

**THE IMPACT OF LOCAL AUTHORITY TRANSFER FUND ON REVENUE  
WITHIN LOCAL AUTHORITIES IN KENYA**

**BY  
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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER  
OF BUSINESS ADMINISTRATION, UNIVERSITY OF NAIROBI**

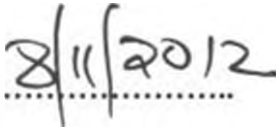
**NOVEMBER 2012**

# DECLARATION

## STUDENT'S DECLARATION

This research project is my original work and it has not been presented for a degree at any other university.

Signed .....  


Date .....  


**JAMES ISAIAH AMUONO**

**D61/61570/2010**

## SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the university supervisor.

Signed .....  


Date.....  


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## **DEDICATION**

I dedicate this work to my father, Isaiah Odera and my beloved mother, Jane Odera for their moral support, concern and encouragement that inspired me to achieve this goal.

## ACKNOWLEDGEMENTS

First and foremost I take this opportunity to thank God for good health and for bringing me this far. since He is the provider and protector of us all. I strongly acknowledge Gods hands as I believe that no success can be attained without Him. In the entire project, God's glory is manifested from conceptualization to actualization. Thus, the joy and glory be to Him.

I wish to acknowledge enormous contribution of my dear wife, Mrs. Mercy Amuono, and our children; Ceasy, Joy, Sam and Jane, for the sacrifice they made for me to complete this project. Their love, care, concern, support, encouragement and enthusiasm inspired me to achieve this goal. During the project period, I had to be away from the family most of the times. My dear wife stood firm and doubled family responsibilities to ensure smooth running. Such understanding and support is worth acknowledging, at this juncture.

I too wish to appreciate the support granted by the siblings more in particular to Caleb Odero, for his tireless search for data, wherever I could not reach. He was very instrumental in the data obtained from central Kenya. Jared Odhiambo and Joshua Abudho were key in data collection coordination from Western Kenya. Rosebel Juma and Mary Odero were of support for data obtained from South Rift. While my nephew, Jared Gillo was instrumental in data collected from North Rift and part of Lower Eastern Kenya. I wish to acknowledge the efforts of my maternal cousin, Francis Juma, for joining forces to coordinate data collection efforts from Eastern part of Kenya.

Also efforts worth acknowledging are those of Mr. Khahemba Hassan for coordinating data collection for coastal region with enjoined efforts of Mr. Njuguna and Mr. Stephen Chege. Mr. Augustine Ndiema and Councilor James Ndiema were instrumental for data realized from Mount Elgon region. Mr. Francis Macharia also played a key role in the data collection coordination in Western Kenya.

I want to extend special gratitude to my supervisor, Mr. Barasa and his colleague, Mr. Ondigo, for the great partnership we made. Their guidance, encouragement and patience in reading, correcting, re-reading and refining this work is commendable.

Lastly, I wish to acknowledge the efforts of my research respondents. This is particularly to Felix Oduor of Muhuroni Town Council, Maloba of Luanda Town Council, Nkere of Bomet County Council, Vivian of Siaya Municipal Council, Wanyama of Mt. Elgon, Gabriel Marira of Ruiru Municipal Council, Joseph Kuriithi of Kikuyu Town Council and Makiwiwi of Lamu for their prompt and accurate response to the questionnaires. May the efforts of all those who participated in the completion of this project be rewarded abundantly.

**MAY GOD BLESS YOU ALL.**

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## **LIST OF ACRONYMS**

<b>ALAT:</b>	<b>Association of Local Authorities in Tanzania</b>
<b>CDF:</b>	<b>Constituency Development Fund</b>
<b>CILOR :</b>	<b>Contribution in Lieu of Rates</b>
<b>DDC :</b>	<b>District Development Committee</b>
<b>KLGRP:</b>	<b>Kenya Local Government Reform Programme</b>
<b>KRA:</b>	<b>Kenya Revenue Authority</b>
<b>LASDAP:</b>	<b>Local Authority Service Delivery Action Plans</b>
<b>LATF:</b>	<b>Local Authorities Transfer Fund</b>
<b>MDGs:</b>	<b>Millennium Development Goals</b>
<b>NHIF:</b>	<b>National Hospital Insurance Fund</b>
<b>NIMES:</b>	<b>National Integrated Monitoring &amp; Evaluation System</b>
<b>NSSF:</b>	<b>National Social Security Fund</b>
<b>RMLF:</b>	<b>Roads Maintenance Levy Fund</b>

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## ABSTRACT

The shortcomings between the central government policy and the local government operations prompted the central government, as part of its responsibility to step in to support the local authority in their service delivery plans. The study problem is deduced from the marginally increasing payables despite the local authority transfer fund (LATF) existence. Local authority transfer fund has led to improved spending. "More money subsequently results into more project", a fact that has contributed to the increased payables within the local authority. Although other factors could be contributing to highly increasing debt level, key to it is unmatched revenue collection efforts within local authorities to its projects.

The study seeks to answer the question as; what is the impact of LATF on revenue at local authorities? Hence, the adoption of a descriptive longitudinal design. Longitudinal in the sense that data collected incorporated revenue sources before inception of LATF and after LATF operationalization.

The target population for this study is 175 local authorities in Kenya. Subsequently, the sample size was therefore pegged at fifty-three (53), being 30 % of the 175) local authorities in Kenya. Primary data was to be collected by use of questionnaires; the questionnaires included structured and unstructured questions. This study is both quantitative and qualitative in nature.

In conclusion, the study established that though local authorities receive LATF in time, which subsequently boost the local authorities' income levels to a great extent, the funds impact on revenue collection efforts are moderately felt due to inefficiencies and effectiveness within the local authority operations

Thus, the study recommends for an all inclusive approach in project identification to optimize the value of LATF.



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

A study conducted by World Bank, (1994) revealed that transfer of money from one level of government to another is an incentive to the sub-government to comply with the national policies. It expounds further to state that such funds enhances cohesion in the governance structures. However, in the Kenyan context, the devolve fund conforms to the Kenyan dream as contained in Vision 2030, which is premised on three pillars; Social, economic and political. The political pillar envisioned “a democratic society that is issue-based, people oriented, results oriented and accountable to the public”. The political pillar’s guiding principles inculcates democratization and devolution of governance structures both at the national and local levels. Since, the Kenyan people aspire to have a country with regional and individual equality; an inter-governmental fund as Local Authority Transfer Fund (LATF) is very instrumental in achieving this.

Local authority, which is one of the pathway to the inter-governmental funds in Kenya are indeed a form of democratic government closest to the people and needs to have a progressive outlook. Thus, they hold the highest integrity, according to Ghani (1966), for effective service delivery. Local authority creates structural networks for inter-governmental funds’ proper usage and controls, with the ultimate goal of improving their taxable efforts. Prior to the inter-governmental funds’ (LATF) inception, several shortcomings were noted at the various local authorities, in regards to the taxable efforts, Omamo (1995). However, with the surveys conducted, the Kenyan government formulated an inter-governmental fund (LATF) that would exhaustively address the challenges.

Notable happenings within the local authorities, prior to LATF’s inception includes the placement of certain local authorities under commissions, for example Nairobi City council, since they were highly indebted to continue operating independently. Most of the local authorities were highly indebtedness, due to past accumulated borrowings from the

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Notable happenings within the local authorities, prior to LATF’s inception includes the placement of certain local authorities under commissions, for example Nairobi City council, since they were highly indebted to continue operating independently. Most of the local authorities were highly indebtedness, due to past accumulated borrowings from the

financial institutions. According to local authorities Administration secretary, Ambassador, Philip Owade, through the standard daily newspaper of 25th July 2012 said that “local authorities are burdened with bank debts close to 10 billion”. Hence, they are unable to access further funds from such institutions. He further stated that “local authorities are choked with salary arrears of 1 billion among other statutory creditors owed: to National Hospital Insurance Fund (NHIF), Pension funds, National Social Security Fund (NSSF), Kenya Revenue Authority (KRA), Saccos and other suppliers. Out of the 175 local authorities, only 44 of them can pay salaries from their own sources.”

The shortcomings between the central government policy and the local government operations prompted the central government, as part of its responsibility to step in to support the local authority in their service delivery plans (Syagga and Associates Limited, 2007). Since inter-governmental fiscal relations are important in setting national priorities, Pechman (1980), the funds are meant to serve identifiable national interest and produce some broadly disseminated benefits. The benefits could be achieved by measuring the fiscal capacity of the various local authorities, all over the republic of Kenya.

The Kenyan governments through LATF Act, No.8 of 1998, introduced the LATF, besides other reform initiative with the assistance of the World Bank funding, Kenya Local Government Reform Programme (KLGPR). Local authority transfer funds were purposely to support the local authorities in improving service delivery, financial management and reducing the outstanding payables in them. The funds were to help local authorities reduce the creditors substantially besides enabling them to be independent in their revenue collection efforts. However, despite LATF forming 5% of the national income, and being disbursed as; 7% of the fund is shared equally, 60% is disbursed based on the population size, while the balance is shared based on the relative of urban population densities, since, 1999, there seems to be no relationships between LATF and local authority revenue taxable capacity.

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Associated with LATF is the expanded spending in local authorities accompanied by malpractices as; funds embezzlements, in efficiency and infectiveness management besides massive land grabbing (KLGRP, 1998). The public image created on the LATF management has negatively impacted on the councils in several ways. For instance in the supply chain management, the public holds local authorities as mismanaged institutions. This has created a situation where very few risk being retained as council suppliers or service providers. This has enhanced monopoly supply, thus, encouraging high pricing levels and undue tendering procedures. Further, scarcity of goods and services as well incapacitates the council's objective, being service delivery, which eventually interferes with the local revenue collection. Since local residents do not appreciate the need of contributing to the council levies, no satisfactory service is provided by the council in return. This leads to low taxable efforts. Hence, the need to emphasize on the revenue enhancement plan.

With the intergovernmental transfers (LATF), local authorities have continued to witness massive payables increments; key to them are salaries arrears, arrear on goods and services providers, besides statutory deductions. The funds have further destabilized local authority operations due to the numerous litigations and employees unrest from time to time.

The large local authorities; Nairobi City Council, Mombasa Municipal Council, Kisumu Municipal Council, and Nakuru Municipal Council seemed to have low level of commitment to meeting their debt resolution plan (Smoke, 2001). Thus, the study intends to interrogate the impact of LATF on revenue collection efforts, at the local authorities. Hence, there is need to compare the local tax reduction induced by revenue sharing (LATF).

With the current Kenyan constitution, a lot of funds will have to be devolved and the study intends to evaluate the impact of LATF on revenue collection efforts within local authorities, as the county prepares for a new governance structure. Although the structure and operating laws will be different, the impact on local revenue collection will be a fundamental analysis, once the counties are established.

### 1.1.1 The structure of local authorities

The Kenyan local governance system is composed of four tiers of local authorities, namely; Cities, Municipalities, Towns and County Councils. These councils are corporate entities that are established under the Local Government Act Chapter 265, which is currently under review. In addition to the Act, the local authority draws their legal powers from the Constitution of Kenya, other Acts of Parliament, Ministerial Orders and By-Laws. Currently there are 175 local authorities in Kenya, composed of City Councils, Municipal Councils, Town Councils and County Councils with Ministry of Local Government as the overall overseer of their operations.

While the above legal bodies constitute Local Government in Kenya, the local governance framework in Kenya is broader than the local authorities. It consists of provincial, district, location and sub-location administration with technical staff drawn from various ministries. Inherent in the scope of Local Government and local governance system are various public and private institutions, including civil society organizations. Kenya has no decentralization policy that rationalizes power sharing, responsibilities, and resources between the central government ministries, parastatal, District Development Committees, local authorities and the private sector. This has been a problem at the operation level, with most of the institutions and organizations lacking synergy. Although the position of local authorities remains uncertain if the District is adopted as the level of devolution by the New Constitution Bill, the local authority have an advantage since they already have a participatory electoral framework in place (Ribot, 2002).

According to Roy and Jorge (2006) there is a global trend towards decentralization in public administration. An important reason for decentralization is to develop more effective participation in local affairs, including activities of central government that are carried out locally. Such participation not only enhances the dignity of individual and the sense of community at all levels, but also adds vitality to governmental programs and provides a means for local control over them. Under the development of decentralization, the position of local government within all state systems in the world has changed significantly. Accordingly, local government has been realized as a vital institution

efficiently and directly rendering valuable services to the local community. Local authorities enjoy the most advantageous and privileged position to propose and implement adequate solutions to the most pressing problems of our times.

Local authorities have been catalysts for development and community leadership with a strong emphasis on partnerships with business and civil society. There is an acceptance by national governments of the effectiveness of local action. The trend toward localization can build society's capacity to address sustainability by facilitating government action that is tailored to the unique social, ecological, and economic conditions of each place (Nkrumah, 2000). This good local governance can enable the local government to facilitate partnerships and to respond to local needs in addressing the economic, social, and environmental challenges of sustainable development.

Local authorities take decisions related to land use zoning, transportation, construction, public health, protection and management of recreational and ecological areas, solid waste management, taxes and incentives for industrial growth. Local governments have a number of regulatory and economic instruments available to them that can help them influence public behavior. They can be categorized as rate structures and charges, fees for permits and other governmental services, special taxes and surcharges, incentives such as rebates and bonuses and fines and penalties. Regulation often focuses on establishing regulatory powers and legislation narrowed down to the formulation of new laws and in most countries there is a plethora of rules and laws. The ultimate test however is effective enforcement (Lidija and Basta, 1996).

Local authorities that are best geared up for service delivery are those which have a well developed strategic vision. This might be expressed in a corporate plan as part of a community strategy drawn up with their local strategic partnerships. The overall strategy has to be shared by the whole of the council and link in with other services. It is also important to get members behind it and to discuss it with constituents. It should then be reflected in the various sectoral strategies the authority has to produce, including housing.



## 1.2 Problem statement

Kenya is transitioning; undergoing various reforms following the post 2007 election violence. There is consensus in the various reports released following the 2007 violence that the underlying cause of violence in Kenya is largely inequality in the allocation of benefits from the available national resources, compounded by corruption and impunity, which have aggravated inequality and imbalances.

On the basis of the transition, two distinct trends have occurred in the recent past. The first is the expansion of governmental powers, with a corresponding enlargement in the scope governmental policy making. The second is the shift of supremacy from authoritative office or individuals to the people of Kenya, through the constitution. This has affected the relation of states to the citizen. All these according to Whicker and Areson, (1990) are due to rising public expectation by the government to solve existing problems. This conforms to Adolph Wagner's law which states that "as the economy develops over time, the activities and functions of the government increases".

To conform to the demand for the growth of the national powers, the amount of funds decentralized to local authorities in the past two decades has significantly increased. According the data available at the ministry of local government, the ministry has disbursed LATF as follows, in Kenya shillings, billions); 2000/2001- 2.28, 2001/2002- 3.53, 2002/2003- 3.06, 2004/2005-3.952, 2005/2006-6.357, 2006/2007-6.861, 2007/2008- 8.789, 2008/2009- 9.266 and 2009/2010- 10.399. These amounts of funds are substantial: enough to make a visible difference in access to social and economic rights such as health care, education, infrastructure at community level, but also enough to be a source of conflict, if perceived not to be utilized for the equitable benefit of all in the area covered.

If Kenya's ongoing reforms are to result in real transformation, then, a complete paradigm shift ought to be seen and felt to have occurred in the way decentralized funds are managed. This study acknowledges that previous research has been done on decentralization with the key findings being a list of what is wrong with the way these funds are managed:- absence of citizen participation, lack of responsiveness and social

accountability of duty bearers, duplication among funds, poor legal framework, inadequate capacity within management committees and political interference as the reasons for failure of decentralization funds to deliver the expected benefits of poverty reduction through increased access to human rights and development.

Specific research studies have also been done on local authorities and LATF. Odhiambo and Akivaga (2007) conducted a study on management of Resources by Local Authorities: The Case of Local Authority Transfer Fund. Mosomi (2011) did a study on the impact of the local authority transfer fund LATF on service delivery: a case of the County Council of Garissa. However, none of the studies focused on the impact of LATF on revenue, within local authorities, in Kenya. This forms the study research gap. The study will establish the impact of LATF on local revenue collection efforts within local authorities in Kenya.

According to Pechman, (1980), net distributional effect of intra-governmental fund is a new industry for economists, business people and political scientist. Absence of the revenue sharing might results into lower federal taxes or higher federal expenditure. This would increase local revenue potential due to lower federal taxes. Proponents of revenue sharing argue that it ensures redistribution of income from high-income to low income regions, which is a basic tenets of a good tax system.

The study problem is deduced from the marginally increasing payables despite the LATF existence. It appears that LATF have led to improved spending." More money translates into more project", a fact that has contributed heavily on the increasing high perpetual debt within the local authorities. Notably, it is the direct opposite of what LATF stood for at inception. Although other factors could be contributing to highly increasing debt level, key to it is unmatched tax collection efforts within local authorities to the projects. The study will therefore seek to answer the question as what is the impact of LATF on revenue at local authority? It narrows down to the measure of revenue capacity. It seeks to measure the local authority taxation potential as it takes into account the income originated in the area and income received there. It seeks to compare local tax reduction induced by LATF inception. Other associated question to the taxable efforts of local

authority which the study is seeking to answer is who should bear the cost of running the local authorities? Should the taxes be levied on the residents? And whether, the taxes legislated consider their adequacy and elasticity, equity and are politically accepted. What does a community need and willing to spend on? This basically affects spending decision. Are the levies administratively feasible to determine the economic efficiency? And what is the suitability of the taxes to the locals?

### **1.3 Objective of the study**

The objective of this study is to establish the impact of LATF on revenue at local authority's, in Kenya.

### **1.4 Importance of the study**

This research study is important to the local authorities in Kenya as it will evaluate the impact of LATF on revenue collection efforts. The study would also be important to the ministry of local government since it will assist the Task Force entrusted with the drafting of the devolve bills and finance bill, 2012/2013.

The findings are important to academics and researchers as basis for further researches. The study would provide the background information to research organizations and scholars who would want to carry out further research in this area. The study would facilitate individual researchers to identify gaps in the current research and carry out research in those areas.

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## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter presents a review of literature related to local revenue collection and LATF. The study begins with a theoretical review of theories related to revenue collection. This is followed by contextual review, empirical framework and finally a summary.

#### 2.2 Theoretical Review

Since revenue has some connectivity to expenditure, this section will review theories both on taxation and public expenditure. The three perspectives will be fundamental in the study analysis. The section begins with the theories of taxation, and finally that of public expenditure.

##### 2.2.1 Benefit received theory

The economists have put forward many theories of taxation at different times to guide the state as to how justice or equity in taxation can be achieved. The relevant theories; are benefits theory, the cost of service theory and the ability to pay theory (Kirwan, 2009).

The benefit approach theory is a traditional taxation principle developed by Thomas Hobbes, (1632-1690), John Lock (1632 -1704) and Hugo Grotius (1583- 1645). However, in the 20<sup>th</sup> century, (1891-1960), Erik Lindahl further advanced the theory. According to the advanced benefit theory, in the views of Dompere (2004), the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government. The benefit-received principle of taxation asserts that households and businesses should purchase the goods and services of government in basically the same manner in which other commodities are bought. It follows the same principle as the market - the individuals who receive the benefit of a good or service should pay the tax necessary to supply that good or service. For example, gasoline taxes are typically

earmarked for the financing of highway construction and repairs. Those who benefit from good roads pay the cost of those roads. This principle has been subjected to severe criticism.

First criticism according to Dompere (2004) is that if the state maintains a certain connection between the benefits conferred and the benefits derived. It will be against the basic principle of taxation, since tax is a compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct *quid pro quo* in the case of a tax.

Secondly, Dompere (2004) argues that most of the expenditure incurred by the state is for the general benefit of its citizens, it is not possible to estimate the benefit enjoyed by a particular individual, every year, and for instance, it's not easy to equate individual benefits derived from security provided by the police service and the military forces, to the citizen.

Finally Dompere (2004) views that if the principle is to be implemented; the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. In relation to the study, the benefit theory does not allow for the inter-governmental transfers. It prohibits the LATF allocation as they try to link individual benefits to the contributions made. Also it will impact on negative regional imbalances. Regions that exerts allot of efforts in tax collection will be expected to provide more benefit to its residence. This will eventually widen the poverty disparity levels within local authorities. Thus do not help in the attainment of national interest, which is the main purpose of LATF.

### **2.2.2 Cost of service theory**

According to Dompere (2004) cost of service theory, is developed out of the benefit approach theory, which equates benefit to the pay. To this approach, it starts with cost to the service or benefit received. It originated from the works of Thomas Hobbes, John Locke, Hugo Grotius and latter refined from the works of Erik Lindahl in the 20<sup>th</sup> century.

According to Beecher and Mann, (1993), if the state charges actual cost of the service

rendered to the people, it will satisfy the idea of equity or justice in taxation. The cost of service principle can no doubt be applied to some extent in those cases where the services are rendered out of prices and are a bit easy to determine for instance postal, railway services, supply of electricity. However, most of the expenditure incurred by the state cannot be fixed for each individual because it cannot be exactly determined (Kirwan, 2009). In local authorities cost determination of services offered to residents is a challenge. To enhance tax collection efforts for better service provision at the local authorities, its justified cost needs to be levied on the residents. This call for improved financial management infrastructure at local authorities, which can only be attained through inter-governmental funds transfer like LATF. Hence, contradicts the benefit theory, as earlier discussed. Local leaders should be aware that efforts to "promote growth" in their communities will have substantial impacts on revenues and expenditures.

### **2.2.3 Ability-to-pay theory**

The ability-to-pay principle was extended by Jean-Jacques Rousseau (1712–1778), Jean-Baptiste Say (1767–1832) and John Stuart Mill (1806-1873). It is based on notion of equal sacrifice, which is considered to be socialist sentiments and is used in most industrialized economies. It is in contrast with the benefit approach principle, which determines the amount of tax a person pays by the benefit received in public services.

According to Kirwan, (2009) ability-to-pay theory is the most popular and commonly accepted principle of equity or justice in taxation. That is citizens of a country should pay taxes to the government in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. For instance, if the taxable capacity of a person A is greater than the person B, the former should be asked to pay more taxes than the latter (Kirwan, 2009). It is argued that this has discouraged those in the higher income bracket not to take up more assignment instead they engage much in leisure activities.

The Modern economists however differ to this view. They assert that when income increases, the marginal utility of income decreases. Thus, they favor progressive system of taxation in all modern taxation systems. The principle establishes the areas taxation

potential and its tax collection efforts. It further determines what a community needs or is willing to spend. It ensures equity by transferring the excess to other poverty stricken areas. The theory has the same effect as that of LATF. The inter-governmental transfer is meant to off-load the surplus to needy areas. Hence, the attainment of equity which is one of the tenets of a good tax system.

## 2.2.4 Theory of Public Expenditure

Local authority spending is dictated by what they earn (taxable efforts) or receives (LATF). Local authority transfer fund to local authorities means more money for more projects. Subsequently resulting in enlarged government activities in the economy according to Wagner's theory. The theory of public expenditure is a key theory in the study. According to Samuelson, (1954) theory of public spending, taxation, and debt, builds on the well-known tax smoothing approach to fiscal policy. This approach predicts that governments will use budget surpluses and deficits as a buffer to prevent tax rates from changing too sharply. Thus, governments will run deficits in times of high government spending needs and surpluses when needs are low. Underlying the approach are the assumptions that governments are benevolent, that government spending needs fluctuate over time, and that the deadweight costs of income taxes are a convex function of the tax rate. The economic environment underlying our theory is similar to that in the tax smoothing literature. Our key departure is that policy decisions are made by a legislature rather than a benevolent planner. Moreover, we introduce the friction that legislators can distribute revenues back to their districts via pork-barrel spending.

More specifically, the theory assumes that policy choices are made by a legislature comprised of representatives elected by single-member, geographically defined districts. The legislature can raise revenues in two ways: via a proportional tax on labor income and by borrowing in the capital market. Borrowing takes the form of issuing risk-free one-period bonds. The legislature can also purchase bonds and use the interest earnings to help finance future public spending if it so chooses. Public revenues are used to finance the provision of a public good that benefits all citizens and to provide targeted district-specific transfers, which are interpreted as pork-barrel spending. The value of the public good to citizens is stochastic, reflecting shocks such as wars or natural disasters. The



potential and its tax collection efforts. It further determines what a community needs or is willing to spend. It ensures equity by transferring the excess to other poverty stricken areas. The theory has the same effect as that of LATF. The inter-governmental transfer is meant to off-load the surplus to needy areas. Hence, the attainment of equity which is one of the tenets of a good tax system.

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legislature makes policy decisions by majority (or super-majority) rule and legislative policymaking in each period is modeled using the legislative bargaining approach. The level of public debt acts as a state variable, creating a dynamic linkage across policymaking periods.

The public theory is viewed in line of the Adolph Wagner's Law of increasing state activity. The law of increasing state activity was founded by Adolph Wagner's, (1893) on an in-depth study relating to rise in government expenditure in the late 19th century. It indicates that; in a progress society, the activities of the local authorities increases on regular basis, the increase in government activities is both extensive and intensive, government undertakes new functions in the interest of the society, the old and the new functions are performed more efficiently and completely than before, the purpose of the government is to meet the economic needs of the people, the expansion and intensification of government function and activities. Though Wagner's studied the economic growth of Germany, it implies to other countries; both development and developing. Rise in the public expenditure greatly depends on revenue.

Wagner's laws indicate that there would be an inevitable increase in the share of government expenditure in total output, although he did recognize some limits to this increase. An expanding government would necessarily accompany social progress and rising income. According to Easterly and Rebelo (1993); Oxley (1994), test of Wagner's law have focused on the relationship between government spending and national income in both cross-sectional and time series section. Local authority transfer fund implies improved revenue to the local authority, where it is received. With the Wagner's law, LATF therefore promotes spending at the receiving local authority. Since local authority is part of the government with the service provision as the core function, its existence or establishment implies that the government functions will be increasing.

## **2.3 Contextual Review**

### **2.3.1 Local Authorities Transfer Fund**

Local authority transfer fund is an intergovernmental transfer system which provides resources to local authorities. They supplement the financing of services and facilities

required by the citizens. It is a form of nation revenue sharing. Hence, it acts as an initiative to enable the local authority to comply with national policies, (World Bank Report, 1994).

Local authority transfer fund was operationalized in 1999 under the LATF Act No. 8 of 1998. It distributes 5% of the national income tax, which is allocated to local authorities on the following objective formula: basic amount of Kshs.1.5 million per council (5.25%); 60% based on relative general population of local authority and 34.75% on relative urban population of a local authority. The LATF allocation criteria and individual allocations by local authority are published annually in the newspaper (Caleb, 2007). According to the LATF policy, the funds are normally disbursed in three trenches; October, February or March and May.

Local authority transfer fund policy is under the docket of the Minister for Finance, while the administration is executed by the Ministry of Local Government. Despite LATF being handled by two ministries, efficiency so far has not been attained instead it's marred with confusion which results into conflict, Kenya National Audit Office (KNAO) reports. For instance, the officer administering LATF at the Ministry of Finance is responsible for ensuring that LATF monies are released and received in a timely and accountable manner by those local authorities that comply with the LATF regulations. As the officer, at treasury ensure timeliness in LATF disbursement, the local government officer, ensures that the approvals for fund acquisition are executed to meet the LATF conditionality's. In effect the approval is bound to delay, thus incapacitating the work of the officer at treasury. Such LATF delays leads to numerous litigation cases with Council suppliers resulting in additional costs to councils.

The LATF Act further provides for an advisory committee headed by private sector. Its main objective is to advice on policies and operations of the fund. The committee according to the LATF Act has no "biting teeth" and can hardly enforce any policy. The second loophole in the Act is the fact that it provides for at least quarterly meeting for the advisory committee which hardly takes place. Even if the meeting takes off, they are limited on the extent of the follow up of the LATF operations. as their role is watered by

the elected councilors. Gross notable weakness per the act is the expenditure policy. The Act provides for spending only after approval by the minister of local government. It further, authenticates that in case of delay in approval, the council still can spend to the limit of the previous year's budget approval. This gives a window for deliberate delay in approval of council expenditure besides funds misuse noting that politics of expenditure is the politics of choice (World Bank Report, 1994).

Local authority transfer fund are provided as budget support to local authorities to be spent in accordance with local budget priorities, which are identified in consultation with the citizens and approved by full council and subsequently with Minister for Local Government. Eligible local budget expenditures include; personnel, operations, maintenance, debt resolution and capital projects. All local authority revenue and expenditures, including those LATF monies, must be managed, executed and monitored in accordance with the Local Government Act. Elected Councilors and local government officials, as well as other local community and stakeholder groups are also responsible for monitoring proper budget execution and accountability. In addition, the Kenya National Audit Office is responsible for audit of all accounts (Boateng et al., 2003). The big challenge however is whether the local authority budgets are priority based or politically played. As mostly noted, local authority budgets are non consultative, as they are hurriedly done, with no consultation, with all stakeholders. It is a tool that the civic through the executive uses to politic for the resource allocation.

### **2.3.2 Revenue Collection in Local Authorities**

The main function of a local authority is to provide services, (Rubin, 1990). However, for them to provide these services adequately, they need corresponding human and financial resources. Also, the citizens need to evaluate the effectiveness and efficiency of the local authority in the provision of services; they need to know the status of the local authority revenue in terms of types, collection and expenditure. According to Rubin, (1990), revenue collection is a hot matter nationally and at the local authority. It always involves a lot of political play being undertaken. This is basically due to the fact that individuals' taxpayers do not control mix of services offered out of tax collected. In most cases they have to pay for services they do not want or have not enjoyed at all, (Kirwan, 2009).

According to the World Bank Report, (1994), the national government has been on the watch at the growth of revenue collection and autonomy of the local authority, in Kenya. Local authority strives to meet the cost of constructing and maintaining facilities, a task that is made more difficult by continuously rising inflation and population. They have tried to ensure that the revenue generation has to cover both the capital investments and recurrent expenditure. Such will be adequate only if it grows with the demands made on it that is in line with the expansion of services and rising costs. It is not a question of simply raising adequate levies. It has to be raised in an equitable fashion (Kirwan, 2009), since unfairness is an obstacle in revenue collection, which normally results into resistance. The big challenge is who should bear the cost of running local authority? Should levies be charged? And what levies are most appropriate. For instance service charge levy, on the employees, as a source of revenue generation was reviewed in 1989. However, it become apparent that it was not yielding much, as its administration was inconveniencing. It had to be scrapped in 1998 to give employees a relief of such charge. The levy was replaced by LATF support to the local authorities in 1999.

The purpose of establishing a Local Government financing system is in recognition of the important role played by local authority as agents of decentralization; grassroots democracy; and engines for development. Many countries aware of this potential are transferring more resources and service responsibilities to local authorities. Equipped with such resources Local Governments are increasingly taking on more responsibilities to meeting Millennium Development Goals (MDGs) as well as facing the challenges of globalization\* (Basil, 2008).

The challenge in developing countries including Kenya is the fact that there is a slow growth in the revenues for local authorities, due to limited capacity to collect. This is attributed to lack of accountability about government finances, (Rubin, 1990). The mobilization on the increase in levies arises from the local authorities expanded functions besides other microeconomic factors (inflation). Such efforts are normally thwarted by interest groups, if the purpose is not popular, as witnessed in the recent Nairobi city council court ruling on the parking fee row. The Omamo report (1995) cites the second

reason for the slow growth in local authority as lack of insufficient taxing authority at the local level and shortfall in revenue collection (Omamo, 1995).

Currently the Kenyan Local Authorities have a number of sources for their revenues. These include: LATF, Roads Maintenance Levy Fund (RMLF), Contribution in Lieu of Rates (CILOR), property rates, single business permit(SBP), vehicle parking, plot rents, water and sewerage fees, market fee, cess receipts, game park fees, house rents and sundry income. For instance, the revenue structure for the years 2006/2007 shows LATF allocation of Kshs. 7,460.7M. This accounts for 36.2% of the total revenue of Kshs 20, 618.6M for the period. The LATF allocation percentage for the year 2007/2008 is 36.3 percent. How LATF is managed will therefore reflect on the effectiveness of the targeted services by that fund. The focus of the citizen's attention on the evaluation of the use of the local authority revenue should focus more on LATF.

### **2.3.3 Conditions of Obtaining LATF**

Local authority transfer fund allocations are released to local authorities upon submission of planning and financial information. Deadlines for these submissions are budget Estimates, along with statutory creditor clearance letters: 15th June, statement of Actual Revenues and Expenditures, Cash and Bank Balance: 30th September, statement of Creditors and Debtors and Debt Repayment Plan update: 30th September, abstracts of Accounts: 31st December, revenue Enhancement Plan: 28th February and local Authority Service Delivery Action Plan (LASDAP): 30th November (Azeem, 2003).

To be eligible to receive 60% of the LATF monies, every local authority must submit a budget estimate which meets the following conditions: Sixty percent (60%) is released upon submission of the annual estimates (budget) which must allocate a maximum of 55% of total expenditures for personnel and a minimum amount of 65% of the LATF for capital expenditures. In addition, local authorities must confirm payment of required annual statutory creditors' payments. Forty percent (40%) is released upon submission of a statement of actual revenues and expenditure, debtors and creditors, abstracts of accounts, participatory service delivery plan (LASDAP) and a Revenue Enhancement

Plan. Submissions must be timely, complete, include all required forms and be accompanied by full council minutes. Failure to provide the complete submissions by required deadlines results in a penalty of 15% (up to 30 days late), 40% (from 31 - 60 days late) and 100% (over 60 days late) (Asan, 2004). Monies not released to local authorities are retained in the LATF Account at the Central Bank to be disbursed according to the disbursement formula the following fiscal year.

Local authority transfer fund provides important resources and generates information which can enable local authorities to improve service delivery, financial management and accountability as well as reduce payables. Local authority transfer fund together with own source local revenues, are available to enable local authorities to provide improved local health, education, transport, water, markets and sanitation services. It is linked to other ongoing local level reforms related to planning, budgeting and financial management, participatory planning, monitoring and evaluation. Through these related LATF reforms, citizens are enabled to participate and work closely with local authorities to identify, plan, implement and monitor local services besides development projects through the LASDAP process (Action Aid Kenya, 2006).

Local authority transfer fund is generating important local level information for citizens, stakeholders, officials and councilors to improve local responsiveness, efficiency and accountability. The disseminated information enables more realistic local level budgeting, better financial management and revenue mobilization subsequently resulting in enhanced service delivery. Better functioning of local authorities coupled with active citizen participation can generate the level and quality of services and governance needed for sustained socio-economic development and wealth creation.

Despite of the tight conditionality on guidelines in regards to the funds approvals, the budget estimate is subject to abuse and politicking, since the responsibilities is on one office (person). Also, community participation in budget making process is not enhanced. The stakeholders have not been consulted. The revenue enhancement plans developed are just part of the LATF condition but are not implemented by the local authority, as is expected. The LASDAP programs are neither participatory nor consultative.

### 2.3.4 Service Delivery and LATF

Local authority transfer fund recurrent expenditure and Local Authority Service Delivery Action Plans (LASDAP) donation (specific grant) amount to what is called a Resource Envelope to the local authorities. All LASDAP are financed by the resource envelop. It's no doubt then that projects implemented under this arrangement are referred as LASDAP projects and not LATF projects. However, whereas LATF Regulations require the development of LASDAP, there is no allocation of monies for capacity building of communities, committees involved in project identification and management at community level, which negatively impacts on the effective implementation of the Fund.

Action Aid Kenya (2006) notes that there is no formal communication structure on LASDAP as information is passed on an *ad hoc* basis and recommends a uniform way of communicating with the public. Their need to sensitize the community to participate in the process as a way of checking excesses on the part of the councilors. In addition, Syagga and Associates (2007) recommends internal capacity building is undertaken within local authorities to enable them properly embrace LASDAP process in a comprehensive manner so as to include all stakeholders. A Syagga associate (2007) recommends the need for the Ministry of Local Government to facilitate recruitments and ensure an enabling working environment for the retention of technical personnel within the local authorities.

A high number (36.3%) of respondents from a survey conducted by Syagga & Associates (2007) indicated that there was no tangible benefit from LATF. This can be explained by the relatively low involvement of the public in the management of the fund and possible confusion of LATF funded projects as having been funded from other sources. For those who indicated that there was tangible benefit, 16.7% mention building of schools while 15.2% mentioned roads repair and construction. Other responses with less than 10% each were educating needy students, construction of chiefs' camps, construction of health facilities, building of social halls, construction of toilets, support of community projects, water projects, street lighting, garbage collection, construction of cattle dips, and upgrading police stations (Katja and Shea, 2009).



### 2.3.5 Monitoring and Evaluation of LATF

Although local authorities have community level structures and are fully devolved with final decisions being made at their level, they are usually riddled with myriad problems, especially financial inadequacies making some of them unviable. Ministry of Local Government assessment found that out of the current 175 local authorities, only about 100 are economically viable. Even those that are viable require capacity development. There are situations where the public has written to the Ministry requesting local authorities to be abolished for non-delivery of services.

Indeed, Action Aid Kenya (2006) notes that local authorities are generally associated with inadequate service delivery, corruption and mismanagement, inefficiencies in project implementation, poor service delivery, lack of equity and political interference (Filho, 2009). In addition, any new institutional framework must clearly demarcate the roles of the three arms of the Government: the Executive, Judiciary, and Legislature. In some devolved funds, the Legislature is taking over the roles of the Executive resulting in a system without checks and balances.

There have been several cases of duplication reported mainly from CDF, line ministry allocations and LATF leading to wastage. This takes place even under the supervision of the district development committee (DDC) which is mandated to coordinate district development. It is for this reason that the LASDAP guidelines discourage co-funding unless there are specific and clear funding proportions. There is need for scaling-up consultations vis-à-vis strengthening the available structures to undertake their roles (Kauzya, 2005).

Monitoring of projects is relatively weak. There is no proper integration with the National Integrated Monitoring and Evaluation System (NIMES) and the few instances where monitoring and evaluation has been carried out; there has been emphasis on quantity output only and less on quality. To enhance effectiveness of decentralized funds, there is need to reduce political influence in their management. There is also need to have a database of funds for each region and devote more resources for monitoring and

evaluation activities. There are currently efforts to establish a secretariat, under the Ministry of Local Government for managing LATF funds (Milanovic, 2004).

There can be several options for harmonization. For instance, all funds could be administered and managed from one basket. Disbursement can be done functionally through sectoral coordination agencies. Alternatively, all decentralized funds can be managed under one armpit with grassroots presence, say, Local Authority. The local authorities structure has corporate, political and sub-government status.

Following the LASDAP process, meetings are held with citizen in every ward where three to four projects are identified. The identified projects are then taken to the consensus meeting where representatives from various wards meet to prioritize the projects according to the Council's needs and resources. After this, the prioritized projects are subjected to a technical committee for technical input and costing. At consensus level, the composition of participants brings together key stakeholders as government, councilors, women, youth among others. However, at this level the participants only undertake the prioritization of projects and do not make decisions about the specific projects that will be funded. The projects are then evaluated and rated according to the following criteria. Priority is given to projects that enhance: revenue collection; service delivery; and achievement of the Council's mandate (Martin, 1991). To enhance participation in LASDAP, civic education is needed to promote attitude change and patriotism. Most people especially in Nairobi have interests in their rural homes and pay little attention to the City's development.

Monitoring of LATF funded projects is mainly done via performance contracts. However, the communication systems employed in outreach to the public and citizens' participation in the project identification, and monitoring of LATF funded projects is wanting despite the existence of a LASDAP process. Mobilization is done through word of mouth or advertisement in the media. Message is passed through social workers, local churches, chiefs, councilors etc. Important to note is that councilors participate on equal basis with other citizens. In addition, LASDAP guidelines, though well intentioned in their provisions to enhance public participation, do not have a proper institutional

framework. For instance, there is lack of clear roles and responsibilities for the community in other levels of project implementation. In addition, it's not clear with whom the community representatives engage. For example, if they find fault with the way a project is run, to whom do they report? It is for these reasons that the LASDAP guidelines are being reviewed (Fan, 1997).

To enhance accountability, before any payment is made to contractors, it must be approved by a technical audit team who are different from the implementers. There are also *ad hoc* opportunities to request community feedback. Currently the issue is not whether citizens participate but the nature and quality of their input during the process. The Council usually has a great turn out of people but end up getting very little from them due to limited capacity to engage with the issues. Professionals rarely participate. The process also lacks continuity. Every year, there are new people participating.

There is need for enhanced consultation among different development efforts with a view to eliminating, or at least reducing duplication. There are many challenges encountered in the management of LATF both at the local and national levels, including inadequate capacity in project planning and management; scramble for resources with each councilor wanting a project in their own ward. This results in fragmented and piecemeal projects. It's difficult to implement a large, high impact project; the Procurement and Disposal Act is also not community friendly as it doesn't allow community contracting, a situation that affects ownership of projects; Sources of revenue have diminished over the years more so in the recent past when the government embarked on harmonization of licenses; it's difficult to plan for LATF allocation because it depends on revenue collection which is unpredictable. This is expounded by delays in disbursement; and most staff currently working for the local authorities have been seconded from the line ministries to which they often defer. Suggestions have been made proposing establishment of a local authority commission to take care of the local authority staff but it is yet to see the light of day (Chitere, 2005).

To address the above challenges, reforms are needed to ensure that local authorities remain a driving force in service delivery in Kenya. Reforms must as a minimum include

capacity building and improved terms of service for local authority staff. This could be done with establishment of Local Government Service Commission; councilor's capacity and caliber improved. Such measures as defining the minimum level of education, induction and civic education to cultivate attitude change; and the Mayor to be elected by the people.

## 2.4 Empirical Review

Mahi (2002) conducted a study on managing local revenue in Indonesia. His study revealed that local owned revenue generation has become a key issue of regional autonomy and decentralization policy in Indonesia. Before the implementation of fiscal decentralization, local taxing power had played a minimal role in supporting local revenue. Law No.18/1997 was the guide for improving the performance of local tax management. However, the implemented regulations and actions did not give support to the policy. This results in the problems of implementing Law No.18/1997. In order to answer the problems of local tax regulations, Law No.34/2000 is established, which gives local government a freedom to plan their local own revenue.

The implementation of Law No.34/2000 has not changed the structure of local revenue in Indonesia. Most of local governments still rely on transfers from central government. Therefore, some improvements on tax assignment in Indonesia are necessary, such as; to implement piggy-backing PIT, to increase local own revenue. Hence, the policy will reduce the problem of vertical imbalances.

Fjeldsta (2006) conducted a study on formative process research on the local government reform in Tanzania and found out that there are reasons to be concerned about the short-term impacts of the tax rationalization. However, the reform also represents an opportunity for local governments to implement much needed reforms of their revenue systems and to look at new approaches for revenue enhancement and cost saving.

Fjeldsta (2006) study also revealed that before the rationalization it was clear that the local tax system was overdue for reform. It was complicated, costly to administrate and exacerbated inequity. Tax evasion was widespread, often reflected in persistent public

resistance to pay. Moreover, the linkages between the central and local government tax systems were in general weak leading to double taxation and inconsistencies between tax policies implemented at various levels of government. Already in 1993, the Association of Local Authorities in Tanzania (ALAT) advised the government to abolish development levy. This advice was partly based on considerations of revenue generation, administrative costs, income distribution and economic efficiency. Furthermore, the widespread tax resistance threatened to undermine the legitimacy of local authorities. Although there are reasons to question the speed at which the recent rationalization of local taxes took place and the limited consultation with local authorities, similar considerations as those taken by ALAT ten years ago seem to have been the foundation for the recent reform.

Prior to the rationalization, most district councils generated only 10-20 percent of their total revenues from own sources, of which development levy was the major source. 80-90 percent of total revenues in many rural councils were conditional grants transferred from the central government. Hence, fiscal autonomy in most local authorities was limited both with respect to revenues and expenditures. However, the rationalization has reduced the already limited local autonomy even further.

The immediate consequences of the rationalization are that some council activities are scaled down or postponed. In particular, council meetings are postponed to save allowances. The reform will most likely also have impacts on activities at the village level, since some of the development levy collected (20-45 percent) were retained in the villages, mainly as honorarium to village leaders and Village Executive Officers, for stationery and to some extent for development activities, including women and youth development funds. Furthermore, the way the local tax reform was carried out, taking many people both at the local and central levels by surprise, has led to confusion among both collectors and taxpayers on what taxes actually are abolished and which are still in place. Hence, in some council taxpayers now actively resist paying levies and taxes which have been retained. Tax collection has, therefore, dropped by more in recent months than the revenue shortfall caused by the abolished taxes alone.

Osiolo (2005) conducted a study on intergovernmental fiscal transfers and fiscal capacity in Kenya. Her main objective was to analyze the horizontal imbalances in revenue collection within local authorities in Kenya by identifying the determinants that contribute to higher revenue collections in local authorities and analyzing the effects and significance of these determinants on fiscal capacity. Revenue factors were estimated using six variables which includes; contributions in lieu of rates, property rates, single business permits, market fees, other revenue sources and intergovernmental transfers; and non-revenue factors that are estimated using two variables that is population of the local authority, and number of employees working in the local authority. Following the Hausman specification tests, the random effects model is found to be the best fitted model. The results show that all revenue factors are significant and positively related to fiscal capacity. Contributions in lieu of rates which is one of the local authorities' sources of revenue have the largest contribution to fiscal capacity. Secondly municipal councils have higher revenue collection than the rest of the councils. Thirdly, the results also show that there is no significant difference in revenue collected between town council, county council and the city council. Lastly, local authorities with high allocation of local authority transfer fund (LATF) tended to have higher fiscal capacities. Generally, these findings support the fact that there are substantial differences in horizontal imbalance among local authorities in Kenya.

On the other hand Mosomi (2010) did a study on the impact of the local authority transfer fund LATF on service delivery by focusing on the County Council of Garissa. His study revealed that after the introduction of LATF, the quality of services offered improved and the council was able to offer additional services according to seventy-six percent of the respondents, while it did not for twenty-four percent of the respondents. With the exception of reservations from twenty-four percent of the respondents, it can be concluded that LATF has enabled the council to offer additional services and improve the quality of its services. Other findings indicate that ninety percent of the respondents agree that the council holds the annual LASDAP meetings at ward level to identify projects to be undertaken. Further, they concurred that the final list of projects generally reflects those identified during the consultative meetings. However, ten percent of the respondents disagreed indicating that it's the chief officers together with councilors who

identify projects to be undertaken. More awareness is therefore needed to bring on board all residents individually or through representatives. In addition, the council has been preparing and submitting its annual budget within stipulated deadlines thereby avoiding financial penalties for noncompliance. However, the council does not always implement and complete all budgeted for projects. Measures should be put in place by the relevant authorities to ensure implementation of budgeted for projects and adherence to the budget. Also, internal audit is not regularly done according to eighty-six percent of the respondents in contrast with eighty-three percent of the respondents who agree that external audits are regularly done on LATF. The internal audit unit should be established and empowered to perform its mandate.

## 2.5 Summary

According to the World Bank Report. (1994), the national government has been on the watch at the growth of revenue collection and autonomy of the local authority, in Kenya. Local authority strives to meet the cost of constructing and maintaining facilities, a task that is made more difficult by continuously rising inflation and population. They have tried to ensure that the revenue generation has to cover both the capital investments and recurrent expenditure. Such will be adequate only if it grows with the demands made on it. That is in line with the expansion of services and rising costs. It is not a question of simply raising adequate levies. It has to be raised in an equitable fashion (Kirwan, 2009), since unfairness is an obstacle in revenue collection, which normally results into resistance.

The study theoretical review reveals that LATF has an increasing effect on revenue efforts in the local authority. Its major objective is to serve identifiable national interest and assist in producing some broadly disseminated benefits; improve service delivery, financial management and reduce debt level. It can as well aid in the matching of local revenue to its expenditure. Local authority transfer fund act as an opportunity to tighten the growing tax substituting national taxes and is the process to increasing the progressivity of the tax system.

Local authority transfer fund means more money, subsequently, more projects. It enlarges government sector spending in the economy, since it encourages spending. It brings more money into the area. It encourages public participation right from project selection, prioritizing, budget making process and finally to projects implementation. It's a move towards decentralizing fiscal operations while still directing expenditure towards broadly outlined national objectives. Local authority transfer fund ensures tax equity as a principle of taxation. It facilitates regional balancing by moving the surplus from the central point to the area of need, since revenue efforts can result into overflowing treasury, brought about by rapid economic growth and a growth sensitive tax system.

Despite the benefits, LATF causes distress to the local authority due to the conditions set and bureaucracy involved. Since LATF allocations are released upon submission of planning and financial information, such causes distress to the various local authorities. This is attributed by the fact that local authorities in most cases do not have the capacity to in-house undertake such obligation. Local authority transfer fund can result into a source of conflict; it normally gives rise to unjustifiable and even counterproductive, inter-governmental disputes. As well LATF causes confusion in the division of inter-governmental responsibilities.

Further analysis by Pechman, (1980) indicates that in the absence of the revenue sharing (LATF), there are higher chances of lower national taxes or higher national expenditure. As an increase on local revenue efforts correlate to lower national taxes. The funds are used by the recipient local authority to reduce revenue or expand expenditure. Previous research has identified an ever-present array of systemic constraints impeding the entrenchment of accountability through, increased citizen participation. The origins of these constraints can be traced to, inadequacies in governance leadership (policies, guidelines, legal framework, transparency, coordination and linkages to communities); financial systems (existence of parallel or inadequate systems at national, intermediate and grassroots levels); inadequate financial management and information system to promote accountability; inadequate communication strategy, plans and information systems (parallel information systems, monitoring, evaluation and feedback not built into strategic information as evidence for subsequent planning; human resource (low capacity,



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skill, staffing mix in most regions); weak and uncoordinated service delivery infrastructure; and unstructured community systems that cannot self-finance and are not ready to absorb vast levels of financing, are not well linked to government structures and have low capacity in certain areas such as financial oversight, monitoring and evaluation.

According to Price (1975), many developing African countries for example Ghana and of late Kenya have adopted decentralized strategies for effective service delivery to varying degrees. Decentralized funds can have far-reaching consequences on the economy and livelihoods of the people at the grassroots level. However, without proper management structures, a policy or regulatory framework and participation, more negative impacts are associated with decentralized funds than positive ones.

As the practice of decentralized development funding gains momentum, many stakeholders have become involved in developing strategies for the management of these funds. This according to Bates (1993) local authorities ensures value for money in its projects. Bates (1993) emphasizes the “managing value for money in the public sector”. He argues that that value for money is achieved when administration and service provision is economic, efficient and effective. He further views poor value for money as being equated to stealing from the needy. Bates (1993) concludes by indicating that value for money is attributed to; goal congruence, professional flair and management information which the councils have to adopt.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the research methodology and covers research design, population, sampling strategy, data collection tools and data analysis techniques. All these were employed in efforts to realise the research objectives. They were carefully chosen to ensure accuracy, reliability and to get the desired results.

#### **3.2 Research Design**

According to Carriger (2000), research design is basically the strategy, plan and structure of conducting the research project. The main function is ensuring that the evidence obtained enables the research to solve the initial problem as unambiguously as possible. The design for this study is descriptive and longitudinal in nature. Descriptive research tries to underscore the “what as well as why question”. It is the precise measurement and reporting of the characteristics of the phenomena under investigation, and describes phenomena, situations and events.

Mugenda and Mugenda (2003) give the purpose of a descriptive research as seeking to obtain information that describes existing phenomena by asking individuals about their perceptions, attitudes, behaviour or values. It involves, asking respondents questions on how they feel, what their views are, and what they have experienced (Babbie, 2002). The study adopted longitudinal design since it intends to establish the impact of LATF on revenue. The data collection tools (questionnaire, interviews, observations, analysis of comprehensive income statement and unobtrusive methods) need to capture both periods: before LATF inception and after its operationalization. It is by comparing the revenue analysis, views and opinion of the respondents, considering deflated value for inflation provision and natural growth of the two different phases that solution to the study will be established.

### **3.3 Target Population**

Mugenda and Mugenda (2003) described population as, the entire group of individuals or items under consideration in any field of inquiry and have a common attribute. The target population for this study is the 175 local authorities in Kenya.

### **3.4 Sample and Sampling Procedure**

A sample is a set of entities drawn from a population with the aim of estimating characteristic of the population. It is a fraction or portion of a population selected such that the selected portion represents the population adequately. Cooper and Schindler (2003) explained that the basic idea of sampling is, selecting some of the elements in a population, so that the same conclusions can be drawn about the entire population. The researcher in this study used purposive sampling to select the heads of finance department in all the 53 local authorities' in Kenya. Purposive sampling method as noted by Srivastava et al. (1993) is a deliberate non-random method of sampling which aims at selecting a sample of people, settings or events with predetermined characteristics. The researcher believed that financial officers have got the required information on the impact of LATF on local revenue collection within local authorities in Kenya. The sample size of this study is therefore 53 (30 % of the 175) local authorities.

### **3.5 Data collection**

This study used both secondary and primary data. Primary data was collected by use of questionnaires from the sampled heads of finance departments; the questionnaires included structured and unstructured questions. The structured questions were used in an effort to conserve time and money as well as to facilitate an easier analysis as they are in immediate usable form; while the unstructured questions were used as they encouraged the respondent to give an in-depth and felt response without feeling held back in revealing of any information. With unstructured questions, a respondent's response gives an insight to his or her feelings, background, hidden motivation, interests and decisions.

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The researcher also obtained data on local collection revenue efforts prior to LATF and after, on every category of the councils' revenue classifications for; 1998, 1997, 1996: 2009, 2010, and 2011, from the secondary data of analysis of comprehensive income statement.

### **3.6 Validity**

Validity of a questionnaire refers to the extent to which it measures what it claims to measure (Mugenda & Mugenda, 2003). Validity is the degree to which result obtained from the analysis of the data actually represents the phenomenon under study. Validity was ensured by having objective questions included in the questionnaire. This was achieved by pre-testing the instrument to be used to identify and change any ambiguous, awkward, or offensive questions and technique as emphasized by Schindler and Cooper (2003).

### **3.7 Reliability**

According to Carmines and Zeller, (1979) reliability refers to a measure of the degree to which research instruments yield consistent results. In this study, reliability was ensured by pre-testing the questionnaires with five respondents. This was achieved by asking same question to five different respondents at different times that is test-retest reliability. However for internal consistency, the study adopted Cronbach's Alpha as a measure of internal consistency, that is, how closely related a set of items are as a group. The study computed the average split half estimates from the sampled population and realized 0.78 Cronbach Alpha, which according to Nunnally and Bernstein, (1994) a construct composite reliability co-efficient (Cronbach Alpha) of 0.6 or above, is considered adequate. The acceptable reliability coefficient is 0.6 and above, if the Cronbach alpha is below 0.6 the reliability of the questionnaire is considered too low and thus the research tool should be amended. This was realized from the consistent respondent received from five different respondents at different times.

### **3.8 Data Analysis**

This study was both quantitative and qualitative in nature. Analyzed quantitative data is helpful in evaluation since it provides quantifiable and easy to understand results. The study identified the level of measurement associated with quantitative data. The identified four levels were; Nominal data as noted in the general information of the study questionnaire. Ordinal data, interval data-noted in the extent of LATF affects other factors and Ration data as those of the age bracket in the questionnaire. After the discussed levels, the quantitative data is tabulated in a table form and provided with a detailed narrative description for analysis.

According to Abeyasekara (2000), qualitative data tries to answer the “why, when and how question”. The qualitative features of the data become important because they give breath to the formal research findings and provide the means to explain any special feature that will emerge. The steps involved in data analysis includes; finding on the data collected for ease of evaluation, managing the data that is checking for data completeness ready for analysis, reading and annotating, creating categories, splitting and spacing, linking the data, associating and linking, using maps and matrices to connect categories, collaborating evidence and lastly producing an account.

Analysis was done with aid of the Statistical Package for Social Sciences (SPSS) package. Descriptive statistics generated such as percentages, mean scores and proportions were presented in tables and figures. Qualitative data collected was checked for completeness and cleaned ready for data analysis. It was then analyzed by the use of content analysis and presented in prose form. Factor analysis and use of t-test were some of the analysis used for better gain in the research project.



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# CHAPTER FOUR

## DATA ANALYSIS AND INTERPRETATION

### 4.1 Introduction

This chapter presents the survey results and findings based on the data collected and analyzed. The purpose of this is to establish the impact of LATF on revenue collection effort at local authorities, in Kenya. The research findings were presented in form of tables, graphs and charts. Tabulation helped to summarize the data, whereas graphs and charts were used to present the study results.

### 4.2 Response rate

The study targeted a sample size of fifty three (53) respondents. However, a total of forty two (42) questionnaires were filled giving a response rate of 79.24%. This response rate was excellent and quite representative, since it conforms to Mugenda and Mugenda (1999) view, which stipulates that: a response rate of 50% is adequate for analysis and reporting; a 60% response is rated as good, while a response rate of 70% and above is rated as excellent.

### 4.3 General information

#### 4.3.1 Gender of the respondents

In the survey questionnaire, the respondents were requested to indicate their gender, since gender parity is a hot matter as upheld in the Kenyan Constitution. The results obtained were as in the figure below.

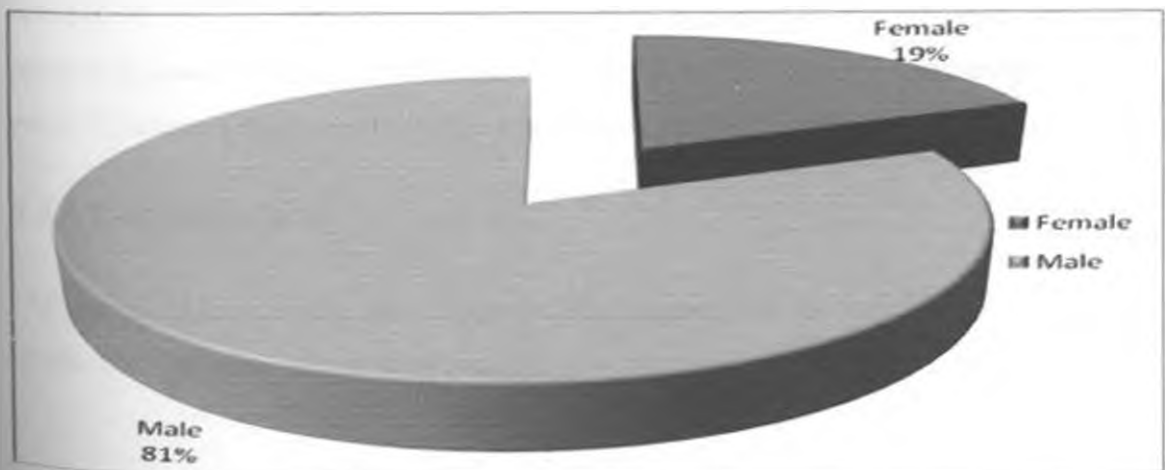


Figure 4.1: Gender of the respondents

Source: Author, 2012

From the findings, 81% of the respondents were male with female attaining only 19%. This clearly shows that most of the respondents were male.

### 4.3.2 Age of the respondents

The respondents were also requested to indicate their age. The results were as shown in the figure below.

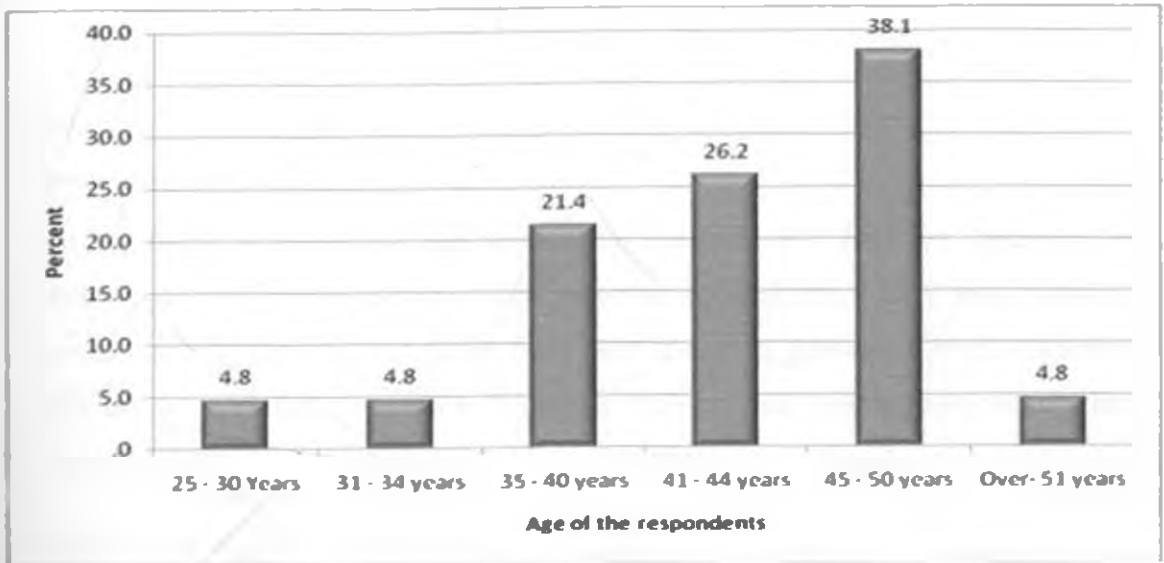


Figure 4.2: Age of the respondents

Source: Author, 2012

According to the findings, 38.1% of the respondents indicated that they were aged between 45 and 50 years, 26.2% were aged between 41 and 44 years, 21.4% were aged between 35 and 40 years while 4.8% were aged between 25 and 30 years. The same percentage was also held by those aged between 31 and 34 years. And those aged over 51 years. This shows that majority of the respondents were aged between 45 and 50 years.

### 4.3.3 Education level

The survey questionnaire also requested the respondents to indicate their education levels. The following results were realized.

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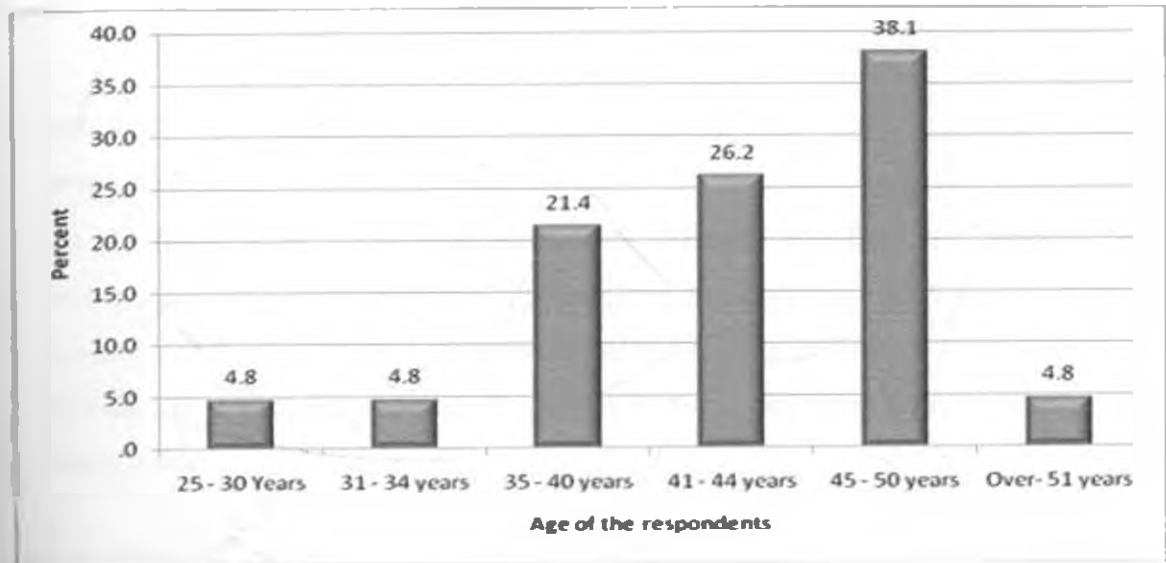


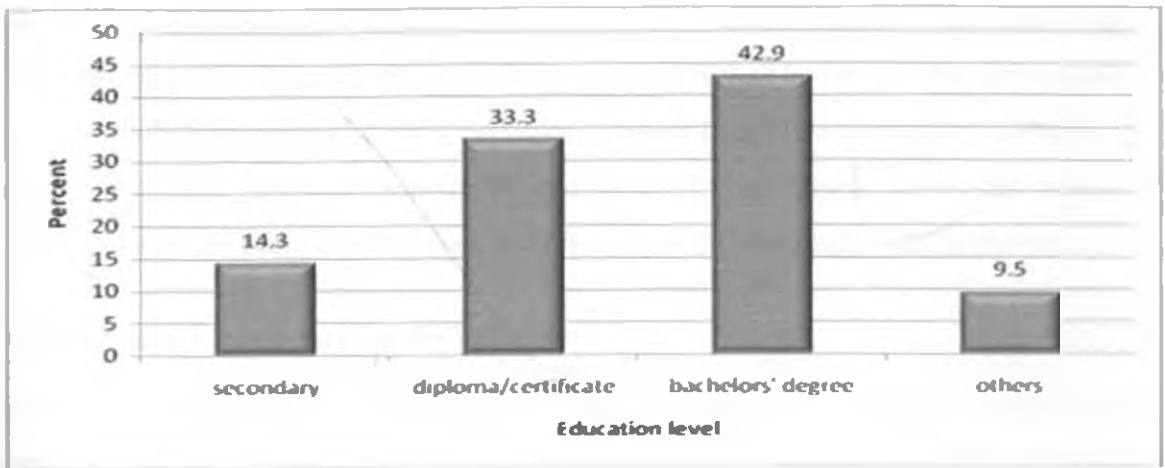
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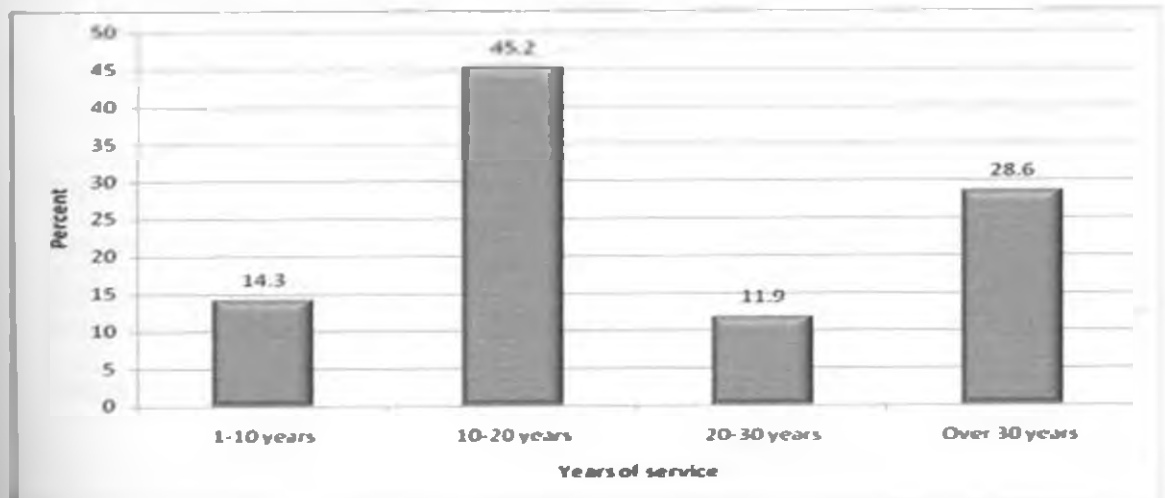
**Figure 4.3: Education level**

Source: Author, 2012

From the findings, 42.9% of the respondents indicated that they are graduates with bachelor's degree, 33.3% were diploma or certificate holders, 14.3% were holders of secondary certificates whereas 9.5% were neither among secondary level, diploma or certificate nor a bachelor's degree. It can be deduced that most of respondents had a bachelor's degree.

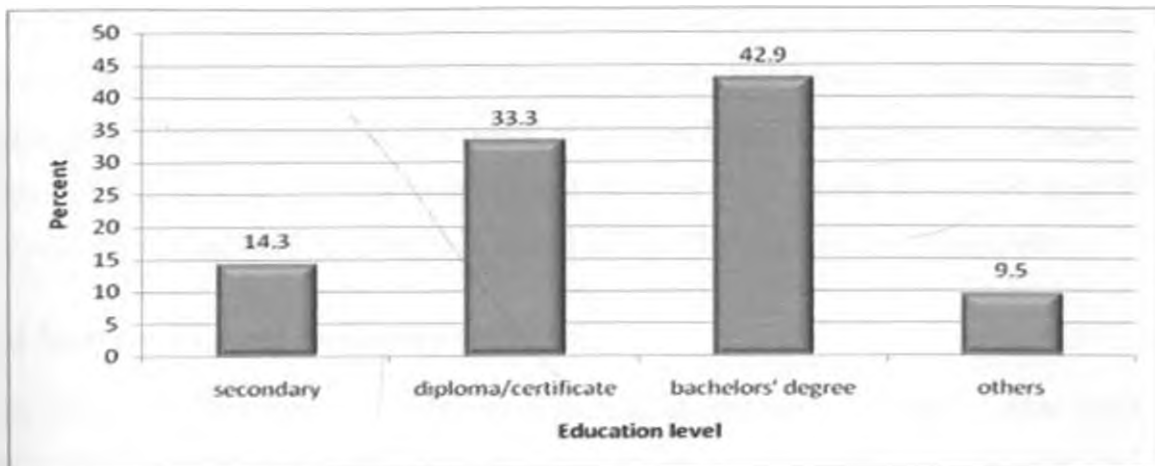
#### 4.3.4 Years of service or working period

The researcher requested the respondents to indicate the years of service/working period with local authorities. The results were as shown below in figure 4.4.



**Figure 4.4: Years of service and working period**

Source: Author, 2012



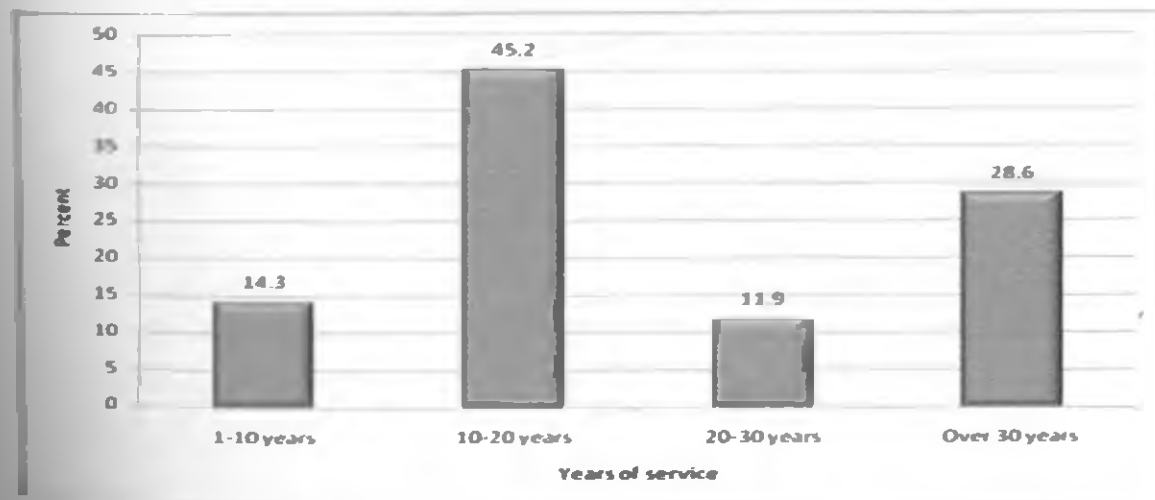
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**Figure 4.4: Years of service and working period**

Source: Author, 2012

According to the findings, 45.2% of the respondents indicated that they had been with local authorities for a period of 10 to 20 years, 28.6% had been working for over 30 years, 14.3% had been working for a period of between 1 and 10 years while 11.9% had been working for a period of between 20 and 30 years. This clearly shows that most of the respondents had been working for a period of 10 to 20 years with local authority.

#### 4.4 Sources of local authority revenue.

The survey revealed common major local sources of revenue as ; property rates (land rates , area rates and plot rents), Cess and other levies, single business permit, fines and penalties, market fees, slaughter house, contribution in lieu of rates, lease income or house rent, and motor vehicle parking (closed and street parking). The survey however noted other income not in the category of common major sources and branded them miscellaneous revenue. This was majorly due to the fact that various councils surveyed had other income that was not common to all. Thus, for ease of analysis, a distinct category had to be created. Examples of uncommon revenue sources were; the Natural reserves fee, Game perks, Bill boards, fire fighting, Ambulances and other administrative sundry income imposed from time to time.

##### 4.4.1 Local Revenue mean Earnings before LATF

The survey revealed that the mean earning prior to the LATF funding is per the table 4.1 below

**Table 4.1: Local Mean Revenue Earnings before LATF**

Mean revenue abstracts of accounts			
Own source of revenue	Prior to LATF		
	1996	1997	1998
Property rates( land rates and plot rents)	3,863,105	998,508	1,068,805
Cess and other levies	1,797,505	1,341,966	1,395,282
Single business permit	10,439,279	7,230,609	6,488,088
Motor vehicle parking(closed and street parking)	2,243,340	5,886,838	3,953,168
Market fees and slaughter house	4,944,171	3,555,225	3,388,353
Contribution in lieu of rates	1,350,000	1,828,009	2,081,481
Lease income and house rent	791,396	713,572	412,531
Miscellaneous revenue (other income)	317,240	325,576	281,193
Fines and penalties	471,711	562,745	622,349

Source: Author, 2012

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Source: Author, 2012



From table 4.1 mean earnings revealed that only contribution in lieu of rates and fines and penalties has shown an upward trend with other sources of income indicating a lot of fluctuation. A trend that could be hypothesized to lack of accountability as a result of ineffective structure.

#### 4.4.2 Local Mean Revenue Attained after LATF inception

The research findings revealed per the table below. The survey revealed that the mean earning prior to the LATF funding is per the table 4.2 below.

**Table 4.2: Local mean revenue earnings after LATF inception**

Mean revenue abstracts of accounts			
Own source of revenue	After LATF		
	2009	2010	2011
Property rates( land rates and plot rents)	6,813,120	11,625,259	9,923,313
Cess and other levies	5,520,797	7,884,881	8,286,271
Single business permit	6,007,297	7,256,028	8,546,971
Motor vehicle parking(closed and street parking)	3,418,054	3,540,810	4,927,832
Market fees and slaughter house	4,822,879	5,532,775	14,117,784
Contribution in lieu of rates	2,662,418	3,061,516	3,315,877
Lease income and house rent	832,569	1,106,113	1,221,907
Miscellaneous revenue (other income)	2,170,920	3,259,261	4,182,111
Fines and penalties	853,523	1,146,508	1,043,972

**Source: Author, 2012**

Table 4.2 gives an indication of an upward growth in all the revenue sources except for property rates and fines and penalties. The property rates and fines indicate growth in 2009 and 2010 with a slight decline in 2011 for both. From the study, it's notable that the two income vote head are closely related in nature.

#### 4.4.3 Comparison of local authorities' mean earnings before and after LATF operationalization.

**Table 4.3: Comparison of mean local earnings prior to and after LATF operationalization.**

Mean revenue abstracts of accounts		
Own Source Of Revenue	Prior to LATF	After LATF
	1996-1998	2009-2011
Property rates( land rates and plot rents)	1,976,806	9,453,897
Cess and other levies	1,511,584	7,230,650
Single business permit	8,052,659	7,270,099
Motor vehicle parking(closed and street parking)	4,027,782	3,962,232
Market fees and slaughter house	3,962,583	8,157,813
Contribution in lieu of rates	1,753,163	3,013,270
Lease income and house rent	639,166	1,053,530
Miscellaneous revenue(other income)	308,003	3,204,097
Fines and penalties	552,268	1,014,668

**Source: Author, 2012**

Table 4.3 gives comparisons of mean earnings before LATF operationalization and after. The table indicates that the mean earning prior to LATF are low compared to mean earnings after initiation of LATF in all the revenue earnings except for single business permit and parking fee. It is on this observation that the study links this to lack of proper accountability of funds. Hence the inefficiency in revenue collection. It supports the survey opinion that showed that LATF has resulted in a boost of revenue, though the boost need to studied further, due to the high fluctuation in revenue. The trend seems to be unpredictable.

**Table 4.4: T-statistics for Volatility of various revenues**

		t	Sig.
Property rates( land rates and plot rents)	Before	1.651	.027
	After	2.144	.009
Cess and other levies	Before	1.333	.048
	After	2.876	.047
Single business permit	Before	.652	.033
	After	2.026	.010
Motor vehicle parking(closed and street parking)	Before	1.958	.036
	After	2.283	.025
Market fees and slaughter house	Before	1.422	.025
	After	2.451	.024
Contribution in lieu of rates	Before	1.919	.011
	After	2.989	.022
Lease income and house rent	Before	1.518	.017
	After	2.711	.034
Miscellaneous revenue(other income)	Before	1.641	.040
	After	2.367	.023
Fines and penalties	Before	1.538	.005
	After	2.358	.029

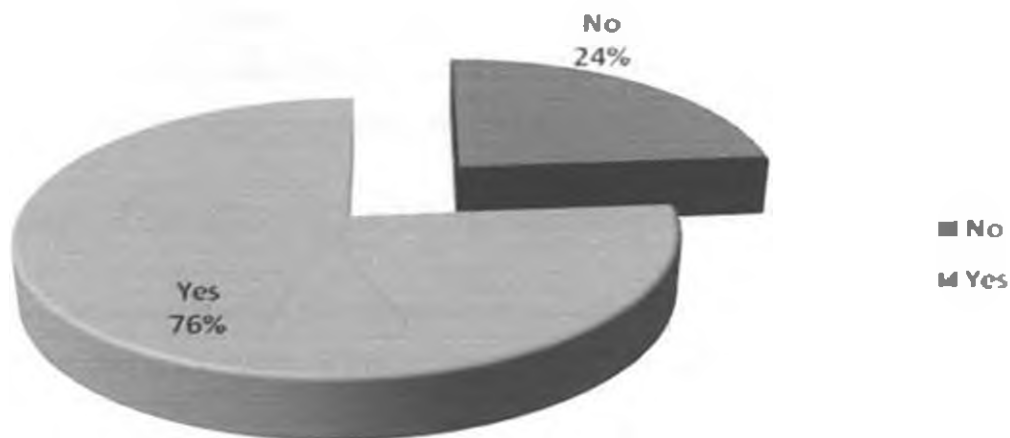
Source: Author, 2012

In order to determine the sensitivity of various sources of revenue to LATF implementation, the researcher calculated the T-statistics for the respective revenue before LATF inception and after LATF implementation, if the T – value was close to 2 this was an indication that the revenue were sensitive to LATF implementation, from the finding shown in the above table, it was found that the T- statistics before LATF implementation was close to 1 indication that the revenue was insensitive to LATF implementation. there was a rise in and it was positive after LATF implementation which was found to be close to two an indication that the revenues were very sensitive LATF implementation. This shows that various revenues are sensitive to change LATF implementation. The study base year for the analysis is 1999, the year LATF was implemented.

## 4.5 Impact of LATF on revenue at local authorities

### 4.5.1 Revenue collection at local authorities

The research questionnaire further requested the respondents to indicate as to whether LATF affect revenue collection at local authorities. The research revealed the following results, as shown in the figure below.



**Figure 4.5: Effect of LATF on revenue collection at local authorities**

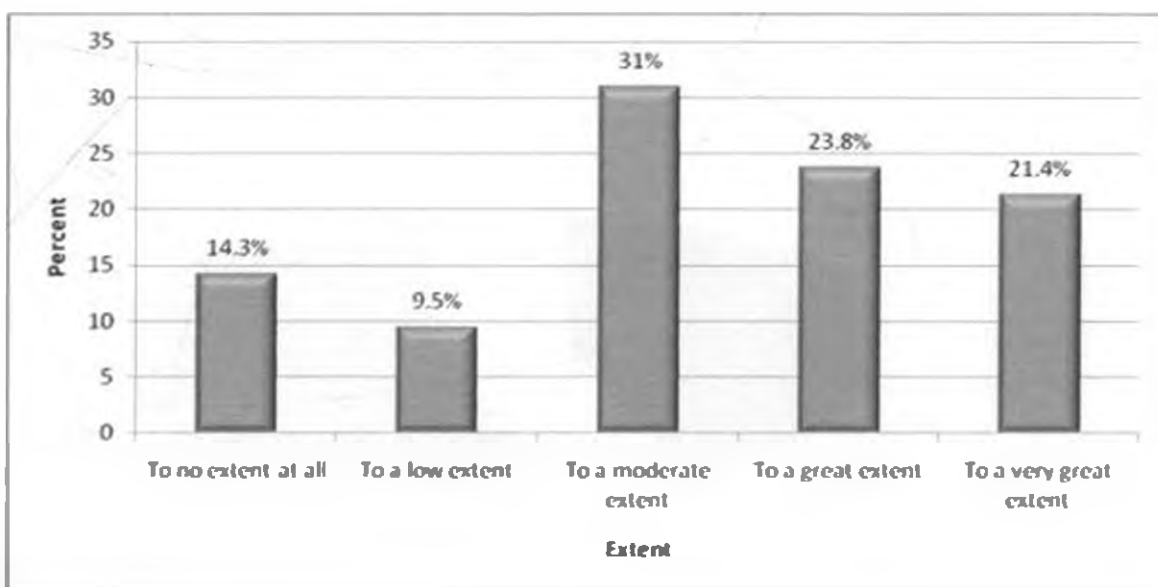
**Source: Author, 2012**

From the findings, 76% of the respondents indicated that LATF affect revenue collection at local authorities while 24% of the respondents indicated that LATF do not affect revenue collection at local authorities. It is clear that most of the respondents reported that LATF affect revenue collection, at the various local authorities. The respondents consider several factors to this premise. Some asserted that LATF has contributed to development of revenue enhancement plans, which has enabled various local authorities to identify their revenue potential thereby enabling them to project what they are able to collect in a year with easy. For instance within a municipality, they are able to determine how many parking slots they have and what is the daily expectation. Also to the valuation roll, the council is able to know the value of land under its jurisdiction thereby being able to ascertain the amount payable under land rates with easy. It enables employment of a systematic way of working there by allowing revenue projection.

They also encourage introduction of accountable documents that help in the monitoring and improves accountability. Enable the enactment of structures for revenue collection efforts. Since it's the department that sustains the local authority, better structures are encouraged to ensure employment of aggressive marketers (revenue officers). However, 24% of the respondents argue that LATF do not affect revenue collection at local authorities due to massive increase in creditor; Loans from financial institutions, salary arrears, and statutory payments-National Social Security Fund (NSSF), National Hospital Insurance Fund (NHIF), Fund Bodies, and Kenya Revenue Authority (KRA) besides the regular budget deficits experienced from time to time.

#### 4.5.2 Extent of the effect of LATF on revenue collection

The survey further requested the respondents to indicate the extent that LATF affect revenue collection at local authorities. The results were shown in the figure below.



**Figure 4.6: Extent of the effect of LATF on revenue collection**

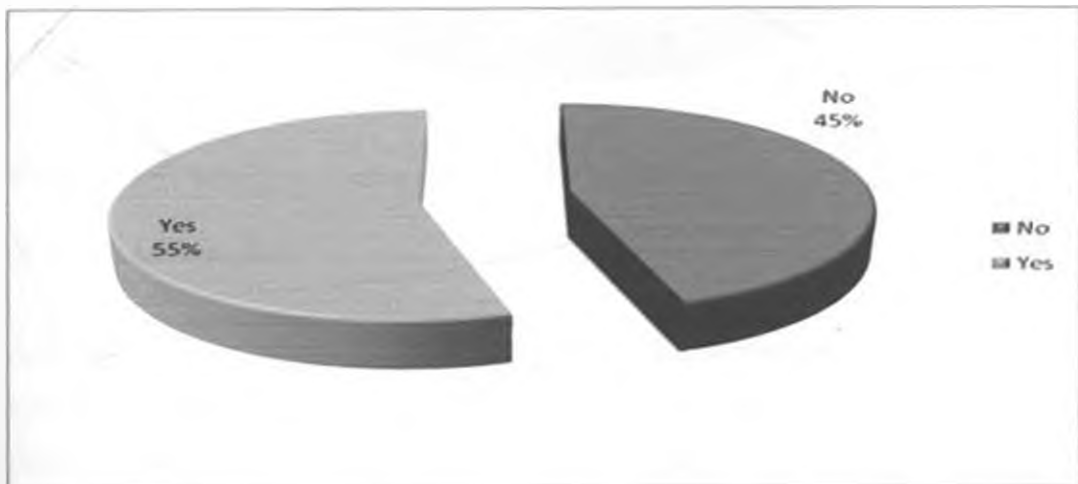
**Source: Author, 2012**

According to the findings, of the respondents 31% indicated that LATF affect revenue collection at local authorities to a moderated extent, 23.8% indicated that LATF affect revenue collection at local authorities to a great extent, 21.4% indicated that LATF affect revenue collection at local authorities to a very great extent, 14.3% indicated that LATF

affect revenue collection at local authorities to no extent at all while 9.5% indicated that LATF affect revenue collection at local authorities to a low extent. It can therefore be deduced that majority of the respondents reported that LATF affect revenue collection at local authorities to a moderate extent. The degree of the extent in which LATF affects revenue collection is a clear manifestation of the often public contradictory attitude towards taxes-not wanting to cut government services but rejecting tax increase to pay for them. According to Rubin, (1990), revenue collection is a hot matter nationally and at the local authority. It always involves a lot of political play being undertaken. This is basically due to the fact that individuals' taxpayers do not control mix of services offered out of tax collected. In most cases they have to pay for services they do not want or have not enjoyed at all, (Kirwan, 2009).

#### 4.5.3 Time of acquiring the LATF

The respondents were also requested to indicate whether their local authority gets LATF in time. The results were as shown in the figure 4.7 below.



**Figure 4.7: Time of acquiring the LATF**

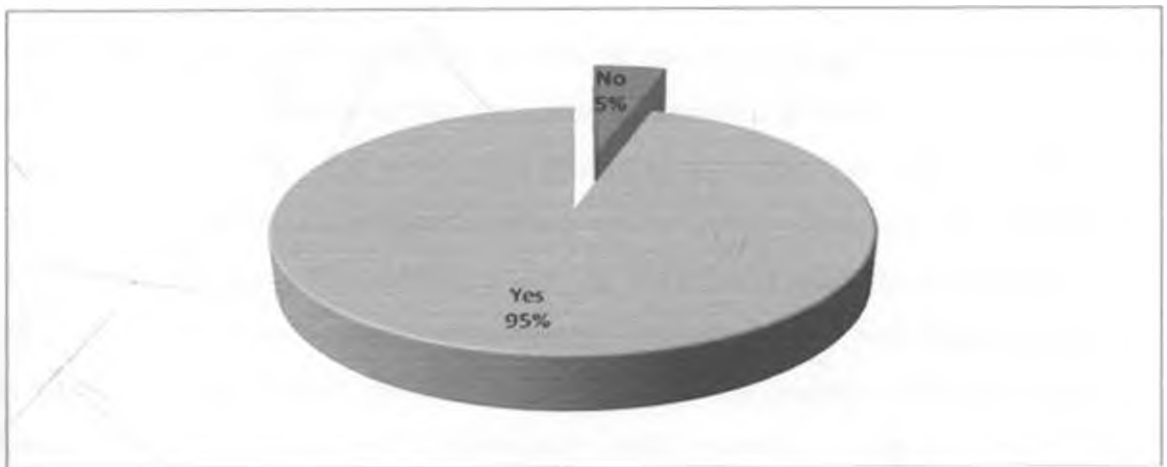
**Source: Author, 2012**

From the findings, of the respondents 55% reported that their local authority receives LATF in time while 45% reported that their local authority does not receive LATF in time. It can be inferred that most of the respondents reported that their local authority receives LATF in time. The councils which falls within the 55% are due to the fulfillment

of the LATF requirement; submission of planning and financial information ( $M=3.6667$ ) and confirmation of payments of required annual statutory creditors' payments ( $M=3.5476$ ), while the 45% represents those who are not able to fulfil the requirement in good time. Delay could be attributed to low revenue that does not allow them to attain the requirement in time.

#### 4.5.4 Effect of LATF on Revenue

The researcher sought to find out whether there was an increase in the revenue in the local authority after the operationalization of LATF. The results obtained were as shown in the figure 4.8 below.



**Figure 4.8: Change in revenue in the local authority**

**Source: Author, 2012**

According to the findings, of the respondents 95% indicated that there was an increase in revenue in the local authority after the operationalization of LATF, while 5% indicated that there was no increase in revenue in the local authority after the introduction of LATF. This clearly shows that most of the respondents indicated that there was an increase in the revenue in the local authority after the inception of LATF. This was expected since LATF once transferred to a council definitely becomes a source of revenue to the council. It is non-refundable grant not a borrowing. However, the study further revealed that LATF improves the local revenue in local authority. As the collection process is made more transparent and accountable, the revenue boost is

realized due to elimination of revenue collection malpractices. Considering the projects initiated from LATF; schools 90.5%, Public utilities (toilets and birth room) 85.7%, Creditors payments 81%, market stalls 76.2%, Hospitals 73.8%, roads 71.4% garbage collection 69%, valuation of assets 54.8%, it is important to recognize that the data confirms the main obligation of the local authority, being service delivery to the Kenyan people in their various localities, Misomi, (2010). It is observable that much of the funds have been utilized for service provision with schools taking the lead at 90.5%. And that the never ending search for revenue by all government has contributed to considerable tax overlap.

From the respondents, it's clear that the schools projects that took 90.5% lead hardly relate to a direct revenue boost. However from the economic perspective it does to a great deal. When a local authority service provision is improved, it means that the locals will concentrate on activities that are income generating in nature. For instance, instead of taking more time in search of schools for their children, they will put a concerted effort in business line. The more the traders get to work, the more revenue the local authority is likely to generate. Hence revenue enhancement. The opportunity cost forgone in search for better services; schools, hospital, good road network, garbage collection result in revenue boost. With improved infrastructure (road network), the trader's mobility is fastened. More and more traders will get to the market, within the council's jurisdiction.

The improved mobility of goods and services attracts more to the council's jurisdiction. Hence more revenue in the form of levies from the traders'. The improved infrastructure also enables quicker access to medical services as well. In case of an emergency, the resident can easily access the medical facilities in good time. With improved garbage collection methods, the council is able to attract more resident to the area which finally translates into more revenue in term of activity to their jurisdiction. The garbage collection itself could attract more revenue in terms of the residents being charged a small monthly fee, say Kshs 50/= per house hold per month. The survey confirmed that with improved services in garbage collection, the residents will be willing to pay for the garbage collection fee more than before especially once they notice that the council is executing its mandate well and to the satisfaction of the local residents.

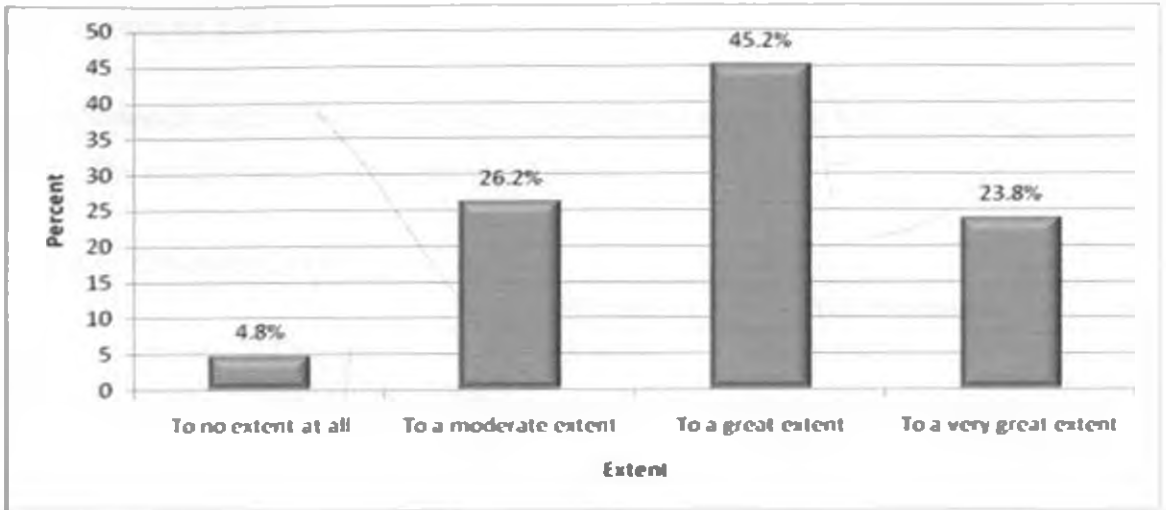


Valuation of assets also directly and indirectly results into revenue boost. From the study, it is clear that the valuation of assets boosts the council's revenue (M=3.2619). Once the current value of property is determined, it ensures certainty of the correct market value. Once the value is determined, the payable will automatically be more than the current value since land rapidly appreciates in value. Hence, more income generated. Also, in line with the improved service provision, that is well serviced sewerage system and clear records, the revenue will automatically grow. The direct and indirect impact of improved service delivery on revenue is noticeable considering the high means recorded by the various services; Schools (M=3.3095), garbage collection (M=3.2619), roads (M=3.1905), market stall and centre (M=3.1190) and public utilities (toilets, bathroom) (M=3.0000).

In addition, the study found out that majority of the respondents reported that the extent of the increase in revenue in the local authority after the LATF operationalization was to a great extent (45.2%). This is enhanced by the improved service delivery. The residents take it upon themselves to pay for services as they see the need why they have to pay. They derive direct benefit from the levies charged. The improved services act as a persuasion for the payment of the levies. Despite the burden of paying the levy falling on the residents, there appears to be minimal resistance since the services show cause for their demand. Hence, value for money, which according to Bates (1993) is achieved through goal congruence, professional flair and management information.

#### **4.4.5 Extent of increase in revenue**

The researcher further requested the respondents to indicate the extent of the increase in revenue in the local authority after the operationalization of LATF. The results were as shown in figure 4.9 below.



**Figure 4.9: Extent of increase in revenue**

**Source: Author, 2012**

According to the findings, of the respondents 45.2% indicated that the extent of the increase in revenue in the local authority after LATF operationalization was to a great extent, 26.2% indicated that the extent of the increase in revenue in the local authority after the inception of LATF was to a moderate extent, 23.8% indicated that the extent of the increase in revenue in the local authority after the LATF operationalization was to a very great extent and 4.8% indicated that the extent of the increase in revenue in the local authority after the introduction of LATF was to no extent at all. It can be deduced that majority of the respondents reported that the extent of the increase in revenue in the local authority after the LATF operationalization was to a great extent. It is observable that only 45.2% of the 95% consider the revenue boost will be to a great extent considering the mean attained on service delivery ( $M=4.4286$ ) and reduction of debts ( $M=4.3095$ ). While 23.8% holds that the revenue boost will be to a very great extent. A 26.2% and 4.8% holds low opinion as to the extent of increase in revenue to a moderate and to a no extent at all, respectively. The various stands were supported by further inquiries on the means as that of LATF effect on service delivery ( $M=4.4286$ ), reduction of debts ( $M=4.3095$ ), financial management and accountability (3.8333) and the effectiveness and efficiency in revenue collection ( $M=3.4048$ ). For instance 4.8% holds low opinion on the extent of revenue change considering mean attained for efficiency and effectiveness in revenue collection ( $M=3.4048$ ).

### 4.5.5 Effect of LATF

The respondents were further requested to indicate the effect that LATF has on the stated factors. The results were as tabulated in 4.5 below.

**Table 4.5: Effect of LATF**

	<b>Mean</b>	<b>Std. Deviation</b>
To what extent do LATF affect the effectiveness and efficiency in revenue collection	3.4048	1.19060
To what extent do LATF affect service delivery	4.4286	.91446
To what extent do LATF affect financial management and accountability	3.8333	1.26716
To what extent do LATF affect reduction of debts	4.3095	.84068

**Source: Author, 2012**

From the findings, the respondents reported with a mean of 4.4286 that LATF affect service delivery to a very great extent. They also reported with a mean of 4.3095 that LATF affect reduction of debts to a very great extent. Further, the respondents reported a mean of 3.8333 that LATF affect financial management and accountability to a great extent. Lastly, the respondents reported with a mean of 3.4048 that LATF affect the effectiveness and efficiency in revenue collection to a moderate extent.

The standard deviation from the study indicated the level of variability of the set of figures in the survey. The high standard deviation values (1.26716 and 1.19060) indicate high range in respect to variability which tends to have low mean (3.8333 and 3.4048) respectively. It is true the revenue level will grow (95%) but will be pulled down by the level of efficiency and effectiveness in collection. The argument is further supported by the standard deviation attained (standard deviation= 1.19060). 23.8% argue that with financial management and accountability of the attained mean (M= 3.8333) coupled with reduction of debt (M=4.3095) the revenue boost will be to a very great extent. The general boost categorically noted in mean attained in table 4.3. It clearly shows that all revenue means has improved with the exception of single business permit and motor

vehicle parking. This perhaps could be attributed to lack of efficiency and effectiveness in financial management and accountability.

#### 4.5.6 Conditions for obtaining LATF

The respondents were further requested to indicate the extent that the stated conditions for obtaining LATF affect revenue collection in your local authority. The results obtained were as tabled in 4.6 below;

**Table 4.6: Conditions for obtaining LATF**

	Mean	Std. Deviation
To what extent do submission of planning and financial information affect revenue collection in your local authority	3.6667	1.33739
To what extent do confirmation of payment of required annual statutory creditors' payments affect revenue collection in your local authority	3.5476	1.25333

**Source: Author, 2012**

According to the survey, a mean of 3.6667 was attained to the effect that submission of planning and financial information affects revenue collection in local authority to a moderate extent. A further mean of 3.5476 was attained to the fact that confirmation of payment of required annual statutory creditors' payments affects revenue collection in local authority to a moderate extent as well. From the survey, it's notable that planning and financial information has a wide variability than statutory creditors.

#### 4.5.7 Factors affecting revenue collection

The researcher sought to find out the extent at which the stated factors affect revenue collection. The results were as shown below in table 4.7.

**Table 4.7: Factors affecting revenue collection**

	Mean	Std. Deviation
To what extent do LATF structure affect revenue collection in your local authority	3.0476	1.20876
To what extent do LATF allocation criteria affect revenue collection in your local authority	3.5952	1.36256
To what extent do LATF submission penalties affect revenue collection in your local authority	3.2381	1.39353
To what extent do LATF administration affect revenue collection in your local authority	3.2619	1.19060

**Source: Author, 2012**

According to the survey, a mean of 3.5952 was recorded to the fact that LATF allocation criteria affect revenue collection in local authority to a great extent. In addition, a mean of 3.2619 was attained on the fact that LATF administration affects revenue collection in local authority to a moderate extent. Further attained is a mean of 3.2381 to the fact that LATF submission penalties affect revenue collection in local authority to a moderate extent as well. Finally, a mean of 3.0476 was attained to the fact that LATF structure affects revenue collection in local authority to a moderate extent.

Structure allows the ministry of local government to evaluate the identified project and their possible impact on the people. The increased work due to the LATF inception conforms to the Wagner's law of increasing government activity. This results in improved general accountability that will definitely impact on revenue. With the manner in which project are identified, it forces the council to generate revenue that will enable them spend and achieve what is expected of them. Thus, the attained mean (M=3.0476) on the LATF structure. The service delivery (M=4.4286) is closely marched to LATF allocation criteria (M=3.5952) due to the fact that the improved better services will attract bigger population to an area. That bigger population is instrumental in improving the LATF allocated to the council, since it's a LATF formula component.

LATF administration (M=3.2619) is also an important revenue boost due to the fact that the ministry of local government requires that the councils submit statement of income and expenditure for the year. This shows the current revenue collected and how the funds were spent. Also they look at the capital projects anticipated to be carried out or executed in the past. Such makes the council to be accountable and enhance its revenue. It acts as a control measure to income generation. As to whether the incomes reported in the income statement are accurate leaves a lot to be desired. LATF submission penalties (M=3.2381) enable councils to enhance their collection to meet the requirements as required for the LATF clearance. It makes the council go to the extent of having an arrangement of having a debt swap with some of its creditors. With such kind of pressure, the council has no option but to boost their collection to enable them attain clearance.

#### 4.5.8 Projects initiated with LATF in local authorities

The survey intended to know whether the stated projects were initiated with LATF or not. The researcher obtained the results as tabled in 4.8 below.

**Table 4.8: Projects initiated with LATF in local authorities**

Project	Frequency		Percent	
	Yes	No	Yes	No
Roads	30	12	71.4	28.6
PSV stage	15	27	35.7	64.3
Hospitals	31	11	73.8	26.2
Schools	38	4	90.5	9.5
Market stalls / Centers	32	10	76.2	23.8
Security and street lighting	19	23	45.2	54.8
Public utilities (toilets, bathrooms)	36	6	85.7	14.3
Entertainment (sports ground, cinema halls)	16	26	38.1	61.9
Garbage collection	29	3	69	31
Valuation of Assets	23	19	54.8	45.2
Creditors Payments	34	8	81	19
Slaughter houses	19	23	45.2	54.8

**Source: Author, 2012**

According to the survey, the respondents agreed that establishment of schools took the lead in projects initiated with LATF at 90.5% followed by the construction of public utilities (toilets, bathrooms) at 85.7%, creditors' payment at 81%, the construction of

market stalls at 76.2%, establishment of hospitals at 73.8%, infrastructure (road construction) at 71.4%, garbage collection at 69%, and the valuation of assets at 54.8%. However, the respondents disagreed that a PSV stage rated at 64.3% were initiated with LATF. The same case applied to creation of entertainment (sports ground, cinema halls) rated at 61.9%, the commissioning of security and street lights at 54.8% and establishment of slaughter houses at 54.8%.

#### 4.5.9 Revenue state of the Council after operationalization of LATF

The research survey further requested the respondents to rate the revenue state of the Council after operationalization of LATF. The results were as tabled in 4.9 below.

**Table 4.9: Revenue state of the Council after application of LATF**

	Mean	Std. Deviation
Roads	3.1905	.86216
Market stalls / Centers	3.1190	.73923
PSV stage	2.9762	.74860
Hospitals	2.6905	.78050
Schools	3.3095	.84068
Slaughter houses	2.6429	.75938
Street lighting	2.7857	.84206
Public utilities (toilets, bathrooms)	3.0000	.98773
Entertainment (sports ground, cinema halls)	2.4048	.66478
Security	2.8571	.81365
Garbage collection	3.2619	.88509

**Source: Author, 2012**

From the survey, a mean of 3.3095 was attained to the fact that the revenue had greatly improved after the establishment of schools. Further, a mean of 3.2619 was obtained owing to the fact that revenue had greatly improved after the garbage collection system was put into place. In addition, a mean of 3.1905 was realized due to the fact that the revenue had greatly improved after the construction of road. Also a mean of 3.1190 was realized due to the fact that revenue had slightly improved after market stalls and centers were established. A mean of 3.0000 was attained due to the fact that revenue had greatly improved after the construction of public utilities (toilets, bathrooms). A mean of 2.9762

was realized due to the fact that the establishment of a PSV stage has slightly improved the revenue. A further mean of 2.8571 was noted due to the fact that improvement of security had slightly improved the revenue. In addition, a mean of 2.7857 was obtained due to the fact that the commissioning of street lighting had slightly improved the revenue. However, a mean of 2.6905 realized due to the fact that the establishment of hospitals had no change on the revenue. A further mean of 2.6429 was realized due to the fact that the establishment of slaughter houses had no change on the revenue. Lastly, a mean of 2.4048 was realized due to the fact that the creation of entertainment (sports ground, cinema halls) also had no change on revenue.

Also, the study established that the respondents disagreed that a PSV stage (64.3%), the creation of entertainment (sports ground, cinema halls) (61.9%), the establishment of security street lights (54.8%) and establishment of slaughter houses (54.8%) were projects that were initiated with LATF in local authority. Most of these were projects jointly done with other donors with the councils giving a percentage of their local collections. However, despite other donor funding, it is generally agreed that their contribution is very instrumental in the revenue boost of the councils. It is notable that the construction of PSV Stage despite the fund origin has enhanced revenue collection. It has enabled councils to organize the public transport so well that no vehicle could pass without paying the levies. It has as well made it possible to have a tally of the fleet of vehicles flying the council's jurisdiction. The commissioning of street lighting is a real blessing to business community. It has enabled the business people to trade for long in the market since it has enhanced security of the market residents. Social evils associated with darkness seem to decline. All these boost the council's jurisdiction activities. It is these activities that are translated into monetary value. Thus, the general revenue boosts.

#### **4.5.10 Factor analysis on the revenue state of the local authority on application of LATF identified projects.**

Factor analysis according to Tryfos (1997) refers to a statistical approach that can be used to analyze interrelationships between and amongst a large number of variables. It can be used to explain these variables in terms of their common underlying dimensions (factors).



It is a method for investigating whether a number of variables of interest are linearly related to a small number of unobservable factors. The statistical approach involves finding a way of condensing the information contained in a number of original variables into a smaller set of dimensions (factors) with a minimum loss of information. Factor analysis is purposely for data reduction that is getting a small set of variables from a large set of variable. The parameters of the linear functions are referred to as loadings.

The study first adopted principal component method that seeks values of the loading that bring the estimate of the total communality as closely as possible to the total of the observed variances. The data had to be standardized, since the variables were not measured in the same unit. This was by ensuring that the variables all have a mean equal to zero and variance equal to one. These were to assess the revenue state on after application of LATF on identified projects.

Table 4.10 gives the results of the first set of loadings; principal component methods. It thus gives the outcome of the variance that is explained by the common factors.

**Table 4.10: Communalities of factor variance**

	Initial	Extraction
Roads	1.000	.707
Market stalls/centers	1.000	.655
PSV stage	1.000	.732
Hospitals	1.000	.759
Schools	1.000	.609
Slaughter houses	1.000	.509
Street lighting	1.000	.698
Public utilities (toilets, bathrooms)	1.000	.751
Entertainment (sports ground, cinema halls)	1.000	.746
Security	1.000	.785
Garbage collection	1.000	.665

Extraction Method: Principal Component Analysis.

Source: Author, 2012

Table 4.10 helps the researcher to estimate the communalities for each variance. This is the proportion of variance that each item has in common with other factors. It seeks

values of the loadings that bring the estimate of the total communality as close as possible to the total of the observed variances. In this the covariances are ignored. Table 4.10 shows the elements of the factor model on which the principal component method concentrates. According the table, revenue has improved as a result of improvement in security at 78.5% communality or shared relationship with other factors. This value has the greatest communality with others, while that of slaughter houses has the least communality with others of 50.9%.

After the principal component analysis, the researcher further applied a-four components extract to determine the total variance as analysed on table 4.11. That is the total variance accounted by each factor. The sum of all Eigen values being equals to total number of variables.

**Table 4.11: Total Variance Explained**

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.230	29.366	29.366	3.230	29.366	29.366
2	1.983	18.030	47.396	1.983	18.030	47.396
3	1.332	12.107	59.503	1.332	12.107	59.503
4	1.070	9.725	69.228	1.070	9.725	69.228
5	.788	7.165	76.393			
6	.686	6.237	82.630			
7	.526	4.784	87.415			
8	.461	4.190	91.605			
9	.433	3.933	95.538			
10	.299	2.721	98.259			
11	.192	1.741	100.000			

Extraction Method: Principal Component Analysis, a-four components extract.

Source: Author, 2012

In the above table, the researcher used Kaiser Normalization Criterion, which allows for the extraction of components that have an Eigen value greater than 1. The principal component analysis was used and four factors were extracted. According to table 4.11; factor one account for 29.37% of the variance, factor two accounts for 18.03% in relation

to the variance, factor three account for 12.11% of the total variance while factor four accounts for 9.73% of the total variance. The cumulative shows the amount of variance explained by  $n + (n-1)$  factors. For instance factor one and two account for 47.396%, one, two and three account for 59.503% while the total four factors account for 69.228%.

Arising from table 4.11, the identified and categorized individual variables constituting the four factors extracted were;

Factor 1: Covered projects as entertainment (sports ground, cinema halls) establishments, schools, garbage collection, public utilities (toilets, bathrooms), security, slaughter houses and hospitals.

Factor 2: Covered projects as PSV stage establishment, market stalls/centers, roads, Slaughter houses, hospitals, public utilities (toilets, bathrooms).

Factor 3: Incorporated projects as roads construction, security, street lighting and schools.  
Schools

Factor 4: Incorporated projects as street lighting, public utilities (toilets, bathrooms) and entertainment (sports ground, cinema halls).

The factors loading (1, 2, 3 and 4) were the weights and correlations between each variable and the factor. The higher the load the more relevant in defining the factors dimensionality.

Thus for clearer picture on the relevance of each variable in the factors, the researcher had to undertake factor rotation to get a final solution. The result of which is as shown in table 4.12, component matrix.

**Table 4.12 : Component Matrix**

	Component			
	1	2	3	4
Roads	-.335	.367	.658	.164
Market stalls / Centers	.061	.790	.069	-.150
Psv stage	.000	.844	-.144	.004
Hospitals	.444	.296	.204	-.658
Schools	.688	-.243	.249	-.119
Slaughter houses	.618	.322	-.133	.078
Street lighting	-.413	.221	.467	.511
Public utilities (toilets, bathrooms)	.669	.241	-.318	.380
Entertainment (sports ground, cinema halls)	.772	.176	-.117	.325
Security	.629	-.104	.609	-.085
Garbage collection	.673	-.338	.221	.222

Extraction Method: Principal Component Analysis.

**Source: Author, 2012**

The initial component matrix was rotated using Varimax (Variance Maximization) with Kaiser Normalization. The above results allowed the researcher to identify what variables fall under the extracted factor. Each of the eleven variables were looked at and placed to the factor depending on the percentage of variability. A variable is said to belong to a factor to which it explains more variation than any other factor. The varimax rotation encouraged the detection of factors each of which is related to few variables. It discourages the detection of factors influencing all variable.

#### **4.5.11 Council charges on the councils public utilities after LATF operationalization**

The survey requested the respondents to assess the council charges on the council's public utilities after LATF initiation. The results were as tabled below.

**Table 4.13: Council charges on the councils public utilities after LATF inception.**

	Mean	Std. Deviation
Road toll charges	2.5952	.85709
Market stalls / Centers charges	3.2619	.76699
PSV stage parking fees	3.1905	.83339
Hospitals average head charge	2.5000	.80395
Council Schools average head charge	2.4524	.67000
Slaughter houses per unit	2.5952	.66478
Entertainment (sports ground, cinema halls) / occasion or hour	2.3810	.62283
Public utilities (toilets, bathrooms)	2.9048	.65554
Garbage collection	3.1190	.70546
Valuation of assets (valuation roll on rent and rates)	3.2619	.73450

**Source: Author, 2012**

From the survey, a mean of 3.2619 was attained due to the valuation of assets (valuation roll on rent and rates) that enabled revenue to have slightly improved. They further found a mean of 3.2619 to be attributed to the market stalls / centers charges, which had slightly improved. In addition, the respondents indicated with a mean of 3.1905 that PSV stage and parking fees had slightly improved. Further, the respondents indicated with a mean of 3 1190 that garbage collection had slightly improved. However, the respondents indicated with a mean of 2.9048 that public utilities (toilets, bathrooms) charges had not changed. In addition, the respondents indicated with a mean of 2.5952 that road toll charges had not changed. Further; the respondents indicated with a mean of 2.5952 that slaughter houses per unit remained constant. Additionally, the respondents indicated with a mean of 2.5000 that hospitals average head charge had not changed. The respondents also indicated with a mean of 2.4524 that council schools average head charges had not changed. The respondents indicated with a mean of 2.3810 that entertainment (sports ground, cinema halls) or occasion per hour had remained constant.

The survey revealed that road toll charges had the highest variability of figures, much spread of values (0.85709), followed by Psv stage and parking noting a standard

deviation of 0.83339. These are closely followed by hospital average charges recording a standard deviation of 0.80395 with market stall charges standing at a standard deviation of 0.76699; charges on valuation of assets recorded a standard deviation of 0.73450 while garbage collection scored a standard deviation of 0.70546. Charges with the lowest ranges were; council's school charge per head with a standard deviation of 0.67000, slaughter house charges per head scored 0.66478 with public utilities registering a standard deviation of 0.65554 and charges on entertainment attaining standard deviation of 0.62283. The data confirms that charges on entertainment (sports ground, cinema halls) per occasion has a low range with the lowest mean of 2.3810.

**4.5.12 Factor analysis on the assessment of local authority charges on public utilities after LATF initiation.**

Table 4.14 uses principal component method to determine first set of loading that seeks values of the loading that bring the estimate of the total communality as close as possible to the total of the observed variances. The variable were firsts standardized since they were not measured in the same unit so that all have mean equal to zero and variance equal to one.

**Table 4.14 : Communalities of factor variance**

	Initial	Extraction
Road toll charges	1.000	.510
Market stalls / Centers charges	1.000	.763
PSV stage parking fees	1.000	.699
Hospitals average head charge	1.000	.692
Council Schools average head charge	1.000	.285
Slaughter houses per unit	1.000	.646
Entertainment (sports ground, cinema halls) / occasion or hour	1.000	.809
Public utilities (toilets, bathrooms)	1.000	.620
Garbage collection	1.000	.589
Valuation of assets (valuation roll on rent and rates)	1.000	.471

Extraction Method: Principal Component Analysis.

Source: Author, 2012

Table 4.14 helps the researcher to estimate the communalities for each variance. This is the proportion of variance that each item has in common with other factors. For example 'entertainment (sports ground, cinema halls)/occasion or hour had improved' at 80.9% communality or shared relationship with other factors. This value has the greatest communality with others, while local authority schools average head charge had improved' has the least communality with others of 28.5%.

**Table 4.15 : Total Variance Explained**

Component	Initial Eigen Values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.781	27.813	27.813	2.781	27.813	27.813
2	1.810	18.105	45.918	1.810	18.105	45.918
3	1.492	14.924	60.842	1.492	14.924	60.842
4	.982	9.822	70.664			
5	.930	9.298	79.962			
6	.706	7.060	87.021			
7	.520	5.202	92.224			
8	.397	3.966	96.190			
9	.236	2.357	98.547			
10	.145	1.453	100.000			

Extraction Method: Principal Component Analysis. Three-Factor Analysis.

Source: Author, 2012

Table 4.15, uses the principal component three factor analyses. The researcher used Kaiser Normalization Criterion, which allows for the extraction of components that have an Eigen value greater than 1. As the table shows; factor one explains 27.81% the total variation, factor two explains 18.10% the total variation, factor three explains 12.11% the total variation and factor four explains 14.92% the total variation.

The researcher further undertook varimax rotation that encourages the detection of factors each of which is related to the few variables as analysed in table 4.16.

**Table 4.16 : Component Matrix**

	Component		
	1	2	3
Road toll charges	.170	.555	.416
Market stalls / centers charges	.774	.162	-.370
PSV stage parking fees	.818	.011	-.174
Hospitals average head charge	.067	.211	.802
Council Schools average head charge	.223	-.363	.322
Slaughter houses per unit	.535	-.448	.399
Entertainment (sports ground, cinema halls) / occasion or hour	.721	-.440	.310
Public utilities (toilets, bathrooms)	.599	.502	-.098
Garbage collection	.383	.664	-.043
Valuation of assets (valuation roll on rent and rates)	.345	-.462	-.373

Extraction Method: Principal Component Analysis. Three components extracted.

**Source: Author, 2012**

The initial component matrix was rotated using Varimax (Variance Maximization) with Kaiser Normalization. The above results allowed the researcher to identify what variables fall under the extracted factor. Each of the ten (10) variables was looked at and placed to the factor depending on the percentage of variability. A variable is said to belong to a factor to which it explains more variation than any other factor. From table 4.16, the individual variables constituting the three factors extracted were identified and categorized as:-

Factor 1; Incorporates charges for PSV stage parking fees, market stalls/centers charges, Entertainment (sports ground, cinema halls)/occasion or hour. public utilities (toilets, bathrooms) and slaughter houses per unit. Factor 2; Includes garbage collection, road toll charges, Public utilities (toilets, bathrooms), hospitals average head charge and Market stalls/centers charges. Factor 3; Incorporates hospitals average head charge, road toll charges and slaughter houses per unit.

The three factor analysis enabled data reduction hence ease of analysis and their interpretation as discussed above.



## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

The chapter outlines the summary of findings derived from the survey. The purpose of this is to establish the impact of LATF on revenue at local authorities in Kenya. The findings are to assist in formulating policies that ensures efficiency and effectiveness in the collection of revenue by the local authorities. And possibly that will be inherited by the county government on establishment.

#### 5.2 Summary

The survey noted male domination at 81%, with an age bracket of 45 and 50 years taking the lead at 38.1%. Also notable is that majority of respondents had a bachelor's degree (42.9%). Lastly, of great value to the study was the fact that most of the respondents had been working for a period of 10 to 20 years (45.2%). Going by the male domination of 81%, it could suggest that gender parity is still not observed at the local authority job placement. There is need for scrutiny by the responsible government agencies or department to ensure its correction to conform to the Kenyan constitution, not more than 2/3 of either gender. The leading age bracket of 45-50 is a clear manifestation of the level of unemployment of the youth. It suggests that most of the people at key strategic positions at local authorities are within the age bracket of 45-50. On the other hand going by the respondent's age and experience, it is a clear show of accurate data obtained for the study.

The study established that sources of revenue were; property rates( land rates and plot rents), cess and other levies, single business permit, fines and penalties, market fees and slaughter house, contribution in lieu of rates, lease income and house rent, miscellaneous revenue and motor vehicle parking(closed and street parking). Further, the study established that property rates (land rates and plot rents), cess and other levies, market fees and slaughter house, contribution in lieu of rates, lease income and house rent, fines,

penalties and miscellaneous revenue increased after LATF operationalization, whereas single business permit and motor vehicle parking (closed and street parking) did not realize much change, after LATF inception.

### **5.3 Conclusion**

This study establishes that in spite of local authorities receiving LATF in time, the impact of such fund on local revenue is rated as being to a moderate extent. More so the various revenue heads are observed to be sensitive to the implementation of LATF, as reflected by the t-test table. In addition, the study establishes that LATF affects; service delivery, debts, financial management and accountability, besides attainment of the effectiveness and efficiency in revenue collection.

In relation to revenue collection in local authority, the study concludes; that submission of planning and financial information and confirmation of payment of required annual statutory creditors' payments affects revenue to a moderate extent. The study further reveals that LATF structure, allocation criteria, administration, submission penalties affects local revenue. Also notable increase in functions on the operationalization of LATF contributes to Adolph Wagner's law of increasing state activity. According to Adolph Wagner (1893), "comprehensive comparisons of different countries and different times show that among progressive peoples (society), with which alone we are concerned; an increase regularly takes place in the activity of both the central government and local governments constantly undertake new functions, while they perform both old and new functions more efficiently and more completely. In this way economic needs of the people to an increasing extent and in a more satisfactory fashion, are satisfied by the central and local government."

The study observed that; the establishment of schools, construction of public utilities (toilets, bathrooms), creditors' payment, and construction of market stalls, establishment of hospitals, road construction, garbage collection and the valuation of assets were the major projects initiated with LATF in local authorities' across the country. Also observed from the survey is the fact that construction of public service vehicle stage (PSV), the creation of entertainment (sports ground, cinema halls), the establishment of security,

commissioning of street lights and establishment of slaughter houses were projects jointly done with other development partners to the council.

The study further reveals that the establishment of schools, construction of public utilities (toilets, bathrooms), creditors' payment, construction of market stalls, establishment of hospitals, road construction, garbage collection and the valuation of assets led to a great improvement of revenue after inception of LATF. However, other projects as; establishment of a PSV stage, the creation of entertainment (sports ground, cinema halls) the establishment of security, commissioning of street lights and establishment of slaughter houses led to slight improvement of revenue after inception of LATF. Although the charges after the establishment of hospitals, slaughter houses and the creation of entertainment (sports ground, cinema halls) had no change on the revenue.

## **5.4 Recommendations**

Gender parity should be observed in job placement at the local authority. More women need to be empowered to councils' strategic position. The council needs to observe the demographic change in local authority. Majority garnered 38.1% at an age bracket of 45 to 50. The study recommends emphasis on age bracket of 25 - 30, 31 - 34, 35- 40, 41-44 with minimal deployment at 45-50. The study also recommends that the strategic position be given to degree holders while technical jobs be left to diploma or certificate holders. This should be factored in as a matter of policy on job placement. The key position should be held by the central government employees on rotational basis not as local government employees as it is currently practiced today. The ministry of public service should be posting officers to various councils on rotational basis. The inter-ministerial transfers should be enhanced by the public service commission for better service delivery resulting into improved revenue.

The local authorities needs to be more open with less hierarchy (4-5) levels, guided by less rigid control mechanisms (financial, legislative and administrative). They need to be more hospitable to the men and women making up the organization. They should be sympathetic to the cultural values and morals these people bring with them to the job. Council needs to borrow from the private sector practice where the organization is split

into functions units and all the functional units have targets to achieve. It is these targets that guarantee improved revenue. Also, the council needs to emphasize on the value for money in its project identification to implementation life cycle. This can only be achieved when administration and service provision is economic, efficient and effective. The value for money will ensure absolute change in revenue. The study recommends a further research on revenue potential of all local authorities, to be able to have targets set on all of them. Since Kenya is administratively on transition, this recommendation is ideal for the country governments to address. This is due to the fact that this study only relied on the revenue collected and not the revenue potential of all the local authorities in Kenya.

This study established that PSV stage and creation of entertainment (sports ground, cinema halls) which are supposed to be key revenue potentials are not yielding much. In light of the tremendous economic contributions of these projects, failure to initiate these projects with LATF is unreasonable. This study therefore recommends that the method of project identification be extensive and comprehensive to incorporate a consultant with wide knowledge to guide the locals at the point of inception. Project identification exercise should not entirely be a local affair. The ministry of planning representative, district development officer (DDO), should be incorporated in the projects' life cycle to ensure that the project implemented is of national interest.

## **5.5 Recommendations for further studies**

This study aimed at establishing the impact of LATF on revenue within local authorities in Kenya. Further studies should be undertaken to establish the performance and accountability of officials in the local authorities in matters pertaining to LATF in view of attaining value for money to the identified projects, since efficiency is key in revenue collection.

## **5.6 Limitation of the study**

Comprehensive income statements prior to the introduction of LATF, for most respondents were not available. Most of the respondents did not have all the income statement or books for 1996, 1997, 1998. They neither could trace the documents nor

provide data relating to those periods. Hence the study was concluded based on averages from the respondents who availed the documents for analysis.

Most of the respondents do not conform to record retention, as prescribed by winter accountancy. Winter accountancy prescribes that an organization should observe the following record retention policy; organization general ledgers be kept indefinitely, income record be kept for at least seven years, financial statement be kept indefinitely while bank statement record be kept for seven years. Since LATF was introduced more than thirteen years from the study period, much of the revenue record could not be accessed. Of much importance according to winter accountancy is the financial statement, which should be kept indefinitely. In the absence of the two vital records, mean is the only remedy to the study. Hence, possible loss of accuracy in the data and assumption that the mean will be representative to the population.

Also notable in some council is the rigidity in releasing information to ensure timely completion of the research. Most of the respondents were delayed due to the bureaucracy involved in releasing the data required for the study. Some of the respondents insisted that the researcher must in person appear to have the data given. Since the sampled population was extensive, the study had to involve research assistant, which made the study more expensive than earlier anticipated. Thus the non attainment of 100% respondents.

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## Appendix I: Research Questionnaire

This questionnaire consists of two parts; kindly answer all the questions by ticking in the appropriate box or filling in the spaces provided.

### SECTION A: GENERAL INFORMATION

1. Gender:            Male                        Female           

2. Your age bracket (Tick whichever appropriate)

18 - 24 Years                        25 - 30 Years           

31 - 34 years                        35 - 40 years           

41 - 44 years                        45 - 50 years           

Over- 51 years                        50 - 60 years           

3. What is your education level? (Tick as applicable)

Primary                        Secondary           

Diploma/certificate                        Bachelors' degree           

Others-

specify.....

4. Years of service/working period (Tick as applicable)

1-10 years                        10-20 years           

20-30 years                        Over 30 years           

### IMPACT OF LATF ON REVENUE AT LOCAL AUTHORITIES

5. Do LATF funds affect revenue collection at local authorities?

Yes                        No           

If yes, to what extent?

To a very great extent           

To a great extent           

To a moderate extent           

To a low extent           

To n extent at all

6. Does your local authority get LATF funds in time?

Yes [ ] No [ ]

7. Has revenue in your local authority increased after the introduction of LATF funds?

Yes [ ] No [ ]

If yes, to what extent?

To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a low extent [ ]

To n extent at all [ ]

8. To what extent do LATF affect the following?

	Very great extent	Great extent	Moderate extent	Low extent	No extent at all
Effectiveness and efficiency in revenue collection					
Service delivery					
Financial management and accountability					
Reduction of debts					

9. To what extent do the following conditions for obtaining LATF funds affect revenue collection in your local authority?

	Very great extent	Great extent	Moderate extent	Low extent	No extent at all
Submission of planning and financial information					
Confirmation of payment of required annual statutory creditors' payments					

10. To what extent do the following factors affect revenue collection in your local authority?

	Very great extent	Great extent	Moderate extent	Low extent	No extent at all
LATF structure					
LATF allocation criteria					
LATF submission penalties					
LATF administration					

11. Which of the following projects were initiated with LATF in your local authority?

(You can tick more than one or specify if not listed)

- |                        |   |
|------------------------|---|
| Roads [ ]              | Market stalls/centers [ ]                       |
| PSV stage [ ]          | Security/ street lighting [ ]                   |
| Hospitals [ ]          | Public utilities (toilets, bathrooms) [ ]       |
| Schools [ ]            | Entertainment (sports ground, cinema halls) [ ] |
| Slaughter houses [ ]   | Garbage collection [ ]                          |
| Creditors Payments [ ] | Valuation of Assets [ ]                         |

12. Kindly rate the revenue state of the Council after application of LATF on No. 11.

	Greatly improved	Slightly improved	Constant (no change)	Deteriorated
Roads				
Market Stalls / Centers				
PSV Stage / Parking Slots				
Hospitals				
Schools				
Slaughter Houses				
Street Lighting				
Public Utilities (Wash rooms)				
Entertainment (Sports Ground, Cinema Halls)				
Valuation of Councils Assets				
Garbage Collection				

13. Assess the council charges on the Councils Public utilities after LATF initiation.

	Greatly improved	Slightly improved	Constant (no change)	Deteriorated
Roads toll charges				
Market Stalls Charges				
PSV Stage parking charges				
Hospitals average head charge				
Council's Schools average charge head				
Slaughter Houses per unit				
Entertainment (Sports Ground, Cinema Halls) / occasion/ Hour.				
Public Utilities (Toilets, Bathroom)				
Garbage Collection				
Valuation of Assets ( Valuation roll on rent and rates)				

**Appendix II: Research template on analysis of comprehensive income statements.**

The analysis of comprehensive income statement is a sheet for capturing revenue collection efforts from secondary data. For ease of analysis, the income has been categorized into eight vote heads with miscellaneous being representation of the other income not in the eight revenue heads.

<b>REVENUE ABSTRACTS OF ACCOUNTS</b>						
<b>OWN SOURCES OF REVENUE</b>	<b>PERIOD PRIOR TO LATF</b>			<b>PERIOD AFTER LATF</b>		
	1996 Kshs Million	1997 Kshs Million	1998 Kshs Million	2009 Kshs Million	2010 Kshs Million	2011 Kshs Million
Property rates ( land rent, rates )						
Cess and other levies						
Single Business Permit						
Motor Vehicle parking (closed & street parking)						
Market Fees / Slaughter house						
Contribution in lieu of rates						
Lease / Rent income						
Fines & Penalties						
Miscellaneous (Other income)						

**THANK YOU FOR YOUR CO-OPERATION**