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REVENUE MANAGEMENT AT THE LOCAL GOVERNMENT LEVEL IN NIGERIA

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ABSTRACT

This research reports a comparative study on revenue management at the Local government level with focus on Local councils of Ogun and Lagos States.

Survey and the historical methods were adopted to generate the data used to investigate the research problems. The respondents comprised of 400 people made – up of 100 staff of both Ado – Odo/Ota and Alimosho Local Councils of Ogun and Lagos States as well as 300 residents of both Local Councils.

Hypotheses tested showed the following results:

1. *That the level of infrastructural development on ground in these Local Councils did not measure up to the amount of revenue available to them.*
2. *That proper revenue management has not taken place at the Local Government level of the two States.*
3. *That Local Government Councils are instruments of grass – root development.*

INTRODUCTION

Two major problems that have always faced local Governments nationwide in carrying out the task of development at the grass-root level are that of inadequate finance and poor management of the little revenue available to it.

As observed by Osa Osenwota (1994: 189), local Government system is a public sector organization with assigned functions and responsibilities, administrative structure and financial arrangement for maintaining itself and rendering its statutorily assigned functions and responsibilities

In other to carry out its functions and responsibilities, the Local Government System requires adequate revenue. In fact, finance is the life wire of any enterprise, whether public or private, including the local government.

The 1976 local government reform in Nigeria was aimed at ensuring adequate funding of the System.

Humes and Ola (1995:155) see the 1976 reform of local government as the main solution to the problem of inadequate finances that had plagued the Nigeria local government for years. A direct Federal Government allocation of revenue to local governments actually took a new turn during the Babangida era (1985 - 1993). It was the Babangida administration that increased the local government share of federal revenue allocation from 10 percent in 1989 to 15 percent and three years after raised it to 20 percent in 1992 (Anao 1994: 174).

In spite of this increase in revenue available to Local Governments since the 1976 reform, one could hardly find useful contributions of Local Government councils in terms of infrastructural development in their areas. Today, one would discover that the annual budgets of some local governments, especially the urban based, are equivalent to, if not even more than the budgets of three states put together ten years ago. Yet, one could hardly find on the ground what these allocations were used for, in terms of grass-root development. What the above observation means is that there is a problem of revenue management at the Local Government level, making it almost impossible to bring about meaningful development in the various local communities.

This research did a comparative study on some Local Government areas of Ogun and Lagos States and examine how the revenue of these Local Governments were managed in relation to infrastructural development at the grass-root level

THEORETICAL FRAMEWORK

The theoretical framework that guided this paper is the budget theory. Oshisanmi (1993: 50) defines a budget as a plan expressed in quantitative and usually monetary terms, covering a specified period of time. Normally the period covered is one year and this makes it a short-term plan.

Rosenbloom (1993: 301) observes that managerial perspective to public budgeting seeks to develop an approach to budgeting that promotes the values of managerial efficiency, economy effectiveness. Here, budgeting is used to cut out waste, encourage the highest level of productivity and strength managerial control over the operation of Government.

Lewis (1978: 155) sees budget theory essentially as a form of applied economics, since it requires the allocation of the scarce resources among competing demands.

He further sees the analysis of the prepositions derived from economic theory to be appropriate building blocks for the construction of an economic theory of Budgeting.

The three principles are:

1. Since resources are scarce in relation to demands, the basic economic test, which must be applied, is that the return from every expenditure must be worth its cost in terms of sacrificed alternative. Budget analysis therefore is basically a comparison of the relative merits of alternative uses of funds.
2. Incremental analysis (i.e. analysis of additional values to be derived from an additional expenditure) is necessary because of the phenomenon of diminishing utility (i.e. decreasing satisfaction). Analysis of the increment is necessary and useful only at or near the margin; this is the point of balance at which an additional expenditure for any purpose would yield the same returns.
3. Composition of relative merits can be made only in terms of relative effectiveness in achieving a common objective.

Lewis [op cit] pointed out that budget divisions must be made on the basis of relative values, and there is no absolute standard of value. He went further to state that it is not enough to say that expenditure for a particular purpose is desirable or worthwhile. The results of such expenditure must be more valuable than they would be if the money were used for any other purpose. He contended that comparison of relative values to be obtained from alternative uses of funds is necessary because our resources are inadequate to do all the things we consider desirable and necessary. He concluded by saying that public budgeting is necessary only because our desires exceed our means.

We present below some tables of financial allocations to Local governments in Nigeria covering the years 1999 to 2002. Emphasis has been placed on financial allocations to Local Governments in Ogun and Lagos States for the purpose of comparability which is the aim of the present study.

Table 1. Federal and State Government Allocation, Other Sources and Internally Generated Revenue of Lagos State: 1999 – 2002 (amount in N million)

Item	1999	2000	2001	2002
Federal Allocation	909.6	9192.4	11,726.2	7,646.6
State Allocation	275.9	-	-	485.4
Internally Generated Revenue	662.6	9597.5	12,480.5	1443.3
VAT	1,997.2	3702.1	4,993.1	4,269.0
Other Sources	37.5	1026.0	670.4	1,105.7
Total	**3,882.8**	**23,518.0**	**29,872.2**	**14950.1**

Table 2: Federal and State Governments Allocation, Other Sources of Revenue and Internally Generated Revenue of Local Government in Ogun State. (Amount in N million)

Item	1999	2000	2001	2002
Federal Allocation	688.9	6452.7	8287.7	3744.3
State Allocation	46.3	-	-	40.1
Internally Generated Revenue	194.2	1180.4	2244.3	138.6
VAT	331.4	761.0	1184.0	417.4
Other Sources	199.6	1213.5	5457.2	77.5
Total	**1265.9**	**9607.6**	**17173.2**	**4417.9**

Table 3: Expenditure of Lagos State Local Government Councils: 1999 – 2002 (amount in N million)

Item	1999	2000	2001	2002
Recurrent Expenditure	2986.1	16,461.3	23,545.7	83112
Capital Expenditure	879.2	6,037.2	4,679.7	1951.3
Total Expenditure	3865.3	22,498.5	28,225.4	10,262.5
Total Revenue	3882.8	23,518.0	29,872.2	14,950.1
Balance Total	**+17.5**	**+1019.5**	**+1646.8**	**+4687.6**

Table 4: Expenditure of Ogun State Local Government Councils: 1999 – 2002(amount in N million)

Item	1999	2000	2001	2002
Recurrent Expenditure	967.8	6110.3	9902.6	2777.9
Capital Expenditure	295.6	3597.2	4462.4	142.1
Total Expenditure	1263.4	9707.5	1436.5	2920.0
Total Revenue	1265.9	9607.6	17,173.2	4417.9
Balance Total	**+2.5**	**-99.9**	**+2808.2**	**+1497.9**

Below is the total breakdown of all revenues accrued to Local Government councils in the 36 states and Abuja: 1999 – 2002(amount in N million)

States	1999	2000	2001	2002
Abia	1048.8	10,576.1	15,285.7	1861.3
Adamawa	1843.4	8803.8	11396.4	6024.6
Akwa Ibom	1386.1	9017.2	28380.1	3668.8
Anambra	1495.5	6867.2	10355.0	2838.6
Bayelsa	803.3	7209.1	22932.4	979.1
Bauchi	2092.6	8186.8	11705.9	8714.5
Benue	1052.9	6447.2	12165.6	7498.7
Borno	1221.1	9846.8	14332.5	1418.1
Cross River	1593.4	7724.5	12933.1	4334.6
Delta	1600.6	32,858.8	51950.5	5353.5
Ebonyi	1026.2	6360.3	11017.6	2657.2
Edo	476.0	6200.1	9786.7	3511.0
Ekiti	580.8	6693.0	7789.4	3527.5
Enugu	691.5	5746.1	11510.2	3185.1
Gombe	1087.7	6985.1	10833.0	3604.6
Imo	1606.7	7342.2	17057.3	4616.2
Jigawa	2066.5	8786.6	10763.2	4965.5
Kaduna	2588.5	9529.5	15573.7	5134.0
Kano	3996.3	10935.1	25054.0	12163.4
Katsina	2887.2	9669.2	12617.2	9547.6
Kebbi	1767.8	7545.1	9092.4	5280.7
Kogi	1214.1	7702.9	10175.4	4810.7
Kwara	1068.9	7425.6	12627.4	1792.1
Lagos	3882.8	23518.0	29872.2	14950.1
Nassarawa	804.7	7236.6	12005.5	3670.6
Niger	1698.5	6111.0	10873.8	5190.6
Ogun	1265.9	9607.6	17173.2	4417.9
Ondo	830.4	7517.5	21224.1	2176.7
Osun	855.4	9702.3	12326.7	4390.0
Oyo	1665.6	11435.9	12000.0	5205.2
Plateau	1178.6	7277.5	12688.4	00.0
Rivers	2053.3	15031.7	29197.1	6576.7
Sokoto	1136.3	8716.2	10747.9	5840.0
Taraba	1472.9	6427.6	12382.7	4262.8
Yobe	1799.6	6183.0	12371.4	2662.8
Zamfara	1431.9	6197.0	10584.7	4013.0
FCT - Abuja	740.3	12748.2	14105.0	1307.2
Total	**56,012.1**	**354168.2**	**573,548.2**	**172151.1**

Source: Central Bank of Nigeria Annual Report and Statement of Accounts for the year ended (1999, 2000, 2001 and 2002) pp. 83, 111, 112 and 115.

While Lagos State local government councils got a total of N3,882.8m in 1999, N23,518.0m in 2000, N29,872.2m in 2001 and N14,950.1m in 2002, Ogun State local government councils got a total of N1,265.9m in 1999, N9,607.6m in 2000, N17,173.2m in 2001 and N4,417.9m in 2002.

When you view the tables of revenue due to local government councils in Lagos and Ogun State above, it is very clear that local government councils in Nigeria have substantial amount of money at their disposal to carry out services at the grass-root level, but the reverse is the case. This means that there is a problem of revenue management at the local government level in Nigeria.

METHODOLOGY

The study used the survey method by means of questionnaires to examine revenue management at the local government councils of Ogun and Lagos States respectively.

The target population is made up of both local government council staff and citizens of Ado-Odo/Ota and Alimosho local council areas.

The rationale for choosing these two groups (i.e. local government staff and the citizens from these two local government areas) is due to the fact that while the former manages these resources of local government, the latter are the beneficiaries of the infrastructure provided.

SAMPLE SIZE AND TECHNIQUES

The study is based on a sample size of 400 respondents, made up of 100 local government staff from both councils and 300 citizens from both local councils.

A cluster sampling techniques was used to select 5 wards from Ado-Odo/Ota local councils and 5 wards from Alimosho local council. A simple random sampling technique was used to select the respondents. As for the staff of both local councils, a simple random sampling technique was used to administer 50 questionnaires each to the staff of Ado-Odo/Ota and Alimosho council areas.

The sampling frame for this study was the voters' register of the 5 wards in both local councils for the citizens and payroll for the local council staff of Ado-Odo/Ota and Alimosho local council areas.

METHOD OF DATA COLLECTION

To achieve the purpose of this study, questionnaires were administered. In addition, the historical and direct interview methods were adopted.

PROCEDURE FOR DATA ANALYSIS

The chi-square (χ^2) statistical technique was employed in the analysis of data in this study. This is because the study is interested in the frequency distribution of the variables under investigation. The χ^2 analysis was employed to test for the null hypotheses and error of 0.05 per cent level was allowed.

The formula for χ^2 is as follows:

$$\chi^2 = \frac{(fo - fe)^2}{fe}$$

Where fo = observed frequency
fe = expected frequency
n = total number of sample

DATA ANALYSIS

The following hypotheses were tested:

1. That there is no relationship between the amount of revenue available to local councils and the infrastructural facilities provided at the grass-root level.
2. That there is no significant relationship between local government staff and their views on the proper management of local government revenue.
3. That there is no significant relationship between residents of both local government areas and their views that local government is an instrument of grass-root development.

Testing the above hypotheses yielded the following results:

1. The infrastructural provisions by the two local governments did not reflect the huge amount available to local government councils. This is supported by the views of those sampled. About 82% of those sampled from both local governments were of the view that local government councils have failed in the area of revenue management while only 18% agreed that local government councils have succeeded in its revenue management.
2. There was no significant relationship between the views of local government staff of Ado-Odo/Ota and Alimosho local councils of Ogun and Lagos States about proper revenue management at the local

government level between 1999 and 2002. Both staff agreed that there was poor financial management. This is based on the sampled staff, 72% disagreed about proper revenue management at the local government level while only 28% agreed.

3. There was no significant relationship between residents and staff of both local government councils about their view as to whether local councils are instruments of grass-root development. About 92% of those sampled agreed that indeed Local Government is an instrument of grass-root development, while only 8% disagreed.

CONCLUSION AND RECOMMENDATIONS

This work looked at revenue management at the local government level on a comparative basis. From the findings, local government councils were seen as instruments of grass-root development, but they were seen to be over dependent on Federal Government allocation. This tendency undermines the motive for increase in internally generated revenue (IGR) in the Local Governments.

Concerned over the poor performance of Local Government councils nationwide in the last four years in spite of the huge revenue available to them, the President, Chief Olusegun Obasanjo set up a technical committee of experts drawn from the six geo-political zones to examine among other things; the problem of inefficiency and high cost of government with a view to reducing cost and wastages at the three tiers of Government. Also the committee was charged to review the performance of Local Governments within the last four years and consider the desirability or otherwise of retaining the Local Governments as the third tier of Government in Nigeria. (Madu Onuorah 2003: 1 - 4).

In a research carried out on Local Government by Tunde Ojofeitimi (2000: 62) the reply of one of the respondents to the question "how would he assess the performance of the outgoing chairman? was as follows:

The chairman had neither a vehicle nor a house when he assumed office. Less than two years in office, he has three vehicles and two houses. I do not believe that the salary he earned during the period was sufficient to cover the acquisition of these items. I leave you to draw your conclusion.

It was in the light of the above, that Ola (1976: 6) argued that

> *"There is need for annual approval of Local Government budget, annual treasury review of performance and regular visit by auditors to local governments".*

Based on the above results from the tested hypotheses, the following recommendations became relevant:

1. Measures should be put in place to guard against revenue mismanagement at the local government level through the appointment of external audit committees made up of reputable people from each local government council to monitor its finances.
2. Since Local Government system was found to be an instrument of grass-root development, free hand should be given to Local Government councils to carry out capital projects that will be of benefit to the people at the grass-root level.
3. The Federal and State Government should do everything possible to encourage the local councils to intensify their efforts in the area of internally instead of relying heavily on Federal and State Government allocations. This should be done by discouraging the present method of revenue sharing formula at the local level that seeks 25% on equality and 75% on population.

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