SOURCES AND APPLICATION OF FUNDS IN LOCAL GOVERNMENTS

(A Case Study of Kumasi Metropolitan Authority)

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Abstract- Decentralization has become an important development strategy global today and development assistance to promotion of equity as well as participation of government. Ghana has since independence in (1957) gone through a number of attempts to decentralize political and administrative authority from the national level to the local level .The efforts has been fragmented and ineffective, especially before 1988.A serious and more effective decentralization in Ghana can therefore be traced back to 1988 when the number of district assemblies increased from sixty five (65) to one hundred and ten (110). It is important to recognize that, since 1988, through to 1990s,Ghana , like most developing countries , has put decentralization policy on its development agenda. The trust of Ghana 's decentralization policy has been to promote popular participation and ownership of local government by shifting the process of governance from command to consultative processes, and by developing power, competence and resources to the district level (local authorities). Under the Ghana decentralization policy and local government reform, development is a shared responsibility involving the central government, local authorities and the communities. The local authorities (district assemblies) are responsible for the overall development of their respective districts and district assemblies are the highest political and administrative authority at the district level. Their mandate and authority are captured in the 1992 constitution and a number of enactments such as the local government act 462, (1993) .The mandate include legislative, administrative, development planning, service delivery as well as budgeting. The assemblies are responsible for the implementation of government programmes and projects in their areas of jurisdiction. These include environmental sanitation, education, primary health care, provision of water and infrastructure. It is therefore important to recognize the role being played by the local authorities. It is significant to note that the government's poverty reduction programmes (GPRP) is being implemented through the local authorities under the on-going decentralization process. It is apparent from the above account that the role of the district assemblies are to carry out numerous social and development programmes which require an outlay of huge sums of money .The question then is, how do the district assemblies funds their activities ? This and many other questions are the driving forces of this study.

I. INTRODUCTION

Decentralization as a tool for development has placed district assemblies and their activities in a high ranking position, however, the role of distinct assemblies will only be a fiasco if they are not well funded to carry out their activities. The constitution enjoins the state to allocate not less than five percent of the internal generated revenue to the local authorities and for the past 29 years, government has been fulfilling this constitution obligation. A district assembly's common fund administered by an administrator was set up in 1994. The administrator on yearly basis submits for parliament's approval a formula for sharing the yearly allocation. This translates to between 29-35 percent of national development expenditure. In 2005, the district assembly's common fund was increased from 5 to 7 percent of internal generated funds. Besides that, provision was made to allow the assemblies to generate fund other sources such as rates fees and licenses, donations/gifts, and funding through development partners. Despite these provisions, district assemblies cannot provide the needed infrastructure to support development in the district. This has compounded the unemployment situation in various districts leading to prostitution, armed robbery and other social vices.

Objectives of the Study

1) Identifying the main sources of funding to the Kumasi Metropolitan Assembly.
2) Identifying the main social and development activities that are material to the expenditure and budget of the Assembly.
3) Investigate the adequacy of the district assembly common fund available.
4) Recommend other sources of funding to the assembly.

II. LOCAL GOVERNMENT ADMINISTRATION

The district assemblies are headed by District Chief Executive (DCE) who is nominated by the president but must be confirmed by the assembly members lower down the structure.

Sources and Management of Funds in the Assemblies

Financing of the local authorities is recognized as an integral part of the decentralization policy and comprehensive provisions have therefore been made accordingly.President J.A. Kuffour, 2005 identified the following as the basic principles of financing the assemblies

i. Empowerment of the local government to levity and collect rates, fees and license.

ii. Sharing of financial resources with central government
iii. Fund raising activities to attract donation/gifts.
iv. Funding through development partners.

Funds from development partners such asWorld Bank, EU, etc.The local authorities need to improve their financial management practices and procedures in order to ensure that resources are judiciously utilized to meet the development needs and aspirations of the populace as part of the decentralization policy, therefore a number of financial regulation have been introduced to extend capacity initiative for both the local government practitioners and councilors (Presidential Report 2005).

1) Internal generated fund (IGF)
2) Transfers from Central Government (TCG).
3) Transfers from Internal Sources (TIS).
4) Other Development Interventions /Funds.

Interpretation of the Legal Provisions.

Based on the legal provisions above, the assembly has developed a physical structure, which is the basis of internally generated funds (IGF). The Assembly has therefore identified about eighty – four revenue. The significance of the numerous items for revenue generated has been a source of concern because of the financial and non financial implication for revenue collection of Kumasi Metropolitan Assembly indicates that only 17 revenue items generated 77% of total revenue. The remaining 23% comes from sixty-seven (67) items. This is a pointer to the fact that the assembly is waiting a lot sources on several unproductive items.

Revenue Collection

i. The Assembly has employed workers who are responsible for revenue collection.
ii. The assembly has ceded portions of its tax collection responsibilities to identifiable organization to collect revenues on commission basis.

Analysis of Performance

The major sources of revenue to the assembly are rates (property rare, basic rate). Fees and fines (market fees) licenses and lands. Fees and fines are ranked, followed by rates, license and land in that order

From the period 2010 to 2016 , fees and fines, rates, license and lands contributed an average of 34.3% 27.6% and 9.4% respectively to internally generated revenue of the assembly these four revenue areas contributed a total of about 90.8% of the IGF. The remaining 9.2% emanated from rent, investment and miscellaneous item.

Transfer from Central Government (TCG)

The central government transfers money to the assembly for the financing of both recurrent and development expenditures. This transfer constitutes about 67.5% of the total income of the assembly. The general grant is for financing recurrent expenditure especially salaries. The district assembly common fund (DACF) is for the development expenditure financing.

Expenditure Financing

The major expenditure items are:

i. Personnel emoluments- these include salary and wages, overtime allowances and social security contributions for employees
ii. Operational expenditures- these cover items such as travel and transport allowances, per diem and general expenses. Payment for utilities, telephone etc.
iii. Maintenance and repair- These cover costs of maintaining office machine, furniture and other facilities.

These items constitute the recurrent expenditure of the assembly. In addition to these items are two other expenditure items. These are locally financed capital expenditure and capital expenditure financed through external source such as the DACF.

i. Between (2010) and (2015) an average of 41% of total expenditure was recurrent
ii. Capital expenditures are those on assembly building, vehicles equipment for waste management and project within the social sector such as schools, health and housing.

The average annual expenditure growth rate from 2010-2015 is estimated at 33.3% as against 32.9% for revenue

Expenditure Analysis

The main areas that funds are expended include personnel emoluments, traveling and transport, general expenditure, maintenance/repair/renewals, miscellaneous and capital item. With the exception of capital expenditure items, all the other expenditure items are recurrent expenditure.

Expenditure on capital items (development projects) continues to be the highest since 2012, for example in 2012, it accounted for 81 .5% of the total expenditure. It was 90.2% in 2013 , 89.9% in 2014 and 82.7% in 2015.This is so high because in line with central government directives, the assembly has refrained from spending its share of the common fund and other development funds on recurrent expenditure. From 2012 to 2015 annual recurrent expenditure for the district has been at an average of 16.3% of total expenditure. This trend shows that the district's efforts towards development have been increasing and this has to be maintained.

The analysis of the expenditure indicates that almost all Internally Generated Funds(IGF)over the period was used on recurrent expenditure, thus limiting the assembly's ability to undertake projects with the traditional sources of revenue

Financial controls

The Metropolitan Chief Executive is at the center of financial management of the assembly and authorizes all expenditures in the event of procurement of certain categories of goods and services.

III. RESULTS OF THE STUDY

Table1. Characteristics of Respondents Performance of IGF and other sources of income for the period 2010 to 2015

Variables	Number	Percentage
Gender:		
Male	60	60
Female	40	40
Educational level:		
4-years degree/equivalent	30	30
Diploma	50	50
Below diploma	20	20
Current position:		
Cashier/revenue	5	5
Administrator	5	5
Operation staff	90	90

Sources of income	2010	2011	2012	2013	2014	2015
	%	%	%	%	%	
IGF	50	42.28	27.19	38.26	23.17	30.43
GENERAL GRANT	21.43	15.38	16.30	12.76	9.76	10.87
DACF	28.57	19.23	23.91	21.27	29.27	23.91
HIPC	-	32.07	32.60	27.65	37.80	34.61
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**

TABLE3. Percentage Recurrent Expenditure From (2011-2015)

Expenditure	2011	2012	2013	2014	2015
	%	%	%	%	%
Personal emolument	24.19	28.89	30.23	30.67	31.87
Traveling and transport	27.42	28.89	29.46	19.33	27.47
General expenses	17.74	15.56	13.18	18.67	8.79
Maintenance and repairs	6.45	5.56	6.20	7.33	3.85
Miscellaneous expenses	24.19	21.11	20.93	22.00	28.02
TOTAL	**100**	**100**	**100**	**100**	**100**

The items constitute the recurrent expenditure of the assembly in addition to these items are two other expenditures items. These are locally financed capital expenditure and capital expenditure financed through external sources such as DACF.

1. Between 2011 and 2015 an average of 41% of total expenditure was recurrent
2. Capital expenditure covered an average of 59% of total expenditure. The example of popular capital expenditure are those on assembly buildings, vehicles ,equipment's for waste management and project within the social sector such as schools, health and housing .
3. The average annual expenditure growth rate 2011 - 2015 is estimated at 33.3% as against 32.9% for revenue.

Current Challenges

1. under declaration of revenue by collectors
2. IGF are quite unstable
3. Low level of IGF performance to total revenue generation
4. Low level of property rate generation.
5. Low educational background of collectors
6. Poor estimation of revenue to be collected
7. Poor expenditure control
8. Low levels of motivation
9. Absence of incentive packages for hand working and performing revenue collectors
10. Weak management information system (MIS)
11. Inability to leverage other sources of funds through private capital
12. Low tax base
13. High current expenditure
14. Weak monitory system

Summary of Findings

General , it was evident from the findings that, the main source of income to the KMA are internally general funds (IGF), transfers from DACF and transfers from development partners/international sources. It is an undeniable fact that the assembly is wasting a lot of resources on several unproductive activities .

It was further observed that the transfers (general grant, DACF, HIPC) and IGF counted for 67.5% and 32 .5% respectively so by inference, the assembly over depends on the former for financing its activities.

Recommendations

1. Improvement in revenue declaration.
2. Reward system of the Assembly should be reviewed.
3. Workers should be made to upgrade their skills.

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