CHAPTER TWELVE

Learning from Commonwealth Experience

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The Commonwealth Secretariat has developed an executive programme on finance for sub-national and local governments in collaboration with the School of Public Policy, University of Birmingham, UK. The programme affords participants an opportunity to highlight current practices in their countries and to share them with others. In order to facilitate in-depth analysis and review of local government financial systems, the programme requires the preparation of country papers. This chapter presents case studies from selected Commonwealth countries, and looks at current practices in local government, under the following headings:

1. External control of local finances by the central or state/provincial government ministry, e.g. approval of the budget, taxes, loans and constraints in the political, legal and policy contexts
2. Annual taxation capacity
3. Potential for improvements in revenue collection
4. Ratio of tax collection to taxes due
5. Revenue generated through charging for services
6. Central-local financial relations: the kind and extent of intergovernmental transfers and grants
7. Ability to access capital markets for investment resources
8. Bond flotations for capital investment
9. Local government audit mechanisms

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10. E-governance processes, e.g. for payment of taxes, dues, licensing, complaints, etc.

11. Transparency: how can budgeting can be made more open to public influence?

External control of local finances

In *Malaysia*, local council members are appointed by the state government and most of them are political appointees. The central government allocates operating and development expenditure to local governments through the state governments. Income from licensing, taxes and fines can be used by local governments for the benefit of their areas.

In *Jamaica*, the central government controls over 90 per cent of local finances. The financial framework within which the council operates is as follows:

- Parochial Revenue Fund
- Government grant
- Equalisation fund
- Self-financing
- General Revenue Fund

Local authorities prepare budgets, but these have to be approved by the Ministry of Local Government. Government grants and the Parochial Revenue Fund make up 89 per cent of local authority budgets, and local authorities have no control over these allocations. The Parochial Revenue Fund is comprised of property taxes and motor vehicle licence fees, and central government decides when these taxes can be increased and by how much. Disbursement of monies provided through loans is done through the Ministry of Local Government; local authorities are not involved in the loan process.

The sources of revenue over which local councils have control are the self-financing and general revenue sources. However, the development of these sources is constrained by political considerations, because tax increases can affect politicians at the polls. Local authorities are not involved in the policy decisions that affect them. However, this is gradually changing as they are realising that they need to be involved. In addition, the Jamaican Government has developed a consultation code which is intended to increase the influence of local people on policy decisions.

In *Sierra Leone*, local councils derive their authority from the Local Government Act of 2004. Section 20 of the Act confers the highest political authority on the locality, with legislative and executive powers. External control of local councils is therefore restricted to policy issues. In addition, Section 43 (2) of the Act makes local councils responsible for the preparation, administration and control of budgetary allocations in all their departments.

In *Malta*, the financial operations of local councils are regulated by the Local Councils Act and various regulations and procedures concerning finance, audit and tendering. Although each council is an autonomous body, the Department for Local Government monitors their operations to ensure that they operate within the legislation.

Local councils' main income comes from funds allocated by the central government according to a formula drawn up in the 10th Schedule of the Act. Each council is required to draw up an annual budget and a three-year business plan. These two documents are open to public scrutiny. Councils must also publish quarterly financial reports throughout the year, as well as an annual administrative report at the year-end

Local councils may not:

(i) Borrow or lend any monies except with the approval of the minister responsible for local government with the concurrence of the Minister of Finance. Each application is vetted by the Department for Local Government, which ensures that the council can sustain the repayments imposed by the loan and therefore will not negatively affect the operations of local councils;

(ii) Enter into any form of commercial partnership, unless authorised to do so in writing by the minister;

(iii) Delegate any of its functions in a manner other than that established by the Local Councils Act;

(iv) Donate any sums or make any donation in kind to any non-government organisation not included in Schedule Eight of the Local Councils Act. However, a council may give a donation of not more than Lm50 in one year to an organisation in the locality which is not listed in Schedule Eight. The total amount of donations in one year must not exceed 0.5 per cent of a Council's annual allocation.

The minister responsible for local government may require any document from a local council.

In *Mauritius*, the central government provides an annual grant-in-aid to all local authorities for their recurrent budget. An annual amount is also provided for capital expenditure.

According to Sections 105 and 107 of the Local Government Act, each local authority must submit an estimate of its income and expenditure for each financial year for approval by the Minister of Local Government. No expenditure can be incurred at the start of the financial year unless the approval of the minister has been obtained. The expenditure of a local authority during any year must not exceed the amount laid down in the approved estimate without the minister's approval.

In order to submit a balanced budget, the local authorities have to top up the amount obtained as grant-in-aid by raising revenue from other sources, namely, local rates (municipal taxes), trade licence fees and other charges for development and building permits. The amount of rates and other charges that can be imposed by local authorities does not require the approval of the Minister of Local Government.

Local authorities are also allowed to borrow money from financial institutions; very often, these loans are guaranteed by the central government.

In *Nigeria*, the state gives only technical advice through the Ministry of Local Government. This is done through monthly meetings of the joint accounts allocation committee, which is made up of the chairs of the 17 councils and senior staff from the ministry. The legislative arm of each council approves the budgets, loans, taxes and rates on their legislative list.

In *Sri Lanka*, the central government and provincial councils have no formal control over local authority finance. Local authorities prepare their budgets, which must be approved by the local council. A grant for reimbursement of some special payments is released by the provincial council with money received from central government. This grant is used for the following local government payments:

- Staff salaries
- Allowances of council members
- Revenue aids for low-income local governments.

The provincial council releases grants to the local authorities through the Department of Local Government, which is a provincial council department, operating under a commissioner.

Annual taxation capacity

In *Malaysia*, the annual taxation capacity of a medium-sized local government is approximately RM100–150 million. This amount is enough for a local authority to be self-funding. Large and small local authorities sometimes need financial assistance from the Federal Government in the form of grants.

In *Jamaica*, the local authorities' taxation capacity is low. They are involved in the collection of property taxes and trade licences, but only to a limited extent. Ultimately, taxable capacity is determined by the economic state of the parish.

In *Malta*, local councils are not empowered to collect taxes. At present they obtain their main income from central government. They also receive money derived from the payment of fines in their locality, and a very small amount comes from organising activities such as lectures and courses. The revenue figures for the financial year 2004–2005 were:

Government allocation: Lm10.6m

Income from other sources: Lm2.6m.

In *Mauritius*, local authorities are divided into two types: one for urban areas, i.e. municipal councils; and one for rural areas, i.e. district councils. The law provides that municipal councils can charge a local rate on immovable properties. This is calculated as a percentage of the net annual rental value of properties found within the administrative boundary of each municipal council. The district councils are also allowed to charge such rates, but this is subject to the prior approval of the President of the Republic. As yet, no district council has charged any local rate.

In *Nigeria*, it is difficult to generalise, as annual taxation capacity varies from one local government to another. It is quite low in rural local governments, but larger in urban authorities.

In *Sri Lanka*, local governments are empowered to collect some taxes from the local community under the Local Government Act. The following are the main sources of taxation:

- Rates and taxes from local residents
- Licences for meat stalls
- Other trading licences
- Exhibitions, advertising banners and boards
- Entertainment (cinema, concerts, etc.)
- Charges for bus stands and car parks
- Taxes on new housing plans
- Taxes on bicycles, carts and taxies
- Garbage tax

Potential for improvements in revenue collection

It was suggested that in *Malaysia* there is a need to strengthen the enforcement team to generate more revenue and at the same time introduce more facilities and services for the public. In addition, local government should educate the public so that they meet their obligations.

The following recommendations were made in relation to *Jamaica*:

- Engage in discussion with all key stakeholders;
- Re-examine policies and administrative procedures for enhancing local revenues;
- Improve enforcement capabilities;
- Mobilise political will;

- Improve service delivery;
- Engage taxpayers in the process so that they can understand the rationale for the mobilisation;
- Motivate management and operational staff to become integrally involved in the process;
- Ensure that management follows all the regulations and procedures to ensure transparency and credibility of the process.

In *Sierra Leone*, because of political and legal constraints, the substantial revenue potential of councils is not realised. The National Revenue Authority, which is the main revenue arm of central government, has overall authority.

The core revenue streams of the city council of Freetown (the country's capital) are:

- Property rates
- Market dues
- Fees and licences.

There is lack of proper co-ordination between central and local government in the areas of property registration and issuing building permits, and this is hampering the city council from realising its full potential. The responsibility for issuing building permits has not been transferred to the local council as one of its devolved functions. In fact, the central government owes huge rate arrears in respect of state properties. Less than 18 per cent of rates revenue in the municipality is actually collected, and the council would be able to collect a much higher proportion if the central government gave it active support. Local councils would then be much less reliant on central government subventions. Freetown city council has 32 councillors, four of whom are from the ruling party and 28 from the opposition. This situation has led to political problems in achieving financial autonomy.

It was suggested that better law enforcement by local wardens in *Malta* could increase local council revenues. Councils should also look at possible ways in which they could use existing facilities for council activities which would generate funds.

Some radical ideas were put forward in relation to *Mauritius*, for example:

- Local rates should be introduced in rural areas;
- Small business people, for example, market stallholders, should be charged a market rent for their stalls. These stalls could be allocated by open tender in order to obtain a better return;
- Many services, for example scavenging, could be carried out in-house instead of being contracted out, subject to this being cost-effective;

- Loans should be deployed as soon as they are borrowed;
- A culture of user payments should be fostered.

It was suggested that local authorities could reduce the cost of borrowing by mobilising funds through the issue of bonds.

In *Nigeria*, it was suggested that revenue mobilisation could be improved in the following ways:

- Making vehicles available for tax drives, because of the difficulty of securing voluntary compliance from taxpayers;
- Creating awareness in local councils of the need to collect revenue to fund development programmes;
- Providing people-oriented projects to enhance revenue generation and voluntary payment;
- There should be a serious effort to stop revenue leakages through tax collectors.

Revenue mobilisation in *Sri Lanka* could be improved through the implementation of legal procedures. Tax defaulters should be brought to book and castigated. Construction and other maintenance work, which is currently carried out by central government through contractors, could be handed over to local governments, which could make a profit by using their own machinery, equipment and labour.

Ratio of tax collection to taxes due

Table 12.1. Tax collection ratios

Country	Ratio	Remarks
Malaysia	5:1	This ratio is based on one medium-sized city council
Jamaica	35:65	
Malta		Local councils are not empowered to collect taxes
Mauritius	80 per cent	
Nigeria	*Rural:* 42.6 per cent *Semi-urban:* 28.5 per cent *Urban:* 36.26 per cent	
Sri Lanka	80 per cent	

Revenue generated through charging for services

In *Malaysia*, the revenue generated depends on the size of local government, e.g. Kuala Lumpur City Council (the biggest city council in Malaysia) generates about RM100 million a year from service charges. The main challenge is to ensure that the services are efficient and delivered on time.

In *Jamaica*, only 8 per cent of revenue comes from service charges. The services are:

- Building inspection
- Barbers' and hairdressers' licences
- Butchers' licences
- Places of amusement
- Fees for burial inspection
- Charges for billboards and signs
- Trade licences.

In *Malta*, very little revenue is generated through charging for services. Such revenue comes mainly from the organisation of lectures and courses, and advertisements on property owned by local councils. Only 1.4 per cent of local councils' total income is generated by service charges.

Any income generated by a local council has to be covered by by-laws. Such by-laws must be approved by the minister responsible for local government.

In *Mauritius*, licence fees account for 40 per cent of the total revenue of local authorities. These include processing fees for development and building permits, and charges for market stalls and from buses for using traffic centres. As local authorities have a duty to ensure the well-being of their citizens, provided that such services are not considered as a revenue-generating activity, but rather as a way of bettering the living conditions of their citizens, these fees are generally acceptable.

In *Nigeria*, service revenue are small. Charges include antenatal fees, fees for approval of building plans, identification charges and property rates (for urban councils only). People are unwilling to pay because the services are unsatisfactoy. There is also a lack of awareness of the availability or need for some of the services.

In *Sri Lanka*, 20 per cent of total local government income comes from services provided by local governments. These include:

- Piped water
- Waste collection
- Streetlights (no charges)
- Crematorium service
- Vaccination of dogs (no charges)
- Health services for children and pregnant mothers (no charges)

- Ambulance service
- Hearse service.

If charges are too high, local governments may face a problem. However, so far there are no reports of any objections.

Central-local financial relations

In *Malaysia*, the Federal Government allocates operating and development expenditure to local governments through state governments. All allocations are treated as grants and the local government can apply for soft loans from the Federal Treasury if necessary. Where services have been privatised centrally, the central government will allocate the amount as grant to assist the local government if performance falls below the threshold agreed in the privatisation agreement.

In *Jamaica*, central government provides monthly allocations in the form of:

- Government grant
- Motor vehicle licences
- Property taxes.

In *Malta*, local councils' main source of income is the annual allocation granted by central government. This is forwarded every quarter in advance and directly transferred to the councils' bank accounts.

In *Mauritius*, the central government provides an annual grant to local authorities for recurrent and capital expenditure. The recurrent expenditure grant accounts for 70 per cent of the total budget, while the grant for capital projects is mostly for minor schemes implemented by the local authorities. Other more substantial capital investments are financed from capital fund, surplus fund, loans or special grant. Consequently, projects may be wholly or partly financed by central government, or local authorities are allowed to borrow money from the financial institutions and the loans are guaranteed by the central government. For some projects, the central government repays the loan, while for others the local authorities have to repay it from their own funds.

In *Nigeria*, the financial relationship is determined by the decisions of the joint account allocation committee. Projects are occasionally jointly funded by the state and local government. Pay-as-you-earn tax, collected from local government employees, is paid over to the state internally-generated revenue fund. The state government is supposed to pay to the local councils 10 per cent of its total internally-generated revenue.

In *Sri Lanka*, the government releases money to local governments as grants.

Ability to access capital markets for investment resources

In *Malaysia*, the Local Government Act 1976 and Financial Procedure Act 1957 allow local governments to invest surplus funds on deposit in any bank, or in securities issued by the Federal Government or in trust funds issued by the Crown Agents, subject to the written approval of the Federal Treasury.

In *Jamaica*, local authorities are prohibited from accessing the capital market.

In *Sierra Leone*, the ability of local councils to access capital markets is restricted, because at present there is no financial capital market structure. However, there are opportunities for local councils to access venture capital through established finance houses by issuing municipal bonds in an effort to aggregate funding for major capital projects. This must be approved by the Ministry of Local Government and Community Development and the Ministry of Finance.

In *Malta*, local councils are only authorised to invest their money in government leased securities, including stocks, bonds and bills.

In *Mauritius*, local authorities are allowed to borrow money from the financial institutions. The loans are invariably guaranteed by central government, which assesses the local authority's ability to repay the loan before guaranteeing it.

In *Sri Lanka*, additional money can be deposited in a bank as fixed deposits. However, there is no opportunity to access capital markets.

Bond flotations for capital investment

In *Malaysia*, local governments can float bonds for viable projects, subject to the approval of the Federal Treasury. The bonds are guaranteed by the state government, which improves their rating.

This system is not practised in *Jamaica*; the law allows it, but the state of the local councils' affairs means that it is not practicable.

In *Sierra Leone*, local councils' ability to access capital markets is much restricted because at present there is no financial capital market structure. However, there are opportunities for local councils to access venture capital through established finance houses by issuing municipal bonds in an effort to aggregate funding for major capital projects. Ultimate approval rests with the Ministry of Local Government and Community Development and the Ministry of Finance.

Local government audit mechanisms

In *Malaysia*, local government accounts are monitored by the Ministry of Local Government to ensure financial probity. They are also audited by a representative of the Auditor-General on a routine basis and in the event of a complaint. Selected projects are subject to a management audit to ensure transparency and avoid fraud.

In *Jamaica*, the council's auditor first checks all vouchers and works as they arise. Two sets of external auditors visit all councils on an annual basis: one from the Ministry of Local Government and the other from the Auditor-General's department. The auditors from the Auditor-General's department are deemed more independent, since the local councils do not report to them, but to the Ministry.

In *Sierra Leone*, local councils are subject to internal and external periodic audit checks. The frequency of the external audit is determined by the Auditor-General: for the internal audit, random sampling is supposed to be undertaken every three months. The Chief Administrator receives a regular quarterly report from the internal auditor and this is a standing agenda item at meetings of the council.

Although councils have a degree of independence in the management of their budgets, they have to report to the Local Government Finance Department. The department reviews their budget and development plans before approving the release of government subventions for community development projects.

The department also ensures that local councils comply with financial control guidelines such as the Finance Administration Regulations (FAR) and the Comprehensive Local Government Performance Appraisal System (CLGPAS).

In *Malta*, the Auditor-General appoints local government auditors to audit the accounts of local councils and lays down the conditions under which they operate. Local government auditors are appointed for a year at a time, renewable each year, for a total period of not more than five consecutive years. Their remuneration and expenses are paid by the Auditor-General. They must submit reports to the Auditor-General not later than the end of June of each year, and copies of the reports are transmitted to the minister responsible for local government, the Director for Local Government and the respective local council. A copy must also be laid on the table of the House of Representatives by the Minister for Local Government within six weeks of its receipt.

Local government auditors must hold a warrant to act as an auditor issued under the Accountancy Profession Act, or be a duly registered partner in a firm of auditors.

In the exercise of their duties, local government auditors have access to all books, records, returns and other documents relating to the accounts of local councils and may require any person holding or accountable for any such documents to appear before them at the audit. In the case of a possible irregularity, abuse of control or fraud in the council's financial affairs, the minister may request an investigation to be conducted by the Auditor-General or by a board appointed under the Inquiries Act or by any other means he deems fit. If a councillor is found to have fraudulently made an illegal payment, they may be held personally liable and the Director for Local Government will take the necessary action for the recovery of the money.

All purchases between Lm500 and Lm2000 must be supported by three signed quotations or be committed through the issue of a public tender. Purchases costing over Lm2000 must be made through the issue of a public tender.

In ***Mauritius***, each local authority has its own internal auditors who report to its chief executive if they find any anomaly. The final accounts are audited by the Department of the Director of Audit, a central government body. The audited accounts are then submitted to the Ministry of Local Government, which scrutinises the report and takes the local authority to task if the need arises.

In ***Nigeria***, local government councils each have an internal audit department. the financial regulations and councils' activities are overseen by the Office of the Auditor-General within each state government and an inspectorate division within the Ministry of Local Government.

In ***Sri Lanka***, the Auditor-General is responsible for making an independent audit of each local authority, under the Constitution. A separate audit branch of the Auditor-General's office operates in all town and municipal councils. In small councils (*pradeshia sabba*), the audit is carried out by a superintendent of audit who is entrusted with the work by the Auditor-General.

Internal audits are also carried out by the internal audit sections of municipal councils, as an internal control.

E-governance processes

The Government of ***Malaysia*** launched the Malaysian Public Sector ICT Strategic Plan in August 2003 to provide clear direction on the use of information and communication technology (ICT) for service delivery. Under this system payment of taxes, licensing, rental, fines and complaints can be channelled online.

In ***Malta***, local councils are very heavily involved in e-governance.

- All 68 local councils provide free internet access to the public.
- All local councils have signed an agreement with central government by which they bind themselves to increase local e-government services; central government assigns public officials to work with local councils.
- In 2003, the MyWeb Project was launched, under which ICT awareness training was given to all interested members of the public.
- Local councils have an e-customer care system which has been in place since 2002; once a member of the public lodges a complaint at a local council, this is channelled

to the respective government department/authority. Action is taken and the complainant is informed of the outcome.

- Local councils have an online system for the payment of fines, introduced in 2003, by which any member of the public can pay a fine electronically.
- Members of the public can also pay government rents through another online system.

In *Mauritius,* the municipalities and district councils are partly computerised, mainly in relation to the collection of taxes and dues. The Ministry of Local Government has launched a tender for the elaboration of an e-business plan for local authorities. This tender exercise is almost completed and the consultancy will be appointed shortly.

In *Jamaica* and *Nigeria*, local councils have not yet embarked on e-governance. The lack of a power supply to most councils and lack of staff capacity is a serious limitation in Nigeria.

In *Sri Lanka*, some local governments are introducing e-governance for their routing work. These schemes are still at pilot stage.

Transparency: how can budgeting can be made more open to public influence?

In relation to *Malaysia*, it was suggested that pre-budget dialogue could be organised between local governments and residents' associations, and that NGOs and public and private agencies should be included in the dialogue. Their suggestions and feedback would ensure that projects and services provided maximum benefit for all.

In *Jamaica*, the following measures were identified as ways of making the budgeting process more transparent and people-centred:

- Identify key stakeholder groups;
- State realistic and achievable budget targets;
- Ask stakeholders to state what they desire for their communities and parish;
- Utilise the consultation code.

In *Sierra Leone*, the budgets of local councils are set by a participatory process starting at ward committee and community level; during this process the developmental aspirations of the various communities are translated into development plans which are put before the council for its approval. However, the council approves its own budget, in accordance with guidelines from the Local Government Finance Department.

It was explained that in *Malta* there is a system under which the public is involved in setting the council budget. Before a local council considers its annual financial estimates, it holds a meeting that is open to everybody who is on the electoral register for the area. This meeting must be held at least once a year at a venue determined by the council and as far as possible the venue must be accessible to all, including wheelchair users. A notice advertising the meeting is published in all daily newspapers, and broadcast on all national radio stations.

The mayor, assisted by the executive secretary, ensures that the agenda for the annual meeting includes a report on the performance of the council during the previous year and the business plan for the following year.

The meeting is chaired by the mayor and the executive secretary keeps a record of the proceedings, including any complaints or suggestions. The minutes of the meeting are discussed by the council during its first meeting after the locality meeting. The council then follows up the complaints and suggestions as it sees fit.

A copy of the council's annual budget is open for public viewing at the council offices during normal office working hours. Most councils also publish their budget on their official website.

The public can attend all council meetings. Although members of the public are not allowed to participate, they can take notes of the proceedings and can then lodge a complaint or suggestion to the council through its customer care system.

In ***Mauritius***, the budget of each local authority is prepared by its finance committee, which is made up of a number of councillors, assisted by the council's financial controller. If consultation seems appropriate, there is provision for discussions to be held with NGOs, pressure groups and other organisations. However, it was felt that consultation processes can send the wrong signal and build up people's hopes that projects will be carried out when in fact the funding for them is unavailable.

It was advocated that in ***Nigeria***, the current community economic empowerment and development strategy should be strengthened so that the public can contribute to the preparation, presentation and debate on the budget before it reaches the legislative arm of the local government

In ***Sri Lanka***, the budget is based on proposals from local government members, which incorporate the area's development needs and maintenance requirements. Members of the public are also able to submit proposals to council members as well as direct to the council.