Addressing Policy and Practice Challenges of Local Government Revenue Mobilisation in Uganda

POLICY BRIEF

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Background

In a bid to bring social services closer to the people, Uganda adopted the local government decentralisation policy in 1992 and since then, various services have been shifted to the local governments (districts) and lower local governments (sub counties and town councils). These include feeder road management, Primary Health Care, Primary education and agriculture extension. However decentralisation has not been commensurate with the fiscal autonomy since there are limited resources from the central government to the local governments. Local Governments (LGs) to a large extent depend on Central Government (CG) transfers, which are highly conditional and limit their discretionary powers. In FY 2017/18 only UGX 2.519 trillion is the resource envelope for more than 167 local governments including municipal councils and town councils in addition to UGX 385 billion for development activities for all the local governments.

Although the Local Government Act section 77(1) empowers local governments to formulate, approve and execute their budgets and plans and to collect revenue and spend it,most LGs are still unable to finance their budgets from locally generated revenues. On average, about 90% of revenue at the local government level is from the Central Government while 10% is locally generated. As a result, Local governments largely depend on central government transfers which are usually conditional; these are earmarked by the Central Government for provision of specific services.

Whereas there have been several efforts to improve local revenue collections, their contribution to the LG budgets has remained low at an average of 3% (2.1% and 20.6% for rural and urban of the local governments respectively). However, recent data indicates a slight improvement from UGX 117 billion in FY 2011/12 to UGX194 billion in FY 2015/16. All these are against the estimated local revenue potential of UGX 685 bn. This assessment shows that local revenue performance remains below 50% of its total potential.This is largely attributed to the weak institutional arrangements for revenue administration.

This brief highlights key Policy and Practice issues which have continuously hindered Local Revenue Mobilisation and further provides recommendations which if put into consideration could enhance Local Revenue Mobilisation across the different Local Governments.

The Legal Framework Governing Local Revenue Mobilisation and Management

The legal framework empowers LGs to levy, charge, collect and appropriate fees and taxes in this case in their areas of jurisdiction. The Legal and institutional frameworks of Uganda governing local revenue generation, sharing and management is well articulated in the Constitution of the Republic of Uganda under Article 191 (1) and (2), Article 152, Article 194; the LGA Cap 243 under Section 77 (1), Section 80 and Schedule V; the LGFARs 2007, Regulation 24 ; and various Statutory Instruments. However, these frameworks have challenges which limit the capacity of LGs to generate local revenues. These have been highlighted as below:

Key Legal and Policy Issues to Review

1.0 Revise rates and exemptions of Local Service Tax

It can be argued that the Local Government Act (Cap 243) does not provide for effective mobilization of LST; i.e. the tax base is narrow and the threshold is low, e.g. for persons in gainful employment group – one getting a monthly salary between UGX 100,000 to UGX 200,000 pays only UGX 5,000 a year. This leaves out the many employees getting below UGX 100,000 a month and in addition the rate of UGX 5,000 is too small and uneconomic to collect since a big number of prospective taxpayers like boda- boda cyclists, Members of the Uganda People's Defence Force, Uganda Police Force, Uganda Prisons Service, Local Defence have been exempted from paying LST.

LST has not reached the expected targets. Its contribution has averaged between UGX4.8billion and UGX 10.5billion in FYs 2008/9 and 2009/10, respectively far below the targeted UGX 67billion . As a result, we propose that the exemption on personnel listed above is removed and the LST rates are revised as below:

Amount of monthly income earned (UGX)	Current rate of LST (in UGX) per year	Proposed Rate of LST (in ugx) per year
100,000 - 200,000	5,000	10,000
200,000 - 300,000	10,000	15,000
300,000 - 400,000	20,000	25,000
400,000 - 500,000	30,000	35,000
500,000 - 600,000	40,000	45,000
600,000 - 700,000	60,000	65,000
700,000 - 800,000	70,000	75,000
800,000 - 900,000	80,000	85,000
900,000 - 1,000,000	90,000	95,000
Above 1,000,000	100,000	105,000

2.0 Section 80(3) of the Local Government Act Cap 243

" A local Governent may collect fees or taxes on behalf of the Government as its agent; and where a local government acts as an agent, a portion of the funds collected shall be retained by the locl government as may be agreed upon between the two parties; and any extra obligation transferred to a local government by the Government shall be fully financed by the government."

Observation: The LGA Cap 243 section 80(3) provides for an agency fee to be paid to a collector who collects revenue on behalf of government, in this case, the LGs are collecting PAYE, WHT and VAT on behalf of URA but are not getting this agency fee. This is because URA is guided by the Income Tax Act which does not have such a provision for paying an agency fee.

Recommendation:There is need to reconcile both legal frameworks, to either remove the agency fee provision from the LG Act or provide it for it in the Income Tax Act.

3.0 Section 75 (7) of the Electricity Act Chap 145 of 1999.

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

Recommendation: The issue of royalties within the Electricity Act Cap 145 of 1999 should be reviewed to have royalty fees payable to the beneficiary LLG not necessarily to a district LG as stipulated in the current Act.

4.0 The Local Government Finance and Accounting Regulations

The Local Government Finance and Accounting Regulations provide that Local Governments should use the cash basis mode of accounting while preparing their books of accounts. However, anew template that was provided by the Auditor General's office requires Local Governments to use the modified cash basis accounting when compiling their financial reports. As a result, Local Government officials tend to have creative accounting which in the process leads to substantial amounts of revenue not being recorded.

Recommendation: The Local Government Finance and Accounting Regulations should be revised to harmonise with the Auditor General's template which provides for the modified cash basis of accounting.

5.0 A shaky Fiscal Decentralisation Architecture (FDA):

The set provisions in the law on funding LGs are not precise and obligation is not well articulated, including setting of conditions for grants and grant formulation plus grant adequacy; the lead institution of this process is not clear. Subsequent funding to LGs is not protected and is vulnerable. LGs used to receive over 25% of the national budget in FY2003/04 but this has drastically fallen to less than 8.6% in FY 2017/18.

Recommendation: Funding to local governments should be increased because they are in better place to handle issues of service delivery within the districts.

6.0 Remittance of revenue from the urban local councils to the district

Under the LG Act (Cap 243), urban local councils (municipalities and town councils) do not remit any local revenues to the district; however, these have highest sources of local revenues such as business licences and fees. Thus, the districts depend on rural lower local governments (sub counties) whose local revenue sources are very low. In fact, nationally, local revenue contribution has shifted from 78% in 2008/09 for districts to 54% in 2010/11; while urban councils have improved from 22% in 2008/09 to 51% in 2010/11 (LGFC, 2012). A policy should be put in place requiring the urban local governments to submit a favourable percentage of revenue to the lower local governments.

Practice Issues

A number of issues have also been raised on the general practices within the different Local Governments which have hindered effective Local Revenue Mobilisation.

1.0 The Land Act Cap 227

The Land Act Cap 227 highlights Non-payments of ground rent having to be referred to land tribunals yet field research conducted by SEATINI Ugandain Kitgum, Lamwo and Pader districts shows that the land tribunals are not being fully utilised..

Recommendation:The district leaders need to prioritise the Land tribunals to enable them carry out their mandare. This would among other thingsfacilitate Local Governments to collect ground rent effectively.

2.0 Political Pronouncements against Local Revenue Mobilisation

Local revenue mobilisation is undermined by the Central Government and some political heads who have made countless pronouncements that undermine the efforts by LGs to boost their revenue performances. A case in point is the abolition of G/tax, and bicycle licenses.

Recommendation: Inorder to curb this practice, there is need to develop and operationalise a local revenue policy that will, among others, curtail the prevailing negative political interventions.

3.0 Inadequate supervision and monitoring of LLGs by HLGs on revenue generation.

Supervision of the Lower Local Governments is hurriedly done on quarterly basis. Senior District technical staff and the political wing (Finance committee) rarely go out to monitor and crosscheck on the activities of the revenue collectors. Consequently, most sub counties under declare or fail to declare how much revenue they collect.

Recommendation: Thereis need to put in place strict procedure to ensure that lower local governments provide correct information. In order to ascertain the revenue collections within the sub county, it would be necessary to encourage the use of ICT in order to ascertain periodic revenue collections.

5.0 LGs lack sustained follow-ups from Ministry of Local Government (MoLG) and Local Government Finance Commission (LGFC) on local revenue enhancement.

This is due to the fact that these institutions i.e. LGFC and MoLG are poorly funded to perform this function and cover all the districts, in any given financial year. Currently, the two institutions conduct support trainings in about a third of these LGs every year. Subsequently, the country is covered in about 4 years , which necessitates follow-up which cannot easily be done concurrently with the trainings.

Recommendation: More resources both human and financialshould be allocated to MOLG and LGFC to facilitate follow ups within the local governments. Constant supervision and provision of support for the local governments will greatly improve their revenue collections. Officials from LGFC and MOLG should adopt a multi-stakeholder approach because effectiveness of revenue mobilisation requires inter-connection among the different offices within the Local Governments.

6.0 Gender Mainstreaming in Local Revenue Mobilisation.

Gender mainstreaming should be paid attention to in the process of Local Revenue Mobilisation. This could be addressed by ensuring that local revenue mobilisation policies and practices mainstream gender. This could be achieved through; having policies in place that require a provide a particular percentage of tax collectors as women, as well as balanced representation of women and men on the local revenue mobilisation committees; Segregating data on tax payers by gender upon registration; Have a deliberate policy that promotes allocation of revenue collections to addressing the needs of women through social sectors like health , education and access to safe water.

7.0 Regulate the process of tendering out Revenue Sources

Tendering out of revenue sources has caused a tremendous loss in revenue collections for a number of Local Governments. In this regard, before tendering out a revenue source, Local Governments should be able to establish a reserve price or optimal levels expected to be collected from each source. This will form a good basis for estimation of the amount expected from the revenue sources and this will guard against the exploitative revenue tenderers.

8.0 Irregular Expenditure at Source

The Local Government Finance and Accounting Manual 2007, procedures on expenditures require that Local Government officials should not spend the revenue collected at source. As a result, less revenue collections are registered hence limiting the amount of money available for allocation to social services.

Recommendation: Local Governments should adhere to the Finance and Accounting Manual and Regulations to stop spending at source. There is need to invest in an e-tax system across the different Local Governments to enhance transparency and accountability .

9.0 Inadequate Registration and Enumeration Committees, Assessment Committees

Some of the local governments do not have the committees in place, at subcounty, town council, municipal and district level. Without these committees, the LRM process cannot function effectively. Local governments should prioritise setting up of these committees as part of the LRM process.

10.0 Inadequate Staffing at the Local Governments

Staffing at the local government level is hindering local revenue mobilisation, Some of the districts have limited staff working on local revenue mobilisation. For example one parish chief is in charge three different parishes; in some of the districts; sub-accountants are shared between two subcounties which affects performance and delivery of their role in the process of local revenue mobilisation. The table below reflects the staus of staffing across Local Governments in Uganda.

Position	Station	Minimum required staff for LR administration (LG units)	Filled positions as per the government payroll	Staffing gaps
Commercial officer	District, Town council and Municipality	341	109	232
Town Agents	Wards in urban authorities	869	552	317
Parish Chiefs	Parishes	6,600	3,652	2,948
Accounts Assistants	Sub County	1,463	607	856
Total		**9,273**	**4,920**	**4,353**

Source: Financing of Local Governments In Uganda Through Central Government Grants And Local Government Revenues, OAG 2016

Recommendation: The Ministry of Local Government and Ministry of Public Service should ensure that all critical staffing positions at all levels that support local revenue management at LGs are adequately filled to improve local revenue performance. Local Governments which are understaffed should be given priority during the recruitment process.

11.0 Creation of a fully-fledged department for Revenue Management

Across the local governments in Uganda, the issue of Local Revenue Mobilisation is mainly handled by accountants. By training, accountants are expected to be in charge of spending and accounting for the finances they have in place which limits their ability to concentrate on collecting local revenue

Recommendation: In this regard, there is need to establish an independent Revenue Department within each local government and further strengthen its capacity to collect local revenues. An ideal Revenue department would comprise at least 5 staff; statiscian, revenue officer, accounts assistant, enforcement and public relations officers.

12.0 Budgeting for Local Revenue Mobilisation

Local Governments often budget less amounts of money for the process of Local Revenue Mobilisation. Some do not even direct any funds towards Local Revenue Mobilisation. This limits their ability to effectively mobilise revenue from the available sources.

Recommendation: In order to reap maximum benefits from the Local Revenue collections, Local Governments should be able to budget sufficiently for all stages of the Local Revenue Mobilisation processes; i.e. Registration, assessment, collection, enforcement and sensitisation. LGs should prioritize investing in appropriate automated local revenue management systems to improve data management and enumeration, assessment, update of registers and collection of revenue.

13.0 Accountability

Local governments should be in position to provide more information on the rates, amount of local revenue collected and how it is utilised, assessment information collected through public notices boards to increase citizen understanding and compliance to tax payment, Public display of assessment forms. This will encourage the compliance of tax payers as they will be able to realise transparency in the tax system.

14.0 Enforcement

Local Governments have often lost tremendous amounts of revenue due to the weak enforcement policies they put in place. This cuts across the different stages of the Local Revenue Mobilisation process including the use of revenue registers , assessment and invoicing of tax payers as well as the actual collection of revenue by the tax collectors.

Recommendation: There should be an effort/mechanisms put in place to improve on Local Revenue collection such as enforcing the use of Local Revenue registers and Book Keeping. LGs should ensure that arrears register is in place to enable in tracking tax payers who have not honoured their obligations as required by the different LGs. Additionally, MoFPED and MoLG should set local revenue performance targets to Accounting Officers of LGs as part of their performance contracts in order to improve their involvement in revenue management. In the same way, LGs should prioritize the need to have comprehensive Local revenue registers to improve on revenue forecasting.

16.0 Strengthen Local Revenue Mobilisation Committees

The LRM committees include: Registration and Enumeration and Assessment committees are critical in enhancing local revenue, they enable local governments streamline local revenue processes and procedures.However currently there are challenges in regards to LRM committees. Some of the local governments do not have the committees in place, at subcounty, town council, municipal and district level. Without these committees, the LRM process cannot function effectively.

Recommendation

Local governments should proritise the establishment the LRM committees and strengthen existing committees.

17.0 Allocation of revenue to key social sectors

According to the LG ACT CAP 243 Fifth schedule, section 4 states that the expenditure of a local government in a financial year on emoluments and allowances of chairpersons and councillors shall not exceed 20% of total revenue collecte by that LG council However, a number of local governments have been seen to spend more than 20% of revenue on councillor’s allowances and in the process neglect allocations to the key social sectors such as health, education, roads, water, and production. As a result service delivery has been hindered hence discouraging many tax payers from paying their taxes because they don’t feel like they benefit from the taxes they pay.

Recommendation: Local governments should endeavour to allocate substantial amout of the revenue collected allocated to services including education, health, security, water and production.

Conclusion

The importance of Local Revenue cannot be underestimated. With insufficient revenue, Local Governments are unable to fulfil their mandate of service delivery and as result hinder the decentralisation process. Therefore, the improvement in the process of local revenue mobilisation is key to functioning of the decentralisation process and for the provision of social services such as health, education, water, roads and security. If the issues within the policy and legal frameworks, as well as the practice issues are addressed, we could register a tremendous increase in local revenue mobilisation and improved service delivery in Uganda.

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