

**CHALLENGES OF MUNICIPAL FINANCE IN GHANA: A CASE
STUDY OF TEMA METROPOLITAN ASSEMBLY**

BY



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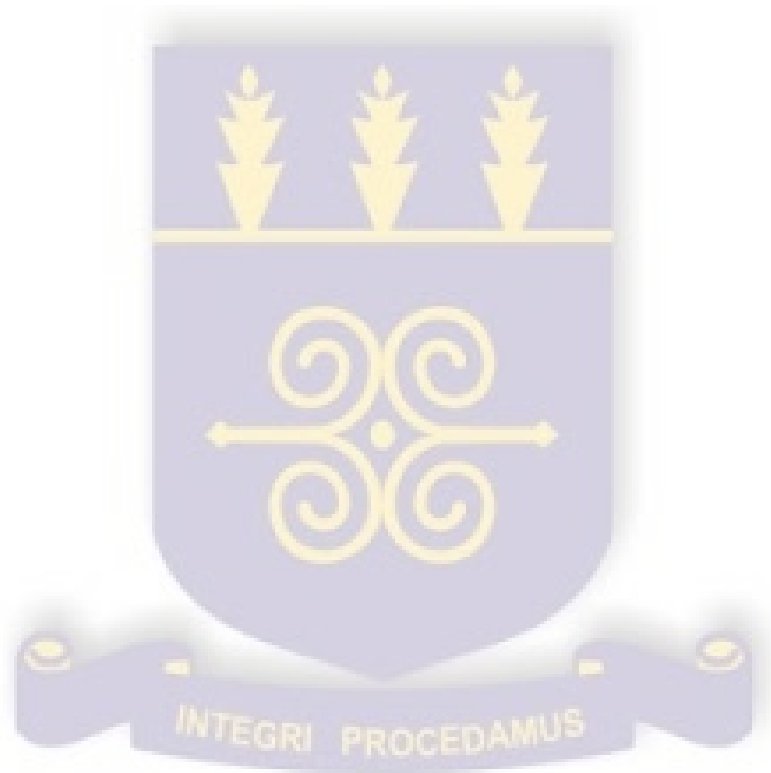
THIS THESIS SUBMITTED TO THE UNIVERSITY OF GHANA, LEGON IN PARTIAL
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INTEGRI PROCEDAMUS

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DEDICATION

This work is dedicated to my parents, Mr. and Mrs. William KwasiYeboah and my siblings (Wiredu, Dr.Ansong, Anim, Kwakye, Kwakyewaa and Akyea), whose prayers, love, support and encouragement motivated me to be the best I can.



ACKNOWLEDGEMENT

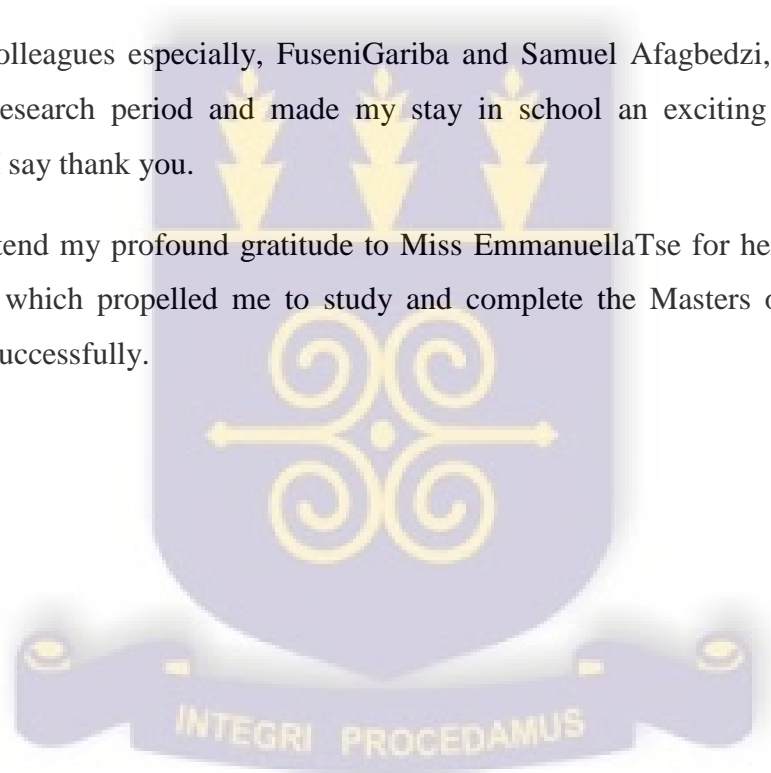
All praise and thanks to the Almighty God, who gave me knowledge and strength throughout the duration of my course and this study.

I am extremely grateful to my supervisors, Mr. G. KwakuTsikata and Prof. Peter Quartey for their expert knowledge and guidance, constructive criticisms, valuable comments and suggestions.

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Finally, i extend my profound gratitude to Miss EmmanuellaTse for her encouragement and support which propelled me to study and complete the Masters of Philosophy in Economics successfully.



ABSTRACT

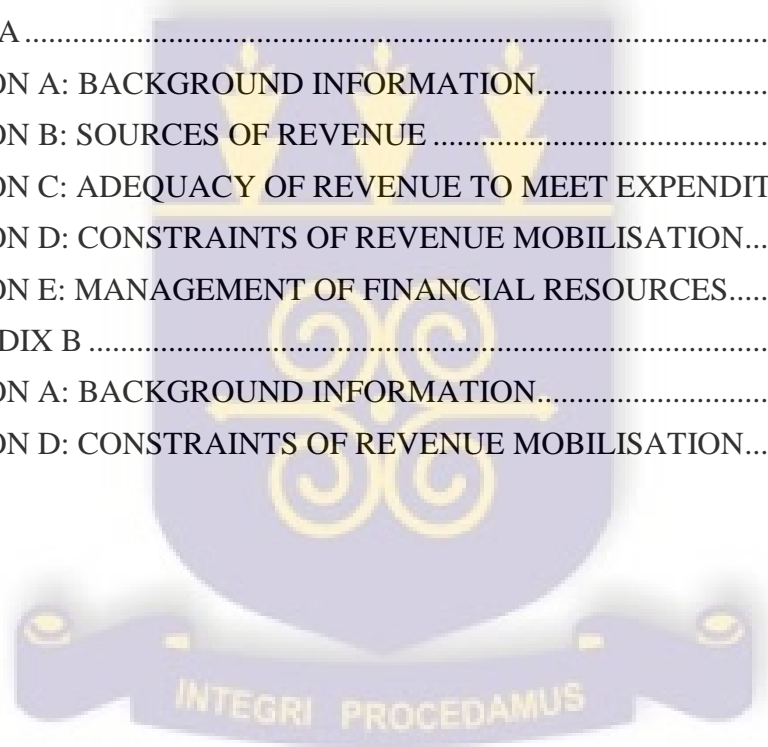
The study focused on the challenges of municipal finance in TMA. The study analysed the sources of revenue, assessed the extent to which revenue generated are able to meet expenditure requirements, examined the constraints of revenue mobilisation and evaluated the management of financial resources in TMA. Purposive sampling was used to select two officers who had in-depth knowledge on the subject matter whilst simple random sampling was employed to select one hundred and one revenue collectors for the study. Questionnaires and interviews were used to collect primary data from respondents. Secondary data was also extracted from the financial statement of the Assembly just to mention a few for the study. The findings identified rates, lands, fees and fines, licences, rent, grants, investments and miscellaneous receipts as revenue sources of TMA. It revealed that total revenue mobilised from the IGF was low compared to grants and data bases on properties and businesses were inadequate resulting in loss of revenue. The findings also showed that TMA was not able to raise adequate revenue to finance its expenditure budget. Further, revenue mobilisation was encountering some challenges including inadequate logistics, absence of application of modern technology, low professional capacity of revenue collectors, low salary and inadequate public education on the need for rate payers to honour their financial obligations, among others. The findings again revealed that despite the systems established for controlling revenue and expenditure, TMA was not achieving revenue target whilst the re-current expenditure exceeded the approved budget for some periods. The study concluded that grants constitute a major share of TMA's total revenue, revenue data base on businesses were not up-to-date, revenue generation must be improved, challenges encountering revenue mobilisation should be addressed and TMA should tighten its revenue and expenditure control system.

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LIST OF ACRONYMS

DACF	District Assemblies Common Fund
DDF	District Development Facility
FOAT	Functional Organisational Assessment Tool
GPHA	Ghana Ports and Harbour Authority
IGF	Internally Generated Funds
JHS	Junior High School
MLGRD	Ministry Of Local Government and Rural Development
MMDAs	Metropolitan, Municipal and District Assemblies
PNDC	Provisional National Defence Council
PPP	Private Public Partnership
RCC	Regional Co-ordinating Council
SHS	Senior High School
SPSS	Statistical Package for Social Sciences
TMA	Tema Metropolitan Assembly
UDG	Urban Development Grant

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Municipal finance is about the revenue and expenditure decisions of local governments. It covers the sources of revenue that are used by local governments – taxes (property, income, sales, excise taxes), user fees, and inter-governmental transfers and ways of financing infrastructure through the use of operating revenues and borrowing as well as charges on developers and public-private partnership (PPP). Municipal finance also addresses issues around expenditures at the local level and the accountability for expenditure and revenue decisions, including the municipal budgetary process and financial management (UN-HABITAT, 2009).

Effective municipal finance enhances the ability of local governments to improve service delivery and provide infrastructure facilities required at the local level. It facilitates the creation of an enabling environment which various stakeholders can take advantage of to improve their well-being. It also enables local governments to implement socio-economic programmes which impact positively on the living standards of inhabitants at the local level.

Municipal finance in developing countries continues to be deeply affected by urbanisation and rapid population growth (Mosha, 2004). While Africa was 80% rural in the 1950s and 1960s, its rate of urbanisation now stands on average at 50% and the trend is expected to continue over the coming years (UNCHS, 1998). The growth of Africa's towns and cities has outpaced local authority capacity for service delivery in terms of management, infrastructure, and financing (McCluskey et al., 2003). Firstly, the urban municipal authorities, many of which were originally instituted as colonial administrative institutions, have not been restructured to cope with the fast-growing population (Beall,

2000). Secondly, a growing number of urban residents live in informal settlements characterised by deficient basic services such as housing, clean water, electricity, sanitation, refuse collection, roads, and transport (Devas, 2003). Thirdly, many municipalities are financially weak and rely on financial transfers and assistance from the central government (Brosio, 2000).

In West Africa, 50 million people are expected to migrate to cities over the next 20 years and it will take 80,000 hectares of land to accommodate them (UNCHS, 1998). Tema, which is one of the major cities in Ghana, also continues to receive its fair share of urban population growth. According to Ghana Statistical Service (2000), the population of Tema was pegged at 506,400 with a growth rate of 2.6% per annum. Based on the growth rate, the population of Tema is estimated to increase to 689,068 by 2012. The increase in the urban population has put pressure on Tema Metropolitan Assembly (TMA) to provide wide range of services from infrastructure development to social services to meet the demands from the rising population. The influx of people into the city of Tema has been necessitated partly by the fact that Tema is considered as industrial hub of Ghana and with many organisations offering job opportunities in the areas of industrial, manufacturing and service sectors, a lot of people migrate to Tema to seek for both white and blue collar jobs to improve their living standards. To cope with the rising demands of urbanisation, TMA needs to raise more revenue to finance its expenditures. However, due to inadequate finance, TMA has not been able to expand and improve on the existing services and infrastructural facilities to match demands resulting from urbanisation. The net effect is excessive pressure being put on the existing facilities which had been deteriorating year by year. It is necessary that the Assembly adopt more effective strategies of raising revenue to perform its statutory duties and responsibilities.

1.2 STATEMENT OF THE PROBLEM

One of the main functions of District Assemblies is to formulate and execute plans, programmes and strategies for the effective mobilisation of resources necessary for the overall development of the Metropolis (MLGRD, 1996a). In order to perform this function effectively, TMA would have to mobilise adequate revenue through the levying of rates, fees, licences and charges to finance re-current and capital (development) expenditure. Even though the Assembly has been given constitutional and legal powers as a rating authority under Article 245(b) of the 1992 Constitution as well as Sections 78 and 94 of the Local Government Act 462 to collect levies and rates on all rateable objects, TMA is not able to mobilise sufficient financial resources to perform the eighty eight (88) functions outlined in Legislative Instrument 1929 which established the Assembly.

The fundamental problem of TMA is therefore the fiscal gap existing between the financial resource mobilisation and servicing of re-current and capital expenditure. This gap has partly been necessitated by low revenue mobilisation as well as rising urban population which had resulted in increased demand for infrastructure and urban services such as sewer services, garbage collection and disposal, educational facilities and social assistance. Even though TMA has wide range of revenue sources, it has not fully tap into such sources to raise more revenue to finance its expenditure making the Assembly to depend on intergovernmental transfers to carry out municipal services. In view of the above issues, development projects and programmes initiated by the Assembly are normally not completed on schedule. This research work would contribute towards solving the problem faced with low mobilisation of Internally Generated Fund and also ensure prudent management of these resources to enhance progress and development within the jurisdiction of TMA.

1.3 OBJECTIVES OF THE STUDY

The main objective of this research is to assess the challenges of municipal finance in TMA.

The specific objectives are to:

1. Analyse the sources of revenue of TMA;
2. Assess the extent to which revenue generated are able to meet expenditure needs of TMA;
3. Examine the constraints of revenue mobilization in TMA;
4. Evaluate the management of financial resources in TMA;

1.4 RESEARCH QUESTION

The research questions are based on the following:

1. What are the sources of revenue of TMA?
2. To what extent are revenue generated able to meet the expenditure needs of TMA?
3. What are the constraints to revenue mobilisation in TMA?
4. How are the financial resources managed in TMA?

1.5 SIGNIFICANCE OF THE STUDY

The study would explore various means through which TMA can widen its revenue net and also develop a more pragmatic mechanism of improving revenue mobilisation as well as ensuring judicious use of financial resources. The study would further provide policy makers with alternative ways of financing local governments. Finally, the study would serve as reference document for other District Assemblies in Ghana.

1.6 ORGANISATION OF THE STUDY

This work is organised into five chapters. Chapter one examined the introduction of the study. Issues discussed in this chapter are the background to the study, statement of the

problem, objectives of the study, research objectives, significance of the study as well as organisation of the study. Chapter two reviewed relevant literature on revenue sources of municipal governments, adequacy of revenue to meet expenditure needs, constraints of revenue mobilisation as well as management of financial resources at the local government level. Chapter three discussed the methodology of the study. In this chapter, the study area, population and sampling techniques, data collection procedure, research instruments, research design and data analysis had been outlined. Chapter four comprises results, discussion and representation of results. Summary of findings together with the conclusion drawn from the analysis and recommendations are suggested in chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews literature with reference to the sources of revenue of municipal governments, the adequacy of revenue generated to finance expenditure needs, the constraints of revenue mobilisation as well as the management of financial resources.

2.1.1 RELATIONSHIP BETWEEN GHANA PORTS AND HARBOR AUTHORITY AND THE TEMA METROPOLITAN ASSEMBLY

Historically, Ghana Ports and Harbour Authority was initially to be situated at Oda in the Eastern Region but eventually brought to Tema because of proximity to the city.

It is against this background that the researchers want to establish the relationship between these organizations.

Firstly, Ghana Ports and Harbor Authority (GPHA) honors their financial obligations to the Assembly i.e. annually business operating permit demand notice and property rate demand notice in order for the Assembly to develop the metro.

GPHA continually supports the Assembly in monetary terms in order for the Assembly to carry-out their sensitization programs in the media.

It also came to light that, GPHA annually supports the Assembly during the National Farmers Day. This supports come in the form of cash and kind to deserving and hardworking farmers.

GPHA, as co-operate social responsibility, periodically supports brilliant but needy students in the metropolis.

The relationship between GPHA and the Assembly is positive towards developing the

Metropolis and the country at large. If other co-operate institutions and companies in the Metropolis contributes their quota to the development of Tema, little will be needed from the National coffers to develop the Metropolis.

2.2 REVENUE SOURCES OF MUNICIPAL GOVERNMENTS

2.2.1 USER FEES AND CHARGES

User fees as defined by Wohlford Consulting (2008) is a fee or rate charged to an individual or group that receives a private benefit from services provided by the City. Examples of user fees include water supply, sewers, refuse collection and disposal, markets, slaughter houses, electrical power, parking, toll roads and recreational facilities.

According to Mosha (2004), charging immediate users of infrastructure and services has become a common principle and user charges are growing in importance. Mosha noted that user charges are designed to generate revenue to cover operating and investment costs. Mosha argued that this system provides for more efficient municipal services and infrastructure and also enable rates to be set and adjusted at levels to reflect the real capital cost of providing such services. Garzon (2007) reported that for efficiency reasons, revenue from charges should be levied on the direct recipient of public service benefit and the appropriate policy is to charge the correct price of providing local public goods and services. Garzon explained two common rationales for imposing user charges. First, to recover costs to finance operation and maintenance, and in doing so, minimise the burden that otherwise, may need to be placed on local taxation. Second, to maximize revenues, hoping to realise net-revenues (charging what the market will bear) to finance municipal recurrent expenditure. This practice as noted by Garzon is not recommended since it distorts the real cost of municipal service provision and therefore the allocation of economic resources. Garzon said under sound financial practices, user charges should be limited to recover the cost of service provision.

From the above discussions, it should be noted that user charges and fees play important role in financing local government services. Even though it is appropriate for local governments to set user fees and charges on cost recovery basis, they should be set in a manner which will make it affordable to beneficiaries irrespective of their socioeconomic status.

2.2.1.1 FORMS OF USER FEES AND CHARGES

Bird and Slack (1993) claimed user fees can take at least three forms as follows: **Service**

Fees: Service fees include license fees and various charges levied by local governments for performing specific services such as registering a vehicle or providing a copy of a marriage license. In a sense, these fees represent the reimbursement of costs from the private sector to the public sector.

Public Prices: Public prices include revenues received by local governments from the sale of private goods and services (other than the cost of reimbursement). All sales of locally provided services to identifiable private beneficiaries (whether they are public utility charges or entrance fees to recreation facilities) are included under the category of public prices. In principle, such prices should be set at the competitive private level with no special tax or subsidy element.

Specific Benefit Taxes: These taxes are different from service fees and public prices because they do not arise from the provision or sale of a specific good or services to an identifiable private individual. Special Benefit Taxes are related to the specific benefits received by specific taxpayer. Example includes special assessment on the property tax to pay for sidewalks or street lighting on a special street.

2.2.1.2 EFFICIENCY OF USER FEES AND CHARGES

Slack (2010) reported that appropriately designed user fees allows residents and businesses to know how much they are paying for the services they receive from local

governments. Also, when proper prices are charged, local governments can make efficient decisions about how much of the services to provide and citizens can also make efficient decisions about how much of the services to consume. Bird and Tsiopoulos (1997) who earlier arrived at similar conclusion noted that user charges leads to efficiency in two ways. First, they provide information to the public sector about how much users are willing to pay for the particular service. Second, they ensure that citizens value what the public sector supplies at least at its marginal cost (the cost to an additional user). For instance, user fees for water that are based on the marginal cost encourage water conservation, discourage water consumption in low-value uses, and postpone the time when new investments are needed (Deweese, 2002).

2.2.1.3 CHALLENGES OF USER FEES AND CHARGES

A general problem affecting a number of services provided by local governments in most countries is under charging and also, charge rates are infrequently revised thereby rendering service charges inelastic (Mosha, 2004). Under-pricing a service or by not charging for it can result in over-consumption of that service (UN-HABITAT, 2009). When users of a service do not have to pay for it or are paying reduced rates and are unaware of the cost of providing that service, they will demand more of that service than if they had to pay the right rates for the services they benefit from. The resulting crowding may be taken as a signal that local governments should provide even more of the under-priced services (UN-HABITAT, 2009). Whenever possible, local public services should be charged for at prices that are properly set rather than given away (Bird, 2001a).

A general concern raised about user fees is that they have adverse impact on equity: lowincome families cannot afford to pay user fees and will either not use the service or will have to reduce their consumption of other services(UN-HABITAT, 2009). However, Bird and Miller (1989) had earlier argued that even though those who benefit most from

under-pricing services are those who make the most use of such services, it is not true that the poor are not well-represented in this group. Another problem with user fees is that users often regard public sector pricing as a revenue grab on the part of local governments and for that matter, not only is it difficult to implement pricing under these circumstances but it is also difficult to increase public sector prices considering the fact that unlike prices in the private sector, once prices are set in the public sector, users believe that they should not increase (UN-HABITAT, 2009). Again, local governments have not done a good job of explaining to the public the important role that user fees play in service delivery (Bird and Tsiopoulos, 1997).

2.2.2 PROPERTY TAX OR RATE

Property tax which is a tax on land and building are normally general-purpose revenues which contribute to a broad range of municipal services, particularly physical infrastructure such as streets, roads and drainage (Garzon 2007). Property tax is levied because the benefits of infrastructure and services provided by municipalities accrue foremost to the owners of property or their tenants (Mosha, 2004).

UN-HABITAT (2009) outlined two main reasons why property tax is appropriate for financing local services. First, property tax is historically associated with local governments, in part because real property is immovable, that is, it is unable to shift location in response to the tax. This underscores the fact that evasion of property tax will be minimal. Secondly, why property tax is appropriate as a source of revenue for local governments relates to the connection between the type of services funded at the local level and the benefit to property values. Fischel (2001) argued that property tax is like a benefit tax because such taxes approximate the benefit received from local services. According to Fischel, property tax promotes efficient public decisions because taxpayers will support those measures for which the benefit exceeds the taxes. Both the benefits

derived from local services (for example, good schools, access to roads and transit) as well as the taxes are capitalised into property values and because taxpayers are willing to pay more for better services, this translates into higher property values. Fischel further explained that the above analysis is however based on a number of assumptions; that local property tax do finance services that benefit property values, that the incidence of such tax is on local residents, that both tax rate and service levels are decided by local residents, that impelled by the sensitivity to property values people will act rationally in response to such signals, and that local governments do what voters want them to do.

Another school of thought sees property tax as a tax on capital. Zodrow (2001) argued that the property tax results in distortions in the housing market and in local fiscal decisions. According to this view, property tax (based on market value) discourages construction of buildings and results in the under-utilisation of land. UN-HABITAT (2009) maintained that both approaches have some validity in that property tax is not purely a benefit tax and because homeowners who improve their houses will face higher taxes, they will therefore be discouraged from doing so.

2.2.2.1 PROPERTY RATING IN THE METROPOLITAN, MUNICIPAL AND DISTRICT ASSEMBLIES (MMDAs)

Revenue derived from property rate is used as a balancing figure in the determination of the revenue budget for MMDAs. This means that property rate revenue is the difference between the total expenditure of the MMDAs and total non-property rate revenue realised from all other sources of revenue available to the MMDAs in a fiscal year. According to (MLGRD 1996), Property rate due is determined by using the rate impost which is a coefficient expressed as a proportion of the Ghana Cedi of the rateable value of the property concerned. The rate impost and property rate due are determined through the following procedure:

1. Estimate the total expenditure of MMDAs for the financial year.
2. Estimate the total Non-Property Rate revenue of MMDAs for the financial year.
3. Subtract (2) from (1) to obtain the expenditure to be met from property rate.
4. Divide the estimated expenditure to be met from property rates by the total rateable values of all properties in the valuation roll of the MMDAs to arrive at a flat (average) or uniform rate impost.
5. Vary this rate impost according to the rating zones/classifications to obtain differential rate imposts.
6. Multiply the differential rate impost by the respective property value to obtain the property rate due for that property in a fiscal year.

This method of determining property rate due can generate inefficiencies in revenue collection since MMDAs may have the notion that any deficit resulting from excess of total expenditure over non-property rate revenue can be mobilised from property rate revenue. This would also mean that amount levied as property rate would vary depending on the deficit gap between total expenditure levels and revenue generated from nonproperty rate.

Section 99 (1) (a-e) of the Local Government Act 462 provides for the exemption of assessment and payment of property rate as follows:

- a. All premises appropriated exclusively for the purpose of public worship and registered with the District Assembly.
- b. Cemeteries and burial grounds registered with the District Assembly.
- c. Charitable or public educational institutions registered with the District Assembly.
- d. Premises used as public hospitals and clinics.
- e. Premises owned by diplomatic missions as may be approved by the Minister for Foreign Affairs.

2.2.2.2 CHARACTERISTICS OF PROPERTY TAX

UN-HABITAT (2009) discussed some characteristics of property tax that differentiate it from other taxes as follows:

Firstly, property tax is highly visible tax. Unlike income tax, property tax is not withheld at source but rather, tax payers generally have to pay it directly in periodic lump-sum. This means that taxpayers tend to be more aware of the property tax they pay. The exception is where mortgage institutions include property tax payments with monthly mortgage payments. The property tax also finances services that are highly visible, such as roads, garbage collection, and neighbourhood parks. Visibility enhances accountability but it also restricts the ability of local governments to raise or reform other taxes.

Secondly, the base of the property tax does not increase automatically over time, because property values respond more slowly to annual changes in economic activities than incomes. Property tax is therefore said to be an inelastic tax. Few local governments update property values for taxation purposes on an annual basis. This means that to maintain property tax revenues in real terms or to raise property revenues, local governments have to increase the rate of the tax in order to increase revenue but this also leads to greater taxpayer resistance.

Thirdly, property tax can be an important instrument of local autonomy since it is only levied by local governments. To ensure local autonomy, tax rates must be set locally and not by central government.

Fourthly, property tax commonly favours residential properties over commercial and industrial properties in most countries around the world (Bird and Slack, 2004). In most transition economies, enterprises tend to pay higher property taxes than residential properties (Malme and Yougman, 2000). UN-HABITAT, (2009) argued that favourable

treatment of residential properties is achieved by deliberately under-assessing them compared to commercial and industrial property of comparable value, by legislating lower tax rates on residential property or by providing residential property owners tax credits or tax deferrals which are not available to non-residential properties. Meanwhile, this differential treatment does not necessarily reflect the differential uses of services by different property types. Some observers have noticed that non-residential properties use fewer services than residential properties but pay more in taxes. For instance users of non-residential property often provide their own garbage collection, security and fire protection (Kitchen and Slack, 1993).

2.2.2.3 CHALLENGES OF PROPERTY TAX

Even though property tax is one of the most common taxes levied at local level, its potential is seldom exploited to the fullest extent (Mosha, 2004). Bahl and MartinezVazquez (2008) reported that property tax in developing countries accounts for only 0.6 % of Gross Domestic Product (GDP) on average compared to more than 2% in industrialised countries. Mosha (2004) explained that in most cases valuation rolls are incomplete and out of date. Further, in most countries, central governments which own many properties and uses services within the jurisdiction of local authorities are supposed to either pay tax in full or, more often provide grants to local authorities in lieu of rates. However, most central governments do not neither pay property tax nor offer grants in lieu of property tax thus depriving local governments of substantial revenue. Mosha also reported that a potential serious problem in most cities in Africa is the growing feeling among city residents that the money paid for rates and other local taxes are being poured into bottomless pit, as it seems to have no impact at all in improving the quality of physical infrastructure and services.

Despite their many virtues as a major source of local revenue, property taxes restrict revenue flexibility because no country seem to be able to raise more than 10% of total tax

revenue from the property tax (OECD 2006). OECD (2006) cited reasons for this development; that the tax is relatively costly and difficult to administer properly and these problems are exacerbated as the size of the tax burden increases. Moreover, in most countries even a well-administered local property tax cannot finance major social expenditure such as education, health and social assistance. For that matter, local governments which are financed primarily by property taxes must either confine their activities essentially to providing such local services as street cleaning and refuse removal or remain heavily dependent on transfers from senior level government. Finally, property tax revenue responds less quickly to changes in the economy than taxes on income or sales because economic growth is not fully capitalised into real estate investment and land ownership.

Bird and Slack (2004), also noted that in many countries even if property values do increase, assessed values are not updated on a regular basis thereby reducing the quantum of revenue which would have been generated at the local level for development. Meanwhile, to raise more revenue from property tax in a way that is equitable, technical expertise are needed and the application of Geographical Information Systems and institutional tax administration must be improved (Mosha, 2004).

If decentralisation continues in developing countries and central governments insist on local revenue mobilisation, interest in local property tax may increase significantly in the future (Bahl and Bird, 2008).

2.2.3 BASIC RATE

It is a kind of poll tax which is levied annually on every adult between the ages of 18 and 70 years. Section 99 (2) (a-b) of the Local Government Act 462 exempts some persons from the payment of basic rate as follows:

- a. Persons who are in attendance at educational institutions who do not receive any remuneration or income during that period other than an allowance, loan or other grant provided for the purposes of such attendance and „remuneration“ does not include any sum received by a person in respect of temporary employment undertaken by that person during vacation from an educational institution.
- b. Persons who are more than 70 years old.

2.2.4 SPECIAL RATE

Special rate are imposed to raise funds from specific area and for specific projects. This means that MMDAs will have to identify the particular area where the special rate will be levied as well as select a particular project(s) which will be financed from the funds mobilised through the special rate.

2.2.5 BORROWING

Borrowing allows local governments to enjoy the immediate benefit from capital development and improvement which is not always possible when relying on current revenues which are usually not sufficient to fund large expenditures (UN-HABITAT, 2009). Rodden et al (2003) are of the view that local access to capital markets is often heavily restricted in developing countries. They argued that many developing countries have experienced substantial difficulties that have resulted in tighter restrictions being imposed on sub-national borrowing. According to UN-HABITAT (2009), many countries have designed various mechanisms for limiting funds that can be borrowed by local governments. For instance, central governments may limit long term borrowing to capital projects or limit the aggregate amount of long term debt to a fixed share of the local tax base or place a limit on debt charges such that debt charges (principal repayment plus

interest charges) cannot exceed a specified percentage of expenditures or own-source revenue.

MMDAs have been granted powers under Section 88 of the Local Government Act 462 to raise loans or overdraft within Ghana for their operations. In spite of these powers, it should be noted that District Assemblies can hardly compete in the financial markets for loans for two reasons. Firstly, the inability of District Assemblies to put up proper financial accounts to meet money market standards and secondly, the reluctance of lending institutions to advance funds without guarantees underwritten by central government. Currently, the amount of money which can be borrowed without approval from the Government is GHC2, 000.00 and beyond this amount, approval must be sought from the Ministry of Finance and Economic Planning. These factors limit the ability of MMDAs to freely enter into the financial markets to borrow large sums of money for development.

Annez (2006) noted that the experience with mobilising capital has been disappointing in less developed countries. From the lender's perspective, constraints include the lack of a transparent accounting system at the local government level, the absence of collateral, as well as lack of project revenue streams that rarely match commercial debt costs and from the local government perspective, potential revenues dedicated to debt repayment will not be available for other uses. When the costs are spread over time, a significant portion of local government budgets becomes a fixed obligation which will result in debt charges becoming a constraint on local fiscal flexibility (Cities Alliance, 2005).

2.2.6 PRIVATE SECTOR FUNDING

In many countries, local governments have turned to the private sector to deliver and fund public sector services through PPP (UN-HABITAT, 2009). Slack (2010) has defined PPP as partnerships between a government body and the private sector whereby the private

sector provides infrastructure or service that have traditionally been delivered by the public sector. The rationale for private involvement in the delivery of local public services is to improve the efficiency and effectiveness of delivery (UN-HABITAT, 2009). Local governments also turn to the private sector, because since they are not permitted to borrow on the capital market or are not willing to borrow, PPP is one way of getting facilities built without the local government incurring debt (UN-HABITAT, 2009).

PPP has played important roles at the local government level by way of assisting them in areas of revenue collection, waste management, development projects and programmes. A principal advantage of PPP is that, by relieving local governments of the financial responsibility for up-front capital costs, they enable infrastructure to be built at times when local government funding is constrained (Tassonyi, 1997). According to Slack (2010), the operation of facilities and programmes by private operators reduces local government operating expenditures and may enable additional revenue to be collected as well as permit the public sector to draw on private sector expertise and skills.

Tassonyi (1997) pointed out potential risks associated with PPP. For the private sector, there are risks that the regulatory framework could change and cause delays in the execution projects and for the public sector, the risk are that the nature of the public service provided will not be what the public wants. The success of PPP as suggested by Tassonyi depends on how contractual arrangements are structured and how the risks are shared.

2.2.7 INTER-GOVERNMENTAL TRANSFERS

Transfers from central government and donors constitute important sources of revenue to local governments. Even where local governments have the capacity to collect substantial revenue, Slack (2007a) argued that there will still be cases where some intergovernmental

transfers are needed for large cities and metropolitan areas where they are providing services and the benefit spill over local government boundaries.

2.2.7.1 RATIONALE FOR INTER-GOVERNMENTAL TRANSFERS

UN-HABITAT (2009) explained that the rationale for inter-governmental transfers can be broadly categorised as unconditional (general purpose) or conditional (specific purpose).

Unconditional transfers have no condition attached to their use; funds can be spent on any local service or they can be used to reduce local taxes. In some cases, unconditional transfer are given on a per capita basis; in other cases, the amount of the transfer depends on a formula which might take account of the expenditure needs of the local government, the size of its tax base, or other factors.

Conditional transfers have to be spent on specific expenditure like roads, parks, or some other local service. Even though they come with strings attached, there is no guarantee that the recipient will spend the fund on what the donor government intended. For instance, local governments that are already spending considerable funds in the area specified by the donor government will be able to divert grants funds to other purpose and still meet donor government requirement. Within the category of conditional transfer, there are matching transfer and lump sum transfers. Matching transfers require that local government match donor funds but lump sum conditional transfer do not require the local government to provide matching fund.

Slack (2007a) discussed four justifications for inter-governmental transfer as follows:

Vertical Fiscal Imbalance (fiscal gap): When local governments have inadequate ownsource revenue (such as local taxes and user fees) to meet their expenditure responsibilities, there is said to be fiscal imbalance or fiscal gap. The resulting gap can be closed by an unconditional (lump sum or block) transfer that allows the municipality to spend the fund in whatever area it deems appropriate. The total amount of the transfer

allocated for this purpose can be determined in one of three ways: as a fixed proportion of the revenues of the donor government (known as revenue sharing); on the basis of a formula (for example, as a percentage of specific local government expenditures or some other characteristics of the local governments such as population); or on an ad hoc basis.

Under revenue sharing, the donor government allocates a portion of one or more of its tax revenues to local governments. For example, the donor government may agree to share percentage of its personal income tax revenues with local governments. Once the total amount of funds available for grants is determined, funds can be allocated to local governments on a derivation basis (on the basis of where they were collected) or on the basis of a formula (for example, on a per capita basis). Revenue sharing on a derivation basis favours richer areas where revenue collections are the largest. Revenue sharing distributed on a per capita basis has an implicit equalisation component because richer areas give up tax revenues to poorer areas. The advantage of revenue sharing over ad hoc grants is that the transfer to local governments automatically increases as the yield from that revenue source increases. To be a stable source of revenue to local governments, the percentage share has to be maintained over time. Revenue sharing does not enhance local autonomy, accountability, or efficiency because local governments do not set the tax rates or the tax base.

Fiscal gaps can be closed in other ways. For instance, central governments can give additional revenue-raising powers to local governments or they can reduce the expenditure responsibilities that local governments are required to undertake. Moreover, local governments themselves could reduce their expenditures or raise their taxes to close the fiscal gap.

Horizontal Fiscal Imbalance: Horizontal fiscal imbalance refers to the differences in resources among local governments at the same level. Some local governments are

unable to provide adequate level of service at reasonable tax rates compared to others for three reasons. First, tax bases differ from one local government to another and thus, to collect the same amount of revenue, a local government with a small tax base will have to levy a higher tax rate than a local government with a larger tax base. Second, the costs of providing public services may be higher in one local government than another so that more tax revenues are required to provide the same level of service. Third, the need for particular public services may be greater in one local government than another, thereby necessitating higher expenditures (and higher tax revenues). Under these circumstances, an equalisation grant is appropriate (Bird and Smart, 2002). These grants are usually unconditional but can be used for specific expenditure categories. Equalisation grants, based on expenditure needs and the ability of local governments to levy taxes, can ensure that those local governments with relatively small tax bases and relatively high costs and needs will be able to levy tax rates that are comparable to other jurisdictions.

Externalities (spillovers): Grants are also appropriate where services spill over local government boundaries. If the local government responsible for the service bases its expenditure decisions only on the benefits captured within its jurisdiction, it will likely under-allocate resources to this service. One way to provide incentives to allocate more resources to services generating externalities is a transfer from central government. The type of transfer that is appropriate for addressing externalities is a conditional, matching grant. The grant should be conditional in that it has to be spent on the service which generates the externality. It should be matching to reflect the extent of the externality. For example, if 50% of the benefits of highway expenditures spill over existing local government boundaries, the matching rate could be 50%. Matching grants require that local governments contribute a portion of the funds to deliver the service. A uniform matching rate tends to favour richer municipalities because they are more able to match

funds than poorer municipalities, unless there is an equalisation component to the grant. Moreover, a matching grant will only stimulate spending if the local government has the power over expenditures and the ability to increase taxes.

Political Rationales: In addition to the economic rationales for inter-governmental transfers set out above, there are also political rationales for inter-governmental transfers. For example, transfers are often introduced in response to a public outcry over deteriorating services or infrastructure. Central government may also use grants to encourage local governments to provide at least a minimum standard of service in areas such as road safety, policing, or water and waste water treatment. Inter-governmental transfers are often used to provide incentives for local governments to act as agents of the donor government. In this way, the donor government benefits from local management expertise in providing a service. Conditional grants are sometimes given to acquaint local governments with services they would not have provided on their own with the expectation that central government will eventually take over the funding for such services.

2.2.7.2 TYPES OF INTER-GOVERNMENTAL TRANSFERS TO MMDAs

a) **District Assemblies Common Fund (DACF):** Article 252 of the 1992

Constitution of Ghana establishes the DACF. Under this Article, Parliament is to annually make provision for the allocation of not less than five percent of the total revenues of Ghana to the District Assemblies for development and the amount shall be paid into the DACF in quarterly instalments. According to MLGRD (2005), the DACF was created to encourage local governance, deepen governments commitment to decentralisation and promote sustainable self-help development, complement internally generated funds of MMDAs to undertake

development programmes in their areas of jurisdiction, ensure equitable distribution of development resources in every part of Ghana, bridge development deficiency in deprived communities as well as support the creation and improvement of socio-economic infrastructure in Ghana. The DACF is administered as follows:

- 90 % of each year's total allocation is shared among the MMDAs for development projects.
- 5% is shared equally among all the members of Parliament for constituency projects.
- 2.5% is shared equally among the ten Regional Co-ordinating Council for monitoring and supervision activities.
- 2% is reserved to meet contingency expenditure.
- 0.5% is used by the DACF Secretariat for monitoring.

The 90 % of annual total allocation which is shared among the MMDAs for development projects is based on a formula proposed by the Administrator of the DACF and finally approved by Parliament. MLGRD (2005) further explained the factors considered in developing the formula as follows:

- i. **The Need Factor:** This is meant to address the current imbalances in development considering the fact that various parts of the country are at different stages of development.
- ii. **The Responsive Factor:** It was envisaged that access to such huge transfers from the central government may serve as disincentive to some MMDAs to generate more revenue. This factor is therefore to motivate MMDAs to improve upon revenue collection.

- iii. **The Equalising Factor:** This is to ensure that each MMDA has access to a specified minimum sum from the Fund. The sum allocated to this factor is divided equally among all the MMDAs.
 - iv. **Service Pressure:** This is to assist in improving existing services which as a result of population pressure are deteriorating faster than envisaged. Population densities are the main basis for determining this factor.
 - v. **Reserve Fund:** It is used for bulk purchases for the MMDAs, counterpart funding of projects or a combination of the two and also for unforeseen expenditure.
- b) **District Development Facility (DDF):** As part of the efforts to improve the performance of the MMDAs in terms of efficiency, transparency and accountability, the Government of Ghana through the MLGRD established the DDF in collaboration with its key Development Partners (MLGRD, 2009). Under the DDF, the central government mobilises financial resources as a discretionary funding incentive to those MMDAs which comply with rules, legal regulations and policies in the performance of their mandate as well as fulfilling an assessment conducted on a yearly basis using the Functional Organisation Assessment Tool (FOAT) (MLGRD, 2009). The objectives of the DDF are to:
1. Mobilise additional financial resources for MMDAs.
 2. Provide incentive for performance for complying with Government of Ghana legal and regulatory framework.
 3. Establish a link between performance assessments and capacity building support.
 4. Ensure harmonised system for investment and capacity building support to MMDAs.

According to MLGRD (2009), under the DDF, the central government seeks to establish a link between the performance of the MMDAs and the allocation of additional discretionary funding. MMDAs that fulfil all the minimum conditions under the FOAT are rewarded with additional financial resources through a grant. MMDAs that are unable to fulfil all the minimum conditions are only allocated Capacity Building Grants to address the basic capacity needs identified under the assessment. The DDF allocation to MMDAs is based on the results of the FOAT and allocated as follows:

1. A Basic Grant (38% of the overall pool): This is allocated to all MMDAs that fulfill all the minimum conditions. The allocation is based on the under listed formula:
 - i. Equal Share (40%): It is shared equally to MMDAs that fulfilled all the minimum conditions.
 - ii. Population (50%): This share is based on the proportion of each MMDA's population to the total population of all MMDAs that fulfilled all the minimum conditions.
 - iii. Land Area (10%): It is shared based on the proportion of each MMDA's land area to the total land area of all MMDAs that fulfilled all the minimum conditions.
2. A Performance Grant (50% of the overall pool): This is allocated as an addition to the Basic Grant for MMDAs that fulfilled all the minimum conditions. The amount allocated to each MMDA is the ratio of the MMDAs score to the total score of all MMDAs that met the minimum conditions.
3. A Capacity Building Grant (12% of the overall pool): It is allocated equally to all MMDAs to address their capacity gaps as identified by the assessment.

- c) **Ceded Revenue:** They are derived from revenue sources which hitherto were collected by the central government but which have been transferred to the MMDAs in pursuit of decentralisation (MLGRD, 1996a). The ceded revenue collected for a particular year is shared among the MMDAs using a formula approved annually by the Cabinet (MLGRD, 1996a).
- d) **Stool Lands:** The Administrator of Stool Lands is responsible for the collection and disbursement of revenue accruing from Stool Lands. According to Article 267 (6) of the 1992 Constitution of Ghana, 10% of the revenue accruing from Stool Lands shall be paid to the Office of the Administrator of Stool Lands to cover administrative expenses. The remaining 90% is disbursed in the following proportions:
- i. 25% is allocated to the stool through the traditional authority for the maintenance of the stool in keeping with its status.
 - ii. 20% is allocated to the traditional authority.
 - iii. 55% is allocated to the MMDAs within the area of authority of which the stool lands are situated.
- e) **Personnel Emoluments:** It comprises the payment of 100% salaries and other allowances of government employees working with the MMDAs.

2.2.7.3 PROBLEMS WITH INTER-GOVERNMENTAL TRANSFERS

A major problem with inter-governmental transfers is the uncertainty characterising central government allocations especially, local governments are never certain about when they are going to receive their allocations from central government, or about how much they are going to get (Mosha, 2004). UN-HABITAT (2009) discussed some challenges with inter-governmental transfers. First, funding from central governments can

lead to ineffective local revenue decisions considering the fact that there is little or no incentive to use proper pricing when grants cover a large proportion of operating and capital costs. Further, inter-governmental transfers can reduce accountability in that, when two or more levels of government are funding the same service, accountability problem can arise when tax payers want to complain about the service and they are not sure which level of government is responsible for the problem. Moreover, when the level of government making the spending decisions (local government) is not the same as the level of government that is raising the revenues to pay for them (central government), accountability is blurred because there is no incentive to be efficient when someone else is responsible for funding. Local governments are more likely to carry out their expenditure responsibilities in a responsible manner if they are also raising the revenues to pay for expenditures they undertake.

Kitchen and Slack (2003) argued that inter-governmental transfers are rarely stable and predictable source of revenue to local governments. This is so because the amount of money local governments receives through transfers varies from year to year depending on the fiscal state of central and donor governments. Lack of predictability makes it difficult for local governments to plan expenditures since when grants decline, they will have to make up the lost revenue by increasing their revenue or reducing expenditures.

2.3 ADEQUACY OF REVENUE GENERATED TO MEET EXPENDITURE NEEDS

An important trend in municipal finance is the transfer of financial resources from central governments to local governments to enable local governments deliver and fund increasing number of services (UN-HABITAT, 2009). The last decade as reported by Mosha (2004) has witnessed an extraordinary proliferation of local government reforms around the world and this has fuelled the trend where there is more heavily reliance on local governments for development. In many countries, central governments have

downloaded responsibilities and budgetary authority to local governments to make taxing and spending decisions and this is expected to ensure that local governments have adequate financial resources at their disposal to implement various decisions that will be undertaken at the local level (UN-HABITAT, 2009). Local governments should not only have access to those revenue sources that they are best equipped to exploit (such as residential property taxes and user charges for local services) but they should be both encouraged and permitted to exploit other new sources (Dirie, 2005). The development of responsible and responsive local government as noted by Dirie is dependent on local government having at least some degree of freedom with respect to local revenues and control over the rates of some significant revenue source if they are to be fiscally responsible and innovative as to the way they finance basic services. This means that the amount of funding available to local governments is an important determinant of the quantity and quality of services that they will be able to provide.

In other cases however, central governments have developed the habit of shifting their debt burden onto local governments by reducing their transfers and directing responsibilities downward (Ebel and Vaillancourt, 2001). Ebel and Vaillancourt noted that downloading expenditure responsibilities to local governments without adequate revenue sources (sometimes referred to as “unfunded mandates”) compromises the ability of local governments to provide services and puts pressure on municipal finances. Where locally raised revenues are limited, urban government expenditures suffer (Bahl and Linn, 1992).

Over the last twenty years, a number of countries have increased the powers and responsibilities of local governments but they have not matched those responsibilities with revenues at the local level: “few countries permit local governments to levy taxes capable of yielding sufficient revenue to meet expanding local needs” (Bird, 2000).

Regardless of how much funds is decentralised to local governments, the revenues under their direct control rarely matches their expenditure requirements (Bird, 2001b). Thus, revenues at the local government level havenot kept pace with the increased expenditure requirements (Montgomery et al., 2003). Not only do local governments depend heavily on inter-governmental transfers which are not reliable but their own revenue sources are inadequate considering the fact that in most countries, local government own-source revenues are generally based on property taxes and user fees and not the more lucrative taxes such as income, sales, and fuel taxes (UN-HABITAT, 2009). The exceptions are a few countries in which local governments have few expenditure responsibilities or in a few countries (such as the Nordic countries) where local governments have substantial access to large and elastic tax bases such as the income tax (Bird and Vaillancourt, 1998).

2.4 CONSTRAINTS OF REVENUE MOBILISATION

Local governments according to (Dirie, 2005) face greater challenges when it comes to raising revenues. First, local governments often have limited revenue base from which to finance the services assigned to them, especially when compared to the revenue base of the central government. Second, they have few own source revenues, lack incentives to generate their own revenues, and do not fully utilise the existing revenue potential from these sources. For example, property taxes are difficult to administer and collect (Bird and Slack, 2004). Third, they often have little or no control over the tax rates they can levy. Fourth, central government transfers are not stable and predictable and the design of transfers is often not transparent. Also, the dependence on central government transfers undermines the accountability of local governments to local voters and tax payers (Devas, 2005). Fifth, most local governments in developing countries are either not permitted to borrow or their borrowing is restricted by central government.

Devas (2005) observed that local governments often suffer from weak institutional capacity. Decision making processes as noted by Devas are unsystematic, mechanisms of accountability between officials and elected or appointed representatives are inadequate, and there are shortages of officials with the necessary technical, managerial and financial skills. These Devas said are often due to the lack of financial resources to attract and retain high calibre staff. He indicated that very low salary also means that staff are preoccupied with searching for other income opportunities, whether corrupt or dysfunctional

2.5 MANAGEMENT OF FINANCIAL RESOURCES

The way in which local governments manage their affairs and monitor their activities plays an important role in their ability to improve service delivery and minimise wasted resources: “transparent and prudent local financial management has come to be recognised as critical to the integrity of the local governments and for gaining and retaining the trust of local residents” (Shah, 2007). Financial management is designed to ensure that local governments have sufficient revenues to carry out its expenditure responsibilities, to provide information that shows the state of local government finances, and to account for the sources and allocation of revenues (UN-HABITAT, 2009). To realise these objectives, local governments will have to develop effective system for budgeting, accounting and auditing as part of their financial management system.

2.5.1 BUDGETING

A budget is a financial document prepared for a defined period, usually a year, which shows how revenue will be raised and how the revenue will be spent. Local government budget according to (Wrenshall, 1937) serves two primary purposes. The first is to set out a programme of expenditures of local governments during the coming year and to

forecast the revenues that will be used to finance those expenditures. The second is to provide a method to control expenditure so that expenditures do not exceed revenues.

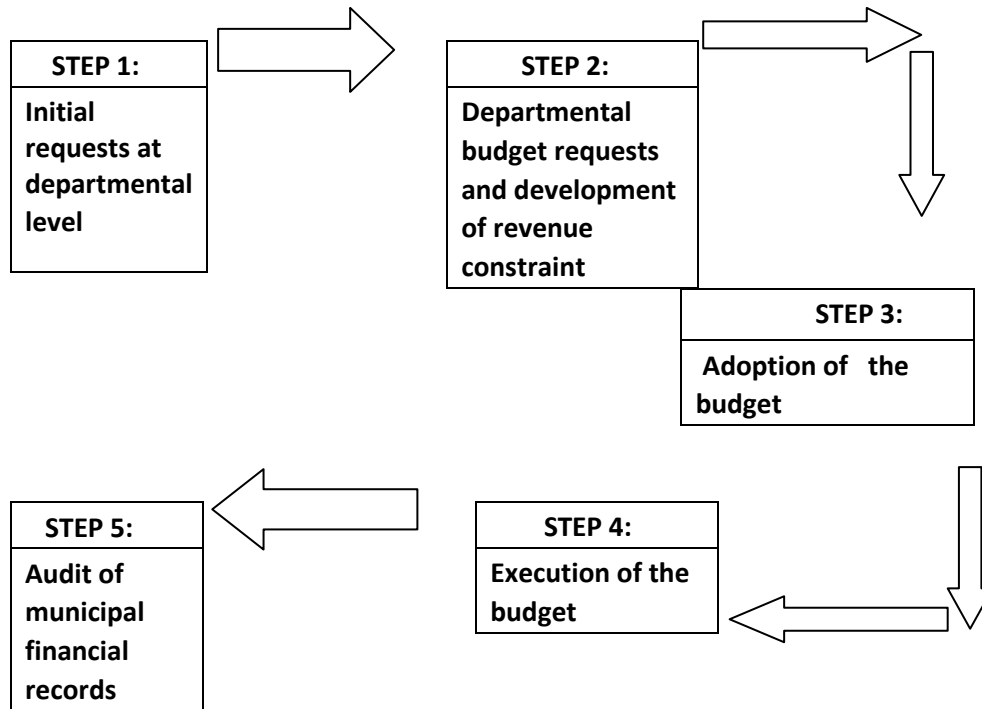
Local government budget is a very important document because, if properly prepared, it will eliminate unnecessary expenditures, increase efficiency in the methods of collecting revenues, and preserve the credit rating of local governments (Tassonyi, 2002). Not only do budgets serve as a necessary management and planning tool, but they also contribute to the accountability and transparency of the overall financial system of local governments and reduce the possibility of corruption and misappropriation of funds.

The preparation of budgets by local governments passes through different stages before it is finally approved as a working document. The stages as outlined by UN-HABITAT (2009) and depicted in Figure 2.5.1 include the following:

The first stage of the budgetary cycle is the preparation of initial requests for funds on the part of each department (for example, transportation, water, recreation). The second stage of the budget cycle involves the various departments submitting their budgetary requests to the chief administrative or chief financial officer. This officer compiles, combines, and coordinates all requests for funds. The chief financial officer is also responsible for estimating the anticipated revenue yields for the year and acceptable tax increases. Given the revenue constraint, priorities are set among the competing demands for expenditures and this can result in conflicts which need to be resolved. As a result, departmental requests may be denied or the financial constraint may be expanded. The chief financial officer then arrives at a budget that is presented to the budget committee of the local government council. The third stage is the adoption of the budget by the council. The fourth stage of the budget cycle involves the implementation and monitoring of the budget throughout the fiscal year by the chief financial officer. The fifth stage is the audit of local government financial records by an independent auditor after the completion of

the fiscal year. The audit ensures that local government have adhered to legal requirements regarding local expenditures and that local officials have not misappropriated local funds intentionally or unintentionally.

Figure 2.5.1: Steps in the Budgetary Process



Source: UN-HABITAT (2009)

One way of promoting accountability and transparency in the budgetary process at the local level is to ensure public participation in the preparation, implementation and monitoring of local budgets. Serageldin et al. (2008) identified four main features of public participation in budgeting. The first is the representation of residents in each subarea of the municipality in the decision-making process. The second is that local government officials are held to account for the previous year’s budget and for estimates of expenditures and revenues for the current year in order to determine the budget allocations. The third is transparency which is achieved through direct popular participation and an open voting system. The fourth is objectivity through the use of quantitative criteria to prioritise funding requests and the allocation of resources.

Participatory budgeting improves communication and dialogue between the municipality and citizens, foster social inclusion by allowing the poorest citizens and disadvantaged to have a voice in budgeting decisions and also empowers neighbourhood associations and small organisations (UN-HABITAT, 2009). However, apart from taking a long time to implement budget decisions, the number of people from the communities that participate in the budgeting are often very small and they are not always representative of the youngest or the poorest in the municipality (UN-HABITAT, 2009).

2.5.2 ACCOUNTING

Accounting is the “systematic gathering of financial transactions and the compiling and reporting of these transactions in a meaningful and consistent manner so that government decision-makers can measure progress towards goals established in the budget, estimate resources required to accomplish these objectives and effectively allocate resources across competing goals and objectives” (Schaeffer, 2008). Accounting reports provide information on whether budget plans are on target, when capital funds are diverted to meet operating expenditures, when expenditures are greater than revenues, and when the local government is incurring financial obligations beyond its ability to meet them (Holder, 1996).

Local governments can use cash accounting or accrual accounting in the preparation of financial statements. Cash accounting records expenditures and revenues when funds are actually disbursed or received respectively. Although cash accounting is relatively easy to implement, Schaeffer (2008) reported that it can give a misleading picture of local government accounts. For example, cash received as a loan is recorded as revenue on the operating statement but not as a liability on the balance sheet. As a result, the available balance is overstated. Another example is when the full cost of an item is charged against the budget in the first year of its use when there are multi-year benefits. This way of

reporting the cost may over-state the expense in the first year but under-state it in subsequent years. Cash accounting omits information about fixed asset values and changes in the value of long-term debt. As a result, it does not permit the preparation of a balance sheet showing the assets and liabilities of municipalities which means that the net worth of municipalities cannot be presented (Schaeffer, 2008). Inventories, receivables, and payables do not typically appear in cash accounting balance sheets because they are not accrued.

Accrual accounting according to Schaeffer(2008) records revenues and expenditures when they occur regardless of when the expenditures are made or the revenues received. For example, if taxes are legally due on June 30 of a given year, they are recorded on June 30 whether or not they are received that day. If they are not received for an extended period of time, they will appear as tax arrears or receivables. Similarly, if a payment to a supplier is due on a particular date, this expenditure is recorded as a payment on that date. If the supplier is not paid on time, the due payment becomes expense arrears or payables.

2.5.3 AUDITING

Local government financial audit are designed to detect problems in the system of internal financial control, failures to comply with accounting principles and standards or with reporting requirements set out by local governments, and misappropriations of funds (UN-HABITAT, 2009). To maintain the integrity of the audit, the auditor must be independent, have a legal mandate to undertake the audit, and report the findings to the council (Schaeffer, 2008). Schaeffer (2008) explained that local government audits should do three things. First, they should analyse the financial position of the local government, including trends, quality of revenues, and expenditures. Second, they should evaluate the performance of local governments on various financial management and accounting issues. Third, they should include audit observations on non-observance of

rules and regulations, wasteful expenditures, delays, and non-achievement of budget objectives. In order to improve local government audits especially in developing countries, Schaeffer suggested that local governments need to build staff capacity, establish uniform and transparent accounting and auditing procedures, and standardise local government financial information.

2.6 SUMMARY

In a nutshell, it would be noted that user fees are levied to recover investment and operational costs and also encourage efficient use of resources. A major challenge facing user fees is under-charging which does not permit local governments to mobilise sufficient revenue to improve service delivery. Revenue from property tax are used to provide infrastructure and services for the benefit of property owners. Though property tax should have been easy to collect since real properties are immovable and would therefore minimise the rate of property tax evasion, its administration is beset with some problems. Notably, properties are not re-valued regularly and data base on the valuation list are also not updated. Local governments have limited borrowing powers since their access to financial markets are restricted by central governments. Inter-governmental transfers continues to be a major revenue source to local governments however, transfers are usually not stable and predictable since it depends on the fiscal state of the local or donor government.

Though local governments strive to mobilise revenue to undertake various activities at the local level, they are not able to generate sufficient revenue to match demands arising from urbanisation and growing population.

With regard to the constraints of revenue mobilisation, it was observed that local governments have limited revenue base, lack incentives to generate their own revenue,

have little or no control over the tax rates they levy, do not fully utilise existing revenue potentials available to them and suffer from weak institutional capacity.

Finally, to ensure that resources mobilised at the local level are prudently managed and well accounted for, local governments would have to established systems for planning, implementing and controlling their financial resources.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

This chapter explains the procedures, methods and techniques used in carrying out the research. It deals with the study area, population and sampling techniques, data collection procedure, research instruments, research design and data analysis.

3.1 STUDY DESIGN

The research design used for the study was descriptive approach. Punch (2000) explained the purpose of the descriptive research as the collection, organisation and summarisation of information about the research problem and issues identified therein. Dane (1990) also defined descriptive research as a thorough examination of the research problem, for the specified purpose of describing the phenomenon, measuring and clarifying it. This approach appears to be appropriate and effective method since it will help secure the necessary information about the research problem and draw meaningful findings, conclusion and recommendations for the achievement of the objectives under study.

3.2 THE STUDY AREA

TMA was established in November, 2007 by Legislative Instrument 1929. TMA exercises political and administrative authority in the Metropolis, provide guidance, give direction to and supervise all other administrative authorities in the Metropolis. It is situated about 30 kilometres east of Accra, the capital city of Ghana. It shares boundaries with the Akwapim South District Assembly, Adenta Municipal Assembly, Dangme West District Assembly, Ledzokuku-Krowor Municipal Assembly, KponeKatamanso District Assembly and Ashaiman Municipal Assembly.

The Assembly is composed of fifty seven (57) Assembly Members comprising the Metropolitan Chief Executive, Assembly Members of which two-thirds are directly elected by universal adult suffrage and one-third appointed by the President in

consultation with the traditional authorities and other interest groups in the Metropolis as well as three Members of Parliament who are ex-officio members. The Assembly has two Committees, the Metropolitan Authority (Executive Committee) which is responsible for day-to-day performance of the executive and administrative functions of the Assembly and Public Relations and Complaints Committee which receives complaints made against the conduct of members and staff of the Assembly from the public and make recommendations to the Assembly. The Metropolitan Authority has seven Sub-Committees (Development Planning Sub-Committee, Social Services Sub-Committee, Works Sub-Committee, Finance and Administration Sub-Committee, Environmental Management Sub-Committee, Education Sub-Committee and Revenue Mobilisation Sub-Committee) which are responsible for collating and deliberating on issues relevant to the Assembly for the purpose of assisting the Assembly in its deliberative, executive and legislative functions. The Assembly is divided into two Sub-Metropolitan District Councils namely, Tema East Sub-Metropolitan District Council, Tema West Sub-Metropolitan District Council and each Sub-Metropolitan District Council is responsible for the day-to-day administration of its area of jurisdiction.

3.3 POPULATION AND SAMPLING TECHNIQUES

The study population comprises one hundred and sixty one (161) staff categorised into permanent revenue collectors, commissioned revenue collectors and Heads of Departments as follows:

Permanent Revenue Collectors:- these are revenue staff who are employed by government and seconded to TMA as well as revenue staff directly employed by TMA. They are sixty three (63) in number and account for 43% of the total revenue collectors.

Commissioned Revenue Collectors:- they are revenue staff who have been engaged by the TMA to collect revenue on behalf of TMA and are paid commission for their services. They are eighty two (82) in all, representing 57% of the total revenue collectors.

Heads of Departments:- they are sixteen (16) Departmental Heads who manage various Departments of TMA.

The sampling techniques used for the selection from the study population were purposive sampling and simple random sampling. Purposive sampling was used to identify and select the two key Departmental Heads namely, Metropolitan Finance Officer and Metropolitan Budget Officer for the study. Blalock (1979) asserted that purposive sampling is appropriate when one wishes to interview persons who are in good position to supply information. The Metropolitan Finance Officer and Metropolitan Budget Officer were selected based on this sampling technique since they are officers who as a result of their duties and responsibilities and by virtue of their work are well informed about the subject of the study.

The revenue collectors were sub-grouped into permanent revenue collectors and commissioned revenue collectors and simple random sampling technique was used to select 70% of the total revenue collectors from each group for the study. Based on this technique, a total of one hundred and one (101) revenue collectors comprising forty four (44) permanent revenue collectors and fifty seven (57) commissioned revenue collectors were selected. The revenue collectors were picked at random by the researcher. This technique was used since it has a high degree of representation and each unit of the population has an equal chance of being included in the sample. Table 3.3 provides a summary of the sampling and sampling procedure used for the study.

Table 3.3: Sampling and Sampling Procedures for Different Category of Staff

Category of Staff	Population Size	Sample Size	Percentage of Sample Size over Population Size	Sampling Technique	Reason for Sampling Technique
Permanent Revenue Collectors	63	44	70%	Simple Random Sampling	Has a high degree of representation and each unit of the population has an equal chance of
					being included in the sample.
Commissioned Revenue Collectors	82	57	70%	Simple Random Sampling	Has a high degree of representation and each unit of the population has an equal chance of being included in the sample.
Departmental Heads	16	2	13%	Purposive Sampling	As a result of their duties and responsibilities and by virtue of their work, they are well informed about the subject of the study.
	161	103			

Source: Field data, 2015

3.4 DATA COLLECTION PROCEDURE

Questionnaires and interviews were used to collect data from respondents. The study employed both primary and secondary data. Primary data were acquired through

self-administered questionnaires which were used to collect information from participants. Two sets of questionnaires, one for the Metropolitan Finance Officer and Metropolitan Budget Officer and the other for revenue collectors were administered. Responded questionnaires were edited by clarifying completed questionnaires when necessary. In-depth face-to-face interviews were also conducted to solicit additional information from the Metropolitan Finance Officer and Metropolitan Budget Officer. Secondary data were also extracted from the annual financial statements, annual feefixing and rate imposition resolutions, official reports from TMA as well as books and publications for the study.

3.5 RESEARCH INSTRUMENTS

The research instruments used for the study were questionnaires and interviews. Questionnaire is a written and organised format containing all the questions relevant to soliciting the required information from respondents (Commonwealth of Learning, 2008). A pilot survey was conducted on the questionnaire to ensure that it served its intended purpose. The pilot survey was also targeted at weeding out unnecessary questions and questions that are difficult to answer as well as improve the phrasing of certain questions which are difficult to comprehend (Commonwealth of Learning, 2008). The questionnaires were developed based on the research questions and had both opened and closed ended questions. Sample of the questionnaire are shown in Appendix A and B. In addition to the questionnaire, interviews were held with the Metropolitan Finance Officer and Metropolitan Budget Officer where further information based on the research questions were obtained.

3.6 DATA ANALYSIS

The data collected were analysed using Statistical Package for Social Sciences (SPSS). The SPSS is a complete and comprehensive system designed to undertake complex calculations to analyse numerical data. It can take any type of file and use the information to tabulate reports, charts, plots and trends. The data collected and analysed by the researcher were presented in the form of tables, frequencies and percentages to make communication of the results of the study simple to understand.

Thematic analysis was used to analyse the interview conducted with the key informant. This enabled the researcher to put the data in perspective in line with the research objectives.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1 INTRODUCTION

This chapter analysed and discussed data collected on the demography of respondents and the challenges of municipal finance in TMA. The results have been presented in the form of tables, frequencies and percentages.

4.2 DEMOGRAPHIC DATA OF RESPONDENTS

Table 4.2a: Gender of Respondents

Gender	Frequency	Percent	Cumulative Percent
Male	32	32	32
Female	69	68	100
Total	101	100	

Source: Field data, 2015

The frequency distribution of each gender category of respondents was recorded in Table 4.2a above. Majority of respondents (68%) were females as compared to 32% of the remaining respondents, being males. Further studies conducted on the employment file of TMA showed that majority of applicants who had applied for the job of revenue collector were female. This trend might be due to the fact that more females had expressed interest in the job of revenue collection than males.

From Table 4.2b below, majority of the respondents (60%) were forty years and above while the remaining 40% of respondents were below forty years old. However, the most frequently occurring age groups in the study were those between 40-49 years (34% of the total respondents).

Table 4.2b: Age Group of Respondents

Age Group	Frequency	Percent	Cumulative Percent
18-29	17	17	17
30-39	23	23	40
40-49	35	34	74
50-60	23	23	97
61 And Above	3	3	100
Total	101	100	

Source: Field data, 2015

The different age groups would help determine the impact of ages of revenue collectors on revenue mobilisation. This is because the work of revenue collectors requires a lot of commuting (walking) over long distances to collect fees and rates from rate payers. The

Table 4.2d: Years of Experience of Respondents

Ageing revenue collectors as identified in Table 4.2b might affect revenue collection since revenue collectors have to be energetic and physically fit to be able to perform their duties effectively. It would also guide TMA to determine the age groups to employ when recruiting revenue collectors.

Table 4.2c: Level of Education of Respondents

Educational Level	Frequency	Percent	Cumulative Percent
Elementary/ JHS	47	46	46
Secondary/SHS	31	31	77
Polytechnic	15	15	92
University	8	8	100
Total	101	100	

Source: Field work 2015

From Table 4.2c below, 77% of the respondents had either an Elementary/Junior High School (JHS) or Secondary/Senior High School (SHS) education compared to 23% who had tertiary education. The educational levels of the respondents would impact on revenue mobilisation in the sense that revenue collectors should possess some basic qualification which would enable them understand the dynamics of revenue mobilisation and also be in a position to educate rate payers on issues regarding payment of fees and rates to TMA. The educational levels of the respondents would further help TMA to assess their training needs and determine the type of training which would be conducted for revenue collectors to improve their knowledge, skills and performance.

Years of Experience	Frequency	Percent	Cumulative Percent
Up To 10 Years	58	57	57
Above 10 Years And Up To 20 Years	21	21	78
Above 20 Years And Up To 30 Years	6	6	84
Above 30 Years	16	16	100
Total	101	100	

Source: Field data, 2015

Table 4.2d showed that 57% of the respondents have been working for TMA for the past ten years while 43% had over ten years' experience. The level of experience is important for the study since knowledge and skills gained through working as revenue collector over the period would reflect on the output and performance of revenue collectors and for that matter their ability to generate revenue for TMA.

4.3 REVENUE SOURCES OF TMA

4.3.1 REVENUE FROM RATES

Revenue from rates comprises basic rate, property rate and in recent times special development levy. Data extracted from the financial statement of TMA and presented in

Table 4.3.1 indicated that the actual revenue collection from rates was not stable but seen fluctuating. It increased tremendously to 131.08 in 2002 from a terrible performance in 2001 of 11.45%. Performance increased in 2002 but eventually fell to 66.36% in 2004. The fluctuations of increase and decrease continued until the percentage of actual revenue collection fell continuously from 2008 to 2013. Fortunately in 2014, it rose to 67.15% from a worst performance in 2013. From a credible performance of 103.40% in 2008, it reduced sharply to 85.95% in 2009 and increased finally to 67.15% in 2014. Rates also contributed as high as 15.93% in 2008 and a lowest figure of 8.79% in 2013 and eventually rose to 19.79% in 2014.

Table 4.3.1: Revenue Collection from Rates

YEAR	REVENUE ESTIMATE FOR RATE	ACTUAL REVENUE COLLECTION FROM RATES	TOTAL REVENUE COLLECTION FROM ALL REVENUE SOURCES	%OF ACTUAL REVENUE COLLECTION	% OF TOTAL REVENUE COLLECTION
2001	3,223,880.00	369,072.96	1,723,058.47	11.45	21.42
2002	370,015.00	485,004.23	2,162,820.34	131.08	22.42
2003	677,030.00	1,088,924.11	3,104,080.58	160.84	35.08
2004	1,258,030.00	834,886.95	40,946,443.04	66.36	20.39
2005	1,052,030.00	834,886.95	4,577,544.97	78.61	18.24
2006	1,127,030.00	1,350,302.05	7,318,367.13	119.81	18.45
2007	972,000.00	965,195.31	7,009,840.11	99.30	13.77
2008	1,350,000.00	1,395,906.70	8,765,111.42	103.40	15.93
2009	1,390,000.00	1,194,652.77	11,843,159.68	85.95	10.09
2010	1,515,000.00	1,235,992.50	15,086,835.95	81.58	8.19
2011	2,158,000.00	1,752,682.79	16,958,685.92	81.22	10.34
2012	2,895,066.00	2,076,804.86	17,364,266.51	71.74	11.96
2013	4,070,000.00	1,611,189.93	18,502,105.46	39.59	8.79
2014	4,110,000.00	2,760,035.42	13,954,563.31	67.15	19.78
Total	26,168,081.00	17,955,537.53	169,316,882.89	1,198.08	234.85

Source: TMA financial statement (2001 to 2014)

As indicated earlier, a basic rate of GHC 0.10 is collected from people aged between 18 and 70 years who reside in or commute to the Metropolis and are earning income unless

exempted. In spite of the fact that the population of Tema was estimated at 292,773 by the 2010 Population and Housing Census with a growth rate of 1.9% per annum, revenue from basic rate was still low accounting for 2.92% (see Table 4.3.1a) between 2001 and 2014 to the total revenue collection from rates.

This low performance could be attributed to the high cost of collecting basic rate which outweighed the total amount mobilised from this source and as a result, TMA was not willing to invest much resources in basic rate collection. For instance, TMA had to employ and pay revenue staff and provide them with logistics to collect basic rate which are lower than the cost of collection. This defeats the canons of taxation which stipulates that the cost of collecting a tax must not exceed the tax collected. Even though, TMA had written to various organisations to collect the basic rate from their employees and remit the amount collected to the Assembly, most of them are not willing to adhere to that directive. It is evident that TMA must develop a more cost effective means of generating revenue from this source.

Table 4.3.1a: Percentage of Revenue Collection from Basic Rate

YEAR	ACTUAL REVENUE COLLECTION FROM BASIC RATE (GHC)	ACTUAL REVENUE COLLECTION FROM PROPERTY RATE (GHC)	TOTAL REVENUE COLLECTION FROM RATE (GHC)
2001	3,989.92	365,083.04	369,072.96
2002	4,994.44	480,009.80	485,004.23
2003	11,057.12	583,715.74	594,772.86
2004	9,444.61	1,079,479.49	1,088,924.11
2005	9,758.80	825,128.15	834,886.95
2006	6,197.80	1,344,194.25	1,350,302.05
2007	10,332.20	954,863.11	965,195.31
2008	43,608.90	1,352,297.80	1,395,906.70
2009	10,461.80	1,184,190.97	1,194,652.77
2010	55,988.41	1,180,004.36	1,235,992.50
2011	51,722.07	1,700,960.72	1,752,682.79

2012	158,181.55	1,198,623.31	2,076,804.86
2013	89,626.00	1,521,63.93	1,611,189.93
2014	51,509.50	2,705,857.90	2,757,367.40
Total	516,873.12	14,954,408.64	17,712,755.42

Source: TMA financial statement (2001 to 2014)

Percentage of Revenue Collection from Basic Rate:

$$516,873.12 / 17,712,755.42 \times 100 = 2.92\%$$

Property rates are levied on residential, industrial, agricultural and parastatal properties. Revenue from property rates accounted for 84.43% (see Table 4.3.1b) between 2001 and 2014 to the total revenue collection from rates. Under normal circumstances, TMA is supposed to re-value all properties in the Metropolis every five years but the last time a comprehensive re-evaluation of properties was conducted in the Metropolis was in 2003. Thereafter, selective re-evaluation was conducted on some businesses in 2008 and that accounted for the increase in the actual revenue collection from rates in that year. Again in 2011 and 2012, the rate impost for all the various categories of properties were adjusted upward and this resulted in significant increase in the actual revenue collection in those years. Boundary disputes between Tema Metropolitan Assembly and KponeKatamanso District Assembly saw the decrease in 2013, but effective revenue mobilisation drives were put in place in 2014 including the astronomical upward adjustment of rate impost which saw revenue increased in 2014.

Table 4.3.1b: Percentage of Revenue Collection from Property Rate

YEAR	ACTUAL REVENUE COLLECTION FROM BASIC RATE (GHC)	ACTUAL REVENUE COLLECTION FROM PROPERTY RATE (GHC)	TOTAL REVENUE COLLECTION FROM RATE (GHC)
2001	3,989.92	365,083.04	369,072.96
2002	4,994.44	480,009.80	485,004.23
2003	11,057.12	583,715.74	594,772.86

2004	9,444.61	1,079,479.49	1,088,924.11
2005	9,758.80	825,128.15	834,886.95
2006	6,197.80	1,344,194.25	1,350,302.05
2007	10,332.20	954,863.11	965,195.31
2008	43,608.90	1,352,297.80	1,395,906.70
2009	10,461.80	1,184,190.97	1,194,652.77
2010	55,988.41	1,180,004.36	1,235,992.50
2011	51,722.07	1,700,960.72	1,752,682.79
2012	158,181.55	1,198,623.31	2,076,804.86
2013	89,626.00	1,521,63.93	1,611,189.93
2014	51,509.50	2,705,857.90	2,757,367.40
Total	516,873.12	14,954,408.64	17,712,755.42

Source: TMA financial statement (2001 to 2014)

Percentage of Revenue Collection from Property Rate:

$$14,954,408.64 / 17,712,755.42 \quad \times 100 = 84.43\%$$

Administration of property rates involves series of processes. The Land Valuation Division conduct valuation of properties using the replacement cost method of valuation (which exclude the value of land) and submit the valuation list to TMA who intend publish it for twenty eight (28) days to enable property owners view the rateable values of their properties. A Rate Assessment Committee is also formed to enable those who are aggrieved with the rateable values appear before the Committee for redress. A rate imposts for different categories of properties are then developed and applied to the rateable values to determine the property rate due for each property. Thereafter, demand notices are printed and distributed to property owners for payment of property rate.

Though revenue from property rate could be a major revenue source to TMA, its administration is beset with some challenges. Tema is developing at a fast rate and a lot

of properties are springing up within the Metropolis but some of these properties have not been valued and captured on the valuation list thereby leading to loss of revenue. This challenge agrees with Mosha (2004) findings that valuation list are mostly incomplete and out of date. To address this problem TMA adopted a system of billing properties which had not been valued and captured on the valuation list an unassessed rate but the rates levied are lower than what would have been paid if the properties had been valued. Also, rateable values on the valuation list are low due to the fact that they have not been updated since 2008, confirming Bird and Slack (2004) assertion that assessed property values are not updated on regular basis. The net effect is a reduction in the total amount of revenue generated from property rate even though property values continue to rise in the Metropolis. Most areas do not have proper house numbers and street names thereby rendering identification of properties difficult. Property rate arrears continue to build up whilst TMA had not taken the advantage of Section 104 of the Local Government Act 462 which empowers them to dispose of properties to defray any outstanding property rate amount owed the Assembly.

4.3.2 REVENUE FROM LANDS

This comprises revenue from the Administrator of Stool Lands as well as lands rented out by the Assembly. Table 4.3.2 showed that no revenue had been received between 2008 and 2010 and same as 2005 and 2006. The actual revenue collected in 2011 represented amount received from lands rented out by the Assembly. TMA submitted projects to be undertaken in areas where the stool land revenue were mobilised in consultation with the traditional Authority in 2012 to 2014 which saw funds released to the Assembly in those years

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Table 4.3.2: Revenue Collection from Lands

YEAR	REVENUE ESTIMATE FOR LANDS	ACTUAL REVENUE COLLECTION FROM LANDS ¢	TOTAL REVENUE COLLECTION FROM REVENUE SOURCES ¢	% OF ACTUAL REVENUE COLLECTION	% OF TOTAL REVENUE COLLECTION
2001	2,000.00	3,547.02	1,723,058.47	177.35	0.21
2002	2,000.00	178.30	2,162,820.34	8.92	0.01
2003	3,084.61	594,772.86	3,104,080.58	19,281.95	19.16
2004	1,258,030.00	1,088,924.11	4,094,643.04	86.56	26.59
2005	17,000.00	-	4,577,544.94	-	-
2006	-	-	7,318,367.13	-	-
2007	12,606.60	12,606.60	7,009,840.11	100.00	0.18
2008	13,000.00	-	8,765,111.42	-	-
2009	13,000.00	-	11,843,159.68	-	-
2010	100,000.00	-	15,086,835.95	-	-
2011	120,000.00	225,500.00	1,695,865.92	187.92	1.33
2012	430,000.00	429,171.77	17,364,266.51	99.81	6.46
2013	1,165,000.00	1,195,074.61	180,502,105.46	202.58	6.46
2014	1,710,000.00	1,301,080.10	13,954,563.31	76.09	9.32
Total	4,845,721.21	4,850,855.37	279,202,262.86	20,221.18	69.72

Source: TMA financial statement (2001 to 2014)

As part of the guideline for the disbursement of funds by the Administrator of Stool Lands, TMA in consultation with the Traditional Authority would have to identify development projects to be undertaken in areas where the stool land revenue was mobilised and submit them to the Administrator of Stool Lands through the Regional Coordinating Council (RCC) for consideration and funding. Revenue mobilised from the renting of lands should serve as a wake-up call for TMA to lease series of plots of lands within the Metropolis which are lying idle and are not generating any income but are rather being encroached upon by the general public.

4.3.3 REVENUE FROM FEES AND FINES

Revenue from fees and fines are mobilised from services rendered by the Assembly to the general public as well as revenue derived from penalties for committing various offences. These include revenue from the use of lorry parks, refuse collection, excavation of stones/gravels, sewer services, use of public toilets, grave space and building permit.

Table 4.3.3: Revenue Collection from Fees and Fines

YEAR	REVENUE ESTIMATE FOR FEES AND FINES	ACTUAL REVENUE COLLECTION FROM FEES AND FINES	TOTAL REVENUE COLLECTION FROM ALL REVENUE SOURCES	% OF TOTAL REVENUE COLLECTION	% OF TOTAL REVENUE COLLECTION
2001	319760.16	357089.88	1723058.47	111.67	20.72
2002	49798.71	554749.57	2162820.34	111.39	25.65
2003	538351.97	439879.78	3104080.58	81.71	14.17
2004	684688.37	725693.17	4094643.04	105.99	17.72
2005	888834.94	838787.69	4577544.94	94.34	18.32
2006	120831.72	135081.88	7318367.13	111.79	18.46
2007	1603927.5	1440539.34	7009840.11	89.81	20.55
2008	1789148.5	1696903.69	8,765,111.42	94.84	19.36
2009	1909020	1671721.95	11843159.68	87.57	14.12
2010	2363040	2006481.07	15086835.95	84.91	13.3
2011	3495700	3342756.38	16958685.92	95.62	19.71
2012	3641800	2912217.64	17364266.51	79.97	16.77
2013	3493151	3135971.09	18502105.46	89.77	16.95
2014	3745000	5271667.22	13954563.31	140.77	37.78
Total	24643052.87	24529540.35	132465082.9	1380.15	273.58

Source: TMA financial statement (2001 to 2014)

Table 4.3.3 revealed that from actual revenue collection of 111.67% in 2001, performance dropped for two consecutive years in 2002 (111.39%) and 2003 (81.71%) before rising to a peak of 111.79% in 2006. Similar trend occurred with respect to the total revenue collection from fees and fines. Though there was marginal decrease in the level of actual revenue collection for 2002, collection performance improved thereafter.

This was mainly due to the increased demand for services such as the use of lorry parks, excavation of stones and gravels, tipping and dumping as well as the use of slaughter house. In addition to the above, improved performance in actual revenue collection for 2014 was also necessitated by increases in the levels of fees and fines levied by the Assembly in that year.

TMA generates revenue from fees and fines through the provision of basic facilities to improve service delivery and development in the Metropolis. These facilities are supposed to be adequately maintained to prolong their life span to enable them service the general public for a longer period. This also means that TMA would have to charge fees on at least cost recovery basis to manage these facilities. Unfortunately, this had not been the case for most of the Assembly’s facilities. As noted by Mosha (2004), a general problem affecting a number of services provided by local governments in most countries is under charging. Fees are charged at subsidised rates which are lower than what pertains in the open market and this has resulted in increased demand for TMA’s services confirming UN-HABITAT (2009) notion that underpricing a service can result in overconsumption of that service. Meanwhile, TMA is not generating enough revenue from this source to maintain and improve the facilities.

4.3.4 REVENUE FROM LICENCES

This constitutes revenue derived from the issuance of licenses for operating a business in the Metropolis. It can be observed from Table 4.3.4 that the actual revenue collection from licenses increased from 84.38% in 2001 to 100.35% in 2002 and saw the percentage of actual revenue collection fluctuated over the period. It reached its peak in 2010 (114.24%) before falling to 93.52% in 2011 and finally dropping to 93.49% in 2014.

Similar trend was seen in the percentage of total revenue collection from 2001 to 2014.

The annual increases in the actual revenue collection were attributed to annual upward adjustments in the fees for licenses as well as improvement in the revenue collection system.

Table 4.3.4:Revenue Collection from Licenses

YEAR	REVENUE ESTIMATE FOR LICENSES	ACTUAL REVENUE COLLECTION FROM LICENSES	TOTAL REVENUE OLLECTION FROM ALL REVENUE SOURCES	% OF ACTUAL REVENUE COLLECTION	% OF TOTAL REVENUE COLLECTION

2001	146,805.73	123,873.42	1,723,058.47	84.38	7.19
2002	176,257.30	176,881.88	2,162,820.34	100.35	8.18
2003	295,371.00	287,408.50	3,104,080.58	97.30	9.26
2004	401,553.45	450,900.79	4,094,643.04	112.29	11.01
2005	514,601.41	648,601.90	4,577,544.97	126.04	14.17
2006	804,688.85	899,520.58	7,318,367.13	111.78	12.29
2007	1,071,862.00	1,190,996.28	7,009,840.11	111.11	16.99
2008	1,138,143.83	1,175,083.00	8,765,111.42	103.25	13.41
2009	1,297,567.00	1,243,030.38	11,843,159.68	95.80	10.50
2010	1,996,167.00	2,280,264.29	1,508,635.95	114.24	15.11
2011	3,003,467.00	2,808,787.25	16,958,665.92	93.52	16.56
2012	3,092,970.00	2,163,241.67	17,364,266.51	84.49	15.05
2013	3,401,770.00	2,515,024.93	18,502,105.46	73.93	13.59
2014	4,575,174.00	4,277,586.14	13,954,563.31	93.49	30.65
TOTAL	21,916,398.57	20,241,201.01	118,886,862.89	1,401.97	193.96

Source: TMA financial statement (2001 to 2014)

TMA has designed a system for the collection of licenses form business owners. Any person who wants to operate a business in the Metropolis is expected to inform the Assembly officially. A team of officers from the Finance Department, Budget and Rating Department, Public Health Department and Waste Management Department then visit and assess the business taking due consideration of the location, size and nature of the business and submit recommendations to the Metropolitan Co-ordinating Director for consideration. If approved, the business is captured onto the Assembly's data base. Demand notices are then prepared and submitted to the business owner for payment. In spite of these procedures in place, some businesses are still springing up without registering with the Assembly. The Assembly's data bases are therefore inaccurate leading to loss of revenue. Attempt by the Assembly to use revenue collectors to bridge the data gap has not yielded much result. The Assembly has also not developed the habit of prosecuting business owners who failed to register their businesses since only few businesses had been prosecuted for flouting the law.

4.3.5 REVENUE FROM RENT

Hiring of mobile toilets and rent on Assembly's bungalows comprises revenue from rent.

Data gathered from TMA indicated that the percentage of actual revenue collection reached its highest in 2002 (210.17%) from 64.82% in 2001 and then fell two consecutive years to a minimum of 59.55% in 2011. The Table further revealed that the maximum contribution of rent to the total revenue collection was 2.27% in 2002 and it dropped consistently to 0.03% in 2014 and then saw some fluctuations. It eventually dropped to a minimum of 27.41% in 2014.

Table 4.3.5: Revenue Collection from Rent

YEAR	REVENUE ESTIMATE FOR RENTS	ACTUAL REVENUE COLLECTION FROM RENTS	TOTAL COLLECTION FROM ALL REVENUE SOURCE	%OF ACTUAL REVENUE COLLECTION	% OF TOTAL REVENUE COLLECTION
2001	3340.00	1516.68	1723058.47	64.82	0.09
2002	2340.00	4917.99	216282.04	210.17	2.27
2003	6840.00	4465.17	3104030.58	65.28	0.14
2004	5600.00	5998.61	4094643.04	107.12	0.15
2005	31600.00	35768.31	4577544.97	113.19	0.78
2006	5700.00	4646.29	7318367.13	81.51	0.06
2007	5000.00	7018.72	7009840.11	140.37	0.10
2008	21500.00	17908.88	876511.42	83.30	0.20
2009	14,000.00	11674.28	11843159.68	83.39	0.10
2010	17500.00	11951.57	169528685.95	68.29	0.08
2011	15,500.00	9230.49	16958685.92	59.55	0.05
2012	135707.00	6249.17	17364266.51	29.55	0.04
2013	135707.00	65973.35	18502105.46	48.61	0.36
2014	16,000.00	4385.00	13954563.31	27.41	0.03

Source: TMA financial statement (2001 to 2014)

The Table showed that revenue from rent formed insignificant component of the

Assembly's total revenue. This performance has been due to low patronage for the hiring of mobile toilets which had deteriorated over the years and low rent charged on

Assembly's bungalow.

4.3.6 REVENUE FROM GRANTS

Revenue from grants is the largest source of revenue to TMA. Table 4.3.6 pointed out that the contribution of grants to total revenue collection fell to 33.89% in 2002 from 39.23% in 2001. It saw some fluctuations until it fell drastically from 62.51% in 2009 to 29.60% in 2014. Similar trend occurs at the actual revenue collection from grants.

Table 4.3.6: Revenue Collection from Grants

YEAR	REVENUE ESTIMATE FOR GRANTS	ACTUAL REVENUE FROM GRANTS	TOTAL REVENUE COLLECTION FROM ALL REVENUE SOURCES	% OF ACTUAL REVENUE COLLECTION	% OF TOTAL REVENUE COLLECTION
2001	1157400.19	676020.97	1723058.43	58.41	39.23
2002	725784.22	711214.98	2098396.13	97.99	33.89
2003	2380204.09	1729127.12	3107817.34	72.65	55.64
2004	2893995.03	1677261.44	4094643.04	57.96	40.96
2005	2762610.31	2150493.27	4577544.97	77.84	46.98
2006	3722500.00	3634842.27	7318367.13	97.65	49.67
2007	3607400.00	3276843.53	7009840.11	90.84	46.75
2008	4709729.80	4339786.39	8765111.42	92.15	49.51
2009	10192215.03	7451905.30	11843159.68	73.11	62.51
2010	12101361.81	9265716.34	15086835.95	76.57	61.42
2011	13061673.26	8673909.03	16958685.92	66.41	51.15
2012	11842976.79	9071345.34	17364266.51	76.59	52.24
2013	17466212.77	9524156.19	18502105.46	54.53	51.48
2014	16966176.89	5867576.09	19822139.40	34.58	29.60

Source: TMA financial statement (2001 to 2014)

Even though grants has proved to be the single largest revenue source to TMA over the years, the challenge with this revenue type is that they are project specific and cannot be used for some projects initiated by the Assembly. For instance, Salary and Wages Grants are meant to pay salary and wages of government employees, School Feeding Grants are

to provide one hot meal a day to pupils in selected public schools, Common Fund are tied to development projects and programmes, District Development Fund are designated for new development projects and cannot be used for on-going projects, Urban Environmental Sanitation Project Phase II has been designed for environmental and sanitation related programmes and projects and Sanitation Fund for solid waste collection.

If TMA is to be financially autonomous and be in a position to utilise its financial resources for development programmes and projects in any way it deems fit, then the Assembly must minimise its over reliance on grants and expand its revenue base including diversifying into new revenue sources to complement the existing traditional sources.

4.3.7 REVENUE FROM INVESTMENTS

Total revenue collection from investments ranged between 9.36% and 0.06% as indicated in Table 4.3.7. Though the actual revenue collection exceeded the estimated value by 233.80% in 2001, 160.36% in 2002, 158.32% in 2004, 104.47% in 2006, 406.48% in 2009 and 88.37% in 2010.

Table 4.3.7: Revenue Collection from Investments

YEAR	REVENUE ESTIMATE FOR INVESTMENT	ACTUAL REVENUE COLLECTION FROM INVESTMENT	TOTAL REVENUE COLLECTION FROM ALL REVENUE SOURCES	% OF ACTUAL REVENUE COLLECTION	% OF TOTAL REVENUE COLLECTION
2001	69,000.00	161,323.59	1,723,058.47	233.80	9.36
2002	69,000.00	110,649.78	2,162,820.34	160.36	5.12
2003	10,000.00	6,100.13	3,104,080.58	61.00	0.19
2004	25,000.00	39,579.51	40,946,443.04	158.32	0.97
2005	12,000.00	11,760.23	4,577,544.92	98.00	0.26
2006	5,500.00	5,745.70	7,318,367.13	104.47	0.08
2007	4,500.00	2,965.47	7,009,840.11	65.89	0.04
2008	2,000.00	1,562.12	8,765,111.42	78.11	0.02
2009	15,000.00	60,972.40	11,843,159.68	406.48	0.51

2010	6,500.00	12,244.22	15,086,835.95	188.37	0.08
2011	20,000.00	18,002.97	16,958,685.92	90.01	0.11
2012	25,000.00	9,764.08	17,364,266.51	39.06	0.06

Source: TMA financial statement (2001 to 2012)

Analysis of the financial statement showed that TMA had invested in cement trade, savings and treasury bills in the past but has no investment proceeds in the financial statement for the year 2013 and 2014. TMA can do more with respect to investments by diversifying its portfolios into areas such as construction of markets, on-street and offstreet parking facilities and commercial shopping malls which could generate much revenue returns for the Assembly. These proposed projects would however have to be subjected to investment appraisal to determine the cost and benefit of each project before embarking on them.

REVENUE FROM MISCELLANEOUS

Table 4.3.8: Revenue Collection from Miscellaneous

YEAR	REVENUE ESTIMATE FOR MISCELLANEOUS	ACTUAL REVENUE COLLECTION	TOTAL REVENUE COLLECTION FROM ALL REVENUE SOURCES	% OF ACTUAL REVENUE COLLECTION	% OF TOTAL REVENUE COLLECTION
2001	38,800.00	30,613.95	1,723,058.47	78.90	1.78
2002	87,022.09	54,799.40	2,162,820.34	62.97	2.53
2003	50,550.00	42,979.19	3,104,080.58	85.02	1.38
2004	53,370.00	106,285.39	4,094,643.04	199.15	2.59
2005	53,000.00	57,246.61	4,577,544.96	108.01	1.25
2006	62,900.00	72,491.48	7,318,367.13	115.25	0.99
2007	84,700.00	113,674.86	7,009,840.11	134.21	1.62

2008	118,400.00	137,959.90	8,765,111.42	116.52	1.57
2009	5,190.00	209,202.60	11,843,159.68	114.09	1.77
2010	226,510.00	274,185.96	15,086,835.95	121.05	1.82
2011	140,1000.00	117,817.01	16,958,685.92	84.09	0.69
2012	319,000.00	245,471.98	17,364,266.51	76.95	1.41
2013	403,000.00	454,715.36	18,502,105.46	112.83	2.46
2014	300,000.00	339,809.43	13,954,563.31	113.27	2.44

Source: TMA financial statement (2001 to 2014)

Revenues which cannot be classified under any of the revenue sources discussed above are termed as miscellaneous. They include unspecified receipts, donations, works on repayment, recovery of overpayments and sale of bidding documents.

From Table 4.3.8, actual revenue collection from miscellaneous witnessed marginal increases from 2008 to 2010 before declining in 2011 while the contribution to total revenue collection also followed similar trend. Despite the fact that this revenue type is not a reliable revenue source to TMA, the sum of actual revenue collection during the four year period even exceeded the actual revenue from rents and investments combined. It was also ascertained that with the exception of 2001, 2002, 2003, 2011 and 2012 actual revenue collection exceeded the estimated revenue.

4.4 EXTENT TO WHICH REVENUE GENERATED ARE ABLE TO MEET EXPENDITURE NEEDS OF TMA

The Assembly has been empowered to levy rates, fees, licenses and charges because it is a rating authority. This authority has been conferred on the Assembly by Article 245 (b) of the 1992 constitution as well as sections 78 and 94 of the Local Government Act 462. This means that the Assembly has been given powers from the central government to

collect levies and rates on all rateable objects. Further, section 95 of the Local Government Act 462 empowers the Assembly to make and levy additional amount which in the opinion of the Assembly is required to cover expenditure previously incurred by it or required to meet contingencies or to defray any expenditure which needs to be defrayed. With these powers given to the Assembly, it was expected that TMA should be able to generate sufficient revenue to cover its expenditure but this has not been the case.

From Table 4.4, it would be ascertained that both the total expenditure estimates and total revenue collection from all revenue sources increased year-on-year indicating improvement in revenue collection as well as expansion in expenditure estimates over the period. The Table also depicted that with the exception of 2002 and 2006 the total revenue collection over the fourteen year period was not adequate to meet the total expenditure estimates of the Assembly. For instance, in 2002, the total revenue collection was able to meet 116.38% of the total expenditure estimates and this was the best performance within the fourteen year period. It was followed by 105.52% in 2006 then to 95.88% and 82.32% in 2008 and 2010 respectively. This finding confirmed Montgomery et al (2003) notion that revenues at the local government level had not kept pace with the increased expenditure requirements.

Table 4.4: Total Expenditure Estimates, Total Actual Expenditure and Total Revenue Collection from all Revenue Sources

YEAR	TOTAL EXPENDITURE ESTIMATE (a) GHC	TOTAL REVENUE COLLECTION FROM ALL REVENUE SOURCES (b)GHC	TOTAL ACTUAL EXPENDITURE (c) GHC	PERCENTAGE OF TOTAL REVENUE COLLECTION TO TOTAL EXPENDITURE ESTIMATE (b/a*100)	PERCENTAGE OF TOTAL REVENUE COLLECTION TO TOTAL (b/c*100)
2001	2,013,575.75	1,723,058.43	1,374,186.78	85.57	125.39
2002	1,803,110.18	2,098,396.13	2,162,820.34	116.38	97.02
2003	3,961,431.67	3,107,817.34	3,104,080.58	78.45	100.12
2004	5,338,349.54	4,094,643.04	4,086,548.96	76.70	100.19

2005	5,341,569.64	4,577,544.97	4,511,901.94	85.69	101.45
2006	6,935,649.99	7,318,367.13	6,693,598.71	105.52	109.33
2007	7,358,096.60	7,009,840.11	6,931,604.83	95.27	101.13
2008	9,141,696.09	8,765,111.42	8,999,374.90	95.88	97.40
2009	14,974,272.37	1,843,159.68	11,716,196.87	79.09	101.08
2010	18,326,078.81	15,086,835.95	14,607,949.63	82.32	103.28
2011	22,014,440.26	6,958,685.92	17,486,669.64	77.03	96.98
2012	22,267,957.79	17,364,266.51	16,213,145.74	77.98	107.09
2013	30,134,840.77	18,502,105.46	18,401,205.40	61.39	100.55
2014	31,422,350.89	19,822,139.40	18,060,501.26	63.08	109.75
TOTAL	64,456,487.53	2,653,792.97	52,810,191.04	81.69	99.70

Source: TMA financial statement (2001 to 2014)

The excess of expenditure over revenue during the period was caused by increased demands on the Assembly to deliver its mandate of providing development projects and programmes as well as the need to improve service delivery in the Metropolis. To address this challenge and to avoid operating a deficit budget, TMA adopted a system of minimizing spending to meet actual revenue and this achieved favourable results in 2009 and 2010 where the actual revenue exceeded actual expenditure by 1.08% and 3.28% respectively but fell short in 2008 and 2011 by 2.6% and 3.02% respectively. To meet the demands of the Metropolis, TMA would have to improve on its revenue mobilisation drive.

4.5 CONSTRAINTS OF REVENUE MOBILISATION IN TMA

Table 4.5 shows responses from one hundred and one (101) revenue collectors regarding the constraints of revenue mobilization in TMA.

Table 4.5: Constraints of Revenue Mobilisation

Inadequate revenue data base	52 (51%)	24 (24%)	20 (20%)	5 (5%)
Inadequate logistics support	61 (60%)	30 (30%)	9 (9%)	1 (1%)
Absence of application of modern technology in the collection of revenue	50 (49%)	39 (39%)	10 (10%)	2 (2%)

Low professional capacity of revenue collectors	22 (22%)	43 (42%)	26 (26%)	10 (10%)
Corruption and fraud in revenue collection	18 (18%)	19 (19%)	31 (31%)	33 (32%)
Low salary of revenue collectors	70 (69%)	28 (28%)	2 (2%)	1 (1%)
Low level of motivation and incentives for performing revenue collectors	68 (67%)	23 (23%)	2 (2%)	8 (8%)
Less punitive sanctions for non-performing collectors	22 (22%)	34 (34%)	33 (32%)	12 (12%)
Inadequate public education on the need for rate payers to honour their financial obligations to the Assembly	69 (68%)	31 (31%)	0 (0%)	1 (1%)
Unsatisfactory service delivery by TMA	66 (65%)	32 (32%)	2 (2%)	1 (1%)
Late printing and distribution of demand notices	55 (54%)	31 (31%)	13 (13%)	2 (2%)

Source: Field data, 2015

Responses from respondents as presented in the Table indicated that majority (75%) considered inadequate revenue data base as a constraint to revenue mobilisation. To improve revenue generation, TMA needs to establish and update credible revenue data base on properties and businesses in the Metropolis. But as explained earlier, valuation lists are not accurate and some businesses are also being established without registering with the Assembly. For instance, in 2010 TMA undertook a data collection exercise in the Central Business District and was able to register 146,722 businesses but prior to the data collection exercise, the Assembly had only 65,415 businesses on its data base for the same area representing only 45% of the total businesses registered in 2010. Without a credible revenue data base, the Assembly would not be in a good position to project its revenue accurately.

Majority of respondents (90%) also claimed that inadequate logistics affected revenue mobilisation. Though TMA has been providing logistics including clothing and uniform,

stationery and travelling and transport allowances to enhance revenue collection, more still needs to be done. The lack of good and well-furnished offices, vehicles and motor cycles to facilitate movements of revenue collectors, location of revenue boots at strategic points to minimise the rate at which rate payers at times travel over long distances to effect payments, among others, also impact negatively on revenue mobilisation.

The positive perception that revenue collectors have about the application of modern technology in revenue mobilisation was reflected in their answer to the statement as to whether the absence of application of modern technology in the collection of revenue was a constraint to revenue mobilisation. Eighty nine (89) respondents representing 88% were in favour of the statement. The application of modern technology in revenue collection would reduce or even eliminate the manual system of writing receipts and also strengthen revenue management and administration.

It was ascertained that low professional capacity of revenue collectors impacted negatively on revenue mobilization as 64% of the respondents were in favour to the statement. It was noted that some revenue collectors lack knowledge in revenue mobilisation techniques, good communication and inter personal skills and are unable to express themselves effectively to rate payers.

With respect to corruption and fraud in revenue collection, majority of the respondents (63%) were of the view that it does not exist. This assertion can be attributed to effective monitoring and supervision system put in place by TMA to ensure that revenue collected were well accounted for.

Another finding was that 97% of the respondents were in favour that low salary of revenue collectors was a constraint to revenue mobilisation. While commissioned revenue collectors are paid 15% on the gross amount collected, TMA staff revenue

collectors are paid based on the salary structure defined by the Single Spine Salary Structure. The low salary can also be explained by the level of education of revenue collectors. Data gathered on the educational level of revenue collectors from Table 4.2.c indicated that 77% of the respondents had education to the Secondary or SHS level. With such low educational background, it is likely that they will be receiving low salaries. In connection with the commissioned collectors, it was noted that the quantum of commission agreed to be paid to commissioned collectors were solely determined by the Assembly. Commissioned collectors are not unionised and therefore do not possess strong bargaining power to negotiate for better commission.

Low level of motivation and incentives for performing revenue collectors also affected revenue mobilisation as 90% of the respondents were in favour to this assertion. Revenue collectors rely solely on their salary or commission. There are no special incentives for performing revenue collectors who meet or exceed their revenue targets or whose activities results in the enhancement of revenue. Meanwhile 56% of respondents believed that sanctions for non-performing revenue collectors are less punitive.

Inadequate public education on the need for rate payers to honour their financial obligations to the Assembly received significant attention from the respondents as 99% were in favour to the statement. This response has proved that the Assembly's public education strategies are not achieving much result. For instance, TMA has been holding consultative meetings with representatives of rate-payer groups and associations to educate them on their financial obligations to the Assembly. It was envisaged that the representatives of rate-payer groups and associations will intern educate their members on the outcome of such meetings. Further, TMA has been organising Town Hall meetings to educate rate payers but the patronage has not been encouraging. In addition, both the print and electronic media as well as mobile vans are also used for public education

purposes. TMA will have to develop a more dynamic strategy in reaching out to a larger section of rate payers.

Responses from respondents showed that service delivery has favourable impact on financial resource mobilisation as 97% of respondents were of the view that unsatisfactory service delivery hindered revenue mobilisation. Unsatisfactory service delivery by TMA like poor solid waste management, lack of good roads and drains, overflowing sewer lines, improper house numbering and street naming, lack of maintenance of public facilities and overcrowding in public schools would not attract rate payers to honour their financial obligations promptly.

Late printing and distribution of demand notices also affected revenue mobilisation. Eighty six (86) respondents representing 85% provided favourable response to the statement. Rate payers are given up to the end of March every year to settle all their demand notices to TMA. It is therefore important that demand notices are printed and distributed very early to enable rate payers meet the dead line but when the printing and distribution of bills delays, then it is likely that rate payers might not be able to satisfy the scheduled dead line by the Assembly.

4.6 MANAGEMENT OF FINANCIAL RESOURCES IN TMA

4.6.1 BUDGETARY AND EXPENDITURE CONTROL

Following approval of the Assembly's budget for implementation, budgetary and expenditure control systems are put in place to check actual income and expenditure against the approved budget to enable progress towards achievement of set objectives to be measured and remedial actions taken when necessary. To realise this, the Assembly keeps a vote service ledger system which are used to record and monitors all expenditure items from various cost centers. This system provides up-to-date information on the total amount approved for each expenditure item, the level of commitments that have been

undertaken and unspent balances which are still available for other commitments.

Monthly financial statement covering financial operations of the Assembly are also prepared and forwarded to various Sub-Committees, Metropolitan Authority and General

Assembly for discussion.

To ensure that expenditures incurred are within approved budget, the Assembly has instituted procedures for the processing of requests. All requests to the Assembly are first directed to the Metropolitan Chief Executive through the Metropolitan Co-ordinating Director for consideration and if approved, it is routed to the Metropolitan Budget Officer to verify whether the expenditure had been approved in the budget. If approved in the budget, the Metropolitan Budget Officer would have to ascertain the balance unspent on that item and relate it to the request to see if available funds are adequate to match the expenditure. When the balance are sufficient to accommodate the request, it is recommended for payment and referred to the Metropolitan Internal Auditor to pre-audit and also ensure that all financial regulations with respect to that request had been adhered to.

Table 4.6.1: Performance of Estimated and Actual Expenditure

YEAR	EXPENDITURE TYPE	ANNUAL ESTIMATED BUDGET (GHC)	ACTUAL EXPENDITURE (GHC)	PERCENTAGE PERFORMANCE (%)
2001	Recurrent Exp.	727,574.90	795,188.65	109.29
	Capital Exp.	128,600.85	578,998.13	450.23
2002	Recurrent Exp.	789,521.45	1,366,789.78	173.12
	Capital Exp.	1,013,588.73	796,130.56	78.55
2003	Recurrent Exp.	1,554,932.67	1,472,356.93	94.68
	Capital Exp.	2,406,498.99	1,631,723.64	67.8
2004	Recurrent Exp.	2,276,045.04	2,049,627.60	90.05
	Capital Exp.	3,062,304.50	2,036,921.36	66.52
2005	Recurrent Exp.	2,509,006.34	2,293,363.89	91.41
	Capital Exp.	2,832,563.30	681,786.79	24.07
2006	Recurrent Exp.	3,207,098.40	340,839.89	106.28
	Capital Exp.	3,728,551.60	3,285,299.82	88.11
2007	Recurrent	4,175,800.00	4,100,700.00	98.2

	Exp.Capital Exp.	3,182,300.00	2,831,000.00	88.96
2008	Recurrent	4,818,613.54	4,957,960.71	102.89
	Capital Exp.	4,323,532.55	4,041,414.19	93.47
2009	Recurrent Exp	6,030,382.02	5,747,452.35	95.31
	Capital Exp	8,943,890.35	5,968,744.52	66.74
2010	Recurrent Exp	7,250,735.48	7,842,610.23	108.16
	Capital Exp.	11,075,343.33	6,765,339.40	61.08
2011	Recurrent Exp	10,034,597.00	8,968,115.41	89.37
	Capital Exp.	11,979,843.26	8,518,554.23	71.11
2012	Recurrent Exp	11,394,829.95	9,819,453.43	86.17
	Capital Exp.	10,873,127.84	6,393,692.31	58.8
2013	Recurrent Exp	21,011,401.00	15,921,520.04	75.78
	Capital Exp.	9,123,439.77	2,479,685.36	27.18
2014	Recurrent Exp	2,170,014.89	15,408,454.32	710.06
	Capital Exp.	9,722,209.00	2,652,946.94	27.28

Source:TMA financial statement (2001-2014)

The request is finally transferred to the Metropolitan Finance Officer for processing and payment subject to availability of funds. When the funds available are insufficient for the request or the expenditure to be incurred is not approved in the budget, the Metropolitan Budget Officer would have to submit recommendations on subsequent actions to be taken on that request.

Table 4.6.1 shows performance of expenditure from 2001 to 2014. The Table has further classified expenditure into re-current (expenditure for which the benefits are utilised within a year) and capital (expenditure to acquire or improve long-term asset). It can be ascertained from the Table that apart from the fact that both the total annual estimated budget and total actual expenditure increased every year, the Assembly was able to keep total actual expenditure within the estimated budget. In the same vein, actual capital expenditure was within the approved limits. But with respect to the re-current budget, it was realised that TMA exceeded the annual estimated budget in 2001 by 9.29%, 2002 by

73.12%, 2006 by 6.28%, 2008 by 2.89%, 2010 by 8.16% and 2014 by 610.06%. The Assembly would have to control such expenditure and ensure that funds meant for other commitments are not diverted to service re-current expenditure.

4.6.2 REVENUE CONTROL

After the budget had been approved, demand notices are printed and apportioned to revenue collectors based on their areas of operation for distribution to rate payers. Revenue targets are set for all revenue collectors upon which their performances are measured. Revenue collectors are also supplied with cash books, receipts books and other stationery items to facilitate their work. Revenue collectors have further been directed to observe the following instructions:

1. They must keep proper financial records of rate payers showing the amount billed to each rate payer, total amount paid by rate payers to date and any outstanding balances due the Assembly.
2. They must pay to their cashiers the whole of their daily collections without deductions of any kind. Cashiers must also pay all the daily collections into designated banks of TMA.
3. They must issue official receipt for all cash collected and write their full names as well as append their signatures on all receipts before issuing them to rate payers. When a receipt is spoiled, it must not be destroyed but marked „,„cancelled““ and attached to the counterfoil before submitting it for auditing.
4. They must keep duplicates of all receipts issued and submit them for auditing.
5. Any new business identified on the field must be reported for assessment, billing and capturing onto the Assembly’s revenue data base.

In order to minimise fraud and ensure improvement in the revenue collection system, the Revenue Accountant is the only person authorised to requisition value books for distribution to revenue collectors. The Revenue Accountant is tasked to

keep proper Stock Registers which is used to record value books received from the value books stores and Distribution Registers which is used to trace the location of value books in the custody of revenue collectors. Supervisors are regularly detailed to the field to cross check duplicates receipts with originals issued to rate payers to ensure that they tally and any discrepancies found must be reported for appropriate sanctions.

Table 4.6.2: Performance of Internally Generated Fund (IGF)

YEAR	ANNUAL ESTIMATED REVENUE FOR (IGF)	ACTUAL REVENUE COLLECTION FROM (IGF)	PERFORMANCE (%)
2001	857,161.67	1,047,037.46	122.15
2002	1,204,633.11	1,387,181.15	115.15
2003	1,581,227.58	1,378,690.22	87.19
2004	2,645,241.82	2,417,381.60	91.39
2005	2,579,066.35	2,427,051.70	94.11
2006	3,214,136.05	3,683,524.86	114.60
2007	3,754,596.10	3,732,996.58	99.42
2008	4,432,192.33	4,425,325.03	99.85
2009	4,783,777.00	4,391,254.38	91.80
2010	6,224,717.00	5,821,119.61	93.52
2011	8,952,767.00	8,284,776.89	92.54
2012	10,424,981.00	8,292,921.17	79.55
2013	12,668,628.00	8,977,949.27	70.87
2014	14,456,174.00	13,954,563.31	96.53

Source: TMA financial statement (2001-2014)

Table 4.6.2 above explains the performance of Internally Generated Fund (IGF) within the fourteen year period. The IGF comprises all the revenue collected by TMA (excluding grants which are beyond the control of the Assembly) and it includes revenue from rates, lands, fees and fines, licenses, rent, investments and miscellaneous. From the Table, it was realised that the annual estimated revenue for IGF witnessed a year-on-year increases whilst that of the actual revenue collection dropped in 2009 before rising in

2010 and 2011 and 2014. Information gathered from the Table revealed that TMA was not able to achieve its revenue targets within the fourteen year period even though collection performance was very good but fluctuating. From a credible performance of 122.15% in 2001, it fell to 115.15% in 2002 before rising again to 114.60% in 2006 and finally dropped to 70.87% in 2013 and eventually rose to 96.53% in 2014. Even though the revenue control policy seems to be achieving some results, TMA would have to develop a more pragmatic revenue control policy to enable it meet revenue targets as planned.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter summarizes the findings of the study, draws conclusions and offers recommendations for the study.

5.1 SUMMARY OF FINDINGS

The study sought to analyse the revenue sources of TMA. The findings showed that TMA had eight major sources of revenue namely, rates, lands, fees and fines, licenses, rent, investments, miscellaneous (IGF) and grants. Out of these sources, grants constitute the single largest revenue source contributing between 49.51% and 62.92% of the total revenue within the period 2008 to 2011. This is an indication that TMA is dependent on grants for its operations. It was revealed that the administration of property rate was encountering some problems resulting in loss of revenue. A number of properties were not captured on the valuation list and rateable values were also low due to the fact that properties in the Metropolis had not been re-valued since 2008. The collection of basic rate was not attractive because it was not cost effective to collect. Data base on businesses registered with TMA were not updated regularly whilst TMA was under charging for services provided in the Metropolis.

Secondly, the study sought to assess the extent to which revenue generated are able to meet expenditure needs of TMA. The findings showed that revenue generated by TMA was able to meet between 77.03% and 95.88% of the total expenditure from 2008 to 2011.

Thirdly, the study sought to examine the constraints of revenue mobilisation of TMA. The findings revealed some constraints hindering revenue mobilisation which were inadequate revenue data base, absence of application of modern technology in the collection of revenue, low professional capacity of revenue collectors, low salary of

revenue collectors, low level of motivation and incentives for performing revenue collectors, less punitive sanctions for non-performing collectors, inadequate public education on the need for rate payers to honour their financial obligations to the Assembly, unsatisfactory service delivery by TMA as well as late printing and distribution of demand notices.

Lastly, the study sought to evaluate the management of financial resources in TMA. The findings revealed that TMA had put in place budgetary and expenditure control system to ensure that it does not spend beyond the approved budget but however, the actual recurrent expenditure exceeded the budgetary provision in 2001 by 9.29%, 2002 by 73.12%, 2006 by 6.28%, 2008 by 2.89%, 2010 by 8.16% and 2014 by 610.06%. The Assembly had also established revenue control system to improve revenue generation and also ensure proper accounting of all revenue collected. In spite of these measures, TMA was not able to meet revenue targets set for IGF between 2008 and 2011 though collection performance was impressive ranging between 91.80% and 99.85%.

5.2 CONCLUSION

As a concluding remark, it is imperative for a public human organization such as the TMA to establish the necessary rapport with and goodwill towards people in its jurisdiction. This in turn, will ensure ease of performing its duties and tax compliance.

5.3 RECOMMENDATIONS

Against the backdrop of the analysis above, a number of recommendations for enhancing revenue mobilization could be provided.

The Assembly should undertake a comprehensive data base exercise on properties and businesses in the Metropolis. To achieve this, all properties should be re-valued and the existing valuation list should also be updated with all new properties. Properties that had been altered in terms of renovation or rehabilitation must be captured on the valuation list

on regular basis. TMA should also embark on the registration and categorisation of businesses activities to update existing data base for the payment of licences and user fees.

TMA should intensify public awareness and education programmes for rate payers on the need to pay their rates and levies promptly. In addition to the existing channels of educating rate payers, the Assembly can engage the services of National Service Persons who would be well trained and assigned to various businesses to undertake this exercise. The public awareness and education programmes should also collate views from rate payers on how they can assist the Assembly to improve revenue mobilisation as well as challenges they are facing in running their businesses for consideration and redress. Such educational programme must also incorporate issues of accountability, transparency and good governance on the part of TMA.

The Assembly should organise regular training programmes for revenue collectors to deepen their knowledge on the techniques of revenue mobilisation in order to enhance their performance. Disciplines such as customer care, marketing, revenue mobilisation strategies and communication skills can be imparted on revenue collectors to re-position them to perform better on their jobs.

Conscious efforts must be made to ensure that laws governing the activities of revenue mobilisation are enforced. Further, the prosecution of rate defaulters must be well publicised to serve as deterrence to others.

Target based incentive scheme should be established to reward revenue staff who are able to meet and exceed their targets. Other staff whose performance results in improvement of revenue must be adequately rewarded. Sanctions for non-performing revenue collectors must also be instituted.

Introduction of the application and use of modern technology in the revenue collection machinery must be considered. The Assembly should move from the manual system of writing and issuing receipts to a computerised receipting system through the use of handheld computer device. E-banking collection and payment system should be introduced into the revenue management system. These would improve the turnaround time in the collection and payment of fees and rates, minimise revenue losses and leakages and improve revenue collection.

TMA must provide adequate logistics support such as vehicles, motor cycles, regular payments of travelling and transport expenses, identity cards, stationery and uniforms to facilitate revenue collection.

The Assembly should improve on its service delivery to bolster the public to honour their rating responsibilities. The provision of house numbers and street names to facilitate property and business identification, good waste management services, roads and drains and periodic maintenance of sewer lines are some of the basic services which can encourage the public to honour their financial obligations.

The Assembly should focus on identifying new revenue sources. One area worth considering is the issuance of Metropolitan Bonds to raise funds (loans) from the open market which can be invested in financially viable projects. Part of the revenue generated from the project can be used to service the interest and principal of the loan when due. Also, the replacement cost method of valuing properties which excludes the value of the land on which the property is situated must be reviewed. The values of land are rising in the Metropolis and the Assembly stands to benefit from the payment of higher property rate if they are factored into the valuation of properties. TMA can further enter into Public Private Partnership (PPP) to construct off-street parking facilities at strategic locations within the Central Business District, modern terminal for haulage trucks

operating at the Port of Tema and for oil tankers transacting business with Tema Oil Refinery and charge appropriate fees. Also, tourism attractions in the Metropolis like the Greenwich Meridian, Penkwan Forest and Meridian Stone can be developed to serve as new revenue sources.

The Assembly should deepen its financial management practices to ensure that expenditures are not only incurred within the approved budget but can also be adequately financed from the Assembly's revenue budget.

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APPENDIX A

QUESTIONNAIRE FOR THE METROPOLITAN BUDGET OFFICER AND METROPOLITAN FINANCE OFFICER, TMA.

The objective of this questionnaire is to obtain information on the challenges of municipal finance in Ghana; a case study of Tema Metropolitan Assembly. As you have been selected to be part of this survey, every information you provide will be treated as confidential. It is in partial fulfillment of an award of Masters of Philosophy in Economics (Mphil Economics) at the University of Ghana Legon. You are required to read and complete the questionnaire. Please be candid as possible. Please tick (✓) by the response that applies to the questions below and fill in the spaces provided where appropriate.

SECTION A: BACKGROUND INFORMATION

1. What is your job title? -----
2. How long have you been working in this organization? -----years

SECTION B: SOURCES OF REVENUE

3. What are the revenue sources to the Assembly?
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Revenue Item	Projected Revenue				Actual Revenue Collected			
	2005 (GHC)	2006 (GHC)	2007 (GHC)	2008 (GHC)	2005(G HC)	2006(G HC)	2007 (GHC)	2008 (GHC)
1								
2								
3								
4								
5								
6								
7								
8								
9								
TOTAL REVENUE								

Revenue Item	Projected Revenue				Actual Revenue Collected			
	2009 (GHC)	2010 (GHC)	2011 (GHC)	2012 (GHC)	2009 (GHC)	2010 (GHC)	2011 (GHC)	2012 (GHC)
1								
2								
3								
4								
5								
6								
7								
8								
9								
TOTAL REVENUE								

.....
 7. Does the Assembly have accurate revenue data base on rate payers?

(a) Yes [] (b) No []

8. If no, what factor(s) accounts for the inaccurate data base?

.....

9. What law(s) guides the Assembly in revenue collection?

SECTION C: ADEQUACY OF REVENUE TO MEET EXPENDITURE NEEDS

10. What type of budget does the Assembly prepare?

(a) Balanced Budget [] (b) Surplus Budget [] (c) Deficit Budget []

11. What are the expenditure **projections** and **actuals** for the past four (4) years?

Revenue Item	Projected Expenditure				Actual Expenditure			
	2001 (GHC)	2002 (GHC)	2003 (GHC)	2004 (GHC)	2001 (GHC)	2002 (GHC)	2003 (GHC)	2004 (GHC)
1								
2								
3								
4								
5								
6								
7								
8								
9								

TOTAL REVENUE								
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Revenue Item	Projected Expenditure				Actual Expenditure			
	2005 (GHC)	2006 (GHC)	2007 (GHC)	2008 (GHC)	2005(G HC)	2006(G HC)	2007 (GHC)	2008 (GHC)
1								
2								
3								
4								
5								
6								
7								
8								
9								
TOTAL REVENUE								

Revenue Item	Projected Expenditure				Actual Expenditure			
	2009 (GHC)	2010 (GHC)	2011 (GHC)	2012 (GHC)	2009 (GHC)	2010 (GHC)	2011 (GHC)	2012 (GHC)
1								
2								
3								
4								
5								
6								
7								
8								
9								
TOTAL REVENUE								

Revenue Item	Projected Expenditure		Actual Expenditure	
	2013 (GHC)	2014 (GHC)	2013 (GHC)	2014 (GHC)
1				
2				
3				
4				
5				
6				
7				
8				
9				
TOTAL REVENUE				

12. Are the actual revenue collected able to meet actual expenditure of the Assembly?

(a) Yes [] (b) No [] (b) At times (Please specify).....

13. If no or at times in (11) above, what accounts for the variances?

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SECTION D: CONSTRAINTS OF REVENUE MOBILISATION

Statements	Strongly Agree	Agree	Disagree	Strongly Disagree
14. Inadequate revenue data base				
15. Inadequate logistics support				
16. Absence of application of modern technology in the collection of revenue				
17. Low professional capacity of revenue collectors				
18. Corruption and fraud in revenue collection				
19. Low salary of revenue collectors				
20. Low level of motivation and incentives for performing revenue collectors				
21. Less punitive sanctions for non performing collectors				
22. Low enforcement of revenue bye laws				
23. Inadequate public education on the need for rate payers to honour their financial obligations to the Assembly				
24. Unsatisfactory service delivery by TMA				
25. Late printing and distribution of demand notices				

26. Please list others constraints of revenue mobilisation not mentioned above:

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SECTION E: MANAGEMENT OF FINANCIAL RESOURCES

27. How does the Assembly management its financial resources?

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28. What measures have been put in place to monitor collection and accounting of revenue?

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.....
.....
.....

29. How are expenditure controlled in TMA?

.....
.....
.....

30. What are the challenges in the management financial resources?

.....
.....
.....

END OF QUESTIONNAIRE, THANK YOU.

APPENDIX B

QUESTIONNAIRE FOR REVENUE COLLECTORS, TMA.

The objective of this questionnaire is to obtain information on the challenges of municipal finance in Ghana; a case study of Tema Metropolitan Assembly. As you have been selected to be part of this survey, every information you provide will be treated as confidential. It is in partial fulfillment of an award of Masters of Philosophy in Economics (Mphil Economics) at the University of Ghana Legon. You are required to read and complete the questionnaire. Please be candid as possible. Please tick (✓) by the response that applies to the questions below and fill in the spaces provided where appropriate.

SECTION A: BACKGROUND INFORMATION

1. Gender of respondent: (a) Male [] (b) Female []
2. Age of respondent: (a) 18-29 [] (b) 30-39 [] (c) 40-49 []
(d) 50-60 [] (e) 61 and above []
3. Type of revenue collector: (a) Commissioned revenue collector []
(b) Permanent/TMA staff revenue collector []
4. What is the highest level of your education? (a) Elementary/JHS []
(b) Secondary/SHS [] (c) Polytechnic [] (d) University []
5. What is your job title / position? -----

6. How long have you been working in this organization?

(a) Up to 10 years [] (b) Above 10 years and up to 20 years []

(c) Above 20 years and up to 30 years [] (d) above 30 years []

SECTION D: CONSTRAINTS OF REVENUE MOBILISATION

Statements	Strongly Agree	Agree	Disagree	Strongly Disagree
7. Inadequate revenue data base				
8. Inadequate logistics support				
9. Absence of application of modern technology in the collection of revenue				
10. Low professional capacity of revenue collectors				
11. Corruption and fraud in revenue collection				
12. Low salary of revenue collectors				
13. Low level of motivation and incentives for performing revenue collectors				
14. Less punitive sanctions for non performing revenue collectors				
15. Low enforcement of revenue by laws				
16. Inadequate public education on the need for rate payers to honour their financial obligations to the Assembly				
17. Unsatisfactory service delivery by TMA				
18. Late printing and distribution of demand notices				

19. Please list others constraints of revenue mobilisation not mentioned above:

.....

.....

.....

END OF QUESTIONNAIRE, THANK YOU.