Assessment of the Contributions of Local Governments Finance to Local Governments Budget in Nigeria

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Abstract
The study assesses the contributions of local governments finance to local governments budget in Nigeria. Most local governments in Nigeria no longer perform their statutory responsibilities simply because of poor finances accruing from their legitimate revenue sources. The study sets to determine the contribution of allocation from federation account; states’ allocations; value added tax allocation and internally generated revenue to local governments’ budget in Nigeria. The population of the study consists of time series data of all the local governments in Nigeria for the period of twenty years while data for the period of sixteen (16) years were sampled (1999-2014). The parameters like Local Governments Allocation from Federation Account (LGFAA), Local Governments States Allocation (LGSA), Local Governments Value Added Tax Allocation (LGVATA), Local Governments Internally Generated Revenue (LGIGR) and Local Governments Budget Stock (LGBS) in Nigeria for the period under review were used. Statistical Package for Social Sciences (SPSS) version 20.0 software was used to analyse the data while the hypotheses were tested using Linear regression analysis. Results showed that allocation from federation account has significant contribution to local governments’ budget in Nigeria for the period under review. The results further revealed that states’ allocations; value added tax allocation and internally generated revenue have no significant contributions to local governments’ budget in Nigeria for the period under review. The study recommends among others that the ministry of local governments and chieftaincy affairs should ensure strict monitoring and implementation of local governments budget. This is to ensure that allocation from the federation account is properly put to use by the local governments. Also, the local governments in Nigeria should engage the service of tax consultants to aggressively increase their internally generated revenue, in order to increase their budget performance.

Keywords: Assessment; Contributions; Local Governments Finance; Local Governments Budget

1.1 Introduction
Local government system in Nigeria has no doubt remained one of the key institutional players of development and its importance and impact on the daily lives of citizens cannot be overemphasised. Local dwellers are intimately affected by the activities of local government on a daily basis in the country. Historically, since creation; local governments have been providing essential services which enhance the economic growth of the country. The standard of living of Nigerians either in rural or urban areas are inevitably affected by local governments activities through the provision of insufficient or non provision of basic services such as water supply, good roads, health and educational services caused by poor revenue finances (Murana, 2015). Finance has remained the most critical policy issue in the local government administration in Nigeria. None of the local councils in the polity can as a matter of fact survive without stable financial sources. Owing therefore to the development responsibilities placed on these councils, there is a need for adequate financing of this tier of government.

Adamolekun (1983) had noted that a dominant theme in intergovernmental relation studies is the different attempt made to administer federal finance to the satisfaction of each level of government. Each of the three tiers of government has its assigned financial arrangement. Between 1976 and 2009, the federal revenue allocation formula vis-à-vis local government vacillated from ten percent (10%) of the Federation account to twenty point six percent (20.6%). They are also entitled to ten percent (10%) of the internally generated revenue of the state government. These are in addition to revenue from the internal sources of local governments.

Statutory allocations to Nigerian local governments have enhanced their economic fortunes and improve efficiency and effectiveness in service delivery. On the other hand, according to Bello-Imam (2010) the financial buoyancy of Nigerian local governments due to the incidence of statutory allocation has conditioned a systematic decline in their internally generated revenue. Yet, it is of critical if not adverse significance that there is a virtual dominance of externally sourced revenue in the finances of local governments (with the exception of a few urban areas with a plausible number of internal revenue sources). With as much as three quarter of their total revenue coming from external sources, the objective of local autonomy was apparently compromised. The allocation of Value Added Tax (VAT) of thirty five percent (35%) to the local governments in Nigeria is another external source of financing local governments’ budget. Azubike (2009) opined that a tax system such as VAT
should be able to mobilize a nation’s internal resource in order to create an environment conducive in promoting economic growth.

Internally Generated Revenue (IGR) is the revenue that the local government generates within the area of its jurisdiction. It is supposed to be the life-wire of the local government. The extent to which a local government can go in accomplishing its goal will largely depend on its IGR strength. The capacity of a local government to generate revenue internally is very important for the implementation of the local government budget in Nigeria. Then, the onus lies on the local government to work on their internal revenue efforts to be able to accomplish its goals in the local communities. Tomori (2009) asserted that local governments are generally assigned expenditure responsibilities for a wide range of services, including roads, water and sewage services, solid waste collection and disposal, recreation and culture, land-use-planning, social services, public health and housing.

The increasing cost of governance together with decreasing revenue has led various Local governments in Nigeria to formulate strategies to improve the revenue base. Also, the current fall in oil price at the international market has created serious financial stress for local governments in Nigeria cumulating into various forms of poor provision of social amenities, half, quarter and non-payment of employees’ salaries in most local governments in Nigeria. Adesoji & Chike (2013) argued that despite the numerous sources of revenue available to the various local governments as specified in the Nigeria 1999 constitution, since the 1976 till now, significant amount of the annual revenue of the local governments come from the external sources. However, the need for local government to generate adequate revenue from internal sources has therefore become a matter of extreme urgency and importance. This need underscores the eagerness on the part of local governments to look for new sources of revenue or to become aggressive and innovative in the mode of collecting revenue from existing internal sources.

Most local governments in Nigeria no longer perform their statutory responsibilities simply because of poor finances accruing from their legitimate revenue sources. Budget implementation is positively associated with fund, much revenue is needed to plan, execute and maintain infrastructures and facilities at the local government level. The needed revenue for developmental projects like construction of accessible roads, building of public schools, health care centres, construction of bridges among others are sourced from federation account allocation, state allocation, value added tax allocation, internally generated revenue among others. Thus, the Local government cannot embark, execute and possibly carryout the maintenance of these projects and other responsibilities without adequate revenue. This is the basic reason why development is skeletal at some local government councils in Nigeria (Edogbanya & Ja’afaru, 2013). Fajobi (2010) argued that the acute dearth of fund currently facing the local government could be squarely attributed to lack of creativity on the part of the local government in seeking alternative sources to complement the allocation from the Federation Account.

Most local governments are suffering from hang-over of overdependence on the centre for assistance. It is quite clear that the most recurrent problems of local governments in Nigeria include finance and sizeable mismatch between their statutory functions and responsibilities on one hand and; the flow of financial resources available to them and constraining limits of their tax-raising powers or fiscal jurisdictions on the other hand. The degree of decentralization of expenditure is higher than the degree of decentralization of revenue thereby causing a great divergence between sources of revenue and functional expenditure in the local governments (Murana, 2015).

Based on the foregoing problems, the following research questions have been raised: i) what is the contribution of allocation from federation account to local governments’ budget in Nigeria? ii) what is the contribution of states’ allocations to local governments’ budget in Nigeria? iii) what is the contribution of value added tax allocation to local governments’ budget in Nigeria? iv) what is the contribution of internally generated revenue to local governments’ budget in Nigeria?. The primary objective of the study is to assess the contributions of local governments’ finance to local governments’ budget in Nigeria. The specific objectives include: i) to determine the contribution of allocation from federation account to local governments’ budget in Nigeria; ii) to investigate the contribution of states’ allocations to local governments’ budget in Nigeria; iii) to find out the contribution of value added tax allocation to local governments’ budget in Nigeria; and iv) to find out the contribution of internally generated revenue to local governments’ budget in Nigeria. The specific objectives above have been hypothesised as follows:

\[ H_1: \text{Allocation from federation account has no significant contribution to local governments’ budget in Nigeria} \]
\[ H_2: \text{States’ allocations has no significant contribution to local governments’ budget in Nigeria} \]
\[ H_3: \text{Value added tax allocation has no significant contribution to local governments’ budget in Nigeria} \]
\[ H_4: \text{Internally generated revenue has no significant contribution to local governments’ budget in Nigeria} \]

2.1 Review of Related Literature
There are various means through which local governments generate financial resources to meet their financial
The two major sources of local government financing in Nigeria are internally generated revenue i.e. revenue generated within the local government area of administration for instance local tax or community tax, poll tax, tenament rates, user fees, loans among others. While externally generated revenue refers to the funds generated outside the local government area of administration (Alo, 2012).

Internally generated revenue is one of the statutory sources of financing local governments operation and which can be explored given the enabling environment and political will. The level of internally generated revenue by each local government depends on the size of the local government, nature of business activities, urban or rural nature of the council, rate to be charged, instruments used in the collection of revenue, political will and acceptability by the people to pay based on the legitimacy of the council and the socio-cultural belief of the citizens regarding the issue of taxation (Anifowose & Enemuo, 1999). Local governments are constitutionally empowered to control and regulate certain activities in their jurisdiction, and in so doing; they impose some taxes and rates on these economic activities as a way of generating funds for their operations.

The various ways in which local governments generate revenue internally are community tax and rates; property (tenament) rates; general/development rates; licenses, fees and charges like marriage registration fees, car/truck licenses; interest on revenues such as deposits, investments, profits from the sale of stocks, shares among others; departmental recurrent revenues from survey fees, repayment of personal advances, nursery and day-care centres’ fees, rents on local governments quarters among others (Atakpa, Ocheni & Nwankwo, 2012). Therefore, tax is an important ingredient of revenue generation, development and transformation. As Olaoye (2008), opined that it is a compulsory levy imposed by the government on individuals and companies for the various legitimate functions of the state or local government.

The external sources of revenue to Local government includes: 20% of Federal Government Statutory Allocation, 10% of Internally Generated Revenue of the State , 35% of Value Added Tax (VAT ), Loans and Advances, Special capital grants, Excess crude oil, SURE-P, Financial Aid and Assistance from individual and organization (CBN, 2014). The Local Government Councils (LGCs) have very little influence on their receipts from Federal Allocation/Excess Crude and VAT unless they improve on their infrastructural developments (roads, portable water, health centres, hospital beds/cots) and school enrollments (Maruna, 2015).

2.1.1 Local Government Sources of Finance in Nigeria

Revenue generation in the local government is the sum of legislated or legitimate income usually in monetary term collected from citizenry for the purpose of rural developments and for meeting other social needs of people. Internally Generated Revenue (IGR) is the revenue generated in the form of capital receipts and taxes, which includes local rates, market taxes and levies excluding any market where state finance is involved, bicycle, truck, canoe, wheelbarrow and cart fees, other than a mechanical propelled truck, permits and fines charged by customary courts, local government business investments, tenament rate, fees from schools, shops and kiosks rates, on and off liquor license fees, slaughter slab fees, marriage, birth and death registration fees. Other sources of IGR include naming of street registration fee excluding any street in the state capital, right of occupancy fees on lands in the rural areas excluding those collectable by the federal and state governments, cattle tax payable by cattle farmers only, merriment and road closure levy, religious places establishment permit fees, signboard and advertisement permit fees, radio and television license fees (other than radio and television transmitter), wrong parking charges, hackney permit fee, earnings from commercial undertakings such as sales of farm products, sales of eggs and fowls, sales of fertilizer, income from piggery, fishery and snailery, rent on local government properties such as rent on staff quarters, local government conference halls, ambulances among others (Onah, 1995).

Statutory Allocation is the amount of money shared on monthly basis by the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) from the Federation Account to all tiers of government. Over the years, Nigeria has been searching for an equitable revenue allocation formula that will meet the yearnings and aspirations of its federating units. The search has remained largely elusive because the debate on revenue allocation, rather than focus on how to meet the nation’s economic imperatives, has often been hindered in geopolitical and ethnocentric considerations. However, the debate has also emphasised more on revenue sharing than on generating. In the present time, 20.6 per cent from the Federation Account is being shared to Local Governments in Nigeria. In Nigeria, section 7(6) of the 1999 constitution provides that “(a) the National Assembly shall make provisions for statutory allocations of public revenue to local government councils in the federation and, (b) the House of Assembly of a state shall make provisions for statutory allocation of public revenue to local government councils within the state”, (Constitution of Federal Republic of Nigeria, 1999).

Value Added Tax (VAT) is simply defined as the amount of money generated by government through indirect taxation and, is shared on monthly basis to all tiers of government including thirty five percent (35%) assigned to the local governments in Nigeria. It is a form of a consumption tax. From the perspective of the buyer, it is a tax on the purchase price. From that of the seller, it is a tax only on the value added to a product, material, or service (Olawuwo, Ogunleye & Olaleye, 2013). And, from an accounting point of view, by this stage
of its manufacture and distribution, the manufacturer remits to the government the difference between these two amounts, and retains the rest for themselves to offset the taxes they had previously paid on the inputs.

2.1.2 Utilization of Revenue by Local Governments in Nigeria

Since there are revenues coming to the local government, there must be expenditure on which these revenues would be expended. Bello-Imam (2010), considered local government expenditure under two major headings: Recurrent expenditures and Capital expenditures. The expenditure of local government can be considered from the point of its functions. The local government spent money in carrying out its functions, be it the function in the exclusive list or the functions in the concurrent legislative list. Bello-Imam (2010) noted further that the recurrent expenditures of the local governments are monies spent on salaries and allowances of its workers, it is the duty of local governments to pay the salaries and allowances of its workers both administrative and political appointees. Each department in the local government is given imprest for its day to day running i.e. administration and general, treasury, education, medical and health, town planning and estate developments. Under the capital utilization of local government revenue, the local government spends money on the execution of new projects for the development of the local government areas. Examples of such project includes building of new primary school, maternities and health centers, new feeder roads, culverts, boreholes and wells, new markets and motor parks among others.

2.1.3 Local Government budgetary system in Nigeria

A budget is a financial plan and a list of all planned revenues and expenses. It is a plan for saving, borrowing and spending. The public budget generally reflects the policy of the government toward the economy. It is a forecast of government revenues and expenditures for the ensuing fiscal year, which may or may not correspond with the calendar year. It is the key instrument for the expression and execution of government economic policy (Maurice & John, 2012). Public budgets have wide implications for the national economy. Through budgets governments exercise their allocative, stabilization and distributive functions. They are therefore, political as well as economic documents and are products of the political processes by which competing interests in any nation achieve agreement. According to Aronson & Schwartz (1981), the extent of the budget amounts and the operating programmes on which they are based is the dividing line between the private and public sectors. They argue that the budget stipulates which goods and services are to be supplied to the public by the authorities and which are to be supplied by the private sector. Therefore, the budget is a political document through which money is appropriated according to value judgments, and the budget process is a political process that takes place within a political arena at the local government (Gildenhuy, 1997).

The budgetary process takes on four distinct activities of budget preparation, budget authorization, budget execution and budget monitoring and evaluation. In many governmental arrangements, the agencies responsible for each of these activities are distinct, with varying degrees of autonomy and interdependence (Adamolekun, 1983). At the local government level, the council chairman is ultimately responsible for budget preparation with inputs from the supervisory councillors and local bodies and agencies. It is then approved by the local legislature. In addition, the State Governor’s office gives the prepared budget final approval after thorough scrutiny. Ojo (2004) has observed that getting final approval often is not easy as it is characterised by too much scrutiny and delayed sanctions by state government functionaries. In most cases political party exigencies overtakes economic considerations. In fact, State’s Governors often midwife such budgets, simply because they have joint accounts with the local governments. However, upon approval, the budget is returned to the local government council through the ministry of local government. The approved budget then gives authority to the council to raise revenue and incur expenditure in the fiscal year.

2.1.4 Decentralization Theory

The theory of decentralization explains the transfer of authority and responsibility for public functions from the central government to the subordinates which make the theory more suitable and appropriate for this study. Thus, Nigeria operates political as well as fiscal federalism. It follows therefore that many developed and developing economies that particularly operates the federal system of governments tend to decentralize some aspect of their public finance. The philosophy behind decentralization is that sub- national government (which local government is part of) must be given power over their own lives and development (Nyerere, 1972). Thus, decentralization implies that sub national governments or entities take over functions from federal government and come to manage their own financial resources than would be the case under a centralized government.

Decentralization is viewed as a strategy for mobilizing local resources and an initiative for national development. Since it has become evident that Federal or State governments, alone, cannot guarantee development in the local areas, it then becomes imperative for the power, authority, and responsibility to be transferred from the central or state government to the local government for the purpose of enhancing development in the rural areas. This is important because of the remoteness of the federal government to the rural people. It is believed that decentralization would make the local governments more competent in the management of their own affairs.
3.1 Methodology

The study adopts ex-post facto research design to statistically determine the contribution of independent variable on dependent variable. This is consistent with the primary objective of this study, which is, an assessment of the contributions of local governments’ finance to local governments’ budget in Nigeria. The population of the study consists of time series data of all local governments in Nigeria for the period of twenty years while data for the period of sixteen (16) years were sampled (1999-2014) to ascertain local government financing under the current democratic system of government in Nigeria. This is in respect of Local Governments Allocation from Federation Account (LGAFA), Local Governments States Allocation (LGSA), Local Governments Value Added Tax Allocation (LGVATA), Local Governments Internally Generated Revenue (LGIGR) and Local Governments Budget Stock (LGBS) of local governments in Nigeria. Data were sourced from the secondary source. The data were extracted from Central Bank of Nigeria statistical bulletin 2014. Linear regression analysis was used to test all the null hypotheses formulated. The technique was chosen because of its effectiveness in estimation of the contribution of independent variable to dependent variable. The analysis was conducted using Statistical Package for Social Sciences (SPSS) version 20.0 software.

3.1.1 Model Specification

The dependent variable of the study is budget of local governments; proxy by local governments budget stock (LGBS), while the independent variable is local government finance; proxies by Local Governments Allocation from Federation Account (LGAFA), Local Governments States Allocation (LGSA), Local Governments Value Added Tax Allocation (LGVATA) and Local Governments Internally Generated Revenue (LGIGR). To achieve all the specific objectives and test all the hypotheses, the linear regression analysis statistical method was used to estimate the model. The linear regression model is specified as follows:

\[ \text{LGBS} = B_0 + B_1 \text{LGAFA} + B_2 \text{LGSA} + B_3 \text{LGVATA} + B_4 \text{LGIGR} + \mu_i \]  

Where:

- \( \text{LGBS} \) = an indicator representing Local Governments Budget Stock (Dependent Variable)
- \( B_0 \) = a constant;
- \( B_1, B_2, B_3, B_4 \) = Coefficients of the Independent Variable;
- \( \text{LGAFA} \) = Predictor representing Independent Variable (Local Governments Allocation from Federation Account);
- \( \text{LGSA} \) = Predictor representing Independent Variable (Local Governments States Allocation);
- \( \text{LGVATA} \) = Predictor representing Independent Variable (Local Governments Value Added Tax Allocation);
- \( \text{LGIGR} \) = Predictor representing Independent Variable (Local Governments Internally Generated Revenue); and
- \( \mu_i \) = Stochastic error term.

4.1 Data Presentation

The table below presented the data to assess the contributions of local governments finance to local governments’ budget in Nigeria (1999-2014).

<table>
<thead>
<tr>
<th>Year</th>
<th>LGBS in (₦ Billion)</th>
<th>LGAFA in (₦ Billion)</th>
<th>LGSA in (₦ Billion)</th>
<th>LGVATA in (₦ Billion)</th>
<th>LGIGR in (₦ Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>60.44</td>
<td>43.87</td>
<td>0.42</td>
<td>9.56</td>
<td>4.68</td>
</tr>
<tr>
<td>2000</td>
<td>153.86</td>
<td>118.59</td>
<td>1.92</td>
<td>13.91</td>
<td>7.15</td>
</tr>
<tr>
<td>2001</td>
<td>171.37</td>
<td>128.9</td>
<td>1.6</td>
<td>20.1</td>
<td>6.02</td>
</tr>
<tr>
<td>2002</td>
<td>169.82</td>
<td>128.9</td>
<td>1.67</td>
<td>18.73</td>
<td>10.42</td>
</tr>
<tr>
<td>2003</td>
<td>361.71</td>
<td>291.41</td>
<td>2.12</td>
<td>39.65</td>
<td>20.18</td>
</tr>
<tr>
<td>2004</td>
<td>461.05</td>
<td>375.66</td>
<td>3.63</td>
<td>45.99</td>
<td>22.41</td>
</tr>
<tr>
<td>2005</td>
<td>587.98</td>
<td>393</td>
<td>3.24</td>
<td>55.79</td>
<td>24.04</td>
</tr>
<tr>
<td>2006</td>
<td>665.84</td>
<td>550.8</td>
<td>3.43</td>
<td>75.92</td>
<td>23.23</td>
</tr>
<tr>
<td>2007</td>
<td>827.4</td>
<td>568.3</td>
<td>3.01</td>
<td>105.1</td>
<td>21.3</td>
</tr>
<tr>
<td>2008</td>
<td>1381.97</td>
<td>722.26</td>
<td>6.82</td>
<td>135.92</td>
<td>23.11</td>
</tr>
<tr>
<td>2009</td>
<td>1067.61</td>
<td>529.31</td>
<td>19.74</td>
<td>157.38</td>
<td>26.06</td>
</tr>
<tr>
<td>2010</td>
<td>1356.65</td>
<td>715.97</td>
<td>12.67</td>
<td>189.12</td>
<td>26.15</td>
</tr>
<tr>
<td>2011</td>
<td>1631.92</td>
<td>940.03</td>
<td>35.21</td>
<td>218.23</td>
<td>31.59</td>
</tr>
<tr>
<td>2012</td>
<td>1644.88</td>
<td>977.4</td>
<td>8.74</td>
<td>238.55</td>
<td>26.62</td>
</tr>
<tr>
<td>2013</td>
<td>1806.91</td>
<td>1106.97</td>
<td>12.79</td>
<td>267.32</td>
<td>29.29</td>
</tr>
<tr>
<td>2014</td>
<td>1613.34</td>
<td>1125.08</td>
<td>4.13</td>
<td>266.86</td>
<td>36.49</td>
</tr>
</tbody>
</table>

Source: CBN Statistical Bulletin (2014)
4.1.1 Presentation of Results and Discussion
The data were analysed using Statistical Package for Social Sciences (SPSS) version 20.0 software. The linear regression results are hereby presented below:

Table 4.2: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Constant)</td>
<td>40.098</td>
<td>81.300</td>
<td>.493</td>
</tr>
<tr>
<td>1</td>
<td>LGAFA</td>
<td>1.157</td>
<td>.460</td>
<td>.668</td>
</tr>
<tr>
<td>1</td>
<td>LGSA</td>
<td>8.258</td>
<td>4.357</td>
<td>.120</td>
</tr>
<tr>
<td>1</td>
<td>LGVATA</td>
<td>2.092</td>
<td>1.492</td>
<td>.318</td>
</tr>
<tr>
<td>1</td>
<td>LGIGR</td>
<td>-4.865</td>
<td>7.789</td>
<td>-.073</td>
</tr>
</tbody>
</table>

a. Dependent Variable: LGBS

Source: Author’s computation using SPSS version 20.0

Table 4.3: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.988</td>
<td>.976</td>
<td>.967</td>
<td>113.44060</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), LGIGR, LGSA, LGVATA, LGAFA

Source: Author’s computation using SPSS version 20.0

Table 4.4: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>5702846.310</td>
<td>4</td>
<td>1425711.578</td>
<td>110.788</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>141556.462</td>
<td>11</td>
<td>12868.769</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5844402.772</td>
<td>15</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: LGBS

b. Predictors: (Constant), LGIGR, LGSA, LGVATA, LGAFA

Source: Author’s computation using SPSS version 20.0

The results from table 4.3 above showed that the independent variable of local governments finance explained around 96.7% of the variations in the local governments budget in Nigeria, from the coefficient of determination (adjusted R^2 of 0.967). The table 4.4 equally showed that the overall model is statistically significant at 1% level of significance considering F-statistic of 110.788 (as indicated by the sig. level of 0.000).

4.1.2 Test of Hypotheses
To assess the contributions of local governments finance to local governments budget in Nigeria, the following hypotheses were tested using Linear regression analysis.

H\(_0\) 1: Allocation from federation account has no significant contribution to local governments’ budget in Nigeria
H\(_0\) 2: States’ allocations has no significant contribution to local governments’ budget in Nigeria
H\(_0\) 3: Value added tax allocation has no significant contribution to local governments’ budget in Nigeria
H\(_0\) 4: Internally generated revenue has no significant contribution to local governments’ budget in Nigeria

Linear Regression Analysis Test
The result from table 4.2 above showed that allocation from federation account has significant contribution to local governments’ budget in Nigeria, considering the coefficient of 1.157 which is significant at 5% level of significance (as indicated by sig. level of 0.029). Based on this, the null hypothesis one is rejected. The result from table 4.2 above equally showed that states’ allocations has no significant contribution to local governments’ budget in Nigeria, considering the coefficient of 8.258 which is not significant at all levels of significance (as indicated by sig. level of 0.085). Based on this, the null hypothesis two is accepted.

The result from table 4.2 above further revealed that value added tax allocation has no significant contribution to local governments’ budget in Nigeria, considering the coefficient of -4.865 which is not significant at all levels of significance (as indicated by sig. level of 0.545). Based on this, the null hypothesis three is rejected. Finally, the result from table 4.2 above revealed that internally generated revenue has no significant contribution to local governments’ budget in Nigeria, considering the coefficient of -2.092 which is not significant at all levels of significance (as indicated by sig. level of 0.029). Based on this, the null hypothesis four is accepted.
4.1.3 Discussion of Findings
The study revealed that allocation from federation account has significant contribution to local governments’ budget in Nigeria. This implies that a ₦1 increase in allocation from federation account brings about ₦1.16K increase in local governments’ budget in Nigeria for the period under review. The study equally revealed that states’ allocation has no significant contribution to local governments’ budget in Nigeria, from the coefficient of 8.258 which is not significant at all levels of significance (as indicated by sig. level of 0.085). This means that states’ allocation is not significant in enhancing local governments budget in Nigeria for the period under review. The study further revealed that value added tax allocation has no significant contribution to local governments’ budget in Nigeria, from the coefficient of 2.092 which is not significant at all levels of significance (as indicated by sig. level of 0.188). This implies that value added tax allocation is not significant in enhancing local governments budget in Nigeria for the period under review. Finally, the study revealed that internally generated revenue has negative non significant contribution to local governments’ budget in Nigeria, from the coefficient of -4.865 which is not significant at all levels of significance (as indicated by sig. level of 0.545). This means that internally generated revenue has negative non significant contribution to local governments budget in Nigeria for the period under review.

5.1 Conclusion
The allocation from federation account has contributed significantly to local governments’ budget in Nigeria. This has always been the major financing mechanism of local governments in Nigeria of which the current decline in revenue generation at the federal level as a result of dwindling price of crude oil at the international market is seriously affecting the local councils leading to budget non-performance of most local governments in Nigeria. The allocations from various state governments to their respective local governments have no significant contribution to local governments budget in Nigeria. This arises as a result of most state governments not complying with the constitutional provision of allocating ten percent 10% of their internally generated revenue to local governments in Nigeria. The valued added tax allocation to local governments has not contributed significantly to local governments budget in Nigeria. The Federal government must give serious attention to VAT generation under a conducive socio-political and economic condition to increase the amount of revenue generated from VAT, thereby increasing local governments VAT allocations. The local governments internally generated revenue has no significant contribution to local governments budget in Nigeria. This is the bane of most local governments budget non-performance in Nigeria. The constitution of the federal republic of Nigeria assigned various revenue sources to local governments to generate revenue and finance their budget. However, it seems most local governments in Nigeria are not properly tapping enough revenue from these sources leading to budget non-performance and overdependence on external sources of revenue.

5.1.1 Recommendations
(i) The ministry of local governments and chieftaincy affairs should ensure strict monitoring and implementation of local governments budget. This is to ensure that allocation from the federation account is properly put to use by the local governments.
(ii) The Federal government of Nigeria should set-up local governments revenue monitoring unit to be administered by Independent Corrupt Practices and other related Offences Commission (ICPC) to ensure that ten percent (10%) of internally generated revenue of each state is actually release to local governments.
(iii) The Revenue Mobilization Allocation and Fiscal Commission (RMAFC) should review value added tax allocation in favour of the local governments from the present thirty five percent (35%) to thirty eight percent (38%) in order to increase their revenue base. This will equally enhance budget performance of local governments.
(iv) The local governments in Nigeria should engage the service of tax consultants to aggressively increase their internally generated revenue, in order to increase their budget performance.

References


