Management Of Local Government Finance In Nigeria: Challenges And Prospects

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Abstract

This article attempts to present a periscopic view of the management of local government finance in Nigeria. This is with a view to investigating the challenges of efficient and effective management of local government finance. The motivation was dismal and poor performances of local governments in Nigeria which have been attributed to improper management of local government finance. The paper examined and articulated some measurable instruments and conditions for effective management of finance for this level of government. The methodology used in the study was descriptive qualitative analysis. The management of local government finance was analyzed using efficiency theory. It was discovered that management of local government finance in Nigeria has been bedeviled by lack of long -term financial planning, corruption, the use of inappropriate budgetary system and so on. It was the contention of the paper that appropriate constitutional amendments to remove certain cogs in the wheel of making local governments an independent but coordinate part of Nigeria federalism, will ensure efficiency in the management of local government finance. Long-term financial planning and appropriate budgetary system will be ensured.

Keywords: Management, Efficiency, Finance, Local Government, Budgeting

Introduction

Local government is a form of decentralization of authority called devolution. Devolution of powers was driven by the failure of national economic planning to deliver quality services to users at the local level.

This resulted in the design of decentralized structures and the apportionment of resources and power between different tiers of sub-national governments. Alam (2008), noted that decentralization has placed increased responsibility for the delivery of public services and the achievement of the Millennium Development Goals (MDGs) on the sub-national and local governments. This has been the case in federal systems like Nigeria, where state and local governments have sustainability responsibility for the provision of services and infrastructure.

In Nigeria, the local government is constitutionally mandated to provide services to the people and security for the citizenry and ensure participation of the citizenry in government. This requires that local governments have under their control, a range of sources of fund to be able to perform the assigned functions. In Nigeria, the local governments have various sources of fund, such as statutory allocations from the federation accounts, local taxes and charges borne by residents of the jurisdiction, grants, returns on investments, etc.

The effective performance of the assigned functions by the local governments depends on effective and prudent management of their financial resources. In recent time, local governments have always explained away their ineffective and dismal performance of their functions by inadequate funds. However, experience has shown that poor finance management, rather than inadequate finance is the bane of local governments' inability to achieve substantial development in their domain (Ojo, 2009). Abubakar (1993) observed that the financial position of local governments in Nigeria has improved considerably due to enhanced allocation from the federation account (See table 1). Kalawole (cited in Lawal, et. al. 2010:232) observed that the lack of funds was no more a constraint on local government performance, but mismanagement and misappropriation of funds accruable to it. Management of local government finance entails the application of all the management functions of planning, organizing, controlling, etc. in the area of finance. Planning the finance of local governments includes budgeting which specifies the sources and expenditure points. Organizing is the allocation and utilization of funds. While controlling is a measure to ensure that there is no deviation in the set budget during implementation, and timely correction or adjustment to check any deviation.

The paper therefore, attempts a periscopic view of the management of local government finance in Nigeria, in the performance of the constitutionally assigned functions. This is with a view to highlighting its weaknesses and offering some suggestions on how to effectively manage local government finance. These functions as earlier said are provision of goods and services, security of citizens, achievement of MDGs and training ground for political participation.

THEORETICAL PERSPECTIVE

The framework upon which the paper is discussed is the efficiency service theory of local government. According to Ezeani (2012) the theory justifies the existence of local government on the ground that it is an efficient agent for providing services that are local in character. The proponents of the theory argue that because of its closeness to the grassroots, local government can provide certain services far more efficiently than the central government (Ezeani, 2004). Sharpe (1970) was of the view that the efficient performance of these services is so compelling that if local government did not exist, something else would have to be created in its place.

In line with the theoretical explications of efficiency service, there is the need for local governments to be properly funded. There is also a greater need for efficient management of available resources. It is only when these conditions are met that local governments will satisfy the efficiency service theory of their existence.

The Tenets Of The Theory and its Application to the Study

In the first place, efficiency is the ratio of input to output. Therefore, efficiency theory posits that in the provision of services that are local in nature, local governments will be more efficient than other tiers of government. This means that a comparison of the input of local government and its output will give more output in relation to input. The reason being that most of the services provided at the local level do not need much sophistication in terms of personnel and technology. In some cases direct local labour may be utilized. These in addition to the distance of other tiers to the local people will make the input in service delivery small in relation to the outputs.

The second tenet is that efficiency means the ratio of actual output to effective capacity (Heizer Render, 2007). This means that when the actual services provided are matched against the effective capacity of the local government in terms of personnel expertise, technology and structure, the local government will be more efficient than other tiers. The services provided at the local level are not big enough when compared with the capacity of other tiers of government.

In applying the theory to the study, it is our contention that since the local government is more efficient than other tiers in the provision of service in terms of the input /output ratio and actual output/effective capacity, local governments finance should be effectively be managed for the provision of these services. Further more, efficient and effective management of local government finance will reduce input and increase output. It will also increase the actual output and increase the capacity of the local government.

CLARIFICATION OF CONCEPTS

Local Government:

Local government is grassroots government recognized by law. It is defined severally by authors and bodies. According to Ogunna (1966) local government can be defined as a political authority which is purposely created by law or constitution for local communities by which they manage their local public affairs within the limits of law or constitution.

The United Nations defines local government as:

> A political sub-division of a nation (or in a federal system, a state) which is constituted by a law and has substantial control of local affairs including the power to impose taxes or to exert labour for prescribed purposes. The governing body of such an entity is elected or otherwise locally selected.

The Reform document (Nigeria 1976) defines local government as:

> Government at local level exercised by representative council, established by law to exercise specific power within defined areas

From the definitions above, certain characteristics of local government stand out:-

(a) That local government is a subordinate system of government

(b) It has both legal and constitutional powers to perform certain legislative, administrative and quasi-judicial functions.

(c) It is the government closest to the people

(d) Within the limits of its power it has legal authority to make policies, to prepare its own budget, to hire its own staff and to execute its own policies.

Local government, by virtue of their nearness to the people is in a position to provide goods and services where the market fails to provide satisfactorily (e.g. public goods and merit goods, such as health and education) or contracting or subsidizing the private sector to provide them (Devas, 2008)

Local Government Finance

Local governments need financial resources in order to finance the services and activities for which they are responsible. Local governments also have a variety of regulatory roles, such as building and development control, and consumer protection, which have to be financed. They need adequate funding to service these functions assigned to it by the constitution and the higher tiers of government.

Local government funds are raised in different ways. Local governments in Nigeria derive their revenues from two major sources viz internal and external sources.

The following are major revenue sources for local government in Nigeria.

a. Local Taxes: These are in principle the main sources of revenue for local governments. Capitation rate is a form of local tax and one of independent revenue sources to the local governments. Other types of local taxes are property rate and special rates.
b. Fees and Charges: These are payments which local governments impose for certain services provided, where a service is provided and exclusively to the payer. Such services include registration of births, marriages, etc.
c. Fines: Fines are financial penalties imposed on individuals for a breach of bye-law of the local government.
d. Profits from local enterprise: where the local government owns an enterprise, any profits from that enterprise would accrue to the local government.
e. Borrowing to finance capital expenditure, from various sources such as banks, government, donors, etc. However, strictly speaking, borrowing is not a revenue source but a financing mechanism, since the money has to be repaid.
f. Statutory Revenue Allocation: It is the share of revenue from the state and federal government as fixed by law. Local governments share of the federation account in Nigeria is 20%
g. Grants: This is financial aid which is given to the local government by the federal or state governments for special projects or as equalizing resources among local governments.

Management of Local Government Finance

Management is the process of utilizing an organization's resources to achieve stated objectives. Williams (2007) defines management as getting work down through others. This definition refers to management as a process of getting work done through others. Stoner, et. al. (1995) see management as the process of planning, organizing, leading and controlling the work of organization members and of using all available resources to reach stated organizational goals.

The above definition shows that any body involved in management is performing the listed process of management namely planning, organizing, controlling. In the same vein, management of local government finance entails planning, organizing and controlling of local government finance.

Financial Planning and Budgeting at the Local Government Level

Financial planning involves decisions and policies on the sources of revenue, forecasting revenue and setting expenditure priorities. Local governments engage in these exercises through the budgetary process. The finance and general purpose committee of the local government council formulates the policies of the financial sources and expenditure priorities. The committee has the function of regulation and control of the finances of the local government. The various heads of departments, in line with the policies submit their estimates which are approved by the legislative arm of the government. Local government administration prepares estimates and projections for the plan based on known activities, financial commitments, community priorities and underlying assumptions.

Annual budgets reflect longer-term development plans and policies, as well as any medium-term financial and expenditure plans, such as medium term expenditure framework, which should provide the framework for the annual budget (Devas, 2008). The long and medium-term plans need to identify broad strategies, whereas annual budgets need to be detailed for purposes of financial control.

Plans and budgets seek to identify:

- Objectives and targets for revenue and expenditure programmes
- Future expenditure needs
- Future resources availability
- Changes in circumstances which will affect needs and resources
- Constraints and opportunities
- Priories between alternative resources

There are different types of budgeting approaches for effective management of local government finance. Such approaches are:

- Planning, programming, budgeting system: This approach stresses longer time horizon and detailed specification of activities. It was favoured internationally in the 1960s.
- Zero-based budgeting: This is an antidote to incremental budgeting, and requires the justification of every amount requested.

- Incremental budgeting: This is an adjustment on the previous year's budgets to suit the present situation and avoid a radical approach which may result in sunk-cost syndrome.
- Mission budgeting: This was introduced in the 1990s as a re-incarnation of
- PPBS. It relates resource request to goals.

Whichever approach that is adopted may be suitable for a local government. However, effective local government financial management ensures organizational stability and continuity by following standard operating procedures. The local government budgetary process goes through the following stages:

a. Review of past performances and the planning framework: A review of the actual performance of revenues and expenditures during the current and previous years, against the budgets for those years. It involves a view of the impact of the budget on the citizens.
b. Forecasting Revenue: This is a realistic assessment of the previous year's actual revenue performance and the factors that may likely affect revenues in the coming year, such as changes in national economy and government policy. A projection of revenue is made considering the possible economic and political situations.
c. Expenditure estimates: Expenditure estimate should be based on current commitments and those that were emitted in the previous year.
d. Adjustments: The adjustment will address the imbalance between revenue estimates and expenditure estimates. This can be done by:
    - Cutting down on the expenditure estimates
    - Increasing revenue by raising tax or charges
    - Borrowing
e. Approval of the Budget: At this stage, the legislative arm of the local government approves the budget. The state house of assembly is also required to approve the budget as provided in S. I 62 (8) of the 1999 constitution of Nigeria.

Organizing Local Government Finance

Organizing is another management function which means arrangement of men and material in an organization for the attainment of the stated objectives. According to Ile (1999) organizing means bringing together materials, money and machines and intentionally dividing tasks to be performed so as to achieve the objectives of the organization.

In the management of local government finance, organizing includes the allocation of funds and implementation of the financial plans. This is an action stage. This function is very tangential to the effective management of local government finance and service delivery to the citizens. If funds are not timely and adequately allocated to various nodes of the plans, the service delivery will not be effective.

Controlling of Local Government Finance

Controlling is a management function which means ensuring that the performance in an organization takes place in accordance with planned performance and standards. It is an evaluation of performance and if necessary apply corrective measures so that performance takes place according to plan. Williams (2007) sees it as the regulation of work activities in accordance with predetermined plans so as to ensure the accomplishment of organization objectives. According to him, it operates through established standards set as part of the planning function, compares actual work performance against standards and corrects deviation from standards.

In the case of local government finance, controlling is the matching of the plans (budgets) with actual performance to know if there are deviations and corrections made. Oshisami (1992) defines financial control as the process which ensures that financial resources are obtained economically and used efficiently and effectively in the accomplishment of desired goals. It would be found that the control parameters bench marked which become the standards against which subsequent actions are compared are themselves the product of financial planning decisions. The following are some characteristics of a financial control system.

(a) It permeates all aspect of financial management functions
(b) It is concerned with the resources and expenditure which can be expressed in monetary terms or can be combined with other quantitative data to express same e.g. personnel, materials etc.
(c) It follows a definite cycle i.e. it is rhythmic as in the budget cycle

Types of Financial Control

1. External Control

It is a control system operating independently of an organization or a system. It focuses on accountability and stewardship. At the local government level the external controls are the State Auditor General, the Public Accounts Committee of the state house of assembly, the office of the governor of the state and the president who issue circulars from time to time to the local governments.

The State Auditor General is empowered to audit the account of the local governments in their states. This is a constitutional mandate given to the Auditor General of States. Public Accounts Committee (IAC) of the state house of assembly receives financial statement of local governments and reports of the Auditor General. PAC reviews the statements and reports and can call any officer found wanting to appear before it to explain themselves.

The office in the governor's office or the president's office on local government matters, from time to time issues circulars to local government on how to utilize financial resources.

2. Internal Control

This refers to a whole system of controls, financial or otherwise established by management to assist it in carrying out its functions in an orderly manner, safeguard its assets, secure as far as possible the accuracy and reliability of its records; promote operational efficiency and encourage adherence to policies. (Oshisami, 1992). It focuses on controllability, orderliness of operations, protection of assets and assurance of accuracy and reliability of records.

Its tools include internal audit, internal check and other accounting techniques. Every local government has an internal audit unit saddled with the responsibility of objectively examining, evaluating and reporting on the adequacy of internal control to the proper economics efficient and effective use of resources. The internal audit is a service to management. It is established by the management.

Budgetary Control

As we have seen that budgets are plans for sourcing and utilization of financial resources, the process has to be controlled to ensure that the process is strictly adhered to and any deviations corrected. It should be noted that any deviations from the budget cycle will have spiral effect on the effectiveness of the budget and its implementation.

Management Of Local Government Finance In Nigeria: The Challenges

Poor Tax Base: The tax base of local government is poor. The federal and state governments have taken the choicer taxes and easy to collect taxes such as income, custom duties, VAT, etc. Local governments are left to collect taxes on property and other difficult to collect taxes. This adversely affects their revenue base and financial planning.

Short Tenure of Local Government Leadership: The tenure of the local government leadership (chairmen and councillors) is two years, whereas the tenures of the federal and state leadership run for four years. Ezeani (2012) noted that only very few states graciously grant local governments a 3-yr tenure, the majority operate a 2 year tenure or even less than 2 years. The shortness of tenure does not allow for long-term financial planning that would have resulted in any meaningful development. Ezeani further observed that the tenure of two years is hardly enough time for a council to settle down, plan execute and monitor programmes and projects that can have meaningful impact on the lives of the people of their locality.

Suffocating Control by higher Tiers of Government: According to Ezeani (2009), the financial crisis or stress being suffered by local governments in Nigeria is further worsened by the erosion of their financial autonomy due to frequent interference by state governments on their finances. Section 162(8) of the 1999 constitution provides that the state house of assembly should approve local government budgets. The local governments are required to operate a joint account with the state. In the two conditions the state determines how much the local governments should spend. There is also a limit or ceiling to the amount local governments can spend without approval from the state.

Both the federal and state governments have offices on local government affairs. These offices from time to time issue circulars to local governments on how to use their funds. The state Auditor-General audits the accounts of the local governments. There is no Auditor-General of local governments as it obtains in other higher tiers. These are obstacles strewn on the path of effective management of local government finances. The situation explained above is a major hindrance to effective planning, organizing and controlling of local government funds.

Corruption: This is a cankerworm that has eaten up the virtuous societal values. Ezeani (2005) observed that corruption is rife in areas of revenue declaration by collectors, to award of contracts, and embezzlement of local government funds by chairmen, counselors and other officials. Corruption at the local government level takes different dimensions such as embezzlement of fund, misappropriation, misapplication of funds, over invoicing, inclusion of ghost workers in the salary voucher, and collusion. Collusion is one of the major forms of corruption. It erodes into all forms of controls (internal and external) common forms of collusion are:-

1. collusion between state auditors and local government officials
2. collusion between contractors and local government officials to inflate contracts.
3. collusion between the state governors and local government chairmen to share or divert local government funds.

Executive Dominance: The chairmen of local governments dominate the local government like a colossus (Abubakar, 2010). This in effect, affects the legislative arm not to perform its statutory function of providing checks and balances on the excesses of the executive. Executive dominance reduces the roles of the legislature in planning and controlling of local government finance.

Budgetary Failures: Budgeting as a tool of financial planning in Nigeria has been far from being effective at every level of government. In western democracies, the budget is a reflection of government's policy, priorities, planning and implementation processes for the delivery of goods and services to the citizenry. In Nigeria, there is a serious apathy over budgeting, because over the years it has not made any difference in the lives of Nigerians (Mordi, 2009). For instance, the 2008 budget was not signed into law as at the end of October 2008.

The implication is that most of the projects earmarked to be executed under the budget were rolled over into that of 2009. The delay in the passage and signing of appropriation bills could be attributed to the divisive interests of the executive and the legislature. The implication is that the citizenry would be short changed as the delay would have spiral effect on the implementation of development programmes.

The budgeting process, being an integral part of the governance, is also afflicted by the endemic malaise in the system (corruption) inspite of the recent attempt at sanity through law reform, with the passage of the fiscal responsibility bill. Ezeani (2012) noted that local government expenditure in Nigeria shows a preponderance of recurrent expenditure over capital expenditure. This leaves the council with little or nothing for development projects (see table 1).

Summary of Local Governments' Finances (N' million)

	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Current revenue	597.21 91	674.25 5.7	832,30 0.0	1,387, 8713	1,069, 365.3	1,359,161 .3
Federation	493.00	550.79	568.30	722,25	529,31	1,082.302

account	.3	6.3	0.0	8.6	5.0	.9
State allocation	3.243 9	3.434 8	3.00.0	3,3174	19,735 .7	12,673.9
Value added tax	55.793 .6	75.920 .0	105.10 0.0	135,92 1.3	157.735 8.6	189, 119.8
Internal revenue	24.042 .5	23.225 .1	21.300 0	22,731 .4	26,064	26,150.0
Grants & others 2/	21.138 .8	20.879 .5	134.60 0.0	503.64 2.6	336.87 1.7	48.941.6
Recurrent expenditure	374.51 4.6	398.18 12	683.60 0.0	1.10. 100.0	704,61 0.0	823,,693.3
Current surplus (+)/Deflect (-)	222 7045	276.07 45	148. 700.0	247, 771.3	364, 755.2	535,468.0
Capital expenditure	213. 463.2	267. 656.7	143. 800.0	247. 771.3	364, 7552	532,958.9
Total expenditure	587. 977.8	665. 838.0	827. 400.0	1,387 900.0	1,067 613.7	1,356.652 .2
Overall surplus (+)/ Deficit (-)	9.2413	8.417 8	4. 900.0	28.8	1.751 6	2,509.1
Financing	- 9.241.+3	-8. 417.8	- 4.900.0	-28.8	- 1,751	-2,509.1
Loans	0.0	0.0	2. 800.0	0.0	6,076 2	3,242.2
Opening cash balance	51. 7072	-20. 560.1	37. 300.0	0.0	38, 453.4	30,420.0
Other funds 3/	- 60.948 .5	-12.142 .3	45.000 .0	28.8	- 49,281.2	-36,171.3

Source: NBS, 2010; CBN Bulletin, 2010

Recommendations

It is the opinion of this paper that to effectively and efficiently manage local government finance, the following measures should be put in place:

Increase in the tax base of local government: Due to the enormous responsibility given to the local government and their closeness to the people their revenue base especially tax should be increased. Some of the lucrative and easy to collect taxes (such as income tax) should be given to the local government. This would leave them with reasonable fund to plan with.

Greater Autonomy of local government: Local government can not be granted total autonomy. However, the autonomy given to them should be strictly adhered to. The constitution should be amended to clearly regulate the suffocating control of local government by the higher tiers of government. For instance, the provision that local government budgets should be approved by the state house of assembly should expunged from the constitution. This is to ensure that local governments can plan and control their finance.

Elongation of the tenure of the local government chairmen and councilors: The tenure of the local government council is too short to achieve any meaningful development through good financial planning. An extension of their tenure to four years is hereby recommended. The constitution should be explicit on the tenure of local government council in guaranteeing the four year tenure. This will also increase their independence from the strangle hold of the state governors. The governors have been using the undue advantage of the shortness of the tenure to manipulate, intimidate and circumscribe them and their plans. They totally depend on the governors for continued and peaceful stay in office. In some cases the governors even refuse to organize elections.

Multiyear Planning

This is a vital tool for local governments, especially those struggling with difficult financial conditions. It allows decision makers to set long-term priorities and work towards goals rather than making choices based only on the needs and politics of the moment.

Long-Term Financial Planning

It is used to identify financial challenges and opportunities through financial forecasting and analysis, and then based on that information to devise strategies to achieve financial sustainability.

The long-term should be by the local government leadership viz the finance and general purpose committee, the council, and heads of department. According to Department for Local Government (2007) the benefits derivable from long-term financial planning include:

- Balanced budgets
- Reduced conflict during budgeting
- Sustainable growth
- Efficient utilization of resources.

Effective internal Control: This can help prevent, detect and correct the risk of corruption. This can be bolstered by exceptional political and managerial will to promote and maintain anti-corruption reforms.

Head- long attack on corruption

In order to stem the tide of corruption and allow for efficient management of local government finance the following measures are required.

- Exceptional political and managerial will to promote and maintain anti-corruption measures of federal government

- Enhanced professional skills, as well as political and managerial will to control corruption
- Strengthening the anti-corruption institutions and measures in the country
- Combination of three components of action: enforcement of law, prevention
- Through institutional reforms and adequate and timely punishment of defaulters.

Conclusion

Due to the imperativeness of local government in efficient service delivery, it becomes necessary that adequate fund should be provided for them and the fund available effectively managed. In order to achieve efficient financial management, local governments should engage in long-term financial planning, use appropriate budgetary system and have an assured tenure of their leadership.

In order to preserve the status of local government as the third tier of government, as well as forestall the suffocating controls by higher tiers, there should be constitutional amendment to that effect, especially section 7(1-6) of 1999 constitution.

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