



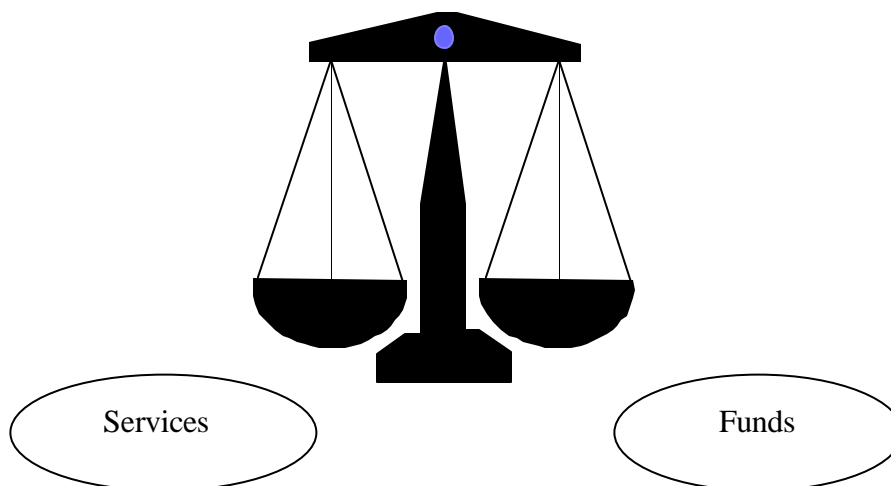
THE REPUBLIC OF UGANDA

**LOCAL GOVERNMENT FINANCE COMMISSION**



# **EQUALISATION GRANT FOR URBAN LOCAL GOVERNMENTS**

**Analysis and Recommendations**



## **THE LOCAL GOVERNMENT FINANCE COMMISSION**

The Commission is a constitutional institution created under article 194 (1) of the Constitution of the Republic of Uganda. The enabling and functional framework is provided by the Local Governments, Act (1997) especially sections 75 to 77 thereof.

### **AIMS OF THE COMMISSION**

?? To give reliable and objective advice to Government as a means of facilitating decisions regarding adequate and equitable transfer of financial resources to local governments in the process of decentralisation and any related matter thereto.

?? To assist local governments achieve sound financial autonomy through efficient and effective mobilisation of resources and responsible spending.

## **ACKNOWLEDGEMENT**

The Local Government Finance Commission is mandated by clause 4 of Article 194 of the Constitution of the Republic of Uganda to advise the President on all matters concerning the distribution of revenue between the Government and local governments among other things. In line with this, the Commission undertook this study in order to come up with a method for distribution of equalisation grant to urban local governments.

The Commission carried out a study by which a mechanism for distributing equalisation grant to districts was developed and published in March 1999.

It would have been more prudent to combine these two studies but because of the uniqueness of services provided by the urban local governments, it was necessary to conduct a separate study. The study involved wide consultations with urban local governments, ministries of Finance Planning and Economic Development, Local Government, line ministries, local government associations and other stakeholders.

The Commission is grateful to all persons who made this study a success, in particular, Town Clerks and Chief Finance Officers of all urban local governments. Similar gratitude goes to the Uganda Bureau of Statistics, line ministries, Ministry of Local Government, and Ministry of Finance, Planning and Economic Development.

In addition, I thank all the Commission staff and in particular, Musa Basajabalaba, Yeko Mwanga, Adam Babale, Francis Luwangwa, Lawrence Latim and Erioth Nagadya for their tireless efforts that resulted in the production of the report. Special appreciation is extended to Eigil Carner Nielsen Senior Advisor/DANIDA to the Commission for his supervisory role.

Last but not least I would like to express my gratitude, on behalf of the Commission, to DANIDA for funding this study and the continued support to the Commission.

Dr. Dick Odur

**CHAIRMAN**

**LOCAL GOVERNMENT FINANCE COMMISSION**

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# EXECUTIVE SUMMARY

## Introduction

The Government of the Republic of Uganda introduced decentralisation as a means of ensuring efficient and better service delivery. The Constitution and the Local Governments Act provide for decentralised governance by which local governments are empowered to exercise legislative, financial, political and administrative functions in their areas of jurisdiction. The functions for the central government as well as the different levels of local governments (including urban local governments) are clearly laid down in the two pieces of legislation.

The law catalogues sources of revenues for local governments which are; locally generated revenues, central government grants/transfers and donations. Currently, urban local governments generate local revenues from the following sources; graduated tax, property tax, fees and fines, interest on investments, rents, profits, licenses and user charges.

Section 84 (1) of the Local Governments Act 1997, specifies the grants that local governments are to receive as being unconditional, conditional and equalisation grants. Sub-section 4 thereof indicates how equalisation grant is to be applied and refers to local governments lagging behind the national average standard in service delivery as those to benefit. The grant was introduced for districts in the 1999/2000 budget. The aim of this study is to recommend a method for its introduction for urban local governments.

## **Methodology**

The method for identifying and allocating equalisation grant to districts was developed and recommended to government by LGFC in a report published in March 1999<sup>1</sup>

In the study leading to the above mentioned report, a four phased approach was adopted; (1) International experience (literature review and study tours), (2) Review of conditional and unconditional grants allocation systems, (3) Field surveys, and (4) Data analysis and report production. A similar approach is used in this study.

## **Allocation Criteria**

Differences in revenue bases and expenditure needs were found to be the main cause of disparities in levels of service delivery among local governments. It is therefore essential that indicators for estimating/calculating both the tax bases and expenditure needs are identified as basis for designing an equalisation grant system

Key indicators for revenue bases were taken to be household income and the estimated number of taxpayers. Data on household expenditure provides an insight into the incomes of the people. The household expenditure was therefore taken as a proxy for household income. Data used for urban local governments were the same as those used for districts except where there are more than one urban local governments in a district in which case the household expenditure was adjusted. Household income provided the basis

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<sup>1</sup> LGFC (1999) "Introduction of Equalisation Grant", *Analysis and Recommendations*

for determining the tax base for a particular urban local government. The gap between per capita tax base and the national average provides the amount of equalisation.

Basing on the services decentralised as per schedule 2 of the Local Governments Act 1997, the key indicators for expenditure needs were taken to be total population, number of children of school going age, area and length of roads. While services are generally similar in urban local governments, actual spending patterns on the different services differ. Average expenditures on each service were obtained to determine the corresponding service weight. A national average expenditure need was obtained by calculating the average expenditure per capita (for all urban local governments) on each of the services identified. The differences between per capita expenditure need from the national average provided the amount of equalisation.

During the analysis of data, Kampala City Council was found to have a unique tax base and expenditure needs. It was therefore treated separately.

## **Summary of Findings**

### **Tax Base Equalisation**

?? Urban local governments have potential per-capita revenue ranging between shs. 1,448 and shs. 7,912 with an average of shs. 3,522.

?? Thirty six (36) urban local governments need to be equalised to the average tax base. The amounts range between shs. 847,079 and shs. 68,183,814.

?? Shs. 455,765,340 is required to fund tax base equalisation.

## **Expenditure Needs Equalisation**

?? The expenditure needs per capita range between shs. 5,237 and shs. 36,379 showing a wide variation with an average of shs. 6,939.

?? Thirty two (32) urban local governments are eligible for equalisation to the national average need. The respective amounts range between shs. 128,570 and shs. 45,902,298.

?? Shs. 482,703,191 is required to fund expenditure needs equalisation.

## **Equalisation based on Tax base and Expenditure Needs**

?? Forty (40) urban local governments qualify for equalisation grant.

?? The amount range between shs. 1,850,295 and shs. 114,086,112.

?? A total of shs. 715,472,110 is required to fund the urban equalisation grant.

## **Recommendations**

?? An allocation of shs. 715,472,110 for urban local governments' equalisation grant should be provided in the 2000/01 budget.

?? The grant should be spent within the Priority Program Areas (PPAs) only. Local governments should however be free to prioritise expenditure of the grant within the PPAs to ensure that its impact can be monitored.

?? The unconditional and conditional grants need to be continuously reviewed to ensure that they are distributed in a fair manner that does not introduce inequities in service delivery.

?? Government institutions responsible for generating and managing data such as Uganda Bureau of Statistics, Population Secretariat etc should make efforts to continuously update relevant data on local governments, work closely with Ministry of Local Government on areas of new local governments or adjusted areas, provide household expenditure data desegregated at three levels i.e. urban local governments level, rural district level and district level for both urban and rural combined and improve methodology used to project population for urban areas to reflect on rural-urban migration, and differences in day and night population.

?? Local governments are urged to implement the law on revenue sharing among the various levels of local government as contained in part V of the Fifth Schedule to the Local Governments Act.

### **Kampala City Council**

?? Kampala City Council is unique and should thus be treated separately. In the meantime it is important for it to implement the law on revenue sharing arrangements provided in part V of the Fifth Schedule to the Local Governments Act so as to remove the massive distortions in the revenue situations (revenue bases) of the Divisions.

# 1. INTRODUCTION

## 1.1 Background

The Local Governments (Resistance Councils) Statute, 1993 provided the initial framework on decentralisation in Uganda. The 1995 Constitution reaffirmed decentralised governance by which local governments have powers to legislate and exercise financial, political and administrative functions in their areas of jurisdiction.

According to the Decentralisation Secretariat,<sup>1</sup> the decentralisation policy was designed to achieve the following objectives:

- ?? Transfer real power to local governments and thus reduce the work load on the central government;
- ?? Bring political and administrative control over services closer to the point of delivery, thereby improving accountability and effectiveness, promoting people's feeling of ownership of programs and projects executed in their areas;
- ?? Free local managers from central government constraints;
- ?? Improve financial accountability;
- ?? Improve the capacity of councils to plan, budget and finance service delivery to their constituents.

In order to achieve the above, certain functions were decentralised to various levels of local government. Part 3 of the Second Schedule to the Local Governments Act, 1997 enumerates the functions and services for which urban local governments are responsible. The law similarly provides the sources of

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<sup>1</sup> Decentralisation Secretariat: Report on Decentralisation in Uganda the Policy and its Implication.

revenues for local governments, which comprise of locally generated revenues, central government grants and donations.

## **1.2 System of Intergovernmental Fiscal Transfers**

The Constitution and the Local Governments Act, 1997 have created a vertical system by which funds from the Consolidated Fund flow to local governments in form of unconditional, conditional and equalisation grants.

Unconditional grant is a minimum amount of money given to local governments to finance decentralised services while conditional grant is for programs agreed upon between the centre and local governments<sup>2</sup>. The method currently being used for allocation of unconditional grant is based on two factors: population and area.

Conditional grant is money given to local governments to finance programs agreed with the central government. Currently the grant is used to fund Priority Program Areas (PPAs) which consist of education, health, water, feeder roads and agricultural extension.

In a survey carried out by LGFC, Chief Administrative Officers (CAO) and Town Clerks (TC) confirmed that there indeed exist inequalities among local governments. They identified three major factors as the main cause of inequalities. These are; uneven social and economic infrastructure coverage, differences in revenue/resource base and differences in the demand for the services delivered by them due to differences in their demographic structures.

Equalisation grant as prescribed in section 84 (4) of the Act and elaborated upon below is intended to address some of the above inequalities.

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<sup>2</sup> Local Governments Act, 1997, Section 84 (2) & (3)

### **1.3 The Need for Equalisation**

Section 84 (4) of the Local Governments Act 1997, stipulates that local governments lagging behind the national average standard in service delivery be given equalisation grant. The purpose of equalisation grant is to even out the differences in service delivery. The differences in revenue bases and expenditure needs result in disparities in service provision among local governments

Clause 4 of Article 193 of the Constitution (1995) and elaborated in Section 84 (4) of the Local Governments Act, 1997 defines equalisation grant as “..*money to be paid to local governments for giving subsidies or making special provisions for the least developed districts; and shall be based on the degree to which a local government unit is lagging behind the national average for a particular service*”.

Through equalisation grant, it is expected that local governments that are disadvantaged either in terms of high expenditure needs or low revenue bases will be subsidised to a level where they can at least provide a “minimum level of service delivery”

The purpose of this study is therefore to come out with recommendations to Government on the design of a formula and mechanism for distributing equalisation grant so as to make it play the above role as best as possible under the current circumstances.

### **1.4 Methodology**

In fitting with its constitutional obligations, the Commission started work on the design of an equalisation grant scheme in August 1998 and in March 1999 published the recommendations for districts. However, during the analysis of data it was found that it would not be appropriate to handle urban local governments together with the districts because of the uniqueness of the services the former provide. Therefore the field survey for urban local governments started in May 1999. The entire exercise was conducted in four phases i.e. (1)

International experience (literature review and study tours), (2) Review of conditional and unconditional grants allocation systems, (3) Field surveys, and (4) Data analysis and report production. A similar approach is used in this study.

#### **1.4.1 Conditional Grant Study**

In the first phase, the Commission constituted five working groups, one on each of the five priority programme areas namely: - Health, Education, Water, Agriculture and Roads. The groups consisted of representatives from the relevant sector ministries, from the Ministries of Local Government and Finance as well as from the Secretariat of the local government associations. The Local Government Finance Commission (LGFC) facilitated these working groups.

The terms of reference for the working groups were to review the sufficiency and fairness of the sectoral allocations across the various local governments. In particular, they reviewed the conditional grant allocation mechanisms for these sectors with a view of finding out whether these grants were distributed in a fair and equitable manner.

The results and recommendations of the working groups are contained in a report that was published by the Commission<sup>3</sup>. The main finding of the groups was that the methods of distribution of conditional grants maintained the inequalities that were inherent among local governments since these grants were given based on existing capacities.

The Commission thus recommended the review of the formulae used for the distribution of the conditional grants in order to remove these inequities. The sector ministries concerned should therefore take it as matter of urgency to implement this and other recommendations contained in the report.

## Review of Unconditional Grant

Article 193 of the Constitution (1995); clause 2, defines unconditional grant as the minimum grant that shall be paid to local governments to run decentralised services and shall be calculated as:-

$$Y_1 = Y_0 + bY_0 + X_1 \quad \text{where,}$$

$Y_1$  is the minimum unconditional grant for the fiscal year.

$Y_0$  is the minimum unconditional grant in the preceding year

$b$  is the percentage change if any, in the general price levels in preceding year and

$X_1$  is the net change in the budgeted cost of running added and subtracted services in the current year.

Most of the unconditional grant to local governments covers mainly salaries and wages.

During the **fiscal year 1995/96**, unconditional grants transferred to local governments were disproportionately small relative to total local government transfers.

**Due to the above factors, the Commission recommended to government that the services, which were decentralised without the necessary funds, should be identified and the appropriate funds provided.**

### 1.4.2 Field Surveys and Interviews

The second phase consisted of conducting field interviews and questionnaire administration. Taking into consideration knowledge on the operation of the conditional and unconditional grant systems obtained from the first phase, a questionnaire was designed to collect information on the level of service delivery,

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<sup>3</sup> LGFC (1998) "Allocation of Conditional Grants in the Five Priority Programme Areas",

expenditure needs as well as revenue bases of the various urban local governments.

The questionnaire sought information on all the major expenditure items as well as the major sources of revenue in the three categories, that is; local revenue, central government transfers and other sources. The questionnaires were administered in all the 63 urban local governments, Kampala City Council and its divisions.

### **1.4.3 International Experiences in Equalisation Systems**

The third phase in the work of designing an equalisation system focussed on learning from the experience of other countries. This was done in two ways. First, a review of literature on equalisation that is practised in a number of countries was carried out.

Second, the Commission organised study tours to countries that are practising decentralised form of governance and whose system of intergovernmental fiscal relations contain an element of equalisation. It was found necessary to visit a broad spectrum of countries consisting of low income, middle income and high-income countries. Two teams undertook the tours.

The first team, which visited Denmark and Malaysia in August 1998, consisted of representatives from the Ministries of Finance and Local Government, Local Government Associations and the Local Government Finance Commission. The second, which consisted of only technocrats from the Local Government Finance Commission, visited Denmark, Latvia and Lithuania (two countries of the former Soviet Union) in November of the same year.

The mission of the two teams was to learn from the systems being practised in those countries and make recommendations on what is suitable for the Ugandan

situation under the present circumstances. The findings and recommendations of the two teams were published<sup>4</sup>.

#### **1.4.4 Analysis**

The final phase was analysis of data and synthesis of the findings obtained from the other phases in order to come out with recommendations on a system of equalisation in Uganda. The Commission has reached the end of the final phase and is delighted to present its findings and recommendations to Government and stakeholders.

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<sup>4</sup> LGFC (1999) *“International Experience in Local Government Budgets and Grants Management Systems”*

## 2. THEORY OF EQUALISATION

### 2.1 Principles of Equalisation

Enabling all local governments to provide certain minimum levels of public services to their constituents is the principle behind equalisation. Equalisation grant would therefore aim at providing extra funds to those local governments whose revenue raising capacities are weak and expenditure needs great, to enable them provide that “minimum” level of service within their areas of jurisdictions.

The grant is justified on the basis of fostering horizontal equity.

The formulae used to identify the beneficiaries and the subsequent allocation of such a grant to different local governments vary depending on perception and approach. However, it is the formulae that form the central element of any equalisation grant system. They are therefore invariably a subject of intense debate among many practitioners.

In order to come up with a realistic formula, it is important to gauge the equalisation need of each local government by providing: -

- a) Estimates of its expenditure needs
- b) An assessment of the tax base.

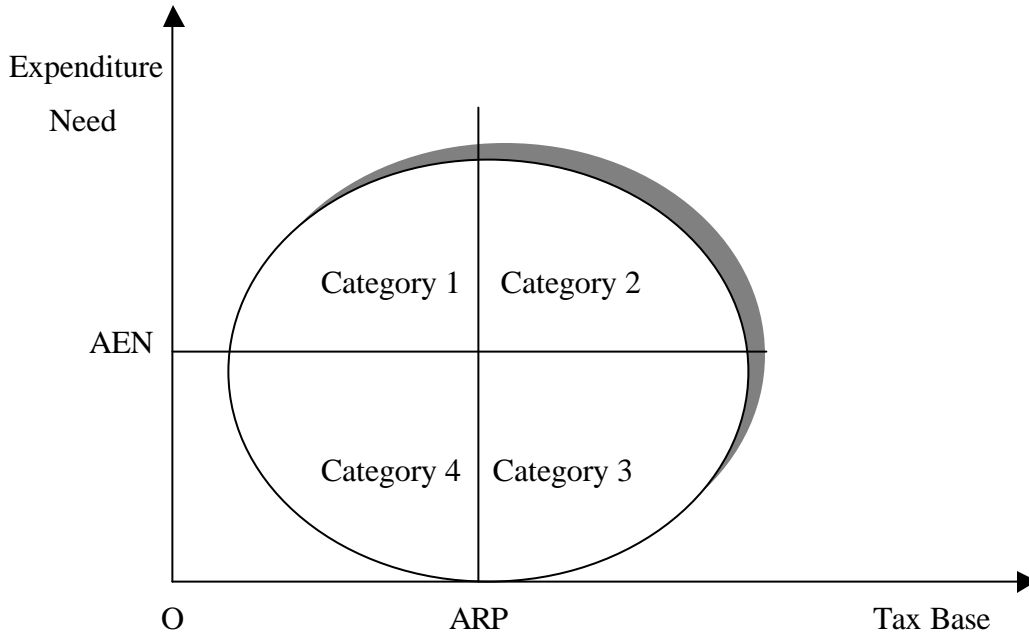
This is necessary and important because: -

**?? If the tax base of a local government is ignored, it could reduce its tax effort and collection with the sole aim of receiving correspondingly higher central transfers in form of equalisation grant.**

**?? Local governments have differences in their level of expenditure needs due to differences, for example, in the size of the population, length and quality of roads or deficiencies in school and hospital capacities etc.**

Using these two factors, it is possible to categorise local governments into four as shown below: -

1. those whose expenditure needs are above average but tax base below average
2. those with both expenditure needs and tax base above national average
3. those whose expenditure needs are below average but tax base above average
4. those with both expenditure needs and tax base below national average



*Where: ARP is the national average tax base and AEN the national average expenditure need.*

Category 1 would automatically qualify for equalisation grant since its expenditure need is above average with tax base below average. Some local governments in categories 2 and 4 would qualify depending on the difference between the tax base and the expenditure needs.

Local governments in category 3 would not qualify for equalisation grant because their expenditure needs are below average and their tax bases are above average. They are therefore potentially able to finance the service needs of their constituents to a level that at least matches the national average.

## **2.2 Measuring Equalisation Need**

As can be deduced from above, the need for equalisation arises out of a low revenue base and a higher than average expenditure need. In measuring the need for equalisation therefore, it is vital to measure both the tax base and the expenditure needs separately. The results can then be merged to find out whether an urban local government would have a fiscal deficit if it were to provide services to the national average standard.

### **2.2.1 Measuring Tax base/Fiscal Capacity**

Fiscal capacity is the ability of a government to raise revenue from its own sources. There are many ways to measure or estimate the fiscal capacity of a local government. However, it should be recognised that estimating fiscal capacities using the ability of local governments to raise revenue from their own sources is conceptually and empirically difficult.

Therefore, in most cases two measures i.e. macroeconomic indicators and the representative tax system are used. Macroeconomic indicators are measures of income and output, which serve as a proxy of ability of the residents of a particular local government to bear tax burdens. Such indicators include personal income and gross domestic product of a particular local government.

The representative tax system (RTS) attempts to measure the fiscal capacity of a local government by the revenue that could be raised if the local government taxes all the standard tax bases with the standard tax effort. To be able to estimate equalisation entitlements using a representative tax system, information on the tax bases and tax revenues for each local government is required.

Since data necessary to compute tax bases are published regularly by various levels of government, a representative tax system can readily be adopted in developing countries.

## Formula for measuring Fiscal Capacity

Fiscal capacity can be measured using the following formula.

$$C_i = \sum_j B_{ij} * t_j$$

Where  $C_i$  = tax capacity of local government i  
 $B_{ij}$  = local government's  $j^{\text{th}}$  tax base,  
 $t_j$  = standard tax rate (e.g. national average) on the tax base.

It is important to apply a standard tax rate to local government's tax base rather than its own effective tax rate, in order to ensure that the local governments with high tax efforts are not penalised. Local authorities with an effective tax rate below national average would be penalised because their calculated potential fiscal capacities would be higher than when they are calculated using their own tax rates.

### Application of the Formula

- ~~1~~ Identify the tax bases and use major tax bases only in the calculation of fiscal capacity.
- ~~2~~ Collect data on selected tax bases. Figures of the previous year can be applied. However, in the case where the data is provided by the local governments, it is important to have well established rules on reporting and auditing procedure as well as penalties for false reporting.
- ~~3~~ Select the standard tax rate. This can be done in a number of ways. For example, use of an effective tax rate of the whole country, use of an arithmetic mean of all local governments effective tax rates, use of arithmetic mean of selected local governments' effective tax rates.
- ~~4~~ Calculate the fiscal capacities using the above formula.

## Calculation of Tax Base Equalisation Grant

A typical formula that considers equalisation of fiscal capacities only and using the representative tax system can be given as follows:

$$TR_i = P_i (B/P - B_i/P_i) * t$$

Where:

- TR<sub>i</sub>** = Fiscal Equalisation grant to local government i
- P<sub>i</sub>** = Population for the local government
- B<sub>i</sub>** = Tax base of the local government
- P** = Total population of all the urban councils in the country
- B** = Total tax base of all the urban local governments in the country
- t** = The average effective tax rate of all the urban local governments on the tax base.

$B/P - B_i/P_i$  measures the gap between the national average per capita tax base and the per capita tax base of local government i. This formula states that the central government transfer will bring the fiscal capacity of local governments below average up to the national average.

## Computation of Equalisation

The size of the equalisation grant for a local government is measured as a product of the total population of the local governments and the gap between national average per capita tax revenue and a local per capita potential tax revenue. In this study since it is the graduated tax (GT) which is used to measure tax base, measurement of a local government's tax base can be expressed as:

$$\left( \begin{array}{l} \text{The national} \\ \text{average} \\ \text{potential GT} \\ \text{per capita} \end{array} \right) \times \left( \begin{array}{l} \text{Potential GT} \\ \text{per capita} \\ \text{for a} \\ \text{particular} \\ \text{local} \\ \text{government} \end{array} \right) \times \left( \begin{array}{l} \text{The} \\ \text{population of} \\ \text{the particular} \\ \text{local} \\ \text{government} \end{array} \right)$$

### **2.2.2 Measuring Expenditure Needs**

Expenditure by local governments arises out of the fact that they have been given the responsibility to provide certain services.

Local governments therefore incur expenditure to provide these services. The level of expenditure incurred in providing each of these services is determined by one or more factors. For instance, the level of expenditure incurred by an urban local government to provide primary education is dependent on the number of children in the school going -age bracket (5-14 years). High number of children means that more classrooms, more teachers and more education materials etc are required. Building more classes and paying salaries for more teachers and purchasing more educational materials would mean higher expenditure requirements.

However, since resources are limited, this will translate into higher pressure on expenditure. Differences in the expenditure pressures in the different local governments result in differences in expenditure needs per unit if these services are to be provided to fairly the same level of quality. Therefore such factors as the number of children of school-going age etc are used as factors for determining the expenditure need of the various local governments.

#### **Determining Factors**

Using the services devolved to local governments as the starting point, factors, which are supposed to reflect the circumstances that give rise to the expenditure needs of local governments, are identified. For every service that is delivered by the local government, there is a factor or a number of factors, which influence the degree of expenditure pressure exerted on that particular service.

It is important that these factors are as objective as possible. Objective in the sense that they are not open to manipulation. Data pertaining to the factors should also be easy to obtain. This means that they should feature in official government

statistics. Finally, the causality between the factor and the local government service responsibilities categorized under it should be clear.

### **Determining Factor Weights**

All factors are useful in explaining differences in expenditure pressures. However, their relative importance in determining total local government expenditure varies. It is therefore necessary to attach weights to these factors. The weights are arrived at taking the average expenditure made by local governments in each of the service areas identified as indication of the importance they attach to them.

### **Calculating Expenditure Needs Figures**

Having identified the factors and the corresponding weights, the next step is to calculate the expenditure needs of individual local governments.

Before calculating the expenditure needs, their expenditure needs figures have to be established first. Expenditure needs figure is the proportion of potential demand for services in a local government represented by the factors out of the total demand for the same services nationwide multiplied by the weight of the factors.

For instance if urban local government A has a school going child population of **1000** and the corresponding figure for the whole country is **10,000** children and the weight for age group (5-14years) as a factor is **0.4**. The expenditure needs figure regarding this factor for urban local government A is obtained as follows: -

Exp. Needs figure =  $(1,000/10,000) \times 0.4 = 0.04$ . The meaning of this figure is that urban local government A has 4% of the total potential demand for Primary Education nation wide.

Expenditure needs figures for all the factors are then added up to obtain the total expenditure needs figures for the respective local governments.

## Obtaining Expenditure Needs per Capita

The expenditure need per Capita ( $EN_i$ ) for a particular local government (i) is then obtained by multiplying its expenditure needs figure ( $NF_i$ ) by the total local government expenditure (TE) and dividing the product by its total population ( $P_i$ ).

$$EN_i = (NF_i \times TE) / P_i$$

It is the expenditure needs per capita that provides a measure of the expenditure pressure exerted on each local government and thus the equalisation need. The higher the expenditure needs per capita, the higher the expenditure pressure and the greater the need for equalisation.

For purposes of equalisation, there is need to compare the expenditure needs of each local government to a national average. This national average is calculated as a weighted average of the expenditure needs per capita (of all local governments).

The difference between the national average expenditure need and the expenditure need of a local government then forms the basis for equalisation. Those local governments with expenditure needs above the average would qualify for equalisation grant. Equalisation grant for each local government is then calculated as:

$$EQ_i = (EN_i - ENN) \times P_i \times EF$$

Where:  $EQ_i$  = Equalisation grant for local government i  
 $EN_i$  = Expenditure Need per Capita for local government i  
 $ENN$  = Average National Exp. Need per Capita  
 $P_i$  = Total population for the local government  
 $EF$  = Equalisation factor.

Equalisation can be done to the level of 100% or less depending on factors such as availability of funds etc.

### **2.3 Financing of the Equalisation Scheme**

Financing differs from country to country depending on the policy, level of development and degree of inequality among local governments, among other things. In theory however, it is contended that an ideal equalisation system should be self-financing where local governments are assessed positive and negative in entitlements that total zero so that those local governments with negative entitlements would contribute to an equalisation pool. In this case, the central government acts as a conduit for the transfer of funds from the pool to local governments that deserve equalisation. In the case of Uganda, the 1995 Constitution provides that equalisation grant be paid from the Consolidated Fund<sup>5</sup>.

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<sup>5</sup> Article 193 (1) (c) and (4) of the Constitution of the Republic of Uganda (1995)

### 3. METHOD OF EQUALISATION

#### 3.1 Determining the Basis for Equalisation

Considering the views of local governments as well as the theoretical basis elaborated earlier on, the aim of an equalisation system should be to reduce the differences in the ability of the various local governments to provide services to an average level. Differences in the ability of local governments to provide services, at least to an average level pertaining in the country, arises from basically two factors namely: -

?? Differences in the expenditure needs of the local governments.

?? Differences in tax base.

#### **Differences in Revenue Potential**

Currently urban local governments obtain financial resources from four sources viz.

?? Central Government via grants (unconditional and conditional).

?? Local Revenue.

?? Donors and NGOs.

Therefore the services delivered by local governments are constrained by funds from these sources. Expressed mathematically: -

$$\mathbf{LG\ services = CG + LR + D}$$

**Where:      LG = Local Government**

**CG = Central Grants**

**LR = Local Revenue**

**D = Donors**

The methods for distributing grants (unconditional and conditional) do not introduce new significant inequalities among local governments, although they tend to perpetuate the existing inequities since they are based on existing capacities.

Revenue from external sources and non-budgeted items depend partly on the versatility of the leadership of the local governments in question and partly on the objectives of donors. The leadership of those local governments can therefore address differences in revenue obtained from these sources best.

It is therefore safe to conclude that any scheme which seeks to equalise the pressure on expenditure in each local government as an attempt to enable them provide service to the population at levels as near as possible to an average national level should seek to take care of differences in the expenditure needs of the local governments and differences in the local tax bases.

## **3.2 Equalisation of Expenditure Needs**

### **3.2.1 Services provided by urban local governments**

Parts 3 and 5 of Schedule 2 of the Local Governments Act, 1997 lists the services, which are to be provided by the urban local governments. Arising out of the questionnaires administered and budget analysis, the following services were taken to be the major ones.

- Primary Education
- Secondary Education
- Special Education
- Technical Education
- Repair and Maintenance of Roads
- Street Parking
- Street Lighting
- Parks and Recreation facilities
- Water Supply
- Ambulance Services
- Clinics

- Dispensaries
- Health & Inoculation services
- Public Halls
- Art Galleries
- Museums
- Social Centres
- Sporting and Recreation facilities
- Entertainment and Public Functions
- Refuse and Effluent Removal
- Water Supply
- Public Lavatories and Urinals

### **3.2.2 The formula for Expenditure Needs Equalisation**

#### **3.2.2.1 Determining Factors**

Based on the identified major services, factors that influence expenditure levels on each service were identified. Care was taken to ensure that the factors used are not subject to easy manipulation and are readily available from official sources.

For example the number of children in the school – going – age bracket was taken to determine the demand for primary education.

Shown in table 1 below are the major services for which urban local governments bear responsibility categorised by the factors that influence expenditure.

**Table 1: Factors that determine expenditure on services**

Types of Services	Key factors determining pressure on expenditure
<ul style="list-style-type: none"> <li>• Primary Education</li> </ul>	<ul style="list-style-type: none"> <li>• Population (5-14 years)</li> </ul>
<ul style="list-style-type: none"> <li>• Secondary Education</li> <li>• Special Education</li> <li>• Technical Education</li> </ul>	<ul style="list-style-type: none"> <li>• Population (15-CAPut! years)</li> </ul>
<ul style="list-style-type: none"> <li>• Repair and Maintenance of Roads</li> <li>• Street Parking</li> <li>• Street Lighting</li> </ul>	<ul style="list-style-type: none"> <li>• Km of roads</li> </ul>
<ul style="list-style-type: none"> <li>• Parks and Recreation facilities</li> <li>• Water Supply</li> <li>• Ambulance Services</li> </ul>	<ul style="list-style-type: none"> <li>• Area</li> </ul>
<ul style="list-style-type: none"> <li>• Ambulance services</li> <li>• Clinics</li> <li>• Dispensaries</li> <li>• Health &amp; Inoculation services</li> <li>• Public Halls</li> <li>• Art Galleries</li> <li>• Museums</li> <li>• Social Centres</li> <li>• Parks and Recreation Grounds</li> <li>• Sporting and Recreation facilities</li> <li>• Entertainment and Public Functions</li> <li>• Refuse and Effluent Removal</li> <li>• Water Supply</li> <li>• Public Lavatories and Urinals</li> <li>• Special Education</li> </ul>	<ul style="list-style-type: none"> <li>?? Total Population</li> </ul>

## Determining the weights

The factors above are necessary in explaining differences in expenditure pressures among local governments. It is vital to attach weights to these factors to show their relative importance in the total local governments' expenditure.

The weights have been calculated on the basis of actual urban local governments expenditure on services falling under each factor category for the period 1996/97-1998/99.

The following formula has been used: -

Let  $E_i$  be the calculated average expenditure for all urban local governments on service  $i$  for the period **1996-1998**. Let  $w_i$  be the weight of expenditure on service  $i$  in total expenditure of all urban local governments.

$$w_i = \frac{E_i}{\sum E_i} \quad \text{where } i = 1, \dots, 22 \text{ is the no. of services}$$

$CW_j = \sum_i w_{ij}$  where  $CW_j$  is the weight for factor  $j$  given as a total of the individual weights of the expenses under that particular category.

$$\text{And } \sum_j CW_j = 1$$

The weights simply represent a measure of the average expenditure on the given services determined by one factor for all the urban local governments in the country.

**Table 2: Factors and Weights**

<b>FACTORS</b>	<b>WEIGHT</b>
1. Total population	0.32
2. Population ((5-14) years	0.31
3. Population (15-CAPut!')	0.02
years	0.12
4. Km of roads.	0.23
5. Area	

**3.2.2.3 Calculating Expenditure Needs Figures**

The expenditure needs figures of individual urban local governments were obtained by multiplying the factor weights by factor size of each council divided by the total factor size of all urban local governments as illustrated by the table below.

**Table 3: Expenditure Needs Figures for urban local government XY in FY 1999/2000**

	<b>Factors</b>	<b>Weights</b>	<b>Factor Size</b>		<b>Expenditure need figures</b>
			<b>Council</b>	<b>Total for urban local governments</b>	
		(1)	(2)	(3)	(1) x <sup>(2)</sup> / <sub>(3)</sub>
1	Total Population	0.32	14,195	912,900	0.00497579
2	Population (5-14) yrs	0.31	4,047	258,955	0.0048447
3	Population (15-CAPut!')yrs	0.02	1,532	95,874	0.0003195
4	Km roads	0.12	11	2,562.4	0.000515
5	Area	0.23	32.55	1269.72	0.0058961
	<b>Total</b>	<b>1.00</b>			<b>0.01655109</b>

*From the above table local government XY needs 1.65 per cent of the total urban local governments' expenditures to deliver average services.*

### 3.2.2.5 Expenditure Needs per Capita

The expenditure need per capita for a particular local government is obtained by multiplying its expenditure needs figure by the total local government expenditure and dividing the product by its total population.

$$EN_i = (NF_i \times TE) / P_i$$

Where:  $EN_i$  = Expenditure Need per Capita, (i= 1,.....63)  
 $NF_i$  = Expenditure Need figure  
 $TE$  = Total Urban Local Government Expenditure  
 $P_i$  = Population of the urban local government

It is the expenditure need per capita that provides a measure of the expenditure pressure exerted on each local government. The higher the expenditure needs per capita, the higher the expenditure pressure and the greater the need for equalisation grant.

### 3.2.2.5 Expenditure Needs Equalisation

Expenditure needs equalisation is then calculated as follows:

$$EQ_i = (EN_i - ENN) \times P_i$$

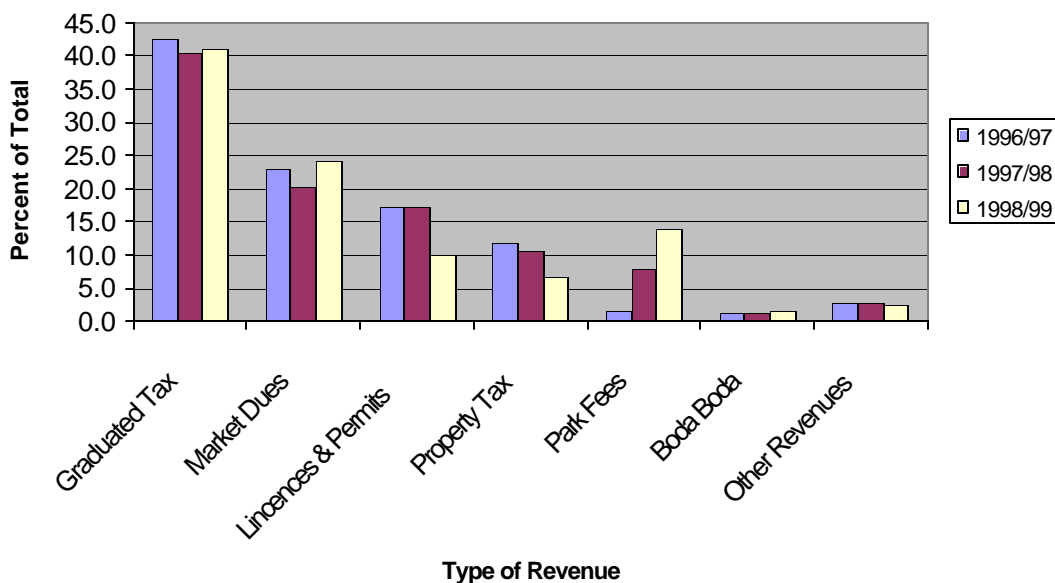
Where  $EQ_i$  = Equalisation grant for urban local government i  
 $EN_i$  = Expenditure Need per Capita for urban local government i  
 $ENN$  = Average National Exp. Need per Capita  
 $P_i$  = Population for the urban local government.

### 3.3 Equalisation of Tax-bases

#### 3.3.1 Structure of Local Government Revenue (from local sources)

The Local Governments Act 1997, in the Fifth Schedule outlines the sources of revenue devolved to local governments. These consist of graduated personal tax,

**The Structure of Urban Councils' Local Revenues**



market dues, property tax, licenses and permits, vehicle parking fees, other user charges, agency fees and others which may be presented and approved by the Minister responsible for local government.

Unlike their counterparts in the district which collect mainly graduated tax (80%) urban local governments collect significant revenue from all of the above sources although with different levels of success.

#### 3.3.2 Measuring Fiscal Capacities of Local Government

As it was indicated earlier, the revenue that could be raised if a local government collects revenue from all the standard revenue bases with the same standard rates and effort determines its fiscal capacity.

On the other hand fiscal capacity is dependent on the average level of incomes from the different local governments. The income levels are ranked such that those with higher income means they have better capacity to bear tax burdens and vice versa. The incomes then form the basis for identification of relevant tax/revenue to be applied.

**(i) Property Tax**

This tax contributes about 12 percent to total local revenue for urban local governments excluding Kampala and there is evidently a high potential for generating revenue from this source. However, their valuation inventories were found to be varying so widely that it became impossible to determine a national standard tax rate for it.

**(ii) Market Dues and Park Fees**

Market dues and parks fees, contribute 24 and 14 percent respectively. Whereas many urban local governments have reformed their administration and tendering processes, market sizes, grading, and frequencies differ from one local government to another. There is therefore no standard approach to determine such issues that would have eased the determination of potential revenue and standard revenue rate. The necessary information that could guide the tendering of these revenue sources was either completely missing or where it existed it was partial and scanty.

**(iii) Graduated Tax**

Graduated tax contributes about 43 percent to the locally raised revenue. The data related to graduated tax are available reasonably easily and dependable in so far as the number of tax payers and tax levels were concerned. Information regarding personal income which is the basis for the tax were however not easy to come by.

The volume of economic activities in an economy will determine the amount of tax a government can raise. The bigger the economy the more tax it can generate other factors being constant. This clearly explains why governments compute the ratio of tax collections to Gross Domestic Product (GDP) as a measure of the value for goods and services produced within a specified period (a year). The amount of tax collections by a local government including urban local governments is dependent on economic activities as well. In Uganda GDP is not estimated for a local government hence we may rely on household expenditure as a proxy for income. Some non-tax revenues like market dues will depend on the purchasing power of the communities living around it. Household income will determine both graduated tax collections and market dues. The tax base for fees, licenses, permits and other sources of revenue are not easily identifiable hence these were left out in the study.

The key factors used in estimation of a tax base are the number of taxpayers and income. The household expenditure survey data supplied by the Uganda Bureau of Statistics were used. Although the household expenditure survey had urban based households in the sample they were too small to provide reliable estimates of the household expenditure patterns of the urban local governments. In addition the focus of the survey was not to provide household expenditure estimates for urban local governments hence the sampling procedure did not have to ensure that data is collected from all the urban local governments in the district and yet some districts (like Mukono) have up to five urban local governments.

An urban local government located in a poor district is assumed to be similarly poor compared to one in a prosperous district. This results in the district household expenditure patterns being used as proxies for incomes in the urban local governments. A problem arises when a district has more than one urban local government. Since currently no data on income is available, to give an indication of the relative strength of the urban local governments economy, the district household expenditure data had to be adjusted. Graduated tax has a strong relationship with the local economy since its assessment and ability to pay depends largely on the estimated income of the taxpayers.

In order to come up with a household expenditure pattern for urban local governments located in a district with more than one urban local governments, graduated tax collections per tax payer was used to adjust the district household expenditure. The district household expenditure being taken (averaged) as the urban local government’s household expenditure.

### 3.3.3 Estimating Tax base

#### 3.3.3.1 Estimating the Tax Potential

The table 4 below illustrates how the potential tax revenue was calculated for a particular urban local government XY.

**Table 4. Tax Potential for Urban Local Government XY**

Urban local governments (1)	Popn (2)	Popn (20-59 yrs) (3)	No. of Tax Payers (4)	Urban h/h Exp./capita (5)	Annual h/h per capita (6)	Family size (7)	Annual h/h Income (8)	Ave.GT Payable (9)	Potential tax rev. (10)
<b>XY</b>	14,195	5,229	2,876	19,807	237,688	5.6	1,331,055	22,628	65,278,000

- a. Based on the urban local governments age structure the potential tax payers are estimated from the urban local governments population data in the age bracket 20– 59 years. (Column 3).
- b. Graduated tax assessment is based on approximate family incomes. Usually one person pays the tax, which indicates that the potential taxpayers are about half of that aged 20 – 59. In urban local governments some women are engaged in business and other activities hence they also pay graduated tax, we assumed 5 percent to take care of these aspects. (Column 4).

- c. The household expenditure of each district was used for urban local governments (Column 5).
- d. Column 6 indicates annual household expenditure per capita, the basis for determining the tax potential.
- e. The district average family size was extracted from the 1991 population census reports. Since the average family sizes of urban local governments were not available, all the urban local governments within a district were assumed to have the same family sizes as the district. (Column 7).
- f. The annual household expenditure per capita(column 6), multiplied by the average family size (column 7) gives annual household expenditure which is used as a proxy for income (column 8).
- g. Average graduated tax payable is derived from annual income indicated in column 8 using GT schedule given by the Ministry of Local Government (Column 9).
- h. To determine the potential tax revenue of an urban local governments, the number of taxpayers is multiplied by the tax payable (column 10).

### **3.3.3.2 Calculating Tax Base Equalisation**

An average potential tax base per capita is estimated (national average) from which urban local governments whose per capita tax revenue lies below qualify for equalisation and the difference between them determining the amount needed as equalisation grant.

The higher the average per capita tax base the greater the capacity for a local government to deliver service while the lower it is, the more difficult it may be to provide services other things being constant.

## 4. KAMPALA CITY COUNCIL

### 4.1 Introduction

Kampala City Council, like many other Capital Cities in the World, represents a unique case. When one considers that much commercial activity in this country is domiciled in and centred around Kampala, it is not surprising the figures show that Kampala has a high potential for revenue collection.

Kampala City was considered separately because, when its revenue data was analysed together with other urban local governments, all urban local governments except Mukono town council and itself become beneficiaries.

On the other hand, the massive concentration of human beings on a relatively small piece of land, suggests high demand for services from the City Council and its Division Councils: the population of Kampala is 774,241 (1991) as compared to an average of 14,214 for other urban areas (1991). This demand for services is higher than in most other towns and municipalities.

### 4.2 Analysis of Expenditure Needs and Tax Base

#### 4.2.1 Expenditure Needs

Facts show however, that in relative terms, the expenditure needs of the City Divisions are not far from average and not near the absolute top of the needs.

**Table 4.1 Expenditure needs per capita, selected Urban Authorities**

<i>Urban local governments</i>	<i>Exp. Needs per capita</i>
Rakai TC	36,379
Hoima TC	10,926
Buwenge TC	12,110
Adjumani	16,328

Nakawa Div	15,764
Kawempe Div	15,624
Central Div	15,586
<b>Country Average</b>	<b>6,939</b>
Makindye Div	11,519
Kapchorwa	11,439
Rubaga Div	11,413
Lugazi	6,220
Bombo	6,125
Paidha	8,069

(Average is calculated including the City Divisions)

Despite these differences, Kampala bears some similarity to other districts in terms of the proportion of existing resources to the demand for services.

#### 4.2.2 Tax Base

Kampala District has five divisions. When it is included in the analysis of tax base together with other local governments, the average per capita revenue increases from 3,522 to 5,798. The effect of this, is that all urban local governments except Mukono Town Council and Kampala itself qualify to get equalisation. It would also require shs. 1.5 billion to equalise 62 urban local governments.

On the other hand when Kampala City Council is analysed at division levels, the national average revenue per capita becomes 5,281. The results indicate that two divisions Lubaga and Makindye will benefit. Other divisions together with Mukono and Luwero town councils are not beneficiaries. If the equalisation system was self financing, Kampala Central Division would raise enough financial resources for equalisation grant.

Such a situation brought out Kampala City Council as having a unique tax base hence the need to consider it separately. Table 4.2 gives the comparable figures of Kampala City Divisions and other urban local governments for 1998/99.

**Table 4.2 Tax Base of Selected Urban Authorities and City Divisions 1998/99**

<i>Urban local governments</i>	<i>Tax Base per capita</i>
Central Div	25,330
Mukono TC	7,912
Kawempe Div	6,600
Nakawa Div	5,517
<b>Average including Kampala</b>	<b>5,281</b>
Jinja Municipal	5,012
Wobulenzi TC	4,581
<b>Average excluding Kampala</b>	<b>3,522</b>
<i>Makindye Div</i>	<b>2,625</b>
<i>Rubaga Div</i>	<b>2,340</b>
<b><i>Mubende TC</i></b>	<b>1,992</b>
<i>Moroto</i>	<b>1,649</b>
<i>Kitgum</i>	<b>1,457</b>

Clearly this is a source of potential debate amongst the divisions especially if we consider that the smallest proportion of the population (122,483 people) live in Central Division; compared to a division average of 167,834.

The legislators who passed the Local Governments Act were able to predict the present discussion, inasmuch as they inserted a section in Schedule 5 (Section 14), which instructed the city (and municipal) divisions to share local revenue.

According to Paragraph 86 of the Act, the Divisions are to keep 50 per cent of the collected revenue and remit the remaining half to the City Council. The City Council then, according to Section 14 in the fifth schedule of the Act, can keep

only up to 70 per cent of this amount, and is obliged to remit the remaining 30% or more to the divisions, according to a formula specified in the Act.

$$A = \frac{3B}{10} \left[ \frac{W1x_i + W2y_i + W3z_i + W4q_i}{X + Y + Z + Q} \right]$$

Where:

- A** = Minimum annual amount for a division.
- B** = City/ Municipal council actual revenue for that period.
  
- W1** = weight of the parameter for child mortality.
- W2** = weight of the school going age.
- W3** = weight of the number of inhabitants.
- W4** = weight of the land area (Sq. Km.)
  
- X** = City/Municipal child mortality (1-5yrs.)
- Y** = City/Municipal school age going population (5-12 yrs.)
- Z** = City/Municipal population.
- Q** = City/Municipal land area (Sq. Kms.)
  
- x<sub>i</sub>** = Division (i) child mortality (1-5 yrs.)
- y<sub>i</sub>** = Division (i) school age going population (5-12 yrs.)
- z<sub>i</sub>** = Division (i) population.
- q<sub>i</sub>** = Division (i) land area.
- i** = Division e.g. Nakawa for Kampala City Council

Recommended weights of the parameters

a)	Child mortality	40%
b)	School age going population	25%
c)	Population	20%
d)	Land area (sq. kms)	15%
	Total	100%

Municipalities also have to adhere to this law. This mechanism is meant to a certain degree to reduce disparities in the fiscal capacities of the city divisions – but the system will only work if the provisions of the law are adhered to.

From Commission studies it has been confirmed that neither the city councils nor the municipal councils follow these rules at all.

Another weakness occurring in the present tax administration within the city councils – and other municipalities – is the fact that when an employer pays GPT for his employees he pays to the Division where the company/office/factory is located, and not (as required by the Local Governments Act 1997) to the division where each of his employees actually reside.

As is the case with other urban areas in a city such as Kampala where the commercial centre (including the premises for most of the government ministries) is very concentrated in central division (other divisions being mainly residential), this is quite important.

This means in the Kampala case that Central Division, where most offices and factories are located, receives far more taxes although the majority of the taxpayers are not residing in that division. These disparities are clearly illustrated in the table below bearing in mind that 122483 people live in Central Division compared to an average of 167834.

**Table 3 Actual Local Revenue Collection, selected City Divisions 1997/98**

Central Division	7,697,527,000
Kawempe Division	902,956,000
Nakawa Division	857,200,000
Rubaga Division	403,114,000
Makindye Division	492,124,000

*Source: City Division Budgets 1998/99*

The figures reveal that central division receives at least eight and half times as much actual local revenue as any of the other divisions. Further the figures show that the commercial centres in general i.e. the places where people work receive substantially more local revenue than do the more residential areas.

In a special study by LGFC of selected sub-counties and divisions, (including all KCC divisions), it was very clear, that the tax-effort – the proportion of actual taxpayers out of the population able to pay tax - was very low in most of the Kampala City Council Divisions.

#### **4.2 Conclusions/Recommendations**

- ?? Kampala City Council is unique and should thus be treated separately. In the meantime it is important for it to implement the law on revenue collection and sharing which has an equalisation element.
- ?? Kampala City Council as well as other local governments should sort out the issue of payment of graduated tax at the place of residence as opposed to employment/work

## **5. CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Findings**

#### **5.1.1 Tax-base Approach**

- ?? The most needy urban local governments are Kibaale, Kitgum Kigorobya and Moroto in that order while the most endowed are Mukono, Luwero and Entebbe.
- ?? The methodology is fair for both municipalities and town councils since no clear pattern emerges as a bias in favour or against any category. In fact there are municipalities which are needy while some are well endowed.
- ?? Shillings 455,765,340 is required to fund tax base equalisation.
- ?? Thirty six urban local governments are below national average revenue/tax-base, with the highest and least per-capita tax base of Ushs 7,912 and 1,448 respectively.

#### **5.1.2 Expenditure Needs Approach**

- ?? Urban local governments with high expenditure needs per capita are Rakai, Ntungamo, Pallisa and Adjumani. Those with least expenditure needs per-capita are Mbale, Busia, Jinja and Luwero.
- ?? The average expenditure need per capita is shs. 6,939 and 32 councils were found to be above national average. (See appendix II). The per-capita expenditure needs for all urban local governments range between shs. 5,237 and 36,379.
- ?? Shillings 482,703,191 is required to fund expenditure needs equalisation.

#### **5.1.3 Equalisation based on Expenditure Needs and Tax base**

- ?? Forty (40) urban local governments qualified for equalisation grant.
- ?? The amount of the grant per-capita payable to individual urban local governments range from shs. 252.14 to 27,836.38.
- ?? Shillings 715,472,110 is required fund the urban equalisation grant.

## 5.2 Recommendations

- ?? An allocation of shs 715,472,110 for urban local government equalisation grant should be provided in the financial year 2000/01
- ?? The grant should be spent only within the Priority Program Areas (PPAs). Urban local governments should however be free to prioritise expenditure of the grant within the PPAs to ensure that its impact can be felt and afford monitoring of impact.
- ?? The unconditional and conditional grants need to be continuously reviewed to ensure that they are distributed in a fair manner that does not introduce inequities in service delivery.
- ?? Government institutions such as Uganda Bureau of Statistics, Population Secretariat etc, which are responsible for generating and managing data should make efforts to continuously update relevant data on local governments. They should work closely with the Ministry of Local Government in determining areas of new local governments and adjusting them. Household expenditure data desegregated at three levels i.e. urban local governments level, rural district level and district level for both urban and rural areas combined should be regularly updated. The methodology used to project population for urban areas should reflect rural - urban migration, differences in day and night population etc.
- ?? Local governments are urged to implement the law on revenue sharing among the various levels of local government.
- ?? As recommended for district Equalisation, the grant for urban local governments should be released directly to beneficiary urban local governments on a quarterly basis.

### **Kampala City Council**

- ?? Kampala City Council is unique and should thus be treated separately. In the meantime it is important for it to implement the law on revenue

collection and sharing which has an equalisation element as contained in Part V of Fifth Schedule to the Local Governments Act. This will help remove the distortions that massively blurs the true picture of the City divisions especially as regards their tax/revenue bases.

~~✍~~ When the above is done, it will be possible then to review the Kampala case both in isolation and in general with the entire country so as to come out with a better understanding of its position.

### **5.3 Challenges**

Rural-urban migration remains a main challenge to the service providers. The central grants are allocated depending on the population of the local government among other factors and yet it takes about a decade to have population data updated. There is lack of accurate urban local government specific data on rural-urban migration, which could be used to update population figures. This implies that urban local governments get more constrained due to their relatively small sizes compared to the district local governments hence more sensitive to population changes.

Urban local governments are naturally the centres of commercial activity and hosts headquarters of governments which implies that people come to work and conduct business during day and return to their residential areas at night, mostly in local governments surrounding urban local governments. The urban resident population underestimates the urban population since it excludes the day population for whom urban local governments have to provide services.

The estimation of tax base was made on the basis of household expenditure and graduated tax (GT contributes about 40 per cent on average of urban local revenues). Other taxes and revenue sources would not be estimated mainly because of lack of accurate data. Therefore capturing more of the revenue sources into the formula requires a systematic database within the local government financial system.

In order to address the challenges, a study has to be conducted to determine the specific factors contributing to migration in a particular location e.g. employment, insecurity and if it is of temporary or permanent nature. The stakeholders will discuss and propose the mechanism of updating statistics on rural-urban migration and which population data is appropriate (day/night) in the allocation of grants.

## APPENDICES

### Appendix I: Per Capita Tax Base Equalisation

No.	Urban Council	Tax Base Per Capita
1.	Kibaale	1,448
2.	Kitgum	1,457
3.	Kigorobyia	1,473
4.	Moroto	1,649
5.	Nkokonjeru	1,691
6.	Pakwach	1,781
7.	Katakwi	1,858
8.	Soroti	1,858
9.	Kumi	1,860
10.	Apac	1,901
11.	Koboko	1,966
12.	Kotido	1,994
13.	Paidha	2,089
14.	Lira	2,254
15.	Adjumani	2,281
16.	Moyo	2,281
17.	Bombo	2,333
18.	Fort Portal	2,359
19.	Kyotera	2,545
20.	Kiboga	2,564
21.	Pallisa	2,607
22.	Ntungamo	2,734
23.	Lyantonde	2,923
24.	Gulu	2,935
25.	Kamuli	2,954
26.	Mbale	2,962
27.	Bundibugyo	2,968
28.	Kisoro	3,007
29.	Mubende	3,052
30.	Kayunga	3,061
31.	Busia	3,131
32.	Tororo	3,131
33.	Arua	3,329
34.	Buwenge	3,331
35.	Masindi	3,363
36.	Lukaya.	3,368

## Appendix II: Per Capita Expenditure Needs Equalisation

No.	Urban Council	Exp. Need Per Capita
1.	Rakai	36,379
2.	Ntungamo	22,118
3.	Pallisa	18,327
4.	Adjuman	16,328
5.	Kibaale	15,799
6.	Kalangala	15,012
7.	Apac	12,411
8.	Buwenge	12,110
9.	Kotido	11,840
10.	Koboko	10,979
11.	Hoima	10,926
12.	Kabwohe	10,303
13.	Pakwach	10,135
14.	Mukono	9,794
15.	Katakwi	9,472
16.	Wobulenzi	8,837
17.	Kigorobya	8,512
18.	Bushenyi	8,298
19.	Nakasongola	8,281
20.	Sembabule	8,163
21.	Bugiri	8,156
22.	Masindi	8,119
23.	Paidha	8,069
24.	Soroti	8,059
25.	Kyotera	8,053
26.	Kapchorwa	7,654
27.	Rukungiri	7,571
28.	Gulu	7,509
29.	Mpigi	7,491
30.	Katwe-Kabatoro	7,378
31.	Ibanda	7,003
32.	Bundibugyo	6,958

### Appendix III: Per Capita Equalisation Combining both Approaches

No.	Urban Council	Equalis. Per Capita
1.	Rakai	27,836
2.	Ntungamo	15,968
3.	Pallisa	12,303
4.	Kibaale	10,934
5.	Adjuman	10,630
6.	Kalangala	7,919
7.	Apac	7,093
8.	Kotido	6,429
9.	Koboko	5,596
10.	Buwenge	5,363
11.	Pakwach	4,937
12.	Katakwi	4,198
13.	Hoima	3,745
14.	Kigorobyia	3,622
15.	Soroti	2,785
16.	Paidha	2,563
17.	Kabwohe	2,341
18.	Kyotera	2,091
19.	Kumi	1,420
20.	Masindi	1,340
21.	Nkokonjeru	1,168
22.	Gulu	1,157
23.	Kitgum	1,023
24.	Moroto	990
25.	Sembabule	922
26.	Lira	870
27.	Wobulenzi	826
28.	Kiboga	780
29.	Bugiri	745
30.	Nakasongola	704
31.	Mubende	691
32.	Lyantonde	583
33.	Bundibugyo	555
34.	Kisoro	455
35.	Kayunga	385
36.	Bombo	375
37.	Fort Portal	375
38.	Bushenyi	297
39.	Moyo	277
40.	Tororo	252

19,807