

**Financing Local Governments: Exploiting the potential of local revenue****Overview**

Over the years, the inadequacy of locally generated revenue has remained a major challenge for Local Governments (LGs). Besides the generally slow growth in revenues, the real value has been declining especially since financial year (FY) 2004/05 when Graduated Tax was suspended. As a result, the contribution of locally generated revenues has declined significantly. This has led to dominance of Central Government (CG) transfers for financing. However, these are largely conditional, thus eroding the fiscal discretionary power of LGs.

There is an increasing inability of LGs to finance operation and maintenance of their investments in the wake of reducing local revenues. Therefore, LGs do not have the flexibility to exercise discretion in spending especially on the maintenance of the infrastructure stock. As a result, the focus has been more on minor repairs leading to a backlog of rehabilitation and reconstruction which is partly the cause of breakdown of public infrastructure investments like boreholes, bridges, and roads.

In an attempt to compensate this shortfall, Government introduced two new sources of revenue: The Local Government Hotel Tax (LGHT) and the Local Services Tax (LST). The two newly introduced taxes have been unable to fully compensate for Graduated Tax leaving a financing gap. The Budget Monitoring and Accountability Unit field findings indicate that the local revenue collected across most LGs cannot even cover the sitting allowances for councilors in a FY.

Financing for LGs therefore remains among the most critical policy issues in LG administration in Uganda. Owing to the development responsibilities placed on LGs, there is need for adequate financing.

This policy brief, explores what can be done to improve local revenue collections.

**Key Issues**

- LG financing is not sufficient to meet the level of demand for service delivery.
- Most LG financing is from conditional grants from the centre, with limited flexibility for specific local needs.
- There have been several efforts to improve local revenue collections, but their contribution to the LG budgets has remained low, at less than 3% for district local governments, and 7% for Town Councils and Municipalities.
- The LGs have not fully exploited their potential to generate local revenue.

**Introduction**

Local governments are constitutionally empowered to control, regulate and also raise revenues from activities in their jurisdiction. In so doing, they impose some taxes and rates on these economic activities as a way of generating funds for their operations. The Constitution and Local Governments Act (CAP 243) also provides for sources of local revenue where LGs should benefit.

The LGs generate revenue internally through levies that include; property tax, business licenses, market dues, parking fees, and fines.

**Local Revenue Performance**

The LG through the Technical Planning Committee (TPC) identifies the available sources of local revenue within the locality. Assessment of the current revenue sources and collections is done at the lower local governments (sub-counties, parishes and villages). Additionally, projections for

revenue collections of the ensuing financial year are determined based on the previous years' collection and forecast. The revenue projection and their sources are then submitted



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to the District Council for approval and adoption in the ensuing budgeting process. Once the budget for local revenue is adopted, the LG then lays the strategy for collection, monitoring and utilization.

The performance of local revenue for the period 2010/11 to 2016/17, indicates a slight improvement from Ug shs 111.045bn in FY 2010/11 to Ug shs 196.666bn in FY 2016/17. This improvement is due to technical support in innovative strategies by the Local Government Finance Commission (LGFC), Ministry of Local Government (MoLG) and individual efforts by some LGs.

**Table 1: Trend of Local Revenue Performance by Source (Ug shs'000)**

Source	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Local Service Tax	6.542	7.115	10.786	10.114	11.670	11.719	15.657
LGHT	0.928	1.164	1.065	1.279	2.855	0.989	1.324
Property Tax	31.557	29.290	33.049	38.679	45.109	52.483	34.490
User Fees	21.975	20.931	29.004	34.058	36.359	37.506	27.063
Licenses	6.564	15.560	8.807	11.037	12.339	14.578	23.195
Others	43.478	43.482	56.042	57.837	68.879	76.929	94.935
Total	111.045	117.541	138.753	153.004	177.211	194.207	196.666

Source: LGFC Fiscal Data Bank

The enhancement and mobilization of local revenues have been constrained by LGs' lack of capacity (skills and equipment) to collect and store credible data. Taxpayers are still resisting payment of taxes such as property tax. The shortfalls in collection represent potential revenue that could be tapped by the LGs if existing gaps in local revenue management are addressed.

In the absence of comprehensive local revenue assessments and registration for all the local revenue sources at local governments, they cannot adequately determine their revenue potential and sources. To that effect, a number of revenue sources remain untapped. This also distorts planning as revenue targets are not based on actual assessed potential and thus making collection difficult.

### Local Revenue Enhancement

A number of measures can be put in place to boost revenue. These include:

#### A) Mobilization and sensitization

The success of local revenue management requires very good administration and management of the limited and yet reliable

sources. A review of LGs done by the LGFC showed that there were no specific budget lines for sensitization and or mobilization for local revenue. The LGs



continue to rely on radio talk shows with little or no customer engagements making it difficult to determine the impact of the method used.

## **B) Proper Administration**

Local revenue administration is one of the challenges that has threatened to undermine the successes so far made. LGs have both limited powers to raise revenues and capacity to manage and collect the taxes authorized. Almost all revenue instruments including guidelines for administration are dictated by the center.

Property taxes constitute the major source of LG revenue, and therefore have the potential to substantially enhance the revenue of LGs if well administered. However, this potential has not been exploited as substantial amounts of assessed property taxes are not collected.

It was noted that there is a substantial number of new properties in the councils that are not valued. Most urban councils have not encouraged the formation of property owners' associations to oversee the implementation of property tax. The low collections for property taxes are attributed to weak collection and enforcement mechanisms at LGs.

LGs should update the Property Valuation List and serialize the properties based on location to address the gaps. They should operationalize the Property Owners' Associations and provide them with all the information required in the management of property tax.

Another example of poor administration and management is the vehicle parks. LGs allow private individuals/persons, associations, and cooperative societies to collect and have custody of proceeds from

charges/levies (public funds) from passenger vehicles. Some of these associations managing parks lack competence to manage them. They have no technical and financial capacities, and personnel. There is no proper assessment of the reserve prices of vehicle parks and there are illegal/private taxi parks operated by private operators. Additionally, there is local political interference which continues to sabotage revenue administration.

## **C) Local Revenue Database Management**

Section 80 (2) of the Local Government Act CAP 243 requires LGs to maintain data on total potential collectable revenues. The establishment of local revenue databases, has so far yielded positive results in local revenue performance in the supported local governments. The LGFC supported 21<sup>1</sup> districts in the establishment of local revenue databases and positive results were evident.

The LGs should utilize the revenue module in the Integrated Financial Management System (IFMS) to develop a database (registry) of all taxpayers.

There should be support for development and maintenance of revenue data, systems and other logistical capacity for overall revenue growth.

## **D) Tapping into new local revenue sources**

Some of the proposed revenue options are;

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<sup>1</sup> Bukomansimbi, Butambala, Manafwa, Amuria, Otuke, Nwoya, Kamwenge, Kyenjojo, Oyam, Agago, Katakwi, Lwengo, Kibaale, Ibanda, Gomba, Namayingo, Zombo, Buhweju, Abim, Kole, Kyegegwa



*a) Community contribution towards service delivery:* LGs should be given discretion to levy a minimal fee at service points (health centres, water points and primary schools) which the community members can afford, so that the service is owned, and improved.

*b) Issuing Municipality Bonds:* These are issued by the State and LGs to raise money for public works projects like the construction and maintenance of bridges, hospitals, schools and water treatment facilities. Introducing municipal bonds will increase revenue and promote more transparency and accountability.

*c) Boda boda Tax:* Introducing a small fee on people operating *boda bodas* would be another source of revenue. This could be done monthly or quarterly.

## Challenges

- Local Governments have not done adequate enumeration, mobilization, sensitization, assessment, and registration of taxpayers in order to expand their local revenue base.
- A number of LGs have been split to create new ones. This has affected the amount of revenue collected and some of the new LGs do not have any revenue to be collected.
- Negative attitudes and resistance to change by local governments towards the local revenue enhancement initiatives.

## Conclusion

Local governments have insufficient funds for the required levels of service delivery. Most of the financing is from central government but this is in form of conditional grants. LGs need to boost their local revenues, however, the full potential for raising local revenues has not been exploited. A number of measures can be instituted including establishment of local revenue databases; sensitization about property tax; improving revenue administration as well as exploring new revenue sources.

## Recommendations

- The MoLG should invest in building capacity for technical staff in LGs to adequately conduct enumeration, assessment and registration for improved local revenue performance.
- The MoLG and the LGFC should carry out a comprehensive local revenue assessment and registration for all the local revenue sources at LGs. This will make property valuation, billing systems and revenue collections easier.
- The LGs should sensitize the public about existing taxes, while exploring new revenue sources as well.

## References

Local Government Act Cap 243 First, Second & Fifth Schedule

Local Government Finance and Accounting Regulations

Local Government Finance Commission, Annual Reports – FY2016/17 and FY 2017/18

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