INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA

INFORMATION PAPER SUSTAINABLE OWN SOURCE REVENUE ENHANCEMENT AND MANAGEMENT IN LOCAL GOVERNMENTS

REVISED SEPTEMBER 2020

Table of Contents

About ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) was established in 1992 by an Act of Parliament now the Accountants Act, 2013. The functions of the Institute, as prescribed by the Act, are:

- To regulate and maintain the standard of accountancy in Uganda.
- To prescribe and regulate the conduct of accountants and practicing accountants in Uganda.

Vision

To be a world-class professional accountancy institute.

Mission

To develop, promote and regulate the accountancy profession in Uganda and beyond.

Core Values

- Professional Excellence.
- Accountability
- Integrity.
- Innovation

International Affiliations

- The Institute is a member of the International Federation of Accountants (IFAC),
- The Pan African Federation of Accountants (PAFA)
- The Association of Education Assessment in Africa (AEAA).

Disclaimer

This Information Paper is persuasive rather than prescriptive. The Paper is not intended to be comprehensive or to deal with all situations that might be encountered, i.e. it is supplementary to and not a substitute for the relevant laws and regulations, which should be regarded as the primary source of guidance.

Whereas every care has been taken in the preparation of this Paper, the ICPAU disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of the guidance in the Paper.

Purpose

This Information Paper is aimed at providing information that will assist members who are involved in revenue mobilization and enhancement efforts in local governments. It is aimed at supporting members in these local governments in this critical effort to increase own-source revenue in their areas of jurisdiction.

SUSTAINABLE OWN SOURCE REVENUE ENHANCEMENT AND MANAGEMENT IN LOCAL GOVERNMENTS

1.0 INTRODUCTION

Understanding the dynamics of local government revenues sources, capacity and management is crucial for policy makers. The ability of local governments to effectively carry out their expenditure and development mandates is dependent on availability and effective utilisation of revenue. Many local governments depend on support from the central government.

Locally raised revenues are funds collectable from within the jurisdiction of a local government to finance decentralized services and expenditure functions as prescribed under the Local Government Act. However, local governments in Uganda still have low revenue collection, leading to severe service delivery gaps. As resources available to local governments continue to dwindle, local revenue is essential for the success and long-term sustainability of infrastructure and service delivery in these entities.

Thus, it is critical that local governments come up with actions to enhance locally raised revenues as a strategic way of bridging the gap. This will entail developing measures to increase returns from revenue sources over which local governments have authority and responsibility. The measures should relate to both local revenue generation and accountability.

1.1 Background

Uganda adopted a policy of decentralization way back in 1992. The Government of the Republic of Uganda devolved functions, powers and responsibilities to local governments through its Decentralisation Policy outlined in Chapter 11 of the 1995 Constitution of Uganda, and operationalized by the Local Governments Act, Cap 243. Revenue assignment was among the functions devolved and assumed by local governments.

Decentralisation is taken here to mean the transfer of powers (Planning, Financial, Administrative, Political, Legislative and Judicial) from the Central Government to Local Governments.

The transfer of responsibilities over Finance (fiscal decentralisation) to Local Governments calls for sound financial management. This involves resource mobilisation or revenue generation, revenue sharing, budgeting, budget implementation and accounting.

1.2 Revenue Mobilisation and Enhancement

Revenue mobilization is the mechanism of receiving or collecting money from both external and internal sources by a Government (local or central) for service delivery. Revenue Enhancement involves improving the quality, amount, strength of those revenues.

Local Governments collect the following types of revenue: Local Revenue; Central Government Grants and Donor Funds.

1.2.1 Local Revenue

There are two major local revenue categories; tax revenue and non-tax revenues.

a) Tax Revenue

- The local service tax (LST) and local government hotel tax introduced by the Local Governments (Amendment No.2) Act, 2008
- Taxes on property and land transaction charges governed by the (Local Government Rating Act-2005,

2006 Second Schedule Part 1 of LG (Rating) Act 2005, and Ground Rent governed by the Land Act, Cap 227.

b) Non-Tax Revenue

- Business licences and permits
- Market Dues
- User fees from vehicle parking and open spaces
- Rent and Rates
- Royalties and Agency fees
- User fees
- Parking fees
- Plan fees
- Loading and off-loading
- Fees on Produce and animals
- Fees on Registration, and
- Any other revenue which may be prescribed by the Local Government and approved by the Minister.

1.2.2 Grants from Central Government

Grants constitute the major source of revenue to Local Governments currently. Under Article 193 of the Constitution of the Republic of Uganda, three (3) categories of grants are provided for transfer to Local Governments.

- Unconditional Grants
- Conditional Grants
- Equalization Grant

1.2.3 Donor Funds

These may be conditional or unconditional depending on the understanding between the Donors and the Local Government.

1.3 The Legal Framework

The parent law governing local governments' revenue collection is embodied in the Constitution (Article 191) and elaborated in the Local Governments Act (Section 80 and schedule V).

According to Article 152 of the Constitution of the Republic of Uganda, no tax shall be imposed except under the authority of an Act of Parliament. The authority of Local Governments to collect revenue is granted under Article 191 of the Constitution and enabled by Section 80 of the Local Government Act (Cap 243) under the Fifth Schedule. The power and authority to levy and collect fees and taxes are provided under Section 80 (3) of the Local Government Act (Cap 243), which provides that: Local Governments may levy, charge and collect fees and taxes, including rates, rents, royalties, stamp duties and registration and licensing fees and the fees and taxes that are specified in the Fifth Schedule to this Act.
Provisions are also included in the Local Government Act (Cap 243) on sharing of revenues between higher and lower local governments. Section 85 of the Act provides specific guidance on the percentage of revenue to be retained or distributed to lower councils, further operationalized by Regulation 39 of the Local Government (Financial and Accounting) Regulations, 2007.

Other enabling laws include:

a) Article 196 (a) requires each Local Government to draw up and maintain a comprehensive list of all its internal revenue sources and to maintain data on its total revenue potential.
b) Local Governments Rating (Amendment) Act
c) Trade Licensing Act, Cap 101
d) LG (Amendment No2) Act- 2008
e) LG (Rating) Act – 2005,2006
f) Physical planning Act
g) Registration of Titles Act Cap 240
h) Traffic and Road safety Act 1998
i) The Markets Act, Cap 94
j) The Hotels Act, Cap 90
k) The Fish Act, Cap 93
l) The Cattle Traders Act, Cap 224
m) The Public Health Act 1964
n) Land Act Cap 227
o) The Liquor Act
p) Statutory Instrument No 54 of 2011

The law empowers Local Governments to formulate byelaws and ordinances to actualize any revenue items not mentioned in the acts. However, there are complaints that relevant authorities take long periods of time to approve them.

1.4 Gaps in the Law

These legal provisions are weak and have excluded most of the eligible taxpayers from paying taxes, through either general exemptions or completely not captured in the tax-base.

The local Government Act (Cap 243) does not provide for effective mobilization of Local Service Tax, i.e the tax base is narrow, since a good number of eligible taxpayers have been exempted from paying Local Service Tax.

The Local Government (Rating) Act exempts owner-occupied houses from paying property rates, which are the majority of houses in the urban areas and the residents need services. This exemption has significantly affected the performance of property rates and the quality of services in the urban areas.

The Local Government (Amendment No2) Act- 2008, provides for local government hotel tax to be levied on room occupants for a night.

The Trade licensing Act 2000 sets lower trade license rates compared to the licenses assessed by local governments.

The Electricity Act 1999 does not provide the rate for royalty from electricity generation. This has created opportunity for electricity generation companies to decide on lower rates to local governments.

A number of laws are outdated, for example the Markets Act Cap 94 enacted in 1942, prescribes as penalty to any person who contravenes any provision of the Act or any rule or byelaw made under it to a fine not exceeding five hundred shillings... on conviction.

1.5 The Local Government Finance Commission

The Local Government Finance Commission (LGFC) is established under Article 194 (1) of the Constitution of the Republic of Uganda (1995), with the mandate and functions as defined under Article 194 (4) of the Constitution, and the operational framework as provided for in the Local Government Finance Commission Act (2003).

The functions of the Commission are elaborated in Section 9 of the Local Government Finance Commission Act (2003) and are largely of an advisory nature. These include to:

a. Advise the President on all matters concerning the distribution of revenue between the Government and Local Governments and the allocation to each Local Government of money out of the consolidated fund.
b. Consider in consultation with the National Planning Authority and recommend to the President the amount to be allocated as equalization and conditional grants and their allocation to each Local Government.
c. Consider and recommend to the President potential sources of revenue for Local Governments.
d. Advise the Local Governments on appropriate tax levels to be levied by Local Governments.
e. Mediate in case a financial dispute arises between Local Governments and advise the Minister accordingly.

f. Analyse the annual budgets of Local Governments to establish compliance with the legal requirements and notify the Councils concerned and the President through the Minister for appropriate action.
g. Recommend to the President through the Minister, the percentage of the National Budget to be transferred to Local Governments every financial Year.
h. Recommend to the President, Central Government taxes that can be collected by Local Governments in their respective jurisdiction on an agency basis.
i. Perform such other functions as may be prescribed by law.

2.0 LOCAL GOVERNMENTS IN UGANDA

The system of local government in Uganda[1] is based on the Districts under which, there are lower local governments and administrative units. The local governments include;
(a) district councils;
(b) sub-county councils;
(c) city councils;
(d) city division councils;
(e) municipal councils;
(f) municipal division councils; and
(g) town councils.

The number of administrative units has been increasing over time. As of the year 2017, there were 122 Districts and 1,460 Sub-counties in the Country. The cities have also further grown to include seven others that have newly been created effective 1st July 2020 (Arua, Gulu, Jinja, Mbarara, Fort Portal, Masaka and Mbale) to add to the Kampala Capital City Authority.

Table 1: ***Number of Administrative Units by Census, 1969-2017***

Level of Administrative Unit	Census Year					
	1969	1980	1991	2002	2014	2017
Districts	21	33	38	56	112	122
Counties	111	142	163	163	181	255
Sub-counties	594	668	809	958	1382	1460
Parishes	3,141	3,478	4,636	5,238	7,241	7,467

Source: Uganda Bureau of Statistics, Statistical Abstract 2018.

2.1 Rationale for Local Government Revenue

Over the years, declining local revenue in absolute terms relative to service delivery needs and the evolution of local costs, has become a major challenge to Local Governments in Uganda. The weakening local revenue situation was compounded by the abolition of graduated tax in 2004/2005, which used to contribute significantly to locally raised revenue.

[1]The Local Governments Act, cap 243

Due to the ever-changing economic environment in which they operate, Local Governments should become more alert, change existing attitudes, think differently and act boldly to raise local revenue to match existing service requirements as well as respond to the new demands.

Over 95% of Local Government budgets are funded by government transfers and development partners. At the same-time, local revenue collection performance is, on average, only about 46% of the estimated potential. On the other hand, costs and service needs are growing resulting into critical and growing service shortfalls.

The importance of local revenues can also be viewed from the perspective of the civic duty of every citizen and the mandate of Local Governments to deliver services.

2.2. Key reasons for Local Governments to raise local revenue

a) *To enable districts to expand and improve services*

Overall, there is not enough funding to ensure that all the services and functions for which District and Urban Governments are responsible. Any additional increase in revenue availability provides an opportunity to improve existing service and expand the scope of service provision to wider areas of the Local Government.

b) *To increase the margin of Local Government autonomy*

The abolition of graduated tax led to a much greater weight of conditional grants in Local Government budgets. In FY 2010/2011, the proportion of conditional to total government grants to Local Governments was 86% while unconditional grants accounted for only 11%, and equalization grants were 3%. Thus Local Governments have limited powers (a bit more than 10%) to implement discretional activities using Central Government grants. Therefore, by raising more local revenue, Local Governments would strengthen their position to allocate funds to local needs and priorities.

c) *To respond to citizens' increasing demand for services*

With the ever-raising community and citizen awareness about their rights to demand for improved services, Local Governments are increasingly coming under pressure to deliver better services, even with meagre resources. Given that government funding and donor support are not enough to satisfy service demands, Local Governments have to develop innovative strategies to increase local revenue to match the increasing quality service demand.

d) *Declining Government of Uganda transfers in real terms*

For the last 10 years or so, Central Government grants to Local Governments appear to have been increasing in absolute figures, but the reality is that the total amounts have neither kept pace with inflation nor with the increase in population. Further, these funds are being distributed among a larger number of Local Governments with the creation of 56 districts since FY 2005/2006. Although the number of districts has doubled, total grants to Local Governments have increased by only 73%. As a result, per capita amounts of Central Government grants have stagnated, if not declined, depending on the district.

e) *A civic and constitutional duty*

It is a constitutional duty and equitable for every responsible citizen/person to contribute to the well-being of the community where that citizen lives.

f) *Accountability*

Locally raised revenues encourage the concept of downward accountability and ownership of programmes by the taxpaying community. The Community should see taxes as their own money and demand accountability from their elected representatives and officials.

g) *Co-funding obligations*

Local Governments are required to contribute towards development programs such as NAADs that may be jointly financed by the Central Government and, or donors.

h) *Global trends*

With the onset of economic and fiscal crises in 2007 and continuing weak economies, budget and other financial support to developing countries by development partners is dwindling. In Uganda, this has been aggravated by financial mismanagement and scandals by some government officials. As a result, Local Government financing cannot be matched with the demand for services. The trend in social service delivery indicators in health, education, water and sanitation, and roads is on the decline as demand for better services continues to rise rapidly. Whereas government has struggled to bring inflation down, inflationary tendencies continue to affect local government entities as costs per unit of service delivery items continues to rise rapidly while available resources do not increase concomitantly.

3.0 LOCAL GOVERNMENT REVENUE PERFORMANCE

Table 2: ***Trends of Local Revenue Performance by Source (Ushs '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[2]	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: Local Government Finance Commission Fiscal Data Bank

3.1 Revenue Use by Local Governments

Improvement of local revenue by Local Governments is beneficial in that it:

- Reduces pressure on Central Government and reliance on donors
- Guarantees sustainability of service delivery and autonomy of Local Government.
- Financing maintenance costs and thus promoting ownership of projects
- Regulates businesses and provides important infrastructure and services such as markets and public conveniences.
- Emoluments for councillors are principally paid from locally raised revenue.

A strong Local Revenue base is essential for the sustainability of decentralisation programmes. It is a secure source of funds to compliment service delivery. When the public pay their taxes,

[2]Included in the "Other revenue sources" are: Market Dues, Royalties and Agency fees, Plan fees, Loading and off-loading fees, Fees on produce and animals, and Fees on Registrations.

they are more inclined to hold politicians to account for their conduct who will in turn respond to the needs of the public. In Uganda therefore, local revenue mobilisation, remains critical input for sustainable implementation of decentralisation.

3.2 Local Revenue Sharing Framework in Local Governments

3.2.1 The Local Government Act Cap 243

Section 85 of the Local Government Act Cap 243, provides guidance on the percentage of revenue to be retained or distributed to lower governments. Below is an extract of the relevant provisions;

(1) In the city and municipal councils, revenue shall be collected by the division councils, and a division council shall retain 50 percent of all the revenue it collects in its area of jurisdiction and remit 50 percent to the city or municipal council.

(2) In rural areas, revenue shall be collected by the sub-county councils, and a sub-county council shall retain 65 percent, or any other higher percentage as the district council may approve, of the revenue collected by it and pass the remaining percentage over to the district.

(3) Where a sub-county fails to remit 35 percent or any lower percentage approved by the district council under subsection (2), the district council shall take appropriate measures to make full recovery of the revenue due to it.

(4) A district council may, with the concurrence of a sub-county, collect revenue on behalf of the sub-county council but shall remit 65 percent of the revenue so collected to the relevant sub-county.

(5) Where a district council fails to remit the 65 percent referred to in subsection (4), the sub-county shall retain a percentage higher than that provided for in subsection (2) to make full recovery of the revenue due to it, which is withheld by the district council.

(6) The distribution of grants by the sub-county councils to other councils shall be as is provided under the Fifth Schedule to the Act.

There are also other legislations that provide guidance on sharing of local revenue between and among other government institutions. Below are some examples;

3.2.2 Royalties

The Electricity Act Chap 145 of 1999 provides that royalties from hydroelectricity generation should be accorded to the host Local Government as indicated by section 75(7) of the Act. This provides that a holder of a license for hydropower generation shall pay to the district Local Government in which his or her generation station, including any dam or reservoir, is situated, a royalty agreed upon by the licensee and the district Local Government in conjunction with the authority (Electricity Regulatory Authority). Under here, the anomaly is that any other Local Government like a Municipal council or Sub-county (where it happens to host this resource) cannot legally have a share on these royalties.

3.2.3 Agency fees

The Local Government Act section 80(3) provides for an agency fee to be paid to an institution/individual that collects revenue on behalf of Government. In this case, Local Governments are collecting PAYE, Withholding Tax and VAT on behalf of Uganda Revenue Authority (URA) but are not getting this agency fee. This is because URA uses the Income Tax Act which does not contain such a provision for paying an agency fee.

Furthermore, the Policy on the collection of veterinary fees by Local Governments and remitting it to the Ministry of Finance is silent about sharing this revenue with the Local Government yet according to Local Government Act Section 80(1), this is one of the revenues that should either be retained by the Local Government or at worst shared with the Centre. This is also the case with most of the revenues collected from activities related to forestry are not shared with the Local Governments (especially Revenues from Central Forest Reserves which exist in Local Governments).

Many lower Local Governments and higher Local Governments have failed to remit the rightful share among themselves and to others in the structure because of failure to observe the requirements, lack of sincerity and the complex nature of the sharing arrangement. For example a Municipal Division is expected to remit 50% of its annual collection to the Municipal Council. After receiving revenue from all the Divisions, the Municipal Council is expected to send back 30% of the total collection to be shared among the Divisions. This arrangement has failed in many cases as other important and necessary expenditures sometimes eat away this revenue before the Municipal Council remits back to the Divisions. A similar situation is happening at District and Sub-County Levels.

3.3 Monitoring the Performance of Local Governments

There are several frameworks for monitoring the performance of Local Governments in Uganda. Whereas the Government Monitoring scheme may be the most known, there are also the civil society monitoring initiatives.

The most comprehensive and systematic process of monitoring the performance of Local Governments is undertaken by the Ministry of Local Government (MoLG). The Ministry undertakes an annual national assessment of the minimum conditions/ requirements and performance measures for Local Governments. The results from this assessment are used to determine the Local governments' ability to access Conditional Grants, especially the Local Development Grant and Capacity Building Grant.

MoLG receives funding from different development partners for the implementation of the Local Government Sector Investment Plan, part of which is committed to funding the annual national assessment exercise. Local Governments that perform well are rewarded with a 20% increase in funding while those that perform poorly are penalized with a 20% reduction of allocation. Generally, the nature of Local Government assessment done by the centre in recent years focuses mainly on financial management, particularly to determine Local Governments' ability to access conditional grants.

During the monitoring, several indicators are considered as a yardstick, for example the Local Government Annual Assessment Indicators Performance Measure for Districts and Municipalities include attributes as enumerated below:

a) Quality of the Development Plan and linkages with the Budget Framework Paper (BFP) and budget
b) Staff Functional Capacity, Monitoring and Mentoring (LGTPC Performance)
c) Capacity Building Performance
d) Communication and Accountability Performance
e) Budget Allocation Performance
f) Procurement Capacity and Performance

g) Local Revenue Performance
h) Gender Mainstreaming Performance
i) Operation, maintenance and Sustainability of Investments
j) Council, Executive and Finance and Planning Committee Performance
k) Performance of council Sector Committees
l) Functionality of LG Education Department
m) Functionality of LG Health Directorate
n) Functionality of LG Water and Sanitation Department
o) Functionality of LG Works Department
p) Functionality of LG Production Department
q) Functionality of LG Environment and Natural Resources Department
r) Performance on HIV/AIDS mainstreaming/ integration
s) Performance on LOGICS monitoring system

The minimum expectable conditions/ requirements include:

a) Functional Capacity for District/Municipal Development Planning
b) Three Year, Rolled Development Plan approved by council
c) Functional District/Municipal Technical Planning Committee
d) Linkage between the Development Plan, Budget and Budget Framework Paper
e) Functional Capacity in Finance Management, and Internal Audit
f) Draft Final Accounts for the previous FY
g) Internal Audit Function working

Besides the Local Government annual assessment process, there are a number of other monitoring and accountability initiatives undertaken by other government of Uganda institutions. These are summarized in ***Appendix II.***

3.4 Common Review Findings for Local Governments

Following the introduction of the Financial Reporting (FiRe) Awards by the Institute of Certified Public Accountants of Uganda in 2011, several public sector entities both in Local Government and other government business enterprises have taken part in these prestigious Awards. Feedback reports highlighting key deficiencies in financial reporting are compiled and shared with the participating entity.

Likewise, the Auditor General through his periodical engagements also discovers a number of financial management deficiencies in Local Governments. For the period ending 30th June 2014, the office planned to audit and report on a total of 1,011 Local Authorities comprising of 111 Districts, 22 Municipal Councils, 174 Town Councils, 487 Sub-Counties, 200 Schools and 4 projects. By 31st March 2015, audit of 1,575 Local Authorities had been completed, while 618 were in progress. The completed audits included: 111 Districts, 174 Town Councils, 22 Municipal Councils, 13 Regional Referral Hospital, 1,058 Sub-Counties, 196 Schools and 1 project.

A summary of the key findings arising from the audit of Local Governments in the referenced period above is highlighted below:-

a) Procurement anomalies, that is, failure to follow procurement procedures

74 Local Governments procured items worth UGX. 10,465,872,800 without following Public Procurement Regulations and Guidelines.

b) Funds not accounted for

Expenditure amounting to UGX. 9,435,229,023 was identified as funds unaccounted for.

c) *Under collection of Local Revenue*

24 % equivalent to UGX. 7,928,418,210 of the budgeted local revenue by the Local Governments was not realized. This implied that all planned activities for the year were not implemented.

d) *Lack of Standard Financial Reporting Framework for Schools*

This was attributed to lack of financial and accounting manuals. As a result, there was no uniform classification and coding of account balances, format and presentation of financial statements.

e) *Financial Statements for Lower Local Governments*

There was still a problem with presentation of financial statements in the Lower Local Governments. In the financial year under review, the shortcomings were still persistent. The anomalies included;

- Non-adherence to presentation and disclosure requirements as per Local Government Financial and accounting Manual 2007, for example, lack of cash flow statements, schedule of commitments, and others
- Misstatement of account balances.
- Non- preparation of primary books of accounts such as Ledgers, cash books, and vote books.
- Lack of Board of survey reports
- Lack of Bank reconciliation statements and certificates of Bank balance.
- Unbalanced Budgets
- Lack of other statements, schedules and Notes to the accounts.
- Missing budget figures in income and expenditure accounts.
- Non-disclosure of losses.

3.5 Value for Money findings on Financing of Local Government

The Auditor General carried out an audit covering a period of three (3) financial years from 2013/14 to 2015/16 and focusing on 32 Local Governments comprising 16 districts and 16 municipalities which were selected from115 districts and 41 municipalities in Uganda. The objective of this audit was to assess the extent to which the current measures of financing of Local Governments ensured equitable and adequate allocation of resources and the extent to which Local Governments exploited their potential to generate local revenue.

The key findings included the following:

3.5.1 Adequacy of Central Government Allocations to Local Governments

Needs assessment

The planning process for financing of Local Governments was not guided by a comprehensive needs assessment, but instead by Indicative Planning Figures (IPFs) as advised by MoFPED. These IPFs are pre-determined by individual sectors based on the previous financial year allocation. This has resulted in actual budgetary requirements for Local Governments not being clearly known for purposes of resource allocation.

Allocation of conditional and unconditional grants

- The allocation of Conditional grants to the Local Governments by the respective sectors is not in accordance with the formulae agreed upon with Local Governments and the Local Government Finance Commission (LGFC). Consequently, Local Governments have not had the expected increments in conditional grants to match the increase in the cost of delivering services in their areas and the growing needs.

- The allocation of Unconditional grants to Local Governments is not undertaken in accordance with the formulae prescribed under Article 193 (2) of the constitution. Consequently, the allocations have not enabled Local Governments to adequately finance their local discretionary priority needs or cater for the general price changes and the incremental costs of running services.

3.5.2 Ensuring Equitable Budget Allocations to Local Governments

- There is a mismatch between development and recurrent expenditure allocations to Local Governments. Development expenditure received on average was 14% of total allocations to Local Governments compared to 58% allocation at national level.
- Sectors were retaining the biggest proportions of their allocations despite devolving the responsibility of service delivery to Local Governments. The key service sectors of water, works, agriculture and health retained on average more than 80% of sector allocations at the centre.
- It was also noted that the unit rate per pupil for UPE capitation grant allocation under the variable component differed from district to district. For the FY 2015/16, whereas the national unit average stood at UGX 7,349, the districts of Amudat, Kaabong, Zombo and Nakapiripit received a unit rate of less than UGX 6,000 while Mbarara district and Jinja municipality received a unit rate above UGX 10,000 per pupil.

4.0 FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENTS

The word 'sustainable' has gained common usage in a variety of areas since the 1990's. 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.

4.1 What does Financial Sustainability mean for Local Governments?

'Financial sustainability' is a similar concept. The concepts most people use in their personal and business lives are basically the same as those that should be applied to Local Governments, but need some modification. This is because Local Governments are perpetual corporations, which acquire and manage a stock of financial and physical assets (including renewing and disposing of individual items) in order to provide services for generation after generation of local residents and taxpayers.

Local Governments provide the legal framework by which communities own infrastructure and other assets collectively. Much of the Local Government infrastructure has a life of 30, 50 or in some cases well over 100 years. While individuals involved may come and go, Local Governments like Districts, Counties, Councils and sub-counties, continue perpetually.

Although there is generally no accepted definition of 'financial sustainability', the Commonwealth Government definition below for financial sustainability may be referred to as guidance.

"….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..."

This definition clarified three essential elements that any Local Government may desire to fulfil, i.e. services, taxes, and impacts on future generations:

a) ensuring the maintenance of a Local Governments' high priority expenditure programs, both operating and capital;
b) ensuring a reasonable degree of stability and predictability in the overall rate burden; and,
c) promoting a fair sharing in the distribution of Local Government resources and the attendant taxation between current and future taxpayers.

For sustainability to be achieved, the inter-generational equity doctrine (that is, leaders, administrators and communities desiring to not only think about the state of infrastructure and other assets to leave for the future generation, but what they would leave to the future generation), is so important.

4.2 How to Communicate Financial Sustainability

One of the problems of the past was that there had been no common publication of data indicating the extent to which Local Governments were financially sustainable. In the absence of such data, the media and community tended to focus on three elements:

- the sizes of the revenue, expenditure or, in particular, debt levels;
- whether the budgets balanced (in cash terms); and,
- The annual percentage increases in tax revenue.

All of these are short-term measures which may reflect in the confusion by some media, yet financial sustainability focuses on the long-term position, which is whether to have an infrastructure backlog, that is, infrastructure which has not been maintained or renewed appropriately. This would depend on whether the Local Governments have been spending enough on maintaining and renewing vital infrastructure assets like roads and drains, and not leaving an unfair burden on future generations to do so.

Local Governments can communicate or signal important information to communities in a variety of ways. For example through;

- information provided in reports for District/Council meetings;
- issues debated at District/Council meetings;
- annual reports, annual business plans and long-term financial plans;
- media releases and statements by the Mayor/Chairperson;
- community newsletters, forums, meetings and on websites.

When engaging with a community, the written analysis around an annual business plan and a long-term financial plan is particularly important. It should facilitate community consultation on the likely changes to be made in service delivery, infrastructure spending and imposition of taxes/ rates, to provide for or maintain financial sustainability in the longer term.

In addition, the analysis should make a conscious attempt to ensure a linkage with the objectives and goals of the Local Government. This approach also should result in a clear understanding by the community of the Local Government's proposed direction.

5.0 DETERMINANTS OF REVENUE MOBILISATION IN LOCAL GOVERNMENTS

Revenue mobilization at the Local Government level is a function of a myriad of factors, some of which are outside the range of control of Local Governments.

The tax base is determined by changes in the level of economic activity. The changes in economic activity can be divided into changes in population, incomes and prices. These factors are largely outside the influence of Local Governments.

The tax base determined by the relation between the economic base and the statutory tax base enables Local Governments to exert some control on their tax base to the extent that they are able to select the appropriate mix of taxes i.e. one that optimizes the potential revenue from the economic base at their disposal. Even then, their flexibility may be impaired by Central Government limitations on the kind of taxes they may impose.

Similarly, the statutory tax rate is usually set by the Local Government themselves within the parameters established by the Central Government. Needless to say, the success of Local Government officials in using these tax handles to increase local revenue is dependent on Local Government tax administration practices which determines the collection rate i.e. the proportion of the actual tax collection to the legal tax liability. However, tax collection efficiency may likewise be influenced by the level and structure of inter-governmental transfers.

Revenue mobilization activities include:

- Registration - identifying & listing taxpayers
- Enumeration - recording an individual's sources of income
- Assessment - determining the tax payable
- Collection
- Sensitization & Publicity
- Enforcement - following up defaulters

The criteria for determining revenue sources:

- Adequacy - capability to yield substantial revenue
- Elasticity - capability to yield additional revenue
- Equity/Fairness - based on ability to pay
- Administrative capacity - cost, effort and time
- Political acceptability
- Economic impact - should not reduce propensity to work, save, consume and invest.

Improving revenue includes raising:

- Quality
- Amount
- Strength

The features of Local Government tax systems involve high levels of:

- Arbitrariness
- Coercion
- Corruption
- Huge number of instruments.

6.0 CHALLENGES IN REVENUE ENHANCEMENT IN LOCAL GOVERNMENT

6.1 Common Challenges

Local revenue contributes only about 3% to the Local Government annual budget for districts and about 7% for Town Councils and Municipalities, and performance is only active up to 30% of budgeted revenue. Challenges to local revenue enhancement are both legislative and administrative in nature. Studies by the LGFC found out that among these challenges include the following:-

- Insufficient data on local revenue sources and poor records management
- Lack of proper records maintained
- Poor book keeping on the part of business community and artisans, making it difficult to assess these categories
- Most of the local hotels do not maintain proper books of accounts. It is therefore difficult to track the trend of the occupants
- Ignorance of tax payers on taxation and about other taxes
- Poor attitude towards tax payment by tax payers
- Ineffective legal provision on certain revenue sources like LST
- The local governments are not providing enough services to the communities so as to convince the taxpayers to be more responsive to tax payment. That is, there is no linkage between service delivery and tax paid.
- The limited capacities in local governments in terms of staffing and administrative procedures, the commission noted that there are few staff at the lower Local Governments to implement the provisions for local revenue enhancement. This results into inadequate supervision and monitoring by both lower Local Governments and higher Local Governments of the revenue facilities to augment on contract management;
- The revenues officers have not been appointed as collectors as provided for in Local Government Financial Accounting Regulations (2003). This implies that they cannot be accountable for their actions
- Unfavourable policies for local revenue collection, examples Veterinary fees, loyalties etc.
- Conflicting charging policies between local governments and ministry of trade
- Lack of equipment, untrained staff on revenue enhancement strategies.
- Unrealistic reserve prices for tendering purposes.
- Absence of functional tax registers.
- Insufficient resources for tax payers' sensitisation and awareness which builds resistance.
- Insufficient funding of local revenue enhancement planned activities
- Insufficient data on the employees in the private sector has made assessing private sector employees difficult. Some employers in the private sector (employers) connive with the employees to evade or avoid paying LST.
- Insufficient data on all types of business operating in local governments;
- Insufficient data on the operations that could attract royalties;
- Weak collection and enforcement mechanisms for property rates. The Auditor General's report on Financing of Local Government in Uganda (2016) highlights the fact that weak collection and enforcement mechanisms resulted into uncollected/untapped property tax amounting to UGX 19 billion in the Local Governments that had property valuation registers. The potential for the other 23 selected Local Governments remained unknown due to lack of property valuation registers.

6.2 Other Challenges

- Lack of adequate resources and facilitation e.g. transport facilitation such as vehicles/ motorcycles to reach periphery areas.
- Defaulting and corruption are still high.
- Rampant animal and crop diseases that result into imposing quarantines on some markets-and closing for long periods.
- Many farmers still in subsistence production-making assessment and monitoring more problematic
- Poor infrastructure of markets encourages defaulting by contractors and vendors.
- Lack of adequate revenue targets to the revenue collection staff.
- Elimination of check points which formerly acted as strategic points to oversee collection of taxes from sources that could easily go uncontrolled.
- Community/stakeholder interest in Revenue administration and management is low.
- Local revenues are usually insignificant in Local Governments budgets. This has an effect on accountability to local stakeholders.
- The ever increasing fragmentation of Local Governments does not only increase expenditure for Local Government but it also creates inept constituents that cannot sustain themselves.
- Limited accountability mechanisms to the taxpayers.

7.0 STRATEGIC INTERVENTIONS IN LOCAL REVENUE ENHANCEMENT

The low collection of local revenues by Local Governments has prompted the Local Government Finance Commission (LGFC) to plan for a number of interventions to enhance local revenue realization. The followings are some of the recent interventions undertaken by the Commission aimed at enhancing local revenue performance/realization.

- Policy coordination on local revenue initiatives through establishment of a Local Revenue Enhancement Coordinating Committee (LRECC).
- Strengthening Public Private Partnership (PPP), through tendering and contract management.
- Inventory of Best Practices in Local Revenue Mobilization and Generation. The Best Practices include:
  - i) Taxpayers' sensitization
  - ii) Privatization and tendering of revenue collection
  - iii) Computerizing of revenue databases
  - iv) Continuous collection of revenue data
  - v) Exchange visits among Local Governments
  - vi) Good financial management
  - vii) Rendering service to the taxpayers, e.t.c.
- An incentive framework for local revenue mobilization through motivating tax collectors, administrators and taxpayers in form of incentives like rewards, bonuses, bursaries, promotions, tax rebates and recognition of staff involved.
- Development of guides for prioritizing and selection of local revenue enhancement best practices. The guide uses the Cost-Benefit-Analysis to decide on the most cost effective best practices to be implemented.
- Develop practical guide for implementation of Local Service Tax and Local Hotel Tax.
- MoFPED should ensure that a comprehensive assessment of needs at the grassroots is done, prioritization undertaken and consolidation done through the various Local Government administrative units to sectors for consideration in determining funding priorities. The MoFPED in consultation with the Ministry of Local Government should

strengthen the capacity of Local Governments and develop tools to facilitate compliance and monitoring.

- MoFPED should work with the Sector Ministries to establish the unit cost of delivering delegated services at Local Governments in order to facilitate proper planning and resource allocation. Resource allocation by MoFPED and sectors should be undertaken in accordance with the framework established for unit costs and agreed formulas.
- MoFPED should ensure that the formula prescribed under Article 193 (2) of the Constitution of the Republic of Uganda 1995 as amended is followed in order to achieve the objective of fiscal decentralization.
- MoFPED and MoLG should ensure that the sectors fully embrace the objectives of fiscal decentralization by empowering Local Governments to implement development programs within their jurisdiction.
- Enhancing the collection of Land Based Revenue (property rates, ground rent, contribution in lieu of rates from Central Government and property related charges).
- MoFPED and MoLG should set local revenue performance targets to Accounting Officers of Local Governments as part of their performance contracts in order to improve their involvement in revenue management.
- Streamlining the management of loyalties for Local Government. The Commission recommended that a memorandum of understanding be signed between operating companies and Local Governments for better management of Royalty fees.
- Provision of technical support in local revenue initiatives at Local Governments. This is routine work of support by the Commission to create awareness in a bid to enhance revenue collection.
- The establishment of local revenue databases in local Governments. The Commission piloted establishment and computerization of local revenue databases and is being rolled out to higher and lower Local Governments. This will enable the Local Governments to estimate local revenue to be collected from each source.
- Embrace taxpayer Register Expansion projects.
- Practise inter-agency relationships to establish what taxpayers earn.
- Ensure proper client relationship management especially among those who engage in revenue collection.
- The Commission is developing guidelines for setting reserve prices for outsourcing local revenue collection.

8.0 OTHER INTERVENTIONS

A study team set up by the Local Government Finance Commission (LGFC) proposed the following recommendations for effective local revenue enhancement:

a) Evolve administrative measures to improve efficiency of revenue management
b) Focus on improving existing revenue sources;
c) Review the legal framework to enable more effective revenue realization
d) Streamline and minimize exemptions on property rates, LST, permits and user charges
e) The independent revenue department be set up in Local Governments to ensure proper function of the revenue collections
f) Mapping of areas, roads to ease location of taxpayers.
g) Invest in valuation of properties to ensure clear estimates.
h) Government should support Local Governments to adopt new technologies like GIS system to track properties and locations of tax payers to ease registration/ enumeration and assessment.
    i) Proposed new revenue sources including;
        - Property Service Tax (PST) for all residential properties exempted under the rating Act.
        - Community contributions towards service delivery, like Health Centres, Water and Primary Education.
        - Municipal bonds for local governments.
        - A Solid waste Management Tax in Municipal Councils and Town Councils.

j) Leveraging technology to enhance tax collection and enhance local revenue mobilization. Successful revenue mobilization hinges on managing information and leveraging the power of big data to improve compliance and fight corruption, through instituting systems for information sharing among tax authorities, taxpayers, and other stakeholders.

8.2 Further Action Required to Enhance Local Revenues

- To finance local revenue enhancement activities for Local Governments.
- To establish a Local Revenue Unit in Local Governments with staff (Senior Finance Officer-Revenue, Revenue Officer, Senior Enforcement Officer and two Enforcement Officers), transport facilities and computers.
- To amend the legal provisions for departmental fees (veterinary fees, forestry fees and fishery fees) to allow for sharing of the collected revenues between MAAIF, NFA and Local Governments.
- Enact national local revenue policies to manage local revenues and counteract interference in local revenue administration.

8.3 Social Mobilisation and Technical Aspects of the Strategy

- A number of people are ignorant on issues of Local Government taxes and fees e.g. the scope and usefulness of paying fees and taxes, the uses to which their taxes and fees payments are put, their roles and responsibilities, etc. This makes them reluctant to comply with the provisions of different laws relating to taxes, charges and fees.
- Social mobilisation involves informing the masses (stakeholders) on all the very issues (above) regarding local revenue.

8.4 Role of Certified Public Accountants in Improving Revenue Management

CPAs serve to support organizations in commerce, industry, financial services, the public sector, education and not-for-profit sector in making them more successful & sustainable. They can serve as employees, consultants and self-employed owner-managers or advisors.

In a more particular trend, a CPA as a competent professional accountant is an invaluable asset to an organisation. These individuals employ an inquiring mind to their work founded on the basis of their knowledge of the organisation's financials. Their training in finance and accounting enables them to adopt a pragmatic and objective approach to solving issues. This is a valuable asset to management, particularly in public sector. The role of any CPA in regard to the performance and conformance dimensions ranges from being creators of value, enabling of values, preserver and enabler of value.

The fundamental roles of a CPA would in particular include; providing transparency in reporting, financial or otherwise, to shareholders and the broader stakeholder groups who have an interest in the performance of the entity; carrying out revenue assessments, maintain proper revenue records, sensitize the tax payers and strengthen controls relating to collection of revenue; design procedures for local revenue collection; prepare and manage taxpayers' registers; guide on outsourcing of revenue collection; guide on incentive systems; enforcing controls relating to financial management and accountability; and enabling formulation of reporting frameworks in conjunction with the Minister or District Secretary concerned in consultation with the Accountant General that enable consistence in reporting for example prescribing the format of the financial statements for the Secondary Schools.

9.0 CONCLUSION

Local revenue performance can tremendously be improved in the Local governments. This will be possible, on condition that the interventions put in place by the Local Government Finance Commission for local revenue enhancement are sufficiently funded, the inadequate legal provisions are reviewed, tax awareness campaigns are conducted for civic & political leaders, together with establishment of local revenue units in the Local Governments.

Local Governments should develop capacity to ensure debtor management and credit control policies. More effective capacity-building initiatives should be implemented which deal with governance, systems and business processes, as well as recruitment, retention and the development of requisite skills.

This Information Paper is aimed at providing information that will assist members who are involved in revenue mobilization and enhancement efforts in Local Governments. It is aimed at supporting members in these local governments in this critical effort to increase own-source revenue in their areas of jurisdiction.

The Paper has been developed to enhance value proposition to the Public Sector and contribute resources to the PFM resource centre.

REFERENCES

1. A Collaborative Effort to Enhance Revenue Generation in Rural Municipalities, http://www.ffc.co.za/index.php/docman-menu-item/commission-submissions/170-2014-15-chapter-13-collaborative-effort-to-enhance-revenue-generation-in-rural-municipalities/file accessed 29 July 2015.
2. Financing Of Local Governments In Uganda Through Central Government Grants And Local Government Revenues, Report by the Auditor General, December 2016
3. Local Government Finance Commission Annual Report, 2014/15
4. Looking Beyond the Revenue Enhancement Plan: A Guide to Achieving Quick Successes in Increasing Local Revenues, Strengthening Decentralization for Sustainability, (SDS) Programme, May 2013

APPENDIX I

INTERNAL CONTROL PROCEDURES OVER REVENUE COLLECTION AND MANAGEMENT

Common errors and gaps in revenue collection and management

A. Common methods of cash fraud

a) Making wrong revenue assessments in return for bribes or any other consideration.
b) Collecting revenue without issuing receipts.
c) Acknowledging receipt of cash using unofficial documents.
d) Stealing cash collections by recording a lower amount on the carbon copy.
e) Stealing cash collections and forging (or printing) receipts.
f) Recording revenue transactions erroneously.
g) Omission by not recording cash receipts.
h) Manipulating financial records and accounts by Senior Managers.
i) Declaring and writing off revenue as an "uncollectible."

B. Indicators of fraud and embezzlement of council funds

a) Unexplained delays in recording transactions in the accounting records.
b) Messy documents including unexplained filing procedures that make it difficult to retrieve documents when needed.
c) Inconsistencies in accounting documents and records.
d) Erasures, crossings in supporting documents and accounting records.
e) Extravagant life styles of employees who are custodians of Local Government funds.
f) Refusal by employees to take leave annually (the employee may not wish to have his or her duties to be scrutinized by other employees).
g) Resentment (including undue uneasiness) towards auditors.
h) Lack of segregation of authorization, custody and recording functions for cash and other council assets like stores.
i) Excessive decision powers given to lower level staff (e.g., cashiers).

Control Procedures

C. How to prevent misuse of revenue

a) Use serialized receipt books.
b) Use carbonized receipts to avoid theft by carbon slipping.
c) Use standard receipt books in the entire district.
b) Establish an efficient system of issuing receipt books – e.g. signing for them etc.
c) Ensure that all used up receipt books are returned to stores before issuing new ones.
d) Ensure that there is no cash spending at source.
e) Rotate employees (accounts staff) to avoid overstaying in one place.
f) Ensure that all employees take mandatory leave.
g) Regular inspection of revenue registers.
h) Periodical reconciliation of cash collections and banking.
i) Strong and effective internal audit departments and staff.
j) Regular bank reconciliations by independent persons may act as a deterrent.
k) Regular direct inspection of stores and other valuables.
l) Deterrent Penalties. System of penalizing fraudsters should be put in place.
m) Ensure timely accountability of all cash collections.
n) Establish a direct banking system by tax payers.

APPENDIX II

Monitoring and Accountability Initiatives undertaken by other Government of Uganda Institutions

Institution	Initiative	Key Features
Ministry of Finance	Budget Monitoring and Accountability Unit (BMAU)	Situated within MoFPED, staff in this unit tracks financial flows and travel to district (on a sample base to monitor the implementation of government programs and programmes in terms of inputs and outputs.
Ministry of Finance	Performance Contracts (Performance Form B)	MoFPED requires all local governments to report quarterly against a new Performance Form detailing progress against output targets and linking these to expenditure against releases.
Office of the Prime Minister (OPM)	Barazas/Citizens Accountability Forums	The President instructed the office of the Prime Minister (OPM) to set up public forums, at sub-county level, at which local leaders are expected to answer to the public on the use of public funds, and achievements in each sector.
Ministry of Public Service	Client Charters	The Ministry of the Public Service (MPS) has begun the process of developing client charters which define service standards and expectations between public bodies, and between service providers and users. Similar charters have been developed and agreed to by local governments.
Inspector General of Government	Government Regional Offices	The IGG has regional offices through which the institution undertakes monitoring of the conduct of public servants including initiating prosecution of officials involved in abuse of office and corruption
Office of the Auditor General	Audit of accounts of local	Accounts of every local government and administrative unit are annually audited.
Office of the President	Resident District Commissioner	Represent in district monitors and inspect the activities of local government
Decentralization Sector Working Group	Joint Annual Review of Decentralization (JARD)	The JARD process is a mechanism for stakeholders and Line Ministries to jointly review progress in agreed annual undertakings and recommendations. A joint monitoring committee of the decentralization Technical Working Group also carries out independent monitoring and evaluation and reports to the JARD