems, requiring solutions tailored to local contexts and spanning the full policy cycle - from problem identification through to reform design, implementation, and iterative adaptation and course correction.

Pilot interventions in Municipal Committee (MC) Rahim Yar Khan, followed by rollouts in Sialkot and Kasur, have demonstrated that local governments possess significant untapped revenue potential. However, structural challenges such as weak governance, poor data systems, limited institutional capacity, and behavioural resistance have hindered progress. SNG's experience shows that a holistic 'end-to-end' approach – incorporating diagnostic assessments, tailored solutions, reform roadmaps, capacity building during implementation, ongoing monitoring and course correction - is effective in overcoming these constraints and unlocking local revenue potential.

2. PROBLEM STATEMENT

Local governments in Punjab are mandated to finance municipal services through OSR in addition to fiscal transfers from the provincial government under Interim Provincial Finance Commission (PFC) award, 2017. However, OSR collection remains persistently low due to underlying governance and institutional weaknesses. Major revenue streams - including fees from water provision, building plan approval, land-use conversion, and rents from commercial properties - are significantly under-collected relative to their assessed potential. Meanwhile, expenditure on these services exceeds revenues, straining municipal budgets and limiting the capacity to deliver essential services effectively.

For example, prior to the implementation of SNG reforms, OSR collection in Municipal Committee (MC) Rahim Yar Khan, OSR was stagnant at PKR 420 million per year. In MC Sialkot, water charges increased marginally by only 2% within one year - from PKR 79 million to PKR 81 million - while construction and conversion-related fees declined 10%. Similarly, in Sambrial, revenue from water provision services had declined by over 50%, despite continued high operating costs.

This underperformance is rooted in a range of interrelated governance challenges, including:

- **Fragmented mandates and weak coordination:** Overlapping responsibilities and weak oversight result in inconsistent revenue policies, regulatory gaps and discretionary decision-making.
- **Weak institutional capacity:** Under-staffing, untrained personnel, reliance on manual records, and frequent personnel changes hinder revenue collection and enforcement.
- **Informal and non-transparent practices:** The prevalence of illegal service connections, unregistered properties and discretionary billing undermine compliance and trust.

- **Political and behavioural inertia:** The absence of local elections since 2015, combined with limited performance incentives and resistance to change, has perpetuated inefficiency.
- **Lack of sustained reform support:** Previous interventions have been fragmented and short-lived, lacking the comprehensive, end-to-end support necessary for successful implementation and adaptive reform.

These factors have trapped local governments in a cycle of dependency on provincial transfers, limiting their autonomy, eroding accountability and constraining their ability to deliver quality services to citizens.

3. Theory of Change: Strengthening OSR for improved service delivery

3.1 Vision and approach

To address these challenges SNG adopted a strategic approach designed to foster financially autonomous, accountable, and citizen-responsive local governments. This approach recognises that strengthening OSR is not only a technical reform but a governance transformation – one that requires addressing institutional weaknesses, building capacity, fostering political will and embedding transparency.

SNG combined problem-driven diagnostics with practical implementation support, ensuring reforms are tailored to local context, aligned with policy priorities and focused on measurable improvements in service delivery and citizen outcomes.

3.2 End-to-end policy cycle approach

SNG pioneered an end-to-end approach, supporting local governments through the full policy cycle — from problem identification and data diagnostics to solution design, implementation, monitoring and adaptation. This ensured that reforms were not undertaken in silos, but are integrated, iterative, and sustainable. In Rahim Yar Khan, this approach resulted in a 35% increase in OSR within a year.

Key elements of the approach:
- Problem-driven diagnostics to identify gaps and opportunities.
- Locally tailored Revenue Mobilisation Plans.
- Hands-on capacity building and institutional strengthening.
- Embedding accountability and continuous monitoring mechanisms.
- Engaging stakeholders - municipal staff, political leaders and citizens - at every stage to ensure ownership and sustainability.

3.3 Roadmap and Deliverology Approach: Driving Implementation

Building on the end-to-end approach, SNG introduced the roadmap methodology, inspired by the Deliverology approach. This provided a structure to sustain political and bureaucratic commitment, clarify priorities, and monitor performance through regular stocktakes.

Features of the Roadmap Approach:
- Clear goals and measurable targets aligned with local and provincial priorities.
- Leadership and oversight from senior officials (e.g., Deputy Commissioners, Administrators of LGs), ensuring accountability.
- Regular stocktakes to track progress, celebrate successes and address bottlenecks.
- Embedded MEL (monitoring, evaluation & learning) within the LG governance.
- Leveraging data for evidence-based decision-making.
- Showcasing success at the provincial level.

3.4 Weaknesses in existing data

A critical barrier to OSR mobilisation was the poor quality of baseline data. Most LGs rely on manual, outdated records, with no reconciliation systems and inconsistent reporting.
For example:
- Water connection records in pilot LGs showed that only 15–40% of households were registered, despite a demonstrable higher water usage.
- Construction plan and land-use conversion data was incomplete with no updated records or verification against city plans.
- Rent rolls for municipal shops reflected decades-old rates, far below market potential.

These weaknesses masked the true revenue potential, and undermined the credibility and effectiveness of interventions.

3.5 Deep-dive Surveys: building a credible baseline

While the stocktakes were effective and brought significant efficiency gains, the lack of a credible evidence base constrained efforts to unlock the full revenue potential of LGs. To address the root causes of low municipal revenues, SNG - in collaboration with the LG&CD Department - commissioned PMDFC to conduct targeted, GIS-enabled water supply and building control surveys in four pilot MCs: Daska, Pattoki, Rahim Yar Khan, and Sambrial.

Using a structured, multi-phase approach - involving preparatory consultations, staff training, and real-time data collection via a mobile application - the surveys generated a reliable digital database of municipal assets and liabilities. In Daska, Pattoki, and Rahim Yar Khan, the surveys assessed active, inactive, and unregistered water connections, alternative water sources, property sizes, and willingness to connect to municipal supply. In Sambrial the survey documented residential and commercial structures, building map approvals, and unauthorised construction.

The findings were reconciled with municipal records, revealing significant numbers of unregistered buildings and illegal water connections. The exercise provided accurate baselines for water and construction-related revenues, facilitated the issuance of notices and recovery of arrears, and laid the foundation for digitised systems such as e-billing and online monitoring. Collectively, these efforts provided a credible basis for enhancing OSR, improving compliance, and designing targeted, sustainable reform strategies.

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[1]Deliverology® is a systematic approach for helping governments deliver meaningful results that will last. It is both a science and an art.
1) Deliverology: From Idea to Implementation; this is a very helpful article, co-authored by Sir Micheal Barber, which gives a concise yet in-depth overview of the approach.
2) Success Delivered (attached below); a very helpful resource authored by Sir Micheal Barber and the DA team with case examples from Pakistan.
3) Deliverology- the science of delivery : this article by BCG gives a high level overview of the approach.

4. Results: financial and non-financial

OSR interventions delivered financial and institutional outcomes across pilot MCs
(i) Rahim Yar Khan

In Rahim Yar Khan, OSR receipts recorded a substantial increase, rising from PKR 425 million in FY 2022–23 to PKR 566 million in 2023–24, and further to PKR 838 million in 2024–25. A major driver of this growth was revenue from construction and land-use conversion fees, which rose from PKR 71 million in 2022–23 to PKR 114 million in 2023–24, increasing sharply increased to PKR 365 million in 2024–25. This improvement was enabled through a combination of interventions, including the regularisation of the District Planning and Design Committee (DPDC) platform, capacity building of field staff as designated inspectors, deployment of a custom-built monitoring application, and regular performance stocktakes chaired by the Deputy Commissioner.

Despite no upward revision in shop rents due to pending legal proceedings, improved governance and adoption of the OSR roadmap resulted in significant improvement in rent recovery - increasing from PKR 22 million to PKR 57 million over the three-year period. In contrast, revenue from water charges remained stagnant across all three fiscal years. Recent survey findings have highlighted critical gaps and untapped potential in this area, providing a clear path for future revenue enhancement.

[2]District Planning and Design Committee (the district platform headed by DC mandated to give approvals for land use conversion/building etc. The meetings of DPDC are not held regularly leading to backlog and mushroom growth of unapproved properties translating into potential loss of revenue and regulatory challenges) SNG LG team has engaged with relevant DCs to sensitize and ensure this forum is robust and its meetings are held regularly.

Figure 1: MC RYK Results – Increase in overall local revenues and 3 specific heads
Change in own source revenue, 2021-25
PKR in Million
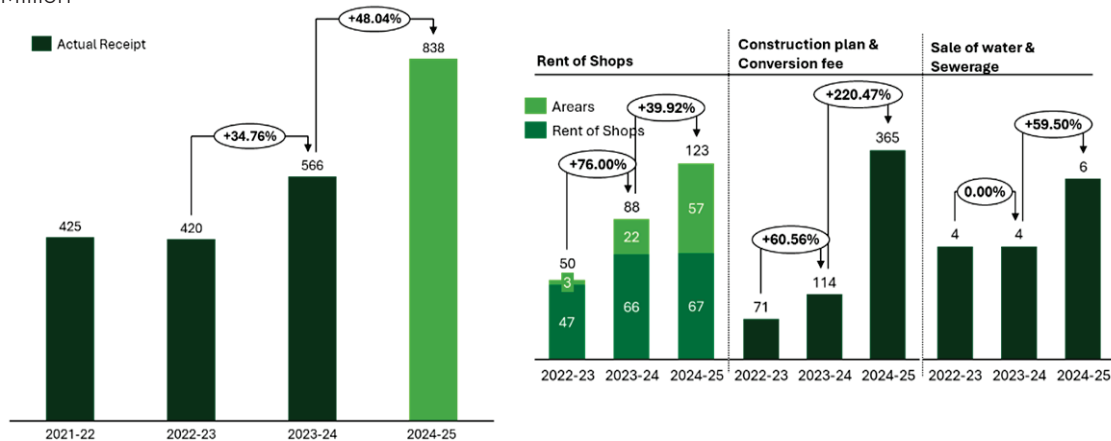
(ii) Sialkot District Results

In MC Sialkot, water revenue, which had remained stagnant at approximately PKR 80 million despite over 52,000 registered connections, doubled (2024-25) within a year to PKR 169 million in FY 2024–25. This was driven by implementation of the roadmap approach, data reconciliation, and capacity building of water revenue section staff to resolve operational bottlenecks.

Similar upward trends were observed in other MCs of Sialkot district. Water revenue increased by 46% in MC Pasrur and 140% in MC Sambrial, reflecting the impact of reform support. In MC Daska, where water revenues remained low due to persistent systemic issues, a water services survey identified underlying weaknesses to unlock future revenue potential.

Figure 2: Sale of Water – District Sialkot
Provision of water - Comparative overview of actual collection over 3 FYs (Millions PKR)
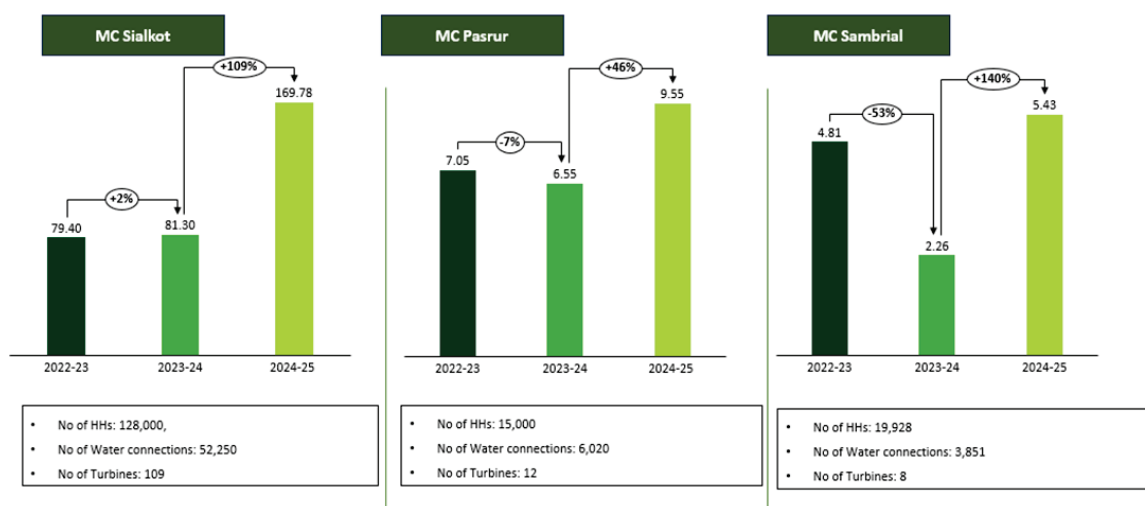
The collection of construction and land-use conversion fees improved across all three MCs of Sialkot district. In MC Sialkot, collections rose by 52% in FY 2024–25 after a decline the previous year, while MC Pasrur saw a 65% increase and MC Daska registered a 34% rise. This is in contrast to no revenue growth over the previous three-year period.

Figure 3: Construction fee and change in land use fee
Building Plan/ Change in Land Use - Comparative Overview of actual collection over 3 Fys (Millions PKR)
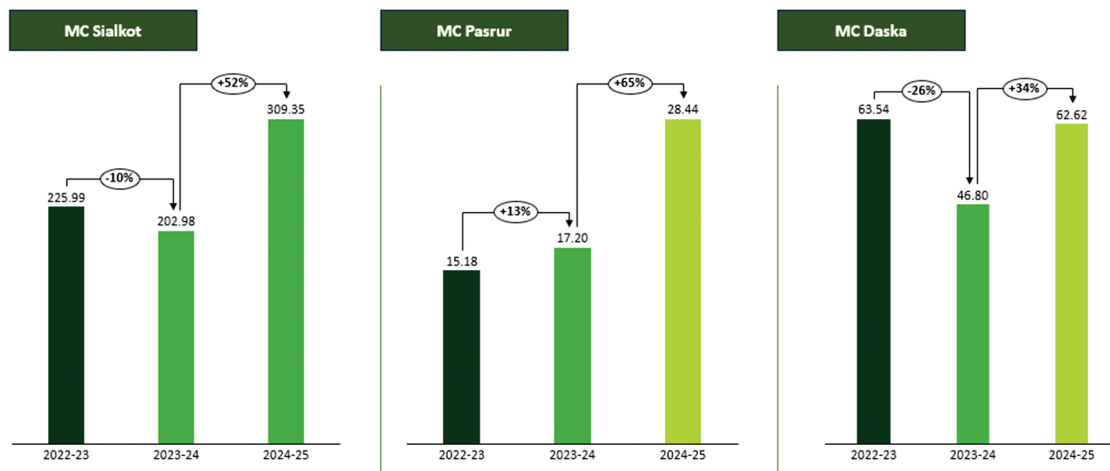

(iii)   Kasur District Results

In Kasur district, SNG supported three pilot MCs enhance their OSR. Water revenue collections increased in MC Chunian and MC Kot Radha Kishan, rising by 21% and 5% respectively over three years, while in MC Pattoki, a water survey identifies potential for future revenue growth.

Responsibility for collecting revenue from construction and land-use conversion fees, was transferred from the Lahore Development Authority (LDA) back to the concerned MCs. This is expected to improve OSR following regularisation of DPDCs - a process supported through SNG's roadmap. While shop rent rates have been significantly increased across all three MCs, the matter is currently under litigation preventing MCs from collecting the additional revised rents.

Figure 4: Sale of Water – Pilot MCs of Kasur District
Provision of water - Comparative overview of actual collection over 3 FYs (Millions PKR)
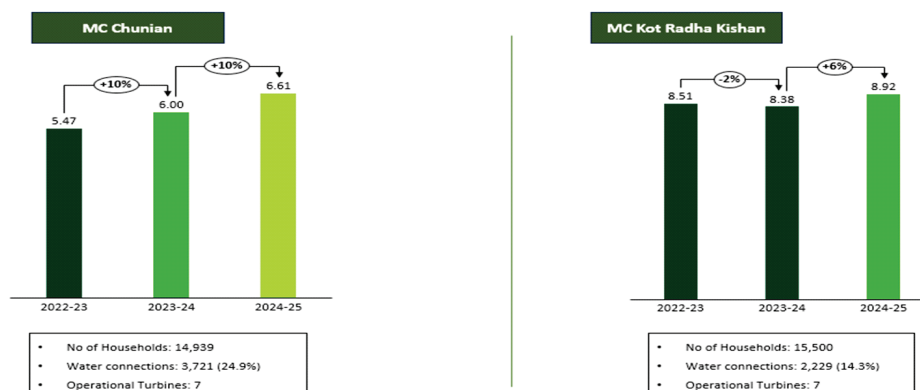
(iv) Non-Financial Impact: the cultural shift

Beyond revenue gains, the reforms have catalysed a transformation in local governance. By addressing operational bottlenecks and embedding low-cost digital tools, municipalities have established mechanisms for real-time accountability and transparency. The sustained use of stocktakes, data reconciliation, and field-level oversight has fundamentally redefined how revenue performance is tracked.

For the first time, realistic revenue targets are being used, data regularly updated, and revenue gains reinvested into operations and service delivery. The approach has also motivated staff by linking results to recognition and performance assessments. As a result, a culture of responsiveness, competence and sustainable municipal leadership has started to take root.

(v) Revenue potential

Water surveys

The surveys revealed significant under-utilised revenue potential. In water supply, registered connections accounted for only 5–8% of surveyed households, with remaining households relying on alternative arrangements such as private bores or tankers. However, a significant proportion of households expressed willingness to switch to the municipal water supply if quality and reliability improved.

Current water revenues in MCs are low, with deficits of up to 90% between expenditures and revenues collected (e.g., Daska's water related expenditure is PKR 44 m vs. revenue of PKR 4.5 m). The surveys identified viable revenue models based on imposing tariffs on domestic bores and on property size (Marla-based – a unit of measure covering approx. 272(?) square foot area). In Rahim Yar Khan it is estimated this would convert a deficit into a surplus, with estimated future revenue of up to PKR 130 m against current expenditure of PKR 55 m. This highlights the potential to align tariffs and fees with actual usage patterns.

Figure 5: Provision of Water – Survey Details of Pilot MCs

MC DASKA
- 36,905 — HH Surveys
- 2,893 (08%) — Active Connections
- 34,012 (92%) — Alternative Arrangements
- 1,918 (5.2%) — Dead/Closed Connections
- 199 (0.5%) — Not in D&C Register
- 959 (2.6%) — Commercial activities/ residential properties

MC PATOKI
- 23,047 — HH Surveys
- 1,141 (5%) — Active Connections
- 21,906 (92%) — Alternative Arrangements
- 1,981 (8.6%) — Dead/Closed Connections
- 23 (0.1%) — Not in D&C Register
- 641 (2.8%) — Commercial activities/ residential properties

MC RY KHAN
- 90,782 — HH Surveys
- 4,748 (5%) — Active Connections
- 86,034 (95%) — Alternative Arrangements
- 6,844 (08%) — Dead/Closed Connections
- 17 (0.0%) — Not in D&C Register
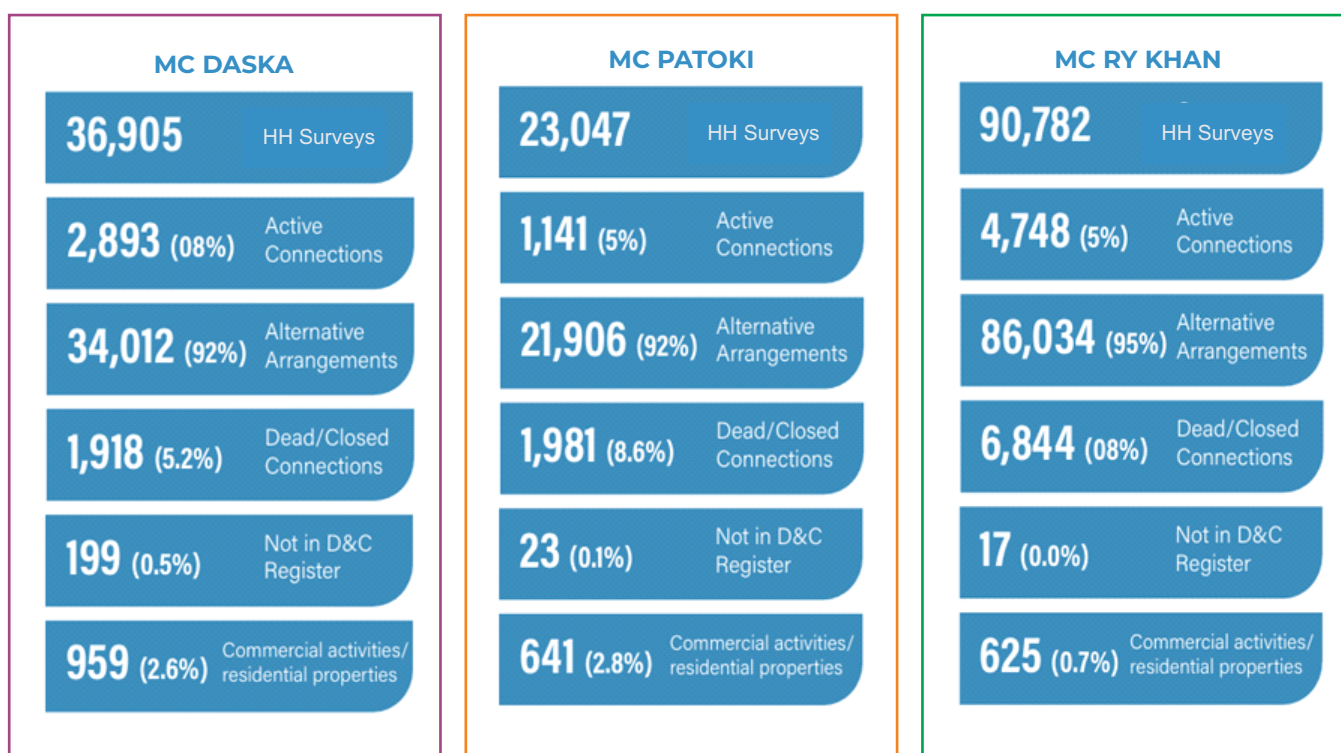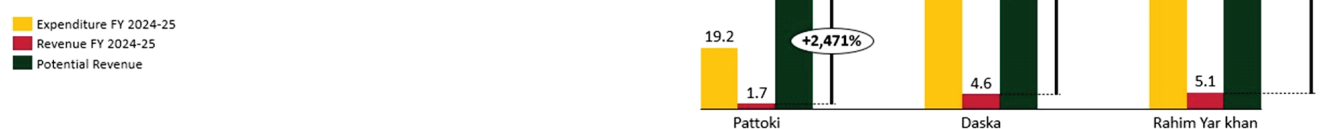- 625 (0.7%) — Commercial activities/ residential properties

Figure 6 highlights the significant gap between current expenditures and water revenue collections across MCs Pattoki, Daska, and Rahim Yar Khan. The survey findings show that if potential revenue is realised, all MCs would fully cover their operational costs, with scope for improved water service provision.

Figure 6: Water Provision – Potential Revenue Identified from different options identified in survey

Potential revenue identified through water survey (In millions)

- Expenditure FY 2024-25
- Revenue FY 2024-25
- Potential Revenue

Pattoki: 19.2, 1.7, 43.7 (+2,471%)
Daska: 40.4, 4.6, 78.8 (+1,614%)
Rahim Yar khan: 55.8, 5.1, 114.4 (+2,143%)

Construction and conversion fees

In MC Sambrial, a survey of 23,733 building structures revealed widespread non-compliance, with only 21% of residential and 47% of commercial buildings fully approved. Over 14,700 buildings lack formal approval, indicating a significant enforcement gap and additional revenue potential of PKR 938 million. Revenue collections remain low due to limited capacity to enforce compliance, highlighting an urgent need for training and the adoption of digital tools to unlock this untapped revenue stream.

Figure 7: Building Survey – Current status of Residential & Commercial Buildings

5. Policy recommendations

(I) Provincial Government / Local Government & Community Development Department

- Adopt the Roadmap/Deliverology approach as a standard tool for monitoring OSR and service delivery across all LGs, while ensuring political and bureaucratic commitment at the highest level.
- Ensure regular convening of key forums (such as DPDC and DRAC) to regulate urban sprawl in line with master plans and avoid revenue leakages through delays and other malpractices in approvals of building plans, land-use conversions and rationalisation of shop rents.
- Mandate periodic, province-wide household and commercial surveys (using GIS and mobile tools) to get accurate and up-to-date data on revenue potential.
- Review legal and regulatory frameworks governing municipal revenue streams to rationalise rates, close loopholes, address unregulated practices, and strengthen enforcement.
- Establish performance-linked incentives (e.g., honoraria, recognition) for local officials achieving targets and enforce accountability for underperformance.
- Strengthen institutional capacity by digitising records, introducing e-billing and e-payment platforms and ensuring transparent, accessible data.
- Monitor payment arrears and compliance, and take action against illegal water connections, unapproved constructions and underreported rents.
- Engage with citizens to build trust, increase willingness to pay.
- Align services with public expectations — through public hearings, complaint mechanisms, and feedback loops.
- Link allocation of enhanced revenues strategically to visible service improvements (e.g., water quality and accessibility etc), reinforcing the social contract with citizens.

(ii) Finance department

- Support enhanced local OSR by streamlining intergovernmental fiscal transfers to reward LGs with improved OSR performance and service delivery.
  - In addition to rewarding high-performing LGs through streamlined intergovernmental fiscal transfers, the approach will also include targeted support for poorly performing LGs. This will involve diagnosing underlying causes in performance gaps, providing capacity-building and technical assistance, and facilitating peer learning from high-performing LGs to help them improve OSR mobilization and service delivery outcomes.
- Facilitate capacity-building for LG finance officers in budgeting, arrears management, and financial planning to complement revenue collection.
- Align vertical provincial transfer ceilings with realistic revenue potential and encourage LGs to invest OSR into priority service areas.
- Support financial management at LG level through appointment of dedicated financial managers (in addition to current Local Fund Audit officials). At district level provide continued technical support to address capacity issues.

(iii) Other public sector stakeholders (e.g., PMDFC, Development Authorities, DCs)

- PMDFC to continue providing technical assistance for surveys, dashboards and capacity-building, helping scale GIS-enabled tools and best practices.
- Deputy Commissioners to champion the OSR roadmap, monitoring progress through regular stocktakes and mentoring of municipal staff.
- Higher level bodies with assigned local functions, such as LDA/RDA/FDA, to coordinate with LGs to ensure timely approvals, provide capacity support, and address institutional weaknesses that constrain revenue streams (e.g., land-use cases in Kasur when the function was with LDA or issues of overlapping functions).

(iv) Development partners, researchers and academia

- Document and disseminate evidence to demonstrate the feasibility and impact of OSR reforms on governance and service delivery.
- Provide technical support for research and produce actionable policy advice to address OSR challenges at the LG level.
- Foster cross-learning between districts and provinces to share success stories, address challenges and develop solutions.
- Strengthen donor coordination to strengthen the strategic focus of donor-funded programmes that support LGFs, and create opportunities for mutual learning.

(v) Civil society

- Raise public awareness about the links between municipal fees and improved public services.
- Engage with municipal budgets and monitor service delivery performance to sustain transparency and accountability.

These recommendations are designed to consolidate the gains achieved to date through the SNG-supported pilots. Together, these provide a pathway for enhancing municipal revenues, improving governance, and delivering improved services on a sustainable basis to citizens.

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