

LOCAL GOVERNMENT RESOURCE MOBILIZATION

BY

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LOCAL GOVERNMENT RESOURCE MOBILISATION.

A lot of study and research analysis has been done by the Applied Economic Research Centre Karachi, and some other agencies, about various aspects of different tiers of Local Councils, both urban and rural. I cannot have any pretensions of producing a document of 'similar quality and standard. However, having observed and dealt with as an administrator, with the elected, Local Councils, this write up is an attempt to analyse their functioning in the context of our present socio-political milieu since it is a Resource Mobilisation Seminar, I will first dwell briefly on aspects directly related with finance and revenue, selected from various sources.

The Local Government-comprising Union Councils, Town Committees, Municipal Committees and District Councils- can levy any of the taxes which the Provincial Governments have been empowered to collect under the constitution provided they are authorised, -by the respective provincial government. The local government, besides sharing some of the provincial taxes and duties, currently relies mainly upon octroi/export duties (tax on import/export of goods into/out of city limits) and local rates (surcharge on land revenue) for its finance.

The main avenues available to augment and mobilise local resources can be explored under four different categories:-

- a) improving the yields from existing revenue sources.
- b) tapping new sources of taxation and revenue.
- c). reducing pilferage through improved auditing & accounting procedures.
- d) reorienting the structure of non-development expenditure.

EXISTING SOURCES.

The major sources of revenues of the local councils are the following:

A. Taxes:

1. Octroi
2. Property Tax.

3. Tax on transfer of property
4. Export of goods tax (Export Tax)
5. Tax on advertisement
6. Tax of vehicle

B. RATES

1. Water supply.
2. Conservancy
3. Lighting
4. Fire

C. Fees

1. Public vehicles
2. Licence fees
3. Market fees
4. Fees on slaughtering animal

D. Non-Tax receipts

- a. Licences and fees from tongas, carts, articles of food, animal, fairs, births, deaths, marriage etc.
- b. Rent from local council properties, sale of refuse, sullage, water etc

The source of revenue / income of Local Councils have by and large been static since their inception. In all the Acts and including the Municipal Administration Act, 1960 Basic Democracies Order, 1959 and the Local Councils Ordinance, the schedule of taxes have restricted the scope of taxes, tools and fee leviable by the local councils. This has been so largely due to socio-political revenue.

Most of the high revenue yielding sources have been retained by the Federal and Provincial Government and the local government institutions are left with a small and inconsequential tax base. Efficiency of the local councils resources generation efforts can be measured only in the context of the existing tax structure. The net result has been that a substantial source of financing of the local councils in all the provinces of Pakistan has been the government grants.

Socio-politico-economic philosophy, together with political expediency, determine the functions which should be carried out by public or private organisations on the one hand, and by the local government institutions rather than provincial or federal government organisations, on the other. The actual demarcation of the functions and responsibilities within the state structure is closely linked with social and economic problems which keep changing.

Government authorities have tended to emphasize the growing importance of local government institutions but practically the provincial and federal agencies have been reluctant to part with most of their functions and resources.

The real arguments have been revolving round two issues: -

- i) how far national rather than local needs should be given precedence: and
- ii) how far particular functions can be dealt with by local rather than provincial/federal Government and still achieve a balanced and unconflicting set of basic policies.

REVENUE RAISING POTENTIAL OF LOCAL SOURCES

Resource mobilisation proposals for the municipal governments must emphasise, first, diversification of and of revenue base, in view of the skewness in the present revenue structure, second, make the taxation structure more progressive by tapping the upper income tax payers in the rural areas and the middle to upper income group tax payers in the urban areas. Given the present taxation structure, this can be achieved by rationalizing the octroi rate structure, which has been indicated to be regressive at least in the smaller towns and developing property-related taxes which are progressive in its incidence.

Third, one of the corner-stones of the resource mobilisation strategy should be to introduce the concept of cost recovery to the extent feasible, in the pricing of municipal services. In fact, in the large cities, land, in particular, should be priced (particularly for the rich) not only to finance direct development costs but also to generate surpluses which can be used for reinvestment in basic social and physical infrastructure by the local agencies.

Development of property related taxes and user charges are probably the limit of the options available in the short run to municipal governments to augment their resources. Beyond this, new arrangements will be required which go beyond the boundaries of current fiscal powers.

A large number of proposals can potentially be made for enhancing municipal revenues. However, these proposals have to be filtered through some criteria to judge the merits and demerits of each proposal. The criteria used for evaluating taxation proposals are as follows: first, burden of incremental taxation should fall, to the extent possible, on the higher income groups, i.e. the incidence of the tax should be progressive; second the source recommended should be buoyant; third, distortionary effects of additional taxation should be the minimum, fourth proposals should be relatively easy to implement and administer subsequently, and, finally, cost of tax collection and compliance should be low.

LOCAL TAXATION STRUCTURE.

Local Councils are dependent on government departments for collection of certain local taxes, e.g. property tax, motor vehicle tax etc. These collecting departments are administered from remote distances and by authorities who have no direct interest in the effective collection of these taxes. Moreover the share or commission for collection is deducted by these departments at source at

a high rate of not less than 15%. The local councils particularly the Municipal Committees / Corporation are deprived of a sizeable amount in this process. Secondly, the local councils must be given legal powers to recover their own revenues from the tax payers. Local Councils cannot -be held responsible for their own finances so long as they have to rely on other agencies for collection of local taxes. Thirdly, many rates and taxes etc have remained static for many years despite inflation and economic growth. A review of tariff is, therefore, necessary, both for the present and regularly in the future.

OCTROI

To do away with the much criticised and regressive octroi duty, levy of local sales tax instead could be tried on experimental basis in selected towns for a few years as if was found simple, easy, acceptable and with greater growth potential, switch over to this levy could then be made throughout Pakistan.

PROPERTY TAX.

In all countries of the world property tax constitutes an important source of income of local bodies. This tax in various provinces is assessed and collected by the provincial Excise and Taxation Department though this should be the responsibility of the local bodies i.e. Municipal Committees/Corporations as it is leviable on urban property. The Excise & Taxation Department retains 15% as collection charges and transfer 85% to the concerned Municipal Committee/ Corporation. These collection charges should not in any case exceed 5% of collection responsibility is allowed to remain with the Department of Excise and Taxation. It would, however, be more productive if assessment and collection of property tax is done by the concerned local bodies. Moreover with the appreciation in the price of property, frequent and correct assessment of property tax may yield higher revenues to the local bodies. With more pucca houses coming up property tax may be extended to other towns also.

EXPORT TAX.

This tax constitutes a major source of income of District Councils. It is levied on goods going out of the area under the jurisdiction of a local council. Its levy has been criticised both from the point of view of international trade as well as inter-provincial and inter-district trade. In Punjab, Export tax was abolished in 1977 by Martial Law Government but it continued to be charged in Baluchistan, Sind and NWFP. Whatever the demerits of export tax it appears to be a necessary source of revenue for the District Councils.

OTHER TAXES.

These miscellaneous sources of revenues include rates, fees, tolls and cesses. The rate of these charges have been more or less unchanged for years. There is, therefore, need for rationalizing rates of these charges etc.

NEED.FOR NEW/ADDITIONAL SOURCES.

Various Committees and Commissions appointed by the Government to suggest ways and means to locate new sources for local bodies, have indicated a few areas as under:

- i). Compulsory imposition of certain taxes.
- ii). Fixing local bodies shares in certain provincial taxes.
- iii). Transferring a portion of federal taxes to local bodies.
- iv). Withdrawal of subsidies and recovering of full cost of services provided by local bodies.
- v). Provision of block and matching grants.

i). COMPULSORY IMPOSITION OF CERTAIN TAXES.

The local bodies laws promulgated by the provinces provide for imposition of certain taxes by the local bodies.

There appears to be some element of reluctance on the part of local bodies to impose these taxes which are permissible for different reasons/ To overcome this difficulty it may be suggested that imposition of 'Obligatory' taxes may be decreed by the provincial government.

ii). FIXING OF LOCAL BODIES SHARE IN CERTAIN PROVINCIAL TAXES.

Presently 85% of the property tax is shared with the local bodies by the Excise and Taxation Department. Entertainment tax collected from cinema house, located in the cantonment areas are entirely given to the Cantonment Boards whereas the same is not true of other classes of local councils or Municipal Committees/Corporations. Similarly motor vehicle tax is practically, retained by the provinces. There is a need for sharing these taxes with the local bodies concerned on an equitable basis. The Baluchistan Government has already ordered passing on 25ZA of motor vehicle tax to local bodies. There are other provincially collected taxes which either be totally allowed to be collected and utilised by the local bodies or shared appropriately.

iii) TRANSFERRING A PART OF FEDERAL TAXES TO LOCAL BODIES.

Presently federal taxes, e.g. income tax, sales tax, excise duty on sugar, tobacco and export duty on cotton are raised from urban and rural areas alike. The Federal Government do«s share these taxes with the provinces but the local bodies are left high and dry'. The local bodies may also be allowed an appropriate share in it.

ix). REVENUE SHARE WITH PROVINCIAL GOVERNMENT.

Provincial Government assesses and collects such other taxes as Entertainment Tax, Vehicle Tax, Cotton Cess,

Sugarcane Cess, Mineral Concession Fees, Toll Tax on bridges etc.

A). Entertainment Tax:

This tax should be levied and collected by the local bodies entirely or at least 50X must be apportioned to the local bodies if the provincial government fear substantial loss in their own revenues.

b). Vehicle Tax.

It is also collected by the Provincial government. City roads are constructed and maintained by municipal bodies, they should realize and appropriate this tax so that they are able to improve the road conditions in view of growing population of vehicles. At least 50X of this tax, however, must go to the local bodies as an immediate measure.

c). Cotton Cess/Tobacco Cess.

These cesses are levied on ginning or tobacco processing factories. There is, therefore, need for sharing this revenue at the rate of 50Z between the provincial government and the District Councils.

d) Sugarcane Cess.

It is charged by the Provincial Government primarily for the purposes of construction and maintenance of link roads to, facilitate movement of sugarcane from rural areas to the market/sugar factory sites. Largely Union Council roads are utilised for transportation of sugarcane, and there is greater demand and need for better-enlarged link roads network for other agricultural produce. It is highly desirable that provincial government pays at least 40X of the sugarcane cess to the District Councils.

e) Mineral Concession Fees.

These are also charged by the provincial government[^] and local, councils get nothing out of this income. The provincial, government receives a substantial amount in the shape, of licence fee, rent, royalty from the mine owners/lessees. In recent years prices of minerals extracted has soared very high; there is a need for upward revision of these rates of fees,' royalties etc. and sharing them on an equitable basis with the concerned District Councils.

f) Toll Tax on Bridges.

New arid large bridges have been constructed on major rivers and toll tax is charged from all kinds of vehicular traffic using these bridges. The connecting towns/cities have to provide additional facilities for the incoming/transiting goods and passengers. If not 50% at least 25% of the revenue from toll tax on bridges may be given to the connecting towns'/Municipal Committees / Corporations etc. to enable them to create improved facilities for increased traffic load both of goods and passengers.

RECOVERING THE FULL COSTS OF SERVICES PROVIDED BY THE LOCAL BODIES

It is common knowledge that the local bodies are not recovering full cost of such civic services as water supply, drainage conservancy removal of refuse etc. from the beneficiaries though on provision and continued maintenance on those services huge capital costs are incurred initially and then substantial expenditure is annually made on their operations and maintenance. It has been estimated that local bodies are losing about Rs.100 million annually on this account. The local bodies may have to gradually raise the rates to recover, full cost of t)[^]se services from the beneficiaries.-

ADDITIONAL AVENUES OF TAXATION.

In addition' to the above proposed changes in the existing tax/non-tax receipts, we may also discuss the potential for mobilising new avenues of taxation to improve the hitherto poor tax receipts from the provincial resources 'to recommend the instruction of following new taxes:

i) Licence Fee on Business and Industries.

It may be expedient to introduce two new taxes under the nomenclature of Business/Industrial Licence Fees in all the provinces under which all types of Industries/Business would be required to obtain a licence from the Government and pay annual licence fee to carry out their respective business/industry. These will be two separate taxes and would be levied on: -

- a) Business and Trade where no production is involved; and
- b) On industries where manufacturing or processing of material is involved.

VIDEO TRADE TAX.

It has been noted that in recent years the video trade has blossomed with leaps and bounds in the country so much so that it has given serious set-back to the film industry thereby depriving the provincial government of a substantial amount of Entertainment Duty. The video trade is being run in the shape of numerous video shops which have cropped up in every nook and corner of the province. The volume of daily turnover is most of these shops is quite high and they are usually doing good business. Without going into the legality or public morality of this business it is high time that the video shops are made to pay tax on their flourishing income.

TAX ON MARRIAGE AND BANQUET HALLS.

The turn over of these establishments is fairly high almost round the year. A tax on marriage and holding the wedding receptions at the banquet halls if taxed would most certainly yield considerable revenue for the local councils concerned. Of course, revenue on this head could only be generated in big cities yet it would be least resisted by the people concerned since wedding in our society are a lavish and often an ostentatious occasion.

IMPROVED AUDITING AND ACCOUNTING.

Local Bodies funds are presently deposited in local treasuries earning no profit on large unutilised amounts. It would be a source of income, though small, if the local bodies funds are kept in scheduled bank accounts on the balances of which they derive some profit. Surplus funds can be placed in term deposits to earn higher profit.

FINANCIAL MANAGEMENT. .

Local Audit.

External audit is necessary to guarantee the stability of the local government institutions and their freedom from excessive intervention by the Government. In order to ensure, judicious use of local funds it is highly desirable to audit the accounts of the local councils by the Local Fund Audit Department at least annually if not half yearly. It would also be advisable to place the audit report of local council accounts before the local council meeting so that any loss of public fund or waste of money through negligence, or dishonesty is brought to light and those responsible are taken to task. The annual audit report of Municipal Committees/Corporations and large District Councils should also be published for general information of the tax payers.

Internal Audit.

Besides the annual audit through the Local Fund Audit Department, it is essential that an internal audit system is also developed and introduced in the local councils particularly within the larger ones, so that abuse of funds or wastage is checked at the initial stages. A local Council should be primarily responsible for its own integrity and financial propriety and should not depend entirely on external i auditors to point out financial irregularities after the end

of the fiscal year. Their own internal vigilance system must ensure timely in house financial control.

ACCOUNTING.

The accounts of local councils are maintained on the basis of single entry system and are governed by the Account Codes which were prepared 50 to 60 years ago. For Union Councils separate Accounts Rules were prepared in 1960. No effort has been made to revise the District or Municipal Accounts Codes which have the effect of rules. The result is that the double entry system of accounting has not been Introduced on the local council

Facilities for the training of local council accountants are also not adequate.

LOCAL COUNCIL EXPENDITURE.

Local Government institutions are required to provide a number of services e.g. education, health, sanitation, water supply etc. An analysis made by the Research Cell of the Punjab Local Government Board showed that highest-expenditure has been incurred by the Municipal Committees and then District Councils.

Non-development expenditure rose abnormally high and the percentage share on education and health services declined substantially. Again expenditure increased significantly on buildings- and works. There has been a sharp decline in per capita development expenditure. The premium should be on public service rather 'than political clout or local nuisance value.

RECOMMENDATIONS.

1) Municipal Banks.

The rationalization of the tax structure would .not solve the finance requirements of a developing society

immediately. The local councils still need large sums for executing their major projects. It is desirable to have a Municipal Bank in which all the local bodies can have their share or maintain their funds. This bank may be on the pattern of such a Bank in Turkey and some other countries which provide loans to the Municipal Committees. Its working should be on the pattern of Agricultural or Industrial Development Banks.

2) Permanent Body for the Development of Local funds.

a). A special committee or board should be set up to review the recommendations of various committees constituted by the Government from time to time and also oversee their implementation. Besides, the following steps may also be taken to improve the revenue structure of the local councils.

b). The progression in tax rates at the provincial and Local level is unwarranted as income property is in any case to be subject to a progressive income tax by the Central Government, It is recommended that in order to simplify the system of property taxation at the provincial level and to remove inequities the progressive rate schedule may be replaced by a flat rate of tax.

c). It is suggested that the Municipal Committee and Union Councils should charge licence fee from persons carrying on business or profession within the jurisdiction of a local body. Municipal Committee may impose a tax on sign boards used for advertisements at places other than the assessee's own place of business.

d). Local bodies should be encouraged to develop non-tax sources of revenue such as markets, fish ponds, ferries and planting of trees.

e). The Provincial Government should encourage local bodies' to increase their own revenues by relating their grants-in-aid to taxes and other revenue receipts collected by them.

LOCAL GOVERNMENT INSTITUTIONS — ANOTHER VIEW

Whatever systems, measures and policies are formulated, their success depends to a large extent on the individuals running and manning the institutions. It has been concluded on many an occasion that when ever any measures fail or do not deliver the desired result, it has usually been due to failures at the implementation level and lack of will by a few individuals.

Since we are talking about Local Government Institutions, why is it that despite passage of over 13 years and three elections, most of us still tend to perceive them as 'institutions which have failed to properly address themselves to the problems being encountered by members of the society which they represent? Why is there a growing feeling that when these local bodies were being run by bureaucrat administrators, they seemed to function better? This latent feeling: is manifested even now through creation of new bureaucratic bodies such as R.D.A, B.D.A, & D.G.K. Development Authority, etc. In my view, the very parameters in which these are viewed and weighed are skewed, defective and faulty.

In order to attempt to answer these questions satisfactorily, and develop my argument, let me go a step back.

Local Government institutions comprise two categories of individuals: Govt: Servants / bureaucrats, and elected persons. The former are supposed to be aware of rules / regulations, laws policies, procedures etc. so that they can apprise, guide and advise' the elected representatives in order that the latter take actions and decisions which suitably blend their electorates aspirations and expectations with the

prevalent rules and laws. This is expected to result in creating a smoothly functioning and peaceful society continuously striving towards an improvement in its welfare levels.

But what then are the expectations and aspirations of a closely knit unit which comprises a local -elected body? Is the bunch of individuals who supposedly represent that unit of society really in a position to be able to meet their needs and requirements? In order of priority, needs of a society are the following: -

a). First and foremost without doubt is that life, limb and property of all its members are safe and secure. A general sense of security and certainty needs to prevail before collective thought can be given to anything else.

b). Second, in case of any foul play by any of its errant members, there should be a system to provide quick deliverance of fair play and justice.

c). Only when the above two things are reasonably ensured, collective thought will go to finer aspects of life like provision of services, development, trade etc; which contribute towards improving the general welfare level of society.

Unfortunately, here the cart has been put before the horse. We have assigned the local Government Institutions only the last mentioned sphere of activity namely, provision of services and development of infrastructure, while the other important aspects which intrinsically affect societal life in the most crucial manner are in the hands of individuals who do not belong to that particular societal unit. So much so that even in the sphere assigned to the local bodies, many strings are in outside hands e.g. where coercive measures are needed for collection of taxes and revenues, they have to look towards the local District Administration for help. And even in matter of expenditure, the sword of a special audit etc. is always hanging on their heads.

Is not then the term Local Government Institutions a misnomer, since the elements that define a Government are quite lacking. If the present Local Government Institutions are supposed to cater for the needs and expectations of its members, they have neither the means to safeguard their lives and properties nor can they provide them with a sense of fair play and justice.

Let us now see why individuals seek to achieve elected offices and slots in our present set up. I think it is mainly an urge to obtain relative importance, recognition and status in society, and less due to a feeling of social service and responsibility towards their fellow comrades. And this importance in the eyes of their fellow citizens is due to the recognition given to them by the people who symbolise actual local authority viz the D.C, S.P, Thanedar, Tehsildar, Judge, Magistrate etc; who are primarily responsible for and are perceived to possess the means and authority to cater for the two most pivotal needs of societal life viz security of life, limb, property and deliverance of justice and fair play.

This is why it won't be incorrect to say that when the local bodies were being managed by bureaucrats, they were perceived to be faring better than now. The reason is that the D.C or A.C. as administrators also symbolised control over the means of the two more important facets of human life viz provision of security and system of justice. And since coercive machinery was also in the same hands, collection of revenues and consequent mobilisation of resources to achieve development was relatively easier and more efficient.

It can therefore, safely be concluded that the present difficulties and problems being encountered by the elected local bodies are largely a result of self-created and self-imposed anomalies and distortions. We are trying to