

Efficient Financial Management for Local Governments: The Nigerian Experience

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Abstract

This article attempts to present the local governments' executives with a number of options to consider as they deal with the complex and ever changing questions of financial management for the local community. The paper provides local government officials quick access to a framework of ideas and suggestions that work within the hierarchy of financial management. Finance is immensely important in the running of organizations or governments. Local governments need financial resources to carry out their constitutional responsibilities as regards providing social services as well as mobilizing available resources for effective rural development and good governance at the grass root level. However, investigation revealed that local government has performed below expectations as a result of poor fund management.

This paper which deals with efficient financial management in local governments in Nigeria was written to articulate and discuss the instruments that will help the local government councils to manage their funds adequately and be able to perform their statutory duties accordingly. Specifically, we discussed the various tools and techniques of efficient financial management which could assist the local government with performing their roles. These are as follows: the use of budget, rational approach, incremental approach, zero-based budgeting approach, planning, programming and budgeting system, audit alarm, and auditing approach. A thorough adoption and application of these approaches will improve financial management of local governments in Nigeria and enhance the quality of service delivery at the grass root.

Key words: *local government, financial management, tools of financial management, service delivery*

JEL Classification: *H72, H76*

Introduction

Any organisation that is given the responsibility of ensuring human welfare, development and creation of wealth for the citizens, protection of life and property and promotion of societal good through coordinated and cooperative efforts requires enough finance in order to achieve its target goals and objectives. One of such organisations is Local Government which does not only require capital but it also needs knowledgeable and skilled personnel to manage efficiently the money which is always insufficient to meet its needs.

Finance and its prudent management are the bedrock of effective functioning of local government. No one can doubt the need for efficient financial management in any modern

system¹. According to Tonwe², local governments require finance to perform their statutory provisions which border on provision of services and bringing about development in their delimited areas. Availability of adequate fund, coupled with efficient financial management constitutes the required catalyst necessary for timely execution and completion of development projects by local government.

In recent time, lack of funds has often been attributed as the major problem which had hindered effective and successful execution and completion of many public projects at the local government level. However, experience has shown the contrary that poor finance management, rather than inadequate finance is the bane of local governments' inability to achieve substantial development in their domain.

The aim of this paper is to examine the various methods and techniques that could be applied for effective and efficient finance management in the local government system. In other words, this paper attempts to give decision makers in local government options to consider as they deal with the complex and ever changing questions of financing for the local community. Financial management encompasses many aspects. When working in this field, it is evident that many factors play a role and need to be considered. This guide gives local government officials quick access to a framework of ideas and suggestions that work within the hierarchy of financial management. However, we shall first of all discuss a few preliminaries such as the definition of local government, the role of local government, as well as the financial management.

The Concept of Local Government

Local government is a government at the grassroots level. According to Ojofeitimi³, the word "local" connotes that councils are meant for small communities and the word "government" means that they have certain attributes of government. Thus, local government can therefore be defined as "... a political sub-division of a nation (or in a federal system, a state) which is constituted by law and has substantial control of local affairs including the power to impose taxes or to demand labour for prescribed purposes. The governing body of such an entity is elected or otherwise locally selected. Thus, an essential feature of local government is autonomy. The essential features of local autonomy are summarized below. There are three separate standards to local autonomy – the amount of responsibility devolved, the size and elasticity of resources assigned, and the degree of discretion conferred.

The basic *characteristics* of local government include:

- It is a tier of government which is subordinate to central or regional government.
- It involves both the administrative and political processes of governmental power.
- Its area of authority is delimited by the statute establishing it.
- It has constitutional or statutorily mandated power to perform certain legislative, administrative and judicial functions.
- Its council is made up of elected representatives who are responsible to the electorate in the discharge of the functions assigned to them.
- Within the limit of its power it has legal autonomy to make policies, to prepare its own budget, to hire its own staff and to execute its own policies.

¹ Edosa, E., "Financial Management for Local Government in Nigeria", *Nigerian Journal of Policy Development*, Vol. 2 (June), 2003.

² Tonwe, D.A., *Local Government Administration in Nigeria: A Theoretical and Modernizing Federal Perspective*, Lagos: Amfitop Book, 1995.

³ Ojofeitimi, T., *Managing at the Grassroots: Local Government and Rural Development in the 21st Century*, Lagos: Centre for Management Development, 2000.

- It has a corporate personality.

From the references made to local government institutions in the above paragraph, it is clear that local governments are usually established to achieve three broad objectives. The first objective has to do with the involvement of local citizens in the management of local affairs. The second objective deals with the promotion of both efficient and speedy delivery of basic needs of local citizens. The third objective is to provide a framework within which local resources, both human and material are effectively mobilized.

The Role of Local Government

Local governments in Nigeria have a lot of responsibilities to perform. They have responsibilities for mobilizing local resources, promoting social and economic improvement and development as well as national unity. They are also expected to carry out regional policies with respect to agriculture and selected industries, thereby helping to ameliorate unemployment⁴. Local government at work also revolves round revenue generation, budgeting, development planning, provision of services and community mobilization.

Specifically, the general *functions* of local governments in Nigeria include but are not limited to the following:

- Collection of rates, radio and television licenses;
- Establishment and maintenance of cemeteries, burial grounds and homes for the destitute or infirm;
- Licensing of bicycles, trucks (other than the mechanically propelled trucks), canoes, wheel barrows and carts;
- Construction and maintenance of roads, streets, street lights, drains and other public highways;
- Naming of roads and streets and numbering of houses;
- Provision and maintenance of public conveniences, sewages and refuse disposal;
- Registration of all births, deaths and marriages;
- The provision and maintenance of primary, adult and vocational education;
- The provision and maintenance of health services amongst others;
- Formulation of economic planning and development schemes for the local government area;
- Establishment, maintenance and regulation of slaughter houses, slaughter slabs, markets, motor parks and public conveniences;
- Assessment of privately owned houses or tenements for the purpose of levying such rates as may be prescribed by the House of Assembly of a state;
- Control and regulation of:
 - outdoor advertising and hoarding;
 - movement and keeping of pets of all descriptions;
 - shops and kiosks;
 - cooked food sold to the public;
 - laundries;
- Licensing, regulation and control of the sale of liquor;
- Participation in:

⁴ Obinna, E., *Local Government Financing*, Obosi: Pacific Publishers, 1988.

- provision and maintenance of primary, adult and vocational education;
- development of agriculture and natural resources (other than the exploitation of minerals);
- provision and maintenance of health services;
- Any other functions that may be conferred by the state assembly.

The above-itemized functions of local government are broad, demanding, critical and crucial for ensuring the overall growth and development of various local areas. These developmental imperatives further reinforce the case for viable and efficient financial management for local governments.

Financial Management

The funds of the local government councils are managed by the key officers of respective councils. Financial management has to do with efficient use of funds. It is a method of showing and ascertaining the financial position of government or business from time to time⁵.

Financial Management can be envisaged as consisting of a cycle of activities as shown in Figure 1 below. The aim of this cycle of activities is to ensure that resources are allocated and monitored in such a way that they have the greatest beneficial impact on overall service objectives⁶.

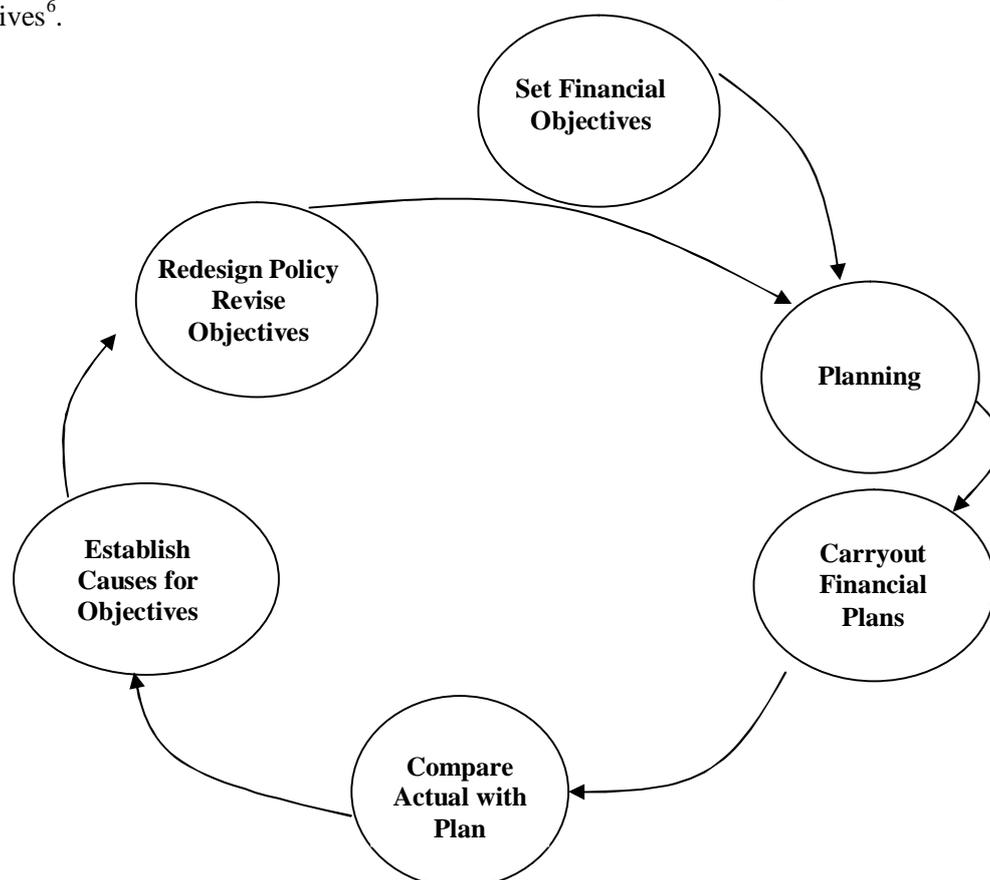


Fig. 1. The Financial Management Cycle

Source: adapted from Omopariola, O., "Financial Management in the Nigerian Local Government", *The Nigerian Journal of Local Government Studies*, Vol. 1, No. 1, 1983.

⁵ Light, H.R., *Nature of Management: An Introduction to Business and Management Studies*, 3rd Edition. London: Pitman Books Ltd, 1974.

⁶ Rose, A., Lawton, A., *Public Service Management*, Harlow: Pearson Education Limited, 1999.

In order to perform finance functions efficiently, the financial managers of the local government have to:

1. Set the financial objectives of the local government.
2. Prepare plans of action and select policies for achieving the objective.
3. Develop financial plans and incorporate these into the overall plans of the local government.
4. Check the achievement of the objectives and evaluate deviations from the plan.
5. Establish causes for deviations.
6. Take corrective action and/or redesign policy or revise the objectives to start a new cycle as illustrated in figure 1 above.

Techniques and Tools for Achieving Efficient Management of Local Government Finance

Traditionally, considerable importance is attached to what can be the money factor in the functioning of organizations in both public and private sectors⁷. One important issue of concern is usually the management of available financial resources. Generally speaking, a number of various approaches for efficient finance management are available. However, the approach to be adapted must take into account the peculiar nature of the project, its environment, purpose and the public it is meant to serve (Nwankwo, 2004). This is because if a “wrong” or “unpopular” approach is adapted for a particular project, it can mar the project completely.

The different approaches that can be adapted for efficient financial management at the local government level include the following:

1. *The Use of Budget*

The use of budget has been a long standing practice in the local government system. Budgetary control is concerned with ensuring that the financial management plan that has been agreed with the board of management is achieved. Control is effected through monitoring expenditure before and after commitment to prevent under expenditure or over expenditure. An effective use of the budget is good for achieving efficient financial management. A budget is a plan of activity expressed in financial terms; such plans are often short term, typically covering a period of one year. When approved, the budget becomes an authority to raise the amount of revenue and incur the amount of expenditure stated therein.

Adamolekun⁸ summarized the *purpose* of a budget thus:

- a short term financial plan;
- a political document couched in figures;
- a management tool used for both planning and control;
- a device for ensuring continuous monitoring procedures, and reviewing and evaluating performances with reference to previously established standards;
- an agent to enable management to anticipate change and adapt to it;
- an overall method for improving operation.

⁷ Adamolekun, L., *Public Administration: A Nigerian and Comparative Perspective*, Lagos: Longman Nigeria. Ltd, 1983.

⁸ Adamolekun, L., *Public Administration: A Nigerian and Comparative Perspective*, Lagos: Longman Nigeria. Ltd, 1983.

It is imperative to note that the budgetary process takes four distinct activities. These are as follows: budget preparation, budget authorization, budget execution and budget monitoring and evaluation. In many governmental arrangements, the agencies or bodies responsible for each of these activities are distinct, with varying degrees of autonomy and interdependence⁹.

At the local government level, the council chairman is ultimately responsible for budget preparation with inputs from the supervisory councilors and local bodies or agencies. It is then approved by the local legislature. In addition, the State Governor's office gives the prepared budget final approval after thorough scrutiny.

However, getting final approval is oftentimes worrisome as it is characterized by too much scrutiny and delayed sanctions by state government functionaries¹⁰. On approval, the budget is returned to the local government council through the department of local government. The approved budget then gives authority to the council to raise revenue and incur expenditure in the financial year.

2. *Rational Approach*

The rational approach is a popular decision-making model. It is usually applied where effective and efficient allocation of resources is needed. The rational approach is generally known as "The Modern Financial Resources Allocation and Control Model" within the financial management circle. Using rational approach for proper financial management entails the following:

- Determination of available resources;
- Determination of objectives for which the resources will be allocated;
- Determination of the alternative courses of action for the achievement of objectives;
- Evaluation of the alternative courses of action for the achievement of objective(s);
- Establishment of decision criteria;
- Allocation of resources;
- Establishment of control measure and feedback mechanism necessary or required performance evaluation;
- Adjustment of future plans and objectives for purposes of future allocation.

3. *Incremental Approach*

Many organizations adopt an incremental budgeting method to produce budget estimates. Incremental approach to financial management involves introduction of gradual changes or adjustment in the allocation and control of financial resources of an organization in order to achieve the desired objectives. Once a system of financial management and control are adopted, only minor or gradual changes or adjustments are required in order to put the system into perfect working condition¹¹.

Incremental approach takes as its starting point the current year's budget and arrives at next year's budget by a series of adjustments to this. The adjustment process is sometimes referred to as rolling forward an existing budget.

⁹ *ibidem*

¹⁰ Tonwe, *op. cit.*

¹¹ Nwankwo, B.C., "Efficient Financial Management Approach for Provision of Social Welfare Services at the Third Tier Level of Government in Nigeria", *Nigerian Journal of Public Administration and Local Government*, Vol. XII, No. 1, 2004.

Incremental method has some advantages. It is a relatively straight forward process; only marginal changes to the existing budget need to be understood and agreed, thereby minimizing the amount of time that need be spent on budget preparation. Hence, it is a relatively inexpensive method of estimating a budget. Additionally, it is easy to operate and allows some degree of flexibility and discretion in the use and management of funds.

4. *Zero-Based Budgeting (ZBB)*

The Zero-base budgeting (ZBB) approach involves preparing a comprehensive budget anew, that is, from a zero base. The novelty of ZBB is that each year an organization should begin its budgetary process with a clean sheet of paper. In other words, ZBB prepares something 'fresh'. It starts from zero or from the scratch. The construction of a new budget for each service from basic principles is referred to as zero-based budgeting. This approach has the effect of focusing attention on such issues as waste, unnecessary performance, leasing versus purchasing of equipment, and so on.

In Zero based budgeting individual cost centre managers are asked to estimate the cost of providing various levels of services, which are then passed up through the organizational hierarchy. At each level in the hierarchy, managers are asked to decide upon the order of the decision packages as a way of ensuring that spending is linked to priorities¹².

One of the major strengths of ZBB is that there is a specific link between budget and activity. The budget process involves specifying objectives and considering cost-effective methods of achieving these objectives. In this way, ZBB eliminates waste, extravagancy, mismanagement of finances of a local government.

The major drawback of ZBB as a finance management tool is that it is time demanding. In other words, it takes lot of time to construct a budget from zero each year.

5. *Planning-Programming and Budgeting System (PPBS)*

As the name implies, the three main features of PPBS are planning, programming and budgeting; the emphasis here is upon a programmatic approach to both planning and budgeting. PPBS is an approach to budgeting which is intended to provide a system that relates expenditure at each stage of the budget to the purposes of that expenditure.

The application of PPBS as a finance management tool allows for weighing the alternatives, analysing of cost and benefits of any project or programme before the commitment of financial resources to the project. A further advantage is that programme budgeting looks beyond the immediate future and is concerned with the long-term effects of activities.

PPBS has a number of drawbacks. Technically speaking, PPBS requires information on costs and benefits that is not readily available, and it is also a time-consuming budgetary method.

6. *Audit Alarm*

Audit alarm is a precautionary method of alerting the appropriate authority or the public about illegal financial transactions or misappropriations that may lead to loss of funds or revenue meant for a project. Audit alarm can be raised by a member of the executive or the general public. This is usually done at any time irregularity is noticed in the management of funds meant for public use. Whenever audit alarm is raised it usually attracts full-scale audit-exercise to ascertain the magnitude of the fraud or irregularity. This method serves as a precautionary warning to those entrusted with the responsibility of the finances.

7. *Auditing Approach*

¹² Rose and Lawton, *op. cit.*

The regular audit method complements the good efforts of audit alarm. Audit is more or less a practice which may be called a technique for ensuring a more effective internal check on financial management. There should be regular and independent examination of the books of accounts by appointed qualified auditors to ensure that the statement of account as recorded represents a true and fair-view of all the transactions as during the period under investigation.

Regular auditing of account would ensure sanity, prudence and probity in the use and management of finances.

Conclusion

Finance is very important in the running of organizations or governments. Local governments have a number of functions to carry out. As such, its finances need to be efficiently managed and judiciously utilized.

Financial management is about efficiency in financial matters. It is about effective use of available financial resources. It is about financial alertness. Efficient financial management is necessary for the successful execution of projects and delivery of quality services at the local level.

Efficiency in financial management in any organization is always achieved through organizational determination to pursue excellent performance. It entails self-discipline on the part of top, middle, and low level managers in the organization. In this article, we have tried to define what is meant by local government. We also discussed the role of local government and threw more light on the meaning of financial management. Thereafter we discussed the various financial management methods, tools, and techniques such as: the use of the budget, rational approach, incremental approach, zero-based budgeting amongst others.

However, the efforts of local governments' executives to attain some financial autonomy in running their councils are being disturbed by the intervention of state governments in local functions. In some cases, revenues meant for local governments have even been taken over by state governments. It follows that as much as possible, the federal government should reduce or eliminate areas of conflict between local and state governments.

We encourage local government administrators in Nigeria to borrow from their counterparts in the private sector who have always emphasized corporate growth and viability in their management styles. The financial resource of the local government should be efficiently managed for the general growth and development of the local government areas.

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Managementul financiar eficient la nivelul guvernelor locale: experiența nigeriană

Rezumat

Acest articol își propune să le ofere decidenților din guvernele locale câteva opțiuni demne de luat în considerare atunci când au de-a face cu întrebările complexe și în continuă schimbare privind managementul financiar în comunitatea locală. Articolul oferă oficialilor guvernamentali locali acces direct și rapid la un complex de idei și sugestii care funcționează în cadrul ierarhiei managementului financiar. Finanțele sunt extrem de importante în conducerea organizațiilor și guvernelor. Guvernele locale au nevoie de resurse financiare pentru a-și îndeplini responsabilitățile cu privire la oferta serviciilor sociale, precum și pentru mobilizarea resurselor disponibile pentru dezvoltarea rurală eficientă și buna guvernare la nivel local. Totuși, cercetarea a dovedit că guvernul local a acționat sub așteptări, ca urmare a managementului inadecvat al fondurilor.

Articolul de față, abordând tema managementului financiar eficient la nivelul guvernelor locale din Nigeria, a fost conceput pentru a formula și discuta instrumentele care îi vor ajuta pe consilierii guvernului local în administrarea adecvată a fondurilor și îndeplinirea datorilor legale în mod corespunzător. Am adus în discuție în special tipuri variate de instrumente și tehnici de management financiar care ar putea să asiste guvernul local în îndeplinirea rolurilor sale. Acestea sunt: utilizarea bugetului, abordarea rațională, abordarea intensivă, abordarea bugetării de la zero, sistemul de planificare, programare și bugetare, alarma de audit, metoda auditului. Adoptarea și aplicarea corespunzătoare a acestor abordări va îmbunătăți managementul financiar al guvernelor locale din Nigeria și va spori calitatea ofertei de servicii la nivel local.