



NIGERIA
Development **Or**
Underdevelopment



(Selected Seminal papers)

AKPAN EKPO

Chapter Fifteen

THE ROLE OF REVENUE IN LOCAL GOVERNMENT ADMINISTRATION

INTRODUCTION

Local Government as a third tier of government is becoming increasingly important in Nigeria's growth and development. Within the last two years, we have witnessed the political, social and economic performance of local governments within a military setting. Local governments usually provide social services (education, health, etc), repair and build infrastructures within their areas of jurisdiction. For the first time in Nigeria, a Municipal Government, that of Calabar, ventured into the floating of limited liability companies.

These activities and services not only cost huge amounts of money but must be adequately financed. Hence, local government finances constitute an important aspect of local government administration. To understand the role of revenue in local government administration, it is crucial to examine the sources of revenue. This paper periscopes the role and sources of local government revenues with a brief discussion on the experiences of the Calabar Municipal Government.

Following this introduction, Part I will focus on the sources and role of revenues. In Part II, we will analyse the experience of the Calabar Municipal Government on the subject matter. Recommendations and conclusion of the paper are provided in Part III.

PART I: SOURCES AND ROLE OF LOCAL GOVERNMENT REVENUES

Revenue is income. Local government revenues are derived from certain sources guaranteed by law. The major sources of revenue granted to local governments under the 1979/80 tax law are: (a) licence fees, (b) user charges, (c) rents and (d) rates. These

are usually referred to as own sources of local government revenues.

Fees are from licensing of radio and television, bicycles and trucks, wheelbarrows, and carts, canoes and pets. Also, fees are derived from registration of births, deaths and marriages. User charges come from market stalls and motor parks. Rents are derived from shops and kiosks, restaurants and other public eating-places. Rates emanate from property, supply and service.

It should be noted that experiences in revenue generation from these sources differ from one local government area to another. It depends on the ability of a particular local government council to exploit these sources.

Generally, local governments should derive a substantial part of their revenues from special local taxes usually referred to as rates. Rates are levies on the occupants of rate-able property. The rate is determined by the appropriate local council but the occupier's tax is determined by multiplying the rateable value of his hereditament by the rate naira (Obinna, 1989). For example, if the rateable value is N200.00 and the appropriate rate is 20 kobo, then the amount payable will be N400.00.

Property refers to land, building (domestic, commercial and industrial), mines, quarries, fixed plants, and machinery. Therefore, rates are high yielding source of local government revenue. Moreover, rates are difficult to evade. Rates are the most equitable of all indirect taxes. Those residing in higher-rate houses pay more in absolute terms than poor households.

For purposes of rating, property is segmented into three different groups; viz: domestic, non-domestic and industrial. The non-domestic group includes public buildings such as town halls and hotels. Rates are generally assessed on the occupier of domestic property and usually terminate there. For industrial or commercial property, it is more difficult to trace the incidence rate. Consumers may be made to bear part of a high rate in the form of prices. Furthermore, since the computation of corporate tax, rates on industrial property are treated as expense, it follows that not all the rate charges fall on the business as cost. Hence, final prices ought to be adjusted not of tax.

"In the short run, rates may affect prices, wages, rents and profits depending on the market conditions and the bargaining

strength of the sector concerned" (Obinna, 1989, p.15). Consequently, rates are criticised on the premise that families or households with similar accommodation but different income may pay the same rate. This could happen when there are several income earners in one household. In countering this position, it is argued that rates are a payment for local services and that a multi-income household does not necessarily cost more in the use of local services than one with a single income earner. It is also often argued that rates are regressive - it falls heavy on the poor income group.

As stated earlier, other sources of revenue include market stall charges, motor park dues, sanitation rates, bicycle and wireless licence fees, rents from housing and receipts from trading activities such as passenger transport. Revenue from these sources not only form a large part of total revenues but finance activities giving rise to them. Therefore, they neither form a large source of funds for other activities nor constitute an unduly large drain on other revenues.

It is important to stress that local government finances have a bearing upon the authority to raise revenues and undertake budgetary expenditures. Such authority may be specific or part of general codes. Moreover, it depends on the type of social formation in a particular country.

For example, in the Soviet Union, all local government budgets must be sanctioned by the budget of the Republic. In France, the tax powers of a local government is limited by the need for greater central authorization. In Britain, local government investment programmes are subjected to highly technical examinations. In the USA, outright limitations are imposed on total local indebtedness while in Germany local government loans are subject to similar sanctions. However, local governments have relatively wider financial freedom in Germany.

In terms of budgetary expenditures, local governments in both Britain and the USA need no formal approval to undertake them. In France, such approval is important in order to strike a balance between mandatory and optional expenditures

There are other sources of revenue. Local governments could borrow from the banking system. This avenue is usually not fully explored due to lack of competent staff in virtually all local governments. To borrow from the banking and financial markets for

long term investments require a thorough understanding of the technicalities involved in many markets. Most local governments do not possess such expertise.

There is the issue of subvention from the federal government. We have not analysed this source because it is a source guaranteed by law. A fraction of the federation account goes to local governments as subventions. Local governments also receive some money in order to enable them provide, for example, primary education at the local level.

It is clear that revenue(s) plays a significant role in the administration of local governments. It keeps current and capital expenditures afloat and oils the entire administration. Revenues are needed to pay salaries, repair roads, build culverts, build bridges, provide water, provide health facilities, provide education, keep the environment clean, be prepared for emergencies, etc.

PART II: THE CASE OF THE CALABAR MUNICIPAL GOVERNMENT (April 1988-July 31, 1989)

The Calabar Municipal government (CMG) is one of three municipal governments in the country. The others are Ibadan and Abuja. The CMG did all what other local governments have done and will continue to do. However, in the area of revenue generation and long-term investments, the CMG is unique. Never in the history of local government in Nigeria, could you find limited liability companies floated by local governments.

The CMG floated several companies namely: (1) Calabar Investment Ltd., (2) Calabar Farms Ltd., (3) Exercise Books and Alhed Products Ltd., (4) Calabar Natural Food Processing Company Ltd., (5) Calabar Educational Chalks Ltd., (6) People Trading Co. Ltd., (7) The New town Area Planning Authority and (8) Calabar Refuse Disposal Company Ltd.

The CMG provided initial financing and vehicles for almost all the companies and empowered all the investment companies to source for funds to enhance the activities of the companies. The revenue generation aspect must be seen in the long-run. In the short-term, some of these companies like Calabar Farms Ltd., Calabar Investments Ltd., etc. have provided employment to

the people of Calabar. The income earned by these people no matter how little increases output and productivity of the area. Moreover, the multiplier effect of such an increase in aggregate demand cannot be over emphasized.

The Calabar Investments Ltd. ventured into the money market by negotiating for loans with merchant banks, commercial banks and government-owned banks on behalf of the municipal Government. All banks were impressed to discover that a municipal government could have the vision of long-term investments.

The foundation has been built and it is for those coming to fully, appreciate the importance of long-term investments and concretize their growth and development. If properly managed, the companies will in the long run be profitable ventures and this will provide the municipal government the much-needed additional revenues.

It is one thing collecting and/or generating revenue, it is another thing deciding on how to spend or utilize such revenue(s). Here again, the CMG provided the answer by establishing through bylaw the Neighbourhood Development Organizations (NDOs) charged with the responsibility of solving problems in their neighbourhoods

The NDOS "are the sole collecting agents for tenement rates in private homes, 50 per cent of which goes back to them. They are the sole collecting agents for general rates in the municipality, and receive 90 per cent of their total collections. In addition, the by-laws permit the municipal Government to grant them more fiscal responsibility from time to time " (Bassey, 1989, p. 7). The NDOs have been able to use such revenues in repairing roads, building culverts, running evening classes to improve the education of the people, buying and selling essential commodities like rice, beans, and garri, etc.

In spite of the drawback facing the NDOs, it must be noted that it was and still is the first and bold attempt by any local government in Nigeria to make the people feel and be part of government by participating in the spending of public funds on solving the problems emanating from their various communities.

The generation of revenue must be backed by an element of income distribution. The pattern of income distribution must show

that the poor segment of society benefit more from any welfare programme. In Calabar, primary school education is free, the collection of refuse is done free for all tenants, drinking water has been provided in strategic areas of the town - all these and others are elements of the re-distributive aspect of revenue generation. For a municipal government to have achieved so much, reverse fixed attitudes of people on government within fifteen months deserves more than just mentioning.

The CMG, no doubt, has problems but the problems are created by the fact that the CMG is only a subset of the entire nation. Hence, once the nation (whole) has problems, the sub-set must by design experience similar problems. We are referring briefly to aggregate problems of high inflation rates, high unemployment rates, declining productivity, etc. all of which reduces the standard of living of the average Nigerian.

PART III: RECOMMENDATIONS AND CONCLUSION

Based on our analysis of the subject matter, we offer the following recommendation:

1. Local government be allowed to float bonds and other financial instruments in order to accelerate the development of our communities.
2. Local government could increase or generate revenue(s) by running lottery schemes.
3. Money market should be made accessible to local governments. This implies that local government must employ or seek the services of qualified staff who are knowledgeable on the intricacies of the money and capital markets.
4. The federal government should create and make available special grants to local governments in order to enable them perform certain functions like refuse disposal and environmental activities
5. Two, three or more local governments should pull resources together and float viable businesses like owning public utilities.
6. This Calabar Municipal Government should float passenger service (buses and taxi cabs).

CONCLUSION

We have attempted to examine the role and sources of local government revenues. We analysed the various sources of revenues namely: rates, rents, fees and user charges, among others. We focused briefly on the experiment of the Calabar Municipal Government from April 1987 to July 1989 by highlighting its achievements. We argued that all revenue generating aspects must have elements of redistribution and showed how the Calabar municipal Government attempted to distribute the revenue it generated.

Finally, we offered some recommendations. If the recommendations are effected then local government will continue to play its important role in Nigeria's drive towards growth and development especially as revenue generation will not constitute a problem.