FACTORS AFFECTING REVENUE COLLECTION IN LOCAL AUTHORITIES

IN KENYA

(A CASE OF MUNICIPAL COUNCIL OF NYERI)

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DECLARATION

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

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May God bless you all
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<tr>
<td>Cap</td>
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<tr>
<td>DFID</td>
<td>UK Aids for Department of International Development</td>
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<td>FAO</td>
<td>Food Agriculture Organization</td>
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<td>FRTFLA</td>
<td>Financial Reporting Template for Local Authorities</td>
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<td>GPT</td>
<td>Graduated Personal Tax</td>
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<td>GTZ</td>
<td>Germany Technical Cooperation</td>
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<td>JICA</td>
<td>Japan International Cooperation Agency</td>
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<td>LABG</td>
<td>Local Authorities Budget Guidelines</td>
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<td>LAIFOMS</td>
<td>Local Authorities Integrated Financial Operations and Management Systems</td>
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<td>LAs</td>
<td>Local Authorities</td>
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<td>Local Authorities Transfer Fund</td>
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<td>Local Government Commission of Inquiry</td>
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<td>LNCs</td>
<td>Local Native Council</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MC</td>
<td>Municipal Council</td>
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<td>MLG</td>
<td>Ministry of Local Government</td>
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<td>NURM</td>
<td>National Urban Renewal Mission</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>PEPOA</td>
<td>Research Poverty Alleviation</td>
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<td>PPP</td>
<td>Public Private Partnerships</td>
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OPERATIONAL DEFINITION OF TERMS

Revenue collection is the income of a government from taxation, excise duties, customs, or other sources, appropriated to the payment of the public expenses i.e the collective items or amounts of income of a person, a state, or the return or yield from any kind of property, patent, service rendered.

Revenue enhancement plans entails processes involved to increase revenues, especially by way of increased taxes. Revenue enhancement includes reducing taxpayer deductions and eliminating tax credits i.e.it usually refers to raising taxes indirectly, especially by eliminating deductions or credits.

Local Authority integrated financial and operations management system is a tool that will assist local authority administrators in interpreting the financial outcomes of operational decision-making. It will help administrators to decide whether local authority programs financial health is better or worse than during previous accounting periods or past budget periods.

Government policies refer to the principles or rules to guide decisions and achieve rational outcome(s). Normally used to denote what is actually done, either procedure or protocol. Whereas a policy will contain the 'what' and the 'why', procedures or protocols contain the 'what', the 'how', the 'where', and the 'when'.

ABSTRACT

Many local authorities have adequate revenue bases to finance the current level of services, but collection levels are often low. Improvement of revenue collection in Local Authorities is the key to meeting their financial obligations leading to realization of their mandate to offer quality and timely services to the residents, the demand for which may exceed the available resources. The purpose of the study was to establish the factors affecting revenue collection in local authorities. The study narrowed on effects of government policies and regulations, local authority information financial and operations management systems, revenue enhancement plans and employee skills on revenue collection. Relevant literature was reviewed. Employing a descriptive research design the study targeted civic leaders, public officers and chief officers in Municipal Council of Nyeri who totaled to 354. Using disproportionate stratified sampling, the researcher selected 130 civic leaders, public officers and chief officers to participate in the study. Data was collected using a structured pre-tested questionnaire. Data analysis was done with the help of SPSS version 20 and presentation done in terms of frequencies and percentages in the form of figures and tables. The study found that Local Authority Information Financial and Operations Management Systems (LAIFOMS) was picked by most (27%) respondents as the factor with the highest influence on revenue collection while according to 24% of the study participants, government policies had the least influence on revenue collection. Regression analysis revealed that LAIFOMS (sig. = 0.017) and employee skills (sig. =0.038) explained up to 27% of local authority revenue collection. The study concluded that the revenue collectors appreciated the role of information technology in ensuring effective revenue collection however the availability and accessibility was a hindrance to effective LAIFOMS implementation. Among others, the study recommended that the effectiveness of the local Authority Information Financial and Operations Management Systems (LAIFOMS) can be bolstered by increasing tea availability of computers and adding more staff to ensure efficiency in revenue collection.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

According to Waema (2006) the world has recently witnessed massive economic turbulence particularly in the United States of America and Western Europe resulting from the international financial crisis. The effects of this turbulence have yet to be fully appreciated in Africa. However, there will definitely be some element of economic slowdown as Kenya competes for scarce investment funds with other economies. This poses additional challenges for Kenya which has recently seen a decline in financial remittances by Kenyans in the Diaspora as a significant source of development funding.

He further points out that other emerging global economic issues including globalization and the increasing trend towards free market economies require that Kenya becomes a globally competitive economy. This means exploiting the opportunities in which the country has comparative advantage.

According to Mahi (2002) revenue mobilization means to receive or collect money from internal and external source of government. Local revenues mobilized in most urban authorities in Africa are necessary but not sufficient to develop and supply adequate services for the fast-growing urban population. The growth of Africa's towns and cities has outpaced local authority capacity in terms of management, infrastructure, and financing. Many African towns and cities are now faced with a governance crisis. Accordingly, the capability and capacity of urban local government to provide basic services to a growing population have entered the core of the development debate. In particular, fiscal decentralization, the devolution of revenue mobilization
and spending powers to lower levels of government has become a main theme of urban governance in recent years.

Grabowski (2008) affirms that Local Authorities have a critical role to play in the realization of the Kenya Vision 2030 objectives. There is need to facilitate them in creating conducive investment climate so that they can compete effectively with other LAs in the region in attracting Foreign Direct Employment (FDI). The current scenario where Official Development Assistance is consistently decreasing while the proportion of Private Capital Flows is increasing presents Local Authorities with a challenge to improve their management practices and introduce efficiency in their operations in order to qualify for private sector financing. The emerging trend where public institutions are partnering with the private sector through Public Private Partnerships (PPP) calls for effective facilitation of the Local Authorities in forging very close working relationships with the private sector. The challenge is to build capacity in the Ministry and the Local Authorities for professional management of such PPP initiatives.

At the dawn of independence by 1963 notes Bird (2007) there were four types of LAs; the municipalities, the county councils, the African district councils and the townships, whereby white settlers led the first two. Local government was regulated through the provincial administration until 1993 when the ministry of local government (MLG) was created and took over this function. After independence several significant changes were effected in 1963 to unify the system of local government. All ordinances governing local government administration during the colonial period were repealed. Local government regulations, 1963 were passed to provide a legal framework that defined the new systems of local government. A provision was made for the council elections based on a common electoral roll. They also defined powers and functions of Local Authorities and reorganized their grading structure. A new graduated personal
tax (GPT) was introduced to replace the poll tax. Both primary education and public health services were decentralized to Municipal and County Councils. The changes had three major outcomes; The executive authority was removed from the District Commissioners and vested in Local Authorities (Las), the control of Las was removed from the Provincial Administration and placed under the Ministry of Local Government and the responsibility for the provision of health and primary education was assigned to the county and Municipal Councils.

1.1.1 Municipal Council of Nyeri

Nyeri district is one of the seven districts of Central Province and forms part of Kenya’s eastern highlands. It covers an area of 3,266 sq km and is situated between Longitudes 36° and 38° east and between the equator and Latitude 0° 38’ south. The district borders Laikipia District to the north, Kirinyaga District to the east, Muranga District to the south, Nyandarua District to the west and Meru District to the northeast. The main physical features of the district are Mt. Kenya (5199m) to the east and the Aberdare range (3999m) to the west. The district is sub-divided into seven divisions, and Nyeri municipal council who fall under municipality. The structure of local authorities is characterized by the political and the administrative arm. The local authorities provide a link between the council committees and the various administrative departments. The political arm is the policy making arm of the local authorities and it consists of elected and nominated councilors who are members of the council. It is run through a committees system as mandated by the Local Government Act cap265 such as: Finance, Planning, Works and Markets, Educational and Social Services as well as Health and Environmental Services Committees. (GOK, 1999)

The administrative arm consists of the Town Clerk as the chief administrative officer as the head of executive arm. Other heads of department such as the Treasury, Planning, Public Health, and
Engineering from salary scale 1-9 are all appointed by the public services commission of Kenya. The rest of the Local Authorities personnel in salary scale 10-18 are employed by the Local Authorities under the delegated powers of Public Service Commission of Kenya. The Local Authorities are divided into electoral wards through which the area councilors are able to reach to the citizen at the grass root levels (LABG, 1995).

1.2 Statement of the Problem

It is clear from the onset that there is great need for local authorities to have sufficient funds to deliver the much needed community services. Onsindu (2007) argues that local authorities play an important role in the provision and maintenance of public services in their area of jurisdiction. They are mandated by various pieces of legislation to tap and collect revenue from a wide range of sources of revenue including untapped revenue. However, increasing urban population and lack of prioritization poses challenges of providing adequate services whose costs continue to rise against a narrow and static revenue base.

According to Mahi, (2002), there is a need of controlling tax collection requirements in order to enhance revenue collection process by considering optimum rate structure, appropriate rules and regulations and human capacity; Increasing control to reduce leakage by performing surprise audits to compliment self-assessment procedure, improving the control processes, put efforts to enforce a strict and heavy penalty for non-compliance, instill financial discipline to staffs that have contributed to leakage in local revenues and make efforts to link tax payment with services provided by local government; improvement of administration and better revenue planning in revenue performance is also critically dependent upon the ability of local authorities to minimize the cost of collecting revenues by improving the existing tax administration procedures through administrative simplification. Efforts should be put in place to calculate collection efficiency for
each type of revenue, to reduce cost of collection and to eliminate the identified factors in the field that has contributed to sub-optimal revenue.

Collecting revenue in Municipal Council of Nyeri (MCON) is riddled with inefficiency and ineffectiveness. This calls for a change in attitude by placing prominence on efficiency in revenue collection over effectiveness. It is an involving process that requires proper preparations before embarking on the exercise. Collection of revenue includes preparing and issuing bills, informing debtors on amounts through sending demand notices in their mail. It can also be done through revenue collectors' efforts. Record keeping provides timely information on persons receiving services and follow up on amounts outstanding. It requires staffs that are diligent, well trained and committed to their work. (LABG, 1995)

According to KLGRP (1998) Local Authorities have not been successful in achieving their obligations due to the fact that their expenditures always outstrip their revenues. What is not known is whether all the revenue due to these LAs is fully collected or not. The previous studies only sought to improve on Local governance, services delivery and transfer of resources from the central government to the local authorities. This has been attributed to lack of investigation into the factors that affect collection of revenue among LAs, which forms the basis of this study, which would reveal such factors and LAs would therefore take remedial action. This study intended to contribute to previous research in that it seeks to offer greater understanding in managing revenue collection in local authorities.

1.3 Study Objectives

The study will be guided by the following research objectives:-
1.3.1 General Objective

The general objective of this study was to establish the factors affecting revenue collection in local authorities.

1.3.2 Specific Research Objectives

The study was guided by the following research objectives:

i. To determine how government policies and regulations affect revenue collection in local authorities.

ii. To assess how Local Authority Information Financial and Operations Management Systems (LAIFOMS) affect revenue collection in local authorities.

iii. To establish how revenue enhancement plans affect revenue collection in local authorities.

iv. To find out how employees' skills affect revenue collection in local authorities.

1.4 Research Questions

To address the above objectives, the following set of research questions were used:

i. How do government policies and regulations affect revenue collection in local authorities?

ii. How do LAIFOMS affect revenue collection in local authorities?

iii. What are the effects of revenue enhancement plans on revenue collection in local authorities?

iv. How do employees' skills affect revenue collection in local authorities?

1.5 Significance of the Study

For the Local Authority policy makers the study will offer guidelines to the LAs financial management decision makers on how to carry out revenue mobilization and administration for
better service delivery. It will add value and enlighten the policy makers on the factors that affect revenue collection in LAs. There is need therefore to know the factors affecting revenue collection in provision of local services to the residents at the local level to ensure full exploitation of all revenue sources.

This study will be significant to the LAs in that recommendations arrived at will guide the policy makers not to politicize revenue collection and instead appreciate the importance of putting up mechanisms of enhancing revenue collection and minimizing leakages in order to enable them offer the required services effectively. The officers will also benefit from the findings of the study in that corrective measures will be put in place and policies formulated to harness revenue collection. The study will also act as a source of reference materials to future researchers who would wish to do a deeper study into this area.

1.6 Justification of the study

Various studies about the revenue collection have been carried out globally but none has earmarked Municipal Council of Nyeri. According to the daily Nation of 17th July, 2012, traders in Kamukunji market in Nyeri protested in the streets in the manner in which the council was collecting revenue in form of rent from them. In addition to this, the traders had earlier on held demonstrations on the streets demanding that the council stops revenue collection from them until they agreed on some parameters. Effective exploitation of this inherent institutional and structural comparative advantage will not only create a conducive environment for other key sectors to thrive, but will also contribute directly to the development of the foundations for Kenya’s Vision 2030 such as security, infrastructure and enhanced equity and wealth creation.
1.7 Scope of the Study

The study was carried out in the Municipal Council of Nyeri to ascertain the factors that affect revenue collection in the council. According to the MCON annual approved budget, 2011/2012, the target population of this study will be 354 respondents who are 15 civic leaders who were either elected or nominated, one public officer, 16 chief officers in salary scale 1-9 and 322 officers in salary scale 10-20 in the Municipal Council of Nyeri as at the time of the study. The study was carried out from April 2012 to December 2012. The study addressed sources of finances that originate directly from its service provision activities.

1.8 Study Limitations

The researcher was faced with suspicions from the councilors and the officers of the council due to the perception of poor image that the public have about LAs. Some of the targeted councilors and officers hesitated to fill in the questionnaires suspecting that they are being targeted for investigation. The researcher was able to overcome this by seeking consent from sampled respondents and assuring them that the findings of the study were for academic use only. The revenue points in the council’s expansive area of jurisdiction were far from one another and one research assistant was not be adequate to pay attention to all the people who had been given the questionnaire in the Municipal Council of Nyeri, the researcher overcame this by hiring the services of 8 enumerators. The researcher encountered limited literature owing to the fact that not much has been done in this area, however to ensure that the literature review was extensive, the researcher sought access to other university libraries.

1.9 Assumptions of the Study

The assumptions of the research were that the responses given were honest, truthful and represented the respondents’ accurate feelings and perceptions into the study, that the
respondents were available for the study considering that they were on duty serving the residents of Nyeri, that the Councilors would be in existence in the MCON considering that the country was gearing for the next general elections possibly in March 2013, that there would be no major reshuffle of the chief officers and officers in salary scale 1-9 who are transferable to other Local authorities in the country during the research period, that there would be no change of boundaries thereby affecting the area of jurisdiction of the MCON, and that once the research is through, the report would be ready in a month’s time.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction
This chapter examines literature that is related either directly or indirectly to the study. This was done by reviewing existing theoretical and empirical literature. The chapter also reveals the conceptual framework to guide the study.

2.1 General Overview of Available Literature
Raising revenue is the core objective of any tax system, but revenue is not the sole concern. LAs have two main sources of revenue, namely grants from the central government and revenue from local sources. Local revenue include: user charges and taxes from local sources which include: property rates, single business permits, plot rent, quarry fees, market and bus park fees, water and agricultural cess, national reserve and park fees. Municipalities rely more on water and sewage fees, property rates and single business permits while county councils and town councils on single business permits, market fees, bus parks and cess revenue notes (Mitullah and Kiura, 2006).

According to Brautigam (2004) the spending needs of developing countries are substantial and both greater and, ultimately, more sustained than can be met from foreign assistance. In low-income countries the revenue imperative is stark: over 20 still have tax ratios fewer than 15 percent. The world has recently witnessed massive economic turbulence particularly in the United States of America and Western Europe resulting from the international financial crisis. The effects of this turbulence have yet to be fully appreciated in Africa. However, there will
definitely be some element of economic slowdown as Kenya competes for scarce investment funds with other economies. This poses additional challenges for Kenya which has recently seen a decline in financial remittances by Kenyans in the Diaspora as a significant source of development funding.

Wright (2005) cites an example of the Government of India's National Urban Renewal Mission (NURM), which aims to improve urban infrastructure, including provision of services to the urban poor and the resource implications of this. While recognition of the importance of local service delivery and the decentralization of responsibilities to local government is to be welcomed, it is important that there is equal recognition that this must go hand-in-hand with financial empowerment of local government. Unless local government has adequate resources to deal with its new tasks, it will not be able to deliver the quality of services expected. The issue of municipal and local government finances is thus fundamental to the debate on local democracy, good governance and effective service delivery through public-sector decentralization.

Gupta and Tareq (2008) defined resourcing as the total means available to local government to meet local developmental objectives aimed at increasing the quality of life for its citizens. These include financial resources; municipal land and buildings; extensive networks with community, private and international organizations; planning instruments; knowledge of markets; business and financial management expertise; and linkages to the international donor community and finance institutions. In identifying resources to fund municipal services, financing in the form of central government transfers or through domestic borrowing is critical, but is only one ingredient towards expanding service provision to rapidly growing urban centers. Even with good data, no single framework can take full account of the high complex issues involved in assessing an appropriate fiscal role for local governments. Great variations in the internal situation of
Commonwealth countries can influence significantly the ideal assignment of public service responsibilities and revenue generating powers among levels of government, as well as the types of reforms required to deal with.

According to the Local Authorities Budget Guidelines, (1995), councils collect revenue from their own sources which fall under the following categories; various taxes imposed by the council including property tax, services levy and rent charged for the use of council properties; various fees imposed by the councils to allow the carrying out of certain activities in their areas of jurisdiction e.g. trade license fees, intoxicating liquor licenses fees, registration fees for taxi cabs and commuter taxi buses; and fees and charges levied by councils on the people who make use of services rendered by the council or those who use its facilities e.g. abattoir fees, ambulance fees and dipping fees. Local government authorities collect revenue from numerous taxes, fees and charges. So, even though the need for councils to step up efforts in revenue collection is appreciated, it is also important to analyze and look into the possibility of reducing the number of taxes, fees and charges which are currently levied and collected by local government authorities. This is prompted by the fact that some of the taxes and charges which are imposed are not only difficult to collect but also unproductive in that their cost of collecting them is higher than the revenue takings.

Fahim (2005), contends that local units in the USA have had inadequate revenues to meet their needs, which have also led to prioritizing; that has left some needs short-changed, such as infrastructure financing. Furthermore, financial inadequacy has also driven authorities to privatize and arrange for intergovernmental service agreements. Most local government authorities rely heavily on intergovernmental transfers (more so for smaller units than larger ones), property taxes, charges (that usually cover the cost of services provided for the charges)
and miscellaneous income used at the local level in all states. Because of its immobility, real property is the major tax base. However, tax protests have been very effective in putting limits on property taxes. He further points out that other revenue sources include income and sales taxes, are not evenly available because states generally prefer to keep this revenue stream for themselves. In general, local government responsibilities have increased but their own revenue sources have not kept pace. For this reason intergovernmental transfers have filled the void. These revenues, however, generally appear to have peaked leading to local government struggle to locate other revenue sources. Revenue patterns vary by local government type, diversity of purpose, delegated authority and outside financing. Counties and municipalities are general purpose units (as opposed to special districts that are limited to specific purposes and revenue sources related to them) that have the broadest range of revenue sources. They rely for the most part on property taxes and charges, intergovernmental transfers, sales and income tax. Townships rely more on property taxes than counties or municipalities, except in the states of the New England region where they are indistinguishable from municipalities.

He further points out that local governments in the USA, in an environment of constraint are becoming more interested in locating ways to control costs while maintaining high quality public services via the route of privatizing public services. The resulting efforts have produced mixed results. Cities have always contracted for some services however; they are now increasing the scope of services to be privatized. There is no uniform pattern because cities have tended to prefer tailored solutions, even though some have looked to others for guidance. Philadelphia, Atlanta and Chicago all successfully undertook the contracting of services, in different ways, under Mayors Ed Rendell, Bill Campbell and Richard Daley. Under Mayor Stephen Goldsmith, Indianapolis set a leading example where unionized labor was permitted to compete for
contracts. Those American cities that have looked to the delivery mechanism of alternative services have illustrated that diversity is the norm.

FAO (2004) contends that the transfer of responsibility for providing services from central government to local levels of government worldwide has created new need for sustainable, local sources of revenue. Providing an adequate level of services can be difficult for rural local governments which typically have limited tax bases compared with urban centers. Most local government authorities rely heavily on intergovernmental transfers (more so for smaller units than larger ones), property taxes, charges (that usually cover the cost of services provided for the charges) and miscellaneous income used at the local level in all states. Functions of local government include local development, land use planning, protection of the natural and built environment, housing, water supply sewage, drainage of rainwater, public cemeteries, local public roads and public areas, local public transport, fire protection, local public security, primary education including kindergarten, health care, social services, cultural and sport activities, libraries and cultural centers throughout the country. Instead, many government services are relatively easily available only to those living in the major cities, and there is a lack of presence of central government agencies in outlying regions.

According to the GOK (2005) local authorities are mandated to provide a wide spectrum of services to the public that not only directly impact on good governance and service delivery at the local level, but also have the ability to effectively target the disadvantaged groups within the society with pro-poor interventions, whilst ensuring implementation of the Millennium Development Goals. The Ministry has a facilitative role in broadening and deepening the level of services currently being rendered by Local Authorities and which are critical to the implementation of the Kenya Vision.
2030. The nature of this facilitation will be in the form of support to Local Authorities to fully undertake their mandates and utilize the latent potential provided by the legal framework under which they operate.

2.2 Theoretical Literature

The study sheds light on revenue mobilization that determines the service delivery in local authorities. The research adopted two major theories to guide the study; economic theory and the subsidiary principle theory. Economic theory is a broad concept for the explanation and understanding of the movement of goods in a market. Theoretical economic concepts typically have scientific backing or studies to prove or disprove a stated hypothesis. National governments also have an interest in economic theory. Politicians rely on studies of government spending, tax collections, money supply, and consumer spending data to make laws or set policy. Different economic theories exist that focus on different aspects of government policy regarding economics.

According to Kneebone and McKenzie (2003) classical economic theory tends to favor a free market system. Under this theory, little government intervention is necessary to help support a society. Classical economists believe that individuals allowed to act in their own self-interests will present a strong group of consumers. Terms like capitalism and supply side economics also describe this theory. The protection of personal property through courts of law is often a major component of free market economic theory. Another classic economic theory is command economies driven by national governments. Terms associated with these economies include socialism and communism. The main ideas behind these theories are that governments control the majority of economic resources. Governments allocate resources, give jobs to certain classes
or people, and regulate the economy through heavy taxation. The redistribution of wealth attempts to ensure an equal status for all individuals living under the government's umbrella.

Contingency theory posits the view that there is no universal control system that is best but that the circumstances or context faced by the organization determine which control systems are appropriate. Oates (2005) stated that the choice of a technique or system is inherently dependent on specific circumstances." The selection proposition form of contingency theory hypothesizes a simple unconditional association between an organization's context, e.g. production technology employed, and the control systems utilized. In addition, existing theoretical and empirical work has focused exclusively on the public accounting sector, leaving other prominent sectors such as governmental auditing unexamined despite calls for such research.

According to this perspective, managers need information to cope with the uncertainty of the tasks performed by the work unit. As work-related uncertainty increases, the need for information increases. Thus, the greater the uncertainty faced by the work unit, the greater its information processing requirements. The supervision practice used by the work unit (expressed in terms of the coordination and control procedure it uses) serves as the formal mechanism that provides the financial information. Application of contingency theory of accounting capacity for the work unit, with different control procedures providing different capacities, as a consequence, the more the information needs (i.e. task uncertainty) fit the information processing capacities adopted by the work unit (expressed in terms of the control procedures it uses), the more should work unit effectiveness be enhanced.
According to Barnett (1997), the subsidiary principle theory observes that efficient provision of services requires that decision-making be carried out by the level of government that is closest to the individual citizen. As long as there are local differences in tastes and costs, there are clear efficiency gains from delivering services at the local level. This principle goes on to say that expenditure responsibilities should only be assigned to a higher level of government if it can be demonstrated that it can carry out the function more efficiently than the lower level. With few exceptions (such as national defence and services that involve income redistribution), almost all public services should be provided at the local or regional level with local policy-makers making decisions about what services to provide, how much to provide, and who should pay for them.

According to Waema and Bauman (2008) Vroom's expectancy theory assumes that behavior results from conscious choices among alternatives whose purpose it is to maximize pleasure and to minimize pain. Vroom realized that an employee's performance is based on individual factors such as personality, skills, knowledge, experience and abilities. He stated that effort, performance and motivation are linked in a person's motivation. He uses the variables Expectancy, Instrumentality and Valence to account for this. Expectancy is the belief that increased effort will lead to increased performance i.e. if I work harder than this will be better. This is affected by such things as having the right resources available (e.g. raw materials, time), having the right skills to do the job and having the necessary support to get the job done (e.g. supervisor support, or correct information on the job).

They further points out that instrumentality is the belief that if you perform well that a valued outcome will be received. The degree to which a first level outcome will lead to the second level outcome i.e. if I do a good job, there is something in it for me. This is affected by such things as
clear understanding of the relationship between performance and outcomes – e.g. the rules of the reward 'game', trust in the people who will take the decisions on who gets what outcome and transparency of the process that decides who gets what outcome. Valence is the importance that the individual places upon the expected outcome. For the valence to be positive, the person must prefer attaining the outcome to not attaining it. For example, if someone is mainly motivated by money, he or she might not value offers of additional time off.

2.3 Empirical review

According to Mitullah and Kiura (2006) studies carried out on the factors affecting revenue collection in local authorities' aims at improving the local authorities' financial management and revenue mobilization particularly by deploying and applying Information Financial Management System (IFMS). The already existing LATF, and now the e-government project, should accelerate the acquisition of these systems by LAs and enable them realize the objectives of the KLGRP.

They further pointed out that Mavoko and Nyeri Municipal Councils were the first to benefit from IFMS in 1999. Since the beginning of the implementation of IFMS, it has been extended to six other LAs, Karatina, Embu, Eldoret Municipal Councils, Kiambu, Wareng and Kirinyaga County Councils. In these councils, IFMS is used for all financial management activities, including the billing and collection of all local revenues, the payroll, and all expenditure controls including issuance of vouchers, procurement, payment of statutory debts and project expenditure management. The financial administrative activities are linked through the budget monitoring system, generating a series of operational and management reports to assist in controlling, monitoring, and managing all financial activities within the LA. The IFMS was later broadened and renamed Local Authority Financial Operations Management System (LAIFOMS). In
Mavoko and Nyeri, computerization of services such as Single Business Permits (SBPs), rates and water billing systems has made service provision more efficient. (Mitullah and Kiura, 2006)

De Mello and Barenstein (2001), based on cross-country data for up to 78 countries, show that fiscal decentralization, the assignment of expenditure and revenue mobilization functions to sub-national levels of government is associated with various indicators of governance, such as corruption, rule of law, and government effectiveness. Unlike previous studies in the decentralization/governance literature, which focus primarily on expenditure-based measures of decentralization, the results reported in this paper show that the relationship between decentralization and governance depends on how sub-national expenditures are financed. The higher the share in total sub-national revenues of non-tax revenues and grants and transfers from higher levels of government, the stronger the association between decentralization and governance. These findings are supported by Gulsun Arikan (2000) who suggests that fiscal decentralization can boost social capital and, hence, bring the government closer to the people.

Fisman and Gatti (2002) examine this hypothesis empirically by studying the mismatch between revenue generation and expenditure in U.S. states. They find that larger federal transfers are associated with higher rates of conviction for abuse of public office, which supports the theory that soft-budget constraints created by federal transfers are potentially problematic. In cross-country regressions covering 57 countries with data referring to the period 1980-95, Fisman and Gatti (2002) suggest that fiscal decentralization in government expenditure is strongly and significantly associated with lower corruption. This result is supported by Gulsun Arikan (2000), who examines the effect of fiscal decentralization on the level of corruption. It is theoretically shown that increased decentralization causes more competition for capital among jurisdictions, resulting in a lower level of corruption.
Fjeldstad (2001) in a study of the relations between local bureaucrats, politicians and donors in local government revenue enhancement in Tanzania found out that fiscal administrations in many local authorities are found to be highly corrupt, partly due to the extreme degree of discretionary fiscal power held by local officials, and poor (or non-existent) monitoring from above. The article also shows that coercion is likely to be an integral part of the effort to raise local government taxes. Furthermore, the study demonstrates that the involvement of donors through arrangements which supply development aid on the basis of matching funds from the local government may induce increased tax effort, but at the expense of accountability responsibility and democratic development. Increased tax effort is achieved through coercive methods, often characterized by violent and extortive forms of enforcement. It is argued that coercive tax collection has important consequences for citizens’ rights and for the democratization process. If taxpayers’ rights are unclear for both taxpayers and tax authorities, tax compliance and accountability will be affected. Moreover, as long as coercion is accepted as an integral part of tax collection it is unlikely that state-society relations can become more accountable and democratic.

Okongo (2005) observes that a study conducted in Bungoma district in 2005 reveals that most of the LA’s sampled were not aware of the e-government strategy released in March 2004. Those that were had learned about it through the media and not the usual official circulars from the Ministry of Local Government. Local authorities did not know what to expect from the e-government strategy. All they knew was that there were advantages to adopting e-government and they would like to have those benefits.
2.4 Summary and Gaps to be filled
From the above literature review it is clear that local authorities are being strengthened so as to improve service delivery. The studies revealed that major financial reforms in Kenya LA(s) were introduced in the 1990s with an aim of improving service delivery and local infrastructure as a result of LAs monies. However, not enough studies have been carried out to assess the effectiveness of the revenue collection on the improvement of local authorities in service delivery. However, the biggest challenges that local government practitioners are faced with is the question of raising enough money to finance the services required. The manner in which the funds should be raised, how high or low the rates should be and the charge criteria to be used to set expenditure priorities has been a big challenge. The criteria for deciding on revenue sources should be based on relationship between such sources and the services they are expected to finance. This should provide a guideline as to where funds should come from. On the other hand goods and services should be paid for according to benefits received and the ability to pay. The benefits principle implies that those who use goods and services derived exclusive benefits from their consumption and as such they should be obliged to pay through direct charges, meaning that people should pay the full cost of service or facility they have enjoyed. This principle is appropriate in cases where one has got a choice to consume or not to consume the services. The public has a perception that many local authorizes are indeed not able to finance their obligations for lack of sufficient revenues. It these gaps that the current study intends to fill by investigating the factors that affects revenue collection in Municipal Council of Nyeri.

2.5 Government Policies and Regulations and Revenue Collection
GOK (2005) notes that the Kenyan local governance system is composed of four tiers of Local Authorities (LAs), namely: Cities, Municipalities, Towns and County Councils. These councils
are corporate entities that are established under the Local Government Act Chapter 265, overtaken by the new constitution. In addition to the Act, the LAs draw their legal powers from the Constitution of Kenya, other Acts of Parliament, Ministerial Orders and By-Laws. Currently there are 175 LAs in Kenya, which include City Councils, Municipal Councils, Town Councils and County Councils with Ministry of Local Government as the overall overseer of their operations.

It further points out that the above legal bodies constitute Local Government in Kenya, the local governance framework in Kenya is broader than the LAs. It consists of provincial, district, location and sub-location administration with technical staff drawn from various ministries. Inherent in the gamut 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, parastatals, District Development Committees, LAs and the private sector. This has been a problem at an operation level, with most of the institutions and organizations lacking synergy. New Constitution in place, the LAs has an advantage since they already have a participatory electoral framework in place.

Since the beginning of 1990, when the Government of Kenya began implementing Structural Adjustment Programmes (SAPs), followed by civil service sector reforms in 1993, a number of reforms have been realized. In particular, there has been a deliberate attempt to decentralize governance by moving away from a centralized political system where citizens hardly make any contribution in governance of resources, to a decentralized political system where the inputs of citizens is considered critical to development (Radcliffe and Mitullah, 2003). This has witnessed the review of the Constitution, which is already promulgated leading to development of various
Acts of Parliament, the development of Strategic Plans by Government Ministries and parastatals as well as the adoption of RBM by public institutions.

In 1996, a decentralization initiative under the Local Government Reform Programme was launched focusing on strengthening LAs. The programme had three components: rationalizing central-local financial relations, improving LA financial management, including revenue mobilization, and strengthening citizen participation in planning and ownership of programmes. The reform programme has recognized the importance of LAs in enhancing economic governance, improving public service delivery, and increasing economic efficiency, accountability and transparency (GOK, 1999). The reforms have also included putting in place Fuel Levy Fund, Contribution in Lieu of Rates, user charges rationalization, single business permits and most greatly Integrated Financial Management System (IFMS). These programs aim at restructuring the local public sector and more importantly, strengthening local level accountability mechanisms.

The Kenya Local Government Reform Programme (KLGPRP) was conceptualized by the government of Kenya in the early 1990s and became operational in 1996. The programme has three components: rationalization of central – local fiscal relationship, enhancing local financial management and revenue mobilization and improving local service delivery through greater citizen participation. KLGPRP focuses on deepening the legal, financial management and institutional reforms in Local Government sector and this began with financial reforms aimed at enhancing inter-governmental fiscal transfers, improving financial management, debt resolution, streamlining budgeting system and service provision capacity building for LAs (KLGPRP 1998).
2.6 Local Authorities Integrated Financial Operations Management Systems (LAIFOMS) and Revenue Collection

Morrison and Wrights (2008) affirms that Information Communication Technology (ICT) facilitates creation of a dynamic base of information and communication capacity on the perspectives, needs and interests of various stakeholders in any local economy. However, the Local Authorities (LAs) play a central role in local economic development in Kenya, although they face a number of challenges, one of which is the collection, storage and dissemination of information. Most of these authorities, like others in Africa, rely on manual file based information storage with hardly any feedback and dissemination taking place.

An overview of the LAs reveals a high demand for information services which include: ICT training, internet and e-mail access, desk top publishing, word processing, printing and photocopying, but availability of these services is limited at the LA level. The file based information storage which most LAs are using is cumbersome and often not up to-date. In isolated cases where LAs have begun embracing Information Communication Technology (ICT), it is limited to financial management and secretarial word processing services. Adoption of fully fledged ICT services has potential of promoting and supporting routine business service needs, promotion of trade and investment, and joint planning and Development Cooperation in identified areas of interest. Thus, research aimed at finding the status of ICTs and local governance, including identification of research priorities is quite relevant for Kenya (Waema, 2006).

Keen and Mansour (2008) views E-Government priorities to include instituting structural and operational reforms, review of the regulatory and legal framework and development of a reliable and secure infrastructure. As originally conceptualized, the priority activities and implementation
framework over the immediate, medium and long terms are along the dimensions of Government to Government (G2G), Government to Business (G2B) and Government to Citizen (G2C) communications. The E-Government strategy is quite comprehensive and signaled the intention to implement ICT in the government. However, it is very ambitious and the implementation timeframes are unrealistic. Already, implementation has fallen behind schedule and there is no indication that it is likely to get back on track. In addition, the amount of resources required is colossal and yet there is very little allocation by the government.

GOK (1999) emphasizes that the programme will consolidate government services by eliminating duplicative processes, enhancing interoperability, reducing redundancy, fostering integrity and providing measurable improvement in performance. In terms of benefits and impacts, the programme will lead to reduced costs of government operations. By reducing paperwork processing, ministries will reduce printing costs, cycle time, document storage, telephone calls and visits to field offices efficiencies that will translate directly into overhead cost savings. The e-Government programme will also offer economic and social benefits by improving the processes of government.

In terms of outcomes, this programme will lead to financial savings as a result of reduced costs of government operations and enhanced revenue collection, reduced redundancy by integration of government systems and leveraging common facilities, improved services to citizens and other constituencies through multiple channels, and economic development through catalysis of the ICT services sector.

Keen and Mansour (2008) reviews the key challenges the e-government strategy faces as its implementation is top-down and taking a phased approach, starting at central government level (ministries) down to provincial level and finally to district level. There is no indication of how
local authorities will be brought on board. The strategy is biased towards supporting the Government to Government (G2G) components more than the Government to Citizens (G2C) components; which is where local government is all about. Local authorities (LAs) are not mentioned at all in the e-government strategy. Also, government officers developed it independently. Other stakeholders did not have an opportunity to participate in its formulation, yet they are expected to participate in its implementation for its success.

GOK (2005) notes that Local Authorities in Kenya face a number of governance challenges and it is worth assessing whether the broad assumption that decentralization policies can positively influence local governance, and that ICTs can greatly increase this influence is applicable to Kenya. The LOG-IN Africa project works on this assumption and notes that ‘while there are many examples of linkages between ICTs and local governments, the causal connection between ICTs and innovation in local governance, and ultimately, as a support for local economic development is little understood. In Kenya a national framework for adopting ICTs has been put in place, while in LAs, pilot programmes focusing on financial management systems are running. ICT provides local authorities with the opportunity to acquaint themselves with new strategies for effective lobbying, advocacy, design, implementation, and delivery of services to citizens by using those management information systems that meet local, national, regional, and international trends. Reforms to Government’s financial management systems and processes are becoming critical in response to increasing demands for greater transparency and accountability in the management of the public’s finances. Financial management entails the processes and actions by which managers (political and administrative leaders) ensure that resource are available and used effectively and efficiently in the accomplishment of the organization objectives. Local authorities are key stakeholders in ICT policy making processes. Though the
Ministry of Local Government is acknowledged for having participated in the national ICT policy process, there is no indication that local authority that form the base of local government participated (Keen and Mansour, 2008).

2.7 Revenue Enhancement plans and Revenue Collection

GOK (2005) notes that the proposed revenue enhancement plan will recommend the scope of the various sources of tax revenues and potential taxable activities/areas and revenues, adjusting user fees, so that the full cost of operation and maintenance are recovered from users, adjusting tax base to reflect true market values, improving collections of existing taxes and arrears, improving transparency (by ensuring that revenue collected from the population reach the city government and is expended for public benefits and that no groups are above the law as regards revenue collection), re-examining tax exemptions and fiscal subsidies, new taxes and new fees, and an implementation strategy for the revenue enhancement plan.

It further points out that Local authorities are tasked to prepare a comprehensive revenue enhancement plan that starts with an understanding of the potential and sources from which the city government currently obtains its own-source revenues, the performance overtime of these revenue sources, the magnitude of arrears and the revenue collection record for each source, and an assessment of where the city government has the discretionary authority to make revenue adjustments to its own initiative and where it must obtain authority from the central government before making adjustments.

Brautigam (2008) agrees that revenue administrations often suffer from under-resourcing, misallocation, and weak mid-level skills. Revenue administrations need assurance of adequate resourcing, though rigid and legislatively-mandated financing by a fixed percentage of
collections (such as the 3 percent in Ghana) has often failed in its intention to motivate stronger performance. Such resources as they have, moreover, need to be carefully deployed, avoiding fads (particularly technological) and distractions (excessive focus on minor non-tax revenues). Mid-level managerial and technical skills (though noticeably improved in Latin America) are often weak. Comprehensive skill studies to identify tax gaps, compliance trends, and needed improvements are rare, resulting in poor taxpayer services and inadequate or inappropriate interventions (including harassment).

Third in the period 1960-2000, South African tax collection as a percentage of GDP has consistently been the highest among middle income countries. In the period 1997-2002, the tax take as a percentage of GDP in South Africa averaged over 25 percent compared with the middle-income country average of 15 percent of GDP.

He further points out that the factors that permitted this high level of income tax collection capacity have been the subject of considerable analysis. First, there has been a high degree of cooperation between the state and upper-income white groups which supported state-led reforms. This challenges the idea that simply instituting and autonomous revenue agency is central to effective tax collection (Brautigam, 2008).

Second, the introduction of computerization the 1960’s greatly enhanced the ability of the Department of Inland Revenue to calculate and issue assessments, to record payments, and to register and monitor large tax payers, and maintain controls on tax payments more generally. Third the introduction of a withholding pay-as-you-earn (PAYE) system also greatly enhanced tax collection. This system made employees responsible for withholding taxes on a monthly basis. The willingness of business owners to cooperate greatly reduced the transaction costs of implementing the PAYE system affirms (Brautigam, 2008).
Several key political and institutional features that marked the continued success of SARS in tax collection capacity are: First, there has been a high degree of administrative cooperation within the state, particularly between SARS, the Finance Ministry and the Central Bank. Such cooperation allowed for exchange in information that improved budget planning and tracking tax evasion. While SARS has been successful in widening the number of tax payers for personal income and corporate tax over the period 1998-2002, it has been much less successful in taxing the informal sector. This reflects the difficulty of taxing the informal sector even in the context of a middle-income country with one of the best tax administrative capacities among developing countries affirms (Brautigam, 2008).

Second, the state has historically maintained a cooperative relationship with upper-income groups, including large firms, which helped reduce the transaction costs of collecting income taxes. Third, the reforms were introduced with substantial consultation with representatives from the state, political parties, business chambers, labor unions, and national and international tax and legal experts. This allowed for the design of policies that were technically and politically feasible affirms (Brautigam, 2008).

Fourth, tax compliance is aided by the fact that most business leaders agree that there must be some redistribution from the top down given the legacy of apartheid and the very unequal distribution of income; there is little political room to contest progressive taxation as fundamentally unfair; or to complain that a particular sector or regions being overtaxed at the expense of other. The tax system thus has become one of the central institutions targeted for righting past wrongs. By equating corporate taxation with the taxation of whites, and VAT payment disproportionately burdening the poorer blacks, unions and community leaders have
managed to generate a national discourse which has in turn produced a nationally distinctive interpretation of democratization that emphasizes equitable development.

Finally, South Africa's enhanced revenue collection performance is the result of a sustained campaign by SARS which emphasizes in its campaigns that its task effective tax collection is central for 'the protection of the national economy'.

He further points out that these campaigns have effectively communicated three aspects which form the pillar of the legitimacy of SARS. Compliance-This is tackled in two ways; one is to encourage taxpayers to voluntarily pay their dues to SARS. Workshops are organized to determine the reasons for not complying with tax obligations, while encouraging people to pay. SARS uses investigators and auditors to lay criminal charges against those who fail to comply, and to use publicity to embarrass and deter defaulters. This has involved the publication of the names of high profile individuals and corporations and an attempt to encourage media coverage of arrests and court appearances;

Taxpayer service: This offers the taxpaying public a means to interact with SARS offices, establishing easy means of communications between the two. The service is meant to address queries and act sympathetically to taxpayers who voluntarily comply with their obligations.

Processing centers: These seek to develop a business technology capable of handling the tax process from beginning to end. Rather than tax queries, for example, having to be transferred to the head office, the aim is to decentralize through relevant technology such that a query can be handled in any part of the country from its beginnings to the end. The aim is to develop a similar system to those in banks. Taxpayers are meant to be able to visit any SARS processing centre anywhere in the country, and have their entire enquiry dealt with completely and effectively.
2.8 Employee Skills and Revenue Collection

According to Grabowski (2008) the capacity of LAs to spearhead service delivery in their areas of jurisdiction has also been negatively affected by political influence in the formation of Local Authorities. A substantial number of the current LAs are uneconomical units both in terms of the resource base and the population size making efficiency and effectiveness in service delivery impossible. On the other hand, various initiatives for restructuring LAs have often been impeded by the social cultural and political issues that revolve around the creation of new districts where clamor for independent local councils for the most of the newly created districts has increased.

Political considerations in staff deployment have also impacted negatively on the efforts of the ministry to optimize on the exploitation of the human resource. The staff structure across all Local Authorities is weighed down by a huge workforce that is too heavy with support staff and semi skilled cadres- making it difficult to attract and sustain qualified professionals due to the unattractive remuneration offered. However, with the introduction of public sector reforms, there has been consistent improvement in the level and quality of service delivery by Las (Waema, 2006).

Introduction of performance contracts and focus on the customer through the Service Delivery Charters has been the main driving force in service delivery improvement. Taking advantage of the current reform initiatives and the demonstrable political support, the Ministry has embarked on the road to improving service delivery in LAs by addressing the legal and policy framework. A proposal to transform Local Authorities into economically viable entities by dissolving all unviable Las is being developed and enjoys political support at the highest level. The staffing problem will also be addressed in tandem with the transformation exercise through several measures aimed at rationalizing excess lower cadre staff (GOK, 2005).
Collecting revenue in Local Authorities is an involving process that requires proper preparations before embarking on the exercise. Collection of revenue includes preparing and issuing bills, informing debtors on amounts through sending demand notices in their mail. It can also be done through revenue collectors efforts. Record keeping provides timely information on persons receiving services and follow up on amounts outstanding. It requires staffs that are diligent, well trained and committed to their work affirms (Brautigam, 2008).

According to Mahi (2002) there is a need of controlling tax collection requirements in order to enhance revenue collection process by considering optimum rate structure, appropriate rules and regulations and human capacity; Increasing control to reduce leakage by performing surprise audits to compliment self-assessment procedure, improving the control processes, put efforts to enforce a strict and heavy penalty for non-compliance, instill financial discipline to staffs that have contributed to leakage in local revenues and make efforts to link tax payment with services provided by local government; improvement of administration and better revenue planning in revenue performance is also critically dependent upon the ability of local authorities to minimize the cost of collecting revenues by improving the existing tax administration procedures through administrative simplification. Efforts should be put in place to calculate collection efficiency for each type of revenue, to reduce cost of collection and to eliminate the identified factors in the field that has contributed to sub optimal revenue.

2.9 Conceptual Framework

Most of the Local authority in the Country works within the guideline given by the Ministry of Local Government based on their past performance. This limits their ability to outperform themselves while budgeting for rates. The internal audit departments of most LA’s have not pursued their activities with high level of professionalism due to a lot of inherent factors both
within the department and the LA’s. This has slowed their ability to monitor. Staff employed in some of the key department such as Rates should be based on professional qualifications and not any other considerations. There is need to improve on the existing financial reporting requirements. These reports will enable the LA’s to monitor collection of rates against the expectation. Develop a clear and comprehensive local tax policy that is progressive but allows for sufficient revenue generation by local authorities; Improve administrative procedures in local government tax collection. The outcome of the external audit within local authorities should be given a lot of consideration as means to improve their own internal control systems. There are cases where the valuation role in a number of Council remains incomplete casting doubts on the amount to be charged for the plots. In the past majority of the LA’s had their financial reporting leaning towards cash basis than accrual. However, with the introduction of IPSAS reporting template, there need for them to embrace IPSAS fully which is more informative with the disclosures.

A conceptual framework is proposed for the study. The dependent variable in this study is revenue collection which has been explained by four independent variables namely government policies and regulations, LAIFOMS, revenue enhancement plans, and employee skills. Intervening variables will also give a relationship that links the dependent and independent variables.
Independent Variables

- Government Policies and Regulations
  - Taxation
  - Timelines
- LAIFOMS
  - Computers
  - Skills
- Revenue Enhancement Plans
  - Budgeting
  - Meetings
- Employee Skills
  - Qualification
  - Experience

Intervening Variables

- Monitoring of receipts
- Internal auditing
- Financial Education
- Financial Reporting

Dependent Variable

- Revenue collection
  - Completed projects
  - Additional services
  - Surplus/deficits

Figure 2.1 Conceptual Framework
Source (Author, 2012)
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methodology of the study i.e. the research design, target population, sample and sampling procedures, research instruments, data collection procedures and methods of data analysis.

3.1 Research Design

Research design according to Mugenda and Mugenda (2005) is the procedure used by the researchers to explore the relationship between variables to form subjects into groups, administer the measures, and analyze data. This research applied the descriptive research design to carry out an in depth study of the organization in order to come up with the relevant data for analysis. This method was the best suited to systemically give an exhaustive analysis of the situation as it determines and reports the way things are in that it attempts to describe such things as possible behavior, attitude, values and characteristics.

3.2 Target Population

The study was conducted in Nyeri district, central province of Kenya. According to the MCON annual approved budget, 2011/2012, the target population of this study were the 354 people who are 15 civic leaders who are either elected or nominated, one public officer, 16 chief officers in salary scale 1-9 and 322 officers in salary scale 10-20 in the Municipal Council of Nyeri as at the time of the study. The following population frame is a representation of this information.
### Table 3.1 Sampling Frame

<table>
<thead>
<tr>
<th>Civic leaders</th>
<th>Elected and Nominated</th>
<th>Sample</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civic Elected</td>
<td>15</td>
<td>15</td>
<td>100%</td>
</tr>
<tr>
<td>Public Officer</td>
<td>1</td>
<td>1</td>
<td>100%</td>
</tr>
<tr>
<td>Salary Scale</td>
<td>SS 1-9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chief Officer</td>
<td>2</td>
<td>2</td>
<td>100%</td>
</tr>
<tr>
<td>SS 1-9</td>
<td>14</td>
<td>5</td>
<td>30%</td>
</tr>
<tr>
<td>Officers in SS10-18</td>
<td>322</td>
<td>107</td>
<td>30%</td>
</tr>
<tr>
<td>Total</td>
<td>354</td>
<td>130</td>
<td></td>
</tr>
</tbody>
</table>

Source: Municipal Council of Nyeri annual budget, (2011/2012)

### 3.3 Sampling Procedure

The population was divided into three strata and a sample is selected from each stratum. Disproportionate stratified sampling will be done on the civic leaders who are (elected or nominated councilors, public officer and the 2 chief officers. The study adopted the proportionate stratified random sampling for officers in SS1-9 and officers in SS 10-20). According to Mugenda and Mugenda (2005) a third of the population is an ideal sample for proportionate stratified sampling. This enabled the researcher to control the sample size in the strata, increase statistical efficiency, and provide data to represent and analyze subgroups and enable use of different methods in the strata.
3.4 Research Instrument

The nature of this study required that a questionnaire be used. According to Best and Khan (2004), a questionnaire is easy to administer. Questionnaires also reduce bias since the researchers' own opinions would not influence the respondents to answer questions in a certain manner unlike if it was a face to face survey. Each questionnaire has two parts. Part one consists of personal information of the respondents and part two contains information related to factors affecting revenue collection. The questionnaire is structured having open and close ended questions. A pilot study was first conducted to carry out an investigative survey of the relevance and credibility of the study. Secondary data was obtained from books, journals, Various Acts of parliament, local authorities' budgets, magazines and the internet. Sample of the questionnaire to be used is attached at appendix ii.

3.4.1 Instrument Validity

Validity is defined as the degree to which a test measures what it purports to measure (Borg and Gall, 1996). Content validity will be used in this study. Content validity is the degree to which the instrument measures what the test is designed to measure. This is important in the establishment of accuracy and truthfulness of the research. A pilot study was carried out to determine the validity of the instruments to be used in the research by selecting in each category one person. The content validity was established by consulting my supervisors and statisticians.

3.4.2 Instrument reliability

Orodho (2006) states that reliability of a measurement concerns the degree to which a particular measuring procedure gives similar results over a number of repeated trials. To test the reliability of the instruments the study employed test-pretest technique. According to Orodho (2006) the number in the pre-test should be 10 percent of the entire sample. Thus out of the potential...
respondents will be selected for piloting. The data collected was entered into SPSS version 20 for
windows and Cronbach’s computed. The results were a coefficient of 0.83 which is reliable
according Orodho (2006).

3.5 Data Collection Procedure
Secondary data was retrieved from books, journals, Various Acts of parliament, local authorities’
budgets, magazines and the internet. After receiving a research permit from the department of
accounting and finance, Kenyatta University. The researcher then sought permission from the
provincial local Government office (Nyeri) and clearance from the Clerk’s office Municipal
council of Nyeri. The researcher then came up with a visit schedule and visited the municipal
council in order to get consent from the respondents to administer the instruments. This enabled
the researcher to familiarize himself with the respondents. The researcher with the help of 8
research assistants administered the written questionnaires which are grouped into three
according to the stratus indicated in the sampling technique in accordance with the population
frame and collect them after two days. The researcher then assured the respondents of strict
confidentiality in dealing with the responses.

3.6 Data Analysis
The data collected was cleaned in order to determine inaccurate, incomplete, or unreasonable
data and then improve the quality through correction of detected errors and omissions. After the
data cleaning, the researcher edited, code, and classified the data and entered in the computer for
analysis. In addition to this, qualitative data which would also be generated in the process will be
analyzed by use of each variable. Computer packages which are in conformity with data analysis
like Statistical Package for Social Sciences, (SPSS) were used for analysis of quantitative data to
generate various frequencies. SPSS was able to handle large amount of data, given its wide
spectrum of statistical procedures whose purpose is fully designed for social sciences and it’s quite efficient. Analysis of data will use multiple regressions where the variable $Y$ is usually defined as

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e$$

Where: $Y=$Revenue Collection

- $\beta_0=$ Constant
- $X_1 =$ Government policies and Regulations
- $X_2 =$LAIFORMS
- $X_3 =$ Revenue Enhancement plans
- $X_4 =$Employee Skills
- $E =$ Error term of the model
- $\beta, \beta_2, \beta_3$ and $\beta_4 =$Coefficients of independent variables

Data will then be presented in form of tables, charts and graphs.
CHAPTER FOUR
DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents analysis and interpretation of data obtained from 124 respondents from the Municipal Council of Nyeri. The aim was to establish the factors affecting revenue collection in local authorities in Kenya. The study aimed to achieve this aim by answering the following questions:

i. How do government policies and regulations affect revenue collection in local authorities?

ii. How do LAIFOMS affect revenue collection in local authorities?

iii. What are the effects of revenue enhancement plans on revenue collection in local authorities?

iv. How do employee’s skills affect revenue collection in local authorities?

4.1.1 Response rate

The researcher distributed 130 questionnaires to sampled respondents within the Municipality. 127 questionnaires were returned but 3 of them were rejected due to incompleteness leaving 124 questionnaires for analysis. This represented a 95% response rate.

4.2 Demographic Information

The researcher collected information on the respondents’ characteristics: gender, age, education and work experience. Analysis of this information is presented in this section.
4.2.1 Distribution of respondents by gender

The figure below represents the distribution of study participants by gender.

![Pie chart showing gender distribution](image)

Figure 2: Distribution of respondents by gender

Figure 2 reveals that the majority (86%) of the participants in the study were of the female gender. This is against the trend in many elective and professional offices in Kenya and much of Africa where women representatives are outnumbered by their male counterparts.
4.2.2 Distribution of respondents by age.

The table below shows the age distribution of the study participants

Table 4.1 Distribution of respondents by age

<table>
<thead>
<tr>
<th>Age (Years)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 - 25</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>26 - 35</td>
<td>17</td>
<td>14%</td>
</tr>
<tr>
<td>36 - 45</td>
<td>50</td>
<td>40%</td>
</tr>
<tr>
<td>Over 45</td>
<td>57</td>
<td>46%</td>
</tr>
<tr>
<td>Total</td>
<td>124</td>
<td>100%</td>
</tr>
</tbody>
</table>

Most (46%) of the respondents in the study were aged over 45 years. These findings are consistent with the nature of office holders in Kenya where most of the elected officials and public servants are aged over 40 years. The youth (18-35 years) are rarely represented in elected positions as opposed to public offices as is evident in Table 4.1. The main reason for this is that the youth are financially disadvantaged to hold campaigns though the government is now balancing appointments in the public offices in line with the new constitution that is in place. In addition the African culture does not believe in leadership by young people. Little empirical evidence exists on the role of age of leaders and revenue collection.
4.2.3 Distribution of respondents by education level

The researcher collected information on the highest level of education achieved by the respondents.

![Graph showing distribution of respondents by education level]

**Figure 3: Distribution of respondents by education level**

Majority (57%) of the study participants had secondary school as their highest level of education. At the time of this study, civic leaders were not required to meet minimum academic qualifications. However a change of constitution in 2010 requires people seeking elective position to meet certain academic qualifications. The academic qualifications of the people managing revenue can affect not only revenue collection but also revenue usage.
4.2.4 Distribution of respondents by work experience

The study was interested to learn how long the respondents had been working in their current positions.

Table 4.2 Distribution of respondents by work experience

<table>
<thead>
<tr>
<th>Work experience (Years)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>7</td>
<td>5%</td>
</tr>
<tr>
<td>5-10</td>
<td>16</td>
<td>13%</td>
</tr>
<tr>
<td>10-15</td>
<td>31</td>
<td>25%</td>
</tr>
<tr>
<td>Over 15</td>
<td>70</td>
<td>57%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>124</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Table 4.2 reveals that majority (57%) of the respondents had served in their current positions for over 15 years. It was important for the study to establish the work experience of the study participants as it would give a description of the respondents’ experience and familiarity with the subject under investigation. That majority of the participants had served for over a decade is good for the study as it meant that the sampled respondents had enough experience.
4.3 Effect of government policies on revenue collection

The following section is in line with the first objective and seeks to answer the question; on government policies and regulations and how they affect revenue collection in local authorities.

4.3.1 LA compliance on revenue collection

Participants were requested to rate the Local Authority’s compliance in revenue collection.

Figure 4: LA compliance on revenue collection

The local authority’s compliance on revenue collection was rated as average by the majority (50%) of the study participant’s according to Figure 4. This shows that the revenue collection at the MCoN was not very poor but there was room for improvement.
4.3.2 Restrictions by government policies and regulations

The study sought to find out whether the government policies and regulations restricted the council's revenue collection.

Table 4.3 Restrictions by government policies and regulations

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>6</td>
<td>5%</td>
</tr>
<tr>
<td>Agree</td>
<td>40</td>
<td>32%</td>
</tr>
<tr>
<td>Neutral</td>
<td>21</td>
<td>17%</td>
</tr>
<tr>
<td>Disagree</td>
<td>57</td>
<td>46%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>124</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

According to Table 4.3, most (46%) disagreed that government policies and regulations acted as a hindrance to the Local authority in revenue collection. At the time of the study, the government system was centralized and as such local authorities were controlled by the Central Government through the Ministry of Local Government. A lot of regulations were imposed on the local authorities including revenue collection, taxation as well as monitoring and evaluation of projects. These regulations brought about a lot of bureaucracy and restrictions for local authorities which hampered with service delivery.
4.3.3 Effect of taxation on revenue collection

The study was interested to learn whether taxation had an effect on the revenue collection by the local authority.

Figure 5: Effect of taxation on revenue collection

According to Figure 5, majority (52%) agreed that taxation affected revenue collection. The local authorities faced a lot of hostilities from tax payers where taxes had been increased without consultations with the public. Increased cost of living also caused a lot of challenges in revenue collection since the central government at times increased taxes that affected all people including those in the local authorities. This affects revenue collection in that the council is unable to create more projects that could bring income or employ more staff to enforce the council’s bylaws.
4.3.4 Revenue collection timelines

The study sought to find out whether the ministry concerned with local authorities sets timelines.

Table 4.4 Revenue collection timelines

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>43</td>
<td>35%</td>
</tr>
<tr>
<td>Agree</td>
<td>35</td>
<td>28%</td>
</tr>
<tr>
<td>Neutral</td>
<td>36</td>
<td>29%</td>
</tr>
<tr>
<td>Disagree</td>
<td>10</td>
<td>8%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>124</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Data on Table 4.5 reveals that the Ministry of local Government set timelines for the local authority to collect revenue according to most (35%) of the participants in the study. These findings are consistent with the findings in 4.3.2 where the study found that the government through the ministry of local government had policies which regulated activities of local authorities including revenue collection.
4.4 Effect of LAIFOMS on revenue collection

This section is in line with the second objective of the study and seeks to assess how Local Authority Information Financial and Operations Management Systems (LAIFOMS) affects revenue collection in local authorities.

4.4.1 Effect of Information technology on revenue collection

Information technology is a component of LAIFOMS and the study sought to assess its impact on revenue collection.

Figure 6: Information Technology and revenue collection

Most (47%) of the respondents in the study agreed that Information Technology affected revenue collection. Information technology makes work easier and is also an important tool for ensuring accountability and transparency.
4.4.2 Availability of computers and revenue collection

The study was interested to learn about the availability and accessibility of computers in line with LAIFOMS.

Table 4.5: Availability of computers

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>30</td>
<td>24%</td>
</tr>
<tr>
<td>High</td>
<td>34</td>
<td>27%</td>
</tr>
<tr>
<td>Moderate</td>
<td>39</td>
<td>32%</td>
</tr>
<tr>
<td>Low</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>Very low</td>
<td>19</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>124</td>
<td>100%</td>
</tr>
</tbody>
</table>

According to table 4.5, the availability of computers was rated as moderate by most (32%) of the respondents in the study. This shows that there was no shortage of computers but more computers would improve revenue collection. Availability of computers would ensure that record keeping is done in a more organized way; it would also mean that clients are served in a timely manner. This would improve efficiency and effectiveness of revenue collection.
4.4.3 Computer skills

The study wished to establish the technical capacity of the local authority employees in implementing LAIFOMS.

Figure 7: Computer skills and revenue collection

The majority (39%) disagreed that the level of computer skills of Local authority staff restricted the revenue collection. LAIFOMS requires skilled people to implement specifically in the field of information technology. Hiring of skilled technicians means that the job is done professionally and in an efficient way. However local authorities are cash strapped and are usually unable to attract and maintain very skilled and those hired opt to leave for greener pastures elsewhere.
4.5 Revenue enhancement plans

This section is in line with the third objective of the study and seeks to establish how revenue enhancement plans affects revenue collection in local authorities.

4.5.1 Earmarking of revenue generating activities

Identification of revenue generating activities is an important step in enhancement of revenue and as such the study sought to establish if it was observed.

Table 4.6: Earmarking of revenue generating activities

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>16</td>
<td>13%</td>
</tr>
<tr>
<td>Agree</td>
<td>95</td>
<td>77%</td>
</tr>
<tr>
<td>Neutral</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Disagree</td>
<td>13</td>
<td>10%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>124</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 4.6 reveals that majority (77%) of the participants in the study agreed that the activities that generated revenue were clearly earmarked. Careful planning and identification of income generating activities means the goals of the project are clear to all and the council is aware and ready for any emerging problems; this enhances revenue collection.
4.5.2 Awareness of rates and other charges

It was important to establish whether the stakeholders were aware of the local authority’s rates of services and products offered to them.

Figure 8: Awareness of rates

![Awareness of rates](chart)

Awareness of council's rates was rated highly by the majority (61%) of the respondents who agreed that all stakeholders knew the rates of council services and products. This shows that the council took it upon itself to make the residents of Nyeri Municipality about the rates and charges of various services such as parking and licenses. Awareness of the above is important as businessmen and consumers of the council’s services use this information to plan their activities. This makes revenue collection more efficient and avoids unnecessary disagreements between the council and its subjects.
4.5.3 Community involvement

It was important to establish community involvement in council’s LASDAP meeting since they were stakeholders in the council.

Table 4.7: Community involvement

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>32</td>
<td>26%</td>
</tr>
<tr>
<td>Agree</td>
<td>60</td>
<td>48%</td>
</tr>
<tr>
<td>Neutral</td>
<td>9</td>
<td>7%</td>
</tr>
<tr>
<td>Disagree</td>
<td>23</td>
<td>19%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>124</td>
<td>100%</td>
</tr>
</tbody>
</table>

Most (48%) of the respondents agreed that the community was involved in LASDAP meetings. This shows that the community was made aware of the council’s activities and plans including budgets and monitoring as well as evaluation. Involvement of the community ensures that there is heightened accountability and transparency. It also ensures that the community owns the projects that are implemented by the councils which improves awareness and increases revenue collection.
4.5.4 Effect of budgets on revenue collection

The study sought to find out if the council’s budget affected revenue collection.

Figure 9: Effect of budgets on revenue collection

Most of (44%) of the respondents agreed that the council’s budget affected revenue collection according to table 4.13. This shows that the budget planning process involved in LASDAP had an effect on the revenue collection. This is because not only do budgets detail how money will be used, they also show the sources of these monies and gives a projection of the amount expected and the timing on how the money will flow into the council all the year round. The planned income generating activities are revealed in the budget and as such good planning ensures increase in revenue collection and the vice versa is true.
4.5.5 Effectiveness of LA plans on revenue collection

It was important to establish how revenue enhancement plans affected revenue collection.

Table 4.8: Effect of LA plans on revenue collection

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>16</td>
<td>13%</td>
</tr>
<tr>
<td>High</td>
<td>65</td>
<td>52%</td>
</tr>
<tr>
<td>Moderate</td>
<td>26</td>
<td>21%</td>
</tr>
<tr>
<td>Low</td>
<td>9</td>
<td>8%</td>
</tr>
<tr>
<td>Very low</td>
<td>8</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>124</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

According to the majority (52%) of the participants in the study, the effectiveness of LA plans on revenue collection was very high. This shows that the planning process in Nyeri Municipality was very effective. One important aspect of the planning process in local authority activities is the involvement of the community who consume the council's services and products and who pay taxes to the council. This was done effectively as revealed in 4.5.3. Budgeting is another important ingredient of the planning process in local authorities to which this study found to be done (4.5.4). When community involvement is carried out and realistic budgets are prepared well, then revenue collection is set to be done more effectively since the stakeholders are aware and own the projects implemented by the council.
4.6 Effect of employee skills on revenue collection

This section is in line with the third objective of the study and seeks to find out how employees skills affects revenue collection in local authorities.

4.6.1 Technical capacity of revenue collectors.

To establish the effect of employee skills, the study sought to find out whether the revenue collectors possessed the relevant skills.

Figure 10: Technical capacity of revenue collectors

Majority (49%) in the study opined that the revenue collectors did not possess the relevant skills. This shows that the people charged with the duty of revenue collection were not adequately trained and this affected the activity.
4.6.2 Effect of council’s training on revenue collection

The study sought to establish the effect council’s training skills had on revenue collection.

Table 4.9 Effect of council’s training on revenue collection

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>High</td>
<td>7</td>
<td>6%</td>
</tr>
<tr>
<td>Moderate</td>
<td>34</td>
<td>27%</td>
</tr>
<tr>
<td>Low</td>
<td>50</td>
<td>40%</td>
</tr>
<tr>
<td>Very low</td>
<td>31</td>
<td>25%</td>
</tr>
<tr>
<td>Total</td>
<td>124</td>
<td>100%</td>
</tr>
</tbody>
</table>

The effect of council’s training on revenue collection was low according to most (40%) of the respondents. This shows that the local authority’s training on its employees was not comprehensive. Training revenue collectors should be emphasized since revenue is the backbone of the council’s activities without which the community involvements as well as the budgets and projects cannot be implemented.
4.6.3 Discipline of revenue collectors

The study sought to understand the discipline of the council’s revenue collectors.

According to table 4.17, the majority (53%) of the respondents were of the pinion that the revenue collectors discipline was average. Local authority officers have been widely accused of being unprofessional, harsh and rude, others have been accused of harassing the citizens in the course of their duties. It is important that local authority officers carry themselves with utmost discipline since they are the image of the council. If the officers have issues of integrity and conduct, the community who are the taxpayers may not respect the authority and this may affect revenue collection.
4.6.4 Accountability and transparency

The study sought to establish the accountability and transparency of activities within the council’s revenue collection.

Table 4.10 Accountability and transparency

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>6</td>
<td>5%</td>
</tr>
<tr>
<td>Agree</td>
<td>55</td>
<td>44%</td>
</tr>
<tr>
<td>Neutral</td>
<td>21</td>
<td>17%</td>
</tr>
<tr>
<td>Disagree</td>
<td>42</td>
<td>34%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>124</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Most (44%) of the respondents agreed that there was accountability and transparency on the revenue collection. This means that there were reduced cases of embezzlement of funds or impropriety of monies at the council. Accountability and transparency has been a problem in Kenya going by the number of scandals that have rocked government organizations. Lack of accountability tarnishes the image of the council and diminishes the respect of the citizenry on these organizations and this may affect revenue collection.
4.7 Factors affecting revenue collection

Of the factors under investigation (government policies, LAIFOMS, Revenue enhancement plans and employee skills) the study sought to find out which of the four greatly influenced revenue collection. The researcher did this by asking the respondents to rate the factors on a scale of 1-4 with 1 being highly influencing and 4 having the least influence.

Table 4.11 Factors affecting revenue collection

<table>
<thead>
<tr>
<th>Factor</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
</tr>
<tr>
<td>Government policies</td>
<td>19</td>
<td>15%</td>
<td>40</td>
<td>32%</td>
</tr>
<tr>
<td>LAIFOMS</td>
<td>34</td>
<td>27%</td>
<td>37</td>
<td>30%</td>
</tr>
<tr>
<td>Revenue enhancement plans</td>
<td>13</td>
<td>11%</td>
<td>51</td>
<td>41%</td>
</tr>
<tr>
<td>Employee skills</td>
<td>8</td>
<td>7%</td>
<td>33</td>
<td>27%</td>
</tr>
</tbody>
</table>

Table 4.19 reveals that Local Authority Information Financial and Operations Management Systems (LAIFOMS) were picked by most (27%) respondents as the factor with the highest influence on revenue collection. According to 24% of the study participants, government policies had the least influence on revenue collection.
4.8 Regression Analysis

Multiple regression analysis was used to predict the factors affecting revenue collection in local authorities and determine the magnitude and or direction of the relationship between the study variables. The results of the regression tests are reflected in table 4.20.

Table 4.12 Regression analysis

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>2.780</td>
<td>.409</td>
</tr>
<tr>
<td>Government Policies</td>
<td>.049</td>
<td>.076</td>
</tr>
<tr>
<td>LAIFOMS</td>
<td>-.010</td>
<td>.060</td>
</tr>
<tr>
<td>Revenue enhancement plans</td>
<td>-.047</td>
<td>.104</td>
</tr>
<tr>
<td>Employee skills</td>
<td>-.0105</td>
<td>.097</td>
</tr>
</tbody>
</table>

R-Square = 0.279, Adjusted R-Square = 0.270, F = 18.64, Sig. = 0.000

For the regression analysis, the confidence level was taken at 95%. Table 4.12 reveals that LAIFOMS (sig. = 0.017) and employee skills (sig. =0.038) were significant predictors of revenue collection in local authorities. The findings also show that the two significant variables explained up to 27% of local authority revenue collection. This means that the implementation of LAIFOMS greatly affected the outcome of revenue collection; this could be attributed to the technological aspect where the study found that the computers were not sufficient. Employee skills were also found to affect the revenue collection this could be explained by the fact that the local authority did not provide on-job training to its revenue collectors.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of the major findings from the results of the study and the conclusions made from them. It also presents the recommendations made by the researcher.

5.1 Summary of the study

The purpose of the study was to establish the factors affecting revenue collection in local authorities. The following are the findings of the study in summary and in order of the objectives.

On the effect of government policies on regulation on revenue collection, the study found that the local authority’s compliance on revenue collection was rated as average by the majority (50%) of the study participant’s while most (46%) disagreed that government policies and regulations acted as restrictions to the Local authority in revenue collection. Majority (52%) agreed that taxation affected revenue collection. Ministry of local government sets timelines for the local authority to collect revenue according to most (35%) of the participants in the study.

On the effect of LAIFOMS on revenue collection, the study found that most (47%) of the respondents in the study agreed that Information Technology affected revenue collection. The availability of computers was rated as moderate by most (32%) of the respondents in the study. The majority (39%) disagreed that the level of computer skills of Local authority staff restricted the revenue collection.
On the effect of revenue enhancement plans on revenue collection, the study found that majority (77%) of the participants in the study agreed that the activities that generated revenue were clearly earmarked. Awareness of council’s rates and other charges was rated highly by the majority (61%) of the respondents who agreed that all stakeholders knew the rates of council services and products. Most (48%) of the respondents agreed that the community was involved in LASDAP meetings. Most of (44%) of the respondents agreed that the council’s budgets affected revenue collection while according to the majority (52%) of the participants in the study, the effectiveness of LA plans on revenue collection was very high.

On the effect of employee skills on revenue collection, the study found that majority (49%) in the study opined that the revenue collectors did not possess the relevant skills. The effect of council’s training on revenue collection was low according to most (40%) of the respondents. The majority (53%) of the respondents were of the opinion that the revenue collectors discipline was average while most (44%) of the respondents agreed that there was accountability and transparency on the revenue collection.

5.2 Conclusions

The study has established that government policies and regulations to a small extent affected revenue collection by local authorities. This could be explained by the high compliance by revenue collectors to the policies and regulations; the revenue collectors did not look at the policies and regulations as restrictions. In addition to this, the government policies set standards and timelines for revenue collection which ensured that the collection was done efficiently and in a transparent way.
The study established that LAIFOMS greatly affected revenue collection. The revenue collectors appreciated the role of information technology in ensuring effective revenue collection. However the study found that the availability and accessibility of computers was a hindrance to effective LAIFOMS implementation.

The study concluded that the local authority revenue enhancement plans affected revenue collection albeit to a small extent. This was achieved by clearly identifying viable revenue generating projects, involving the community in the planning process as well as making the stakeholders aware of the council’s rates and charges imposed on them.

The study concludes that the employee skills greatly affected revenue collection. This was achieved by ensuring accountability and transparency while maintaining discipline of the revenue collectors. However the local authority’s training of its employees was wanting.

5.3 Recommendations

In light of the above findings, the researcher recommends the following:

i. The system of governance should be fully decentralized to allow the local authority to have more control of their revenue collection.

ii. The effectiveness of the local Authority Information Financial and Operations Management Systems (LAIFOMS) can be bolstered by increasing the availability of computers and adding more staff to ensure efficiency in revenue collection.

iii. The local authority should be allowed to have greater control of their revenue enhancement plans.

iv. The local authorities should embrace employees on-job training to improve their technical capacity
5.4 Suggestions for further study

The researcher recommends a deeper look into the following areas:

i. Challenges in implementing local Authority Information Financial and Operations Management Systems (LAIFOMS)

ii. Effect of decentralization on revenue collection.

iii. Factors affecting revenue collection in other municipalities.
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APPENDIX I: LETTER OF INTRODUCTION

Mercy Maina

Ministry of Local Government

P. O. Box 546

NYERI

Dear Respondents

REF: FACTORS AFFECTING REVENUE COLLECTION IN LOCAL AUTHORITIES

(A case of Municipal Council of Nyeri)

I am a student of Kenyatta University, Nyeri Campus. I am currently undertaking a research on factors affecting revenue collection in local authorities of Kenya. After the completion of the research it will give recommendations on how to improve revenue collection in local authorities. I therefore request your assistance and cooperation in attaining the above requirements and I am kindly requesting you to fill in the attached questionnaire as an individual. I assure you that the information you will give will be treated confidentially and will be used purely for academic purposes only. Please do not write your name on the questionnaire.

Yours sincerely,

Mercy Maina
APPENDIX II: QUESTIONNAIRE

The researcher is carrying out a study to establish the factors affecting revenue collection in Municipal Council of Nyeri. Please answer all the questions as objectively and truthfully as possible. Do not indicate your name in the questionnaire. Using a tick, indicate your responses in the boxes provided.

SECTION A. RESPONDENTS PROFILE

1. Gender

| Male  | [ ] | Female | [ ] |

2. Age (Years)

| 18-25 | [ ] |
| 26-35 | [ ] |
| 36-45 | [ ] |
| Over 45 | [ ] |

3. Education

| Primary | [ ] |
| Secondary | [ ] |
| College | [ ] |
| University | [ ] |

4. Work Experience

| 1-5 years | [ ] |
| 5-10 years | [ ] |
| 10-15 years | [ ] |
| Over 15 years | [ ] |
5. Which committees are you involved in?

Please specify ........................................................................................................................................

For Sections B, C, D and E use the following ranking:

5- Strongly Agree, 4-Agree, 3-Neutral, 2-Disagree, 1- Strongly Disagree;

5-Very High, 4-High, 3-Average, 2-Low, 1- Very Low;

SECTION B: GOVERNMENT POLICIES AND REGULATIONS

6. How would you rate the local authorities’ compliance on revenue collection?

Very high [ ]

High [ ]

Average [ ]

Low [ ]

Very low [ ]

7. The government policies and regulations restrict the amount to be collected in the local authorities.

Strongly agree [ ]

Agree [ ]

Neutral [ ]

Disagree [ ]

Strongly disagree [ ]

8. What is the effect of taxation on revenue collection in the local authority?

Very high [ ]
9. The line ministry set timelines for revenue collection in the local authority.

   Strongly agree [ ]
   Agree [ ]
   Neutral [ ]
   Disagree [ ]
   Strongly disagree [ ]

10. How do government policies and regulations affect revenue collection in municipal council of Nyeri?

   i) ...................................................................................................................
   ii) ...................................................................................................................
   iii) ...................................................................................................................

SECTION C: LAIFOMS

11. Information technology affects revenue collection in local authorities?

   Strongly agree [ ]
   Agree [ ]
   Neutral [ ]
   Disagree [ ]
   Strongly disagree [ ]
12. How would you rate availability of computers influence on local authority revenue collection?

- Very high [ ]
- High [ ]
- Average [ ]
- Low [ ]
- Very low [ ]

13. The level of computer skills restricts the revenue collection in the local authorities.

- Strongly agree [ ]
- Agree [ ]
- Neutral [ ]
- Disagree [ ]
- Strongly disagree [ ]

14. How do LAIFOMS affect revenue collection in municipal council of Nyeri?

i) ................................................................................................................

ii) ................................................................................................................

iii) ................................................................................................................

SECTION D: REVENUE ENHANCEMENT PLANS

17. The activities that generate revenue are clearly earmarked.

- Strongly agree [ ]
- Agree [ ]
- Not sure [ ]
- Disagree [ ]
18. The rates of council services and products are known by all stakeholders.

- Strongly agree [ ]
- Agree [ ]
- Not sure [ ]
- Disagree [ ]
- Strongly disagree [ ]

19. The community is involved in the LASDAP meetings.

- Strongly agree [ ]
- Agree [ ]
- Neutral [ ]
- Disagree [ ]
- Strongly disagree [ ]

20. Council’s budgets affect revenue collection.

- Strongly agree [ ]
- Agree [ ]
- Neutral [ ]
- Disagree [ ]
- Strongly disagree [ ]

21. Please rate the effectiveness of the local authority plans in enhancing revenue collection.

- Very high [ ]
- High [ ]
22. How do the revenue enhancement plans influence effective revenue collection in municipal council of Nyeri?

i) ......................................................................................................................

ii) ......................................................................................................................

iii) ......................................................................................................................

SECTION E: EMPLOYEE SKILLS

23. The council revenue collectors possess the relevant skills.

<table>
<thead>
<tr>
<th>Opinion</th>
<th>[ ]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td></td>
</tr>
<tr>
<td>Neutral</td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td></td>
</tr>
<tr>
<td>Strongly disagree</td>
<td></td>
</tr>
</tbody>
</table>

24. How would you rate the council’s training skills in relation to revenue collection?

<table>
<thead>
<tr>
<th>Skill</th>
<th>[ ]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Very low</td>
<td></td>
</tr>
</tbody>
</table>
25. How would you rate the level of discipline in employees working as revenue collectors?

- Very high [ ]
- High [ ]
- Average [ ]
- Low [ ]
- Very low [ ]

26. There is accountability and transparency on the revenue collection in the local authority.

- Strongly agree [ ]
- Agree [ ]
- Neutral [ ]
- Disagree [ ]
- Strongly disagree [ ]

28. How do employee skills affect revenue collection in Municipal Council of Nyeri?

i) ..............................................................................................................................

ii) ..............................................................................................................................

iii) ..............................................................................................................................

29. How would you rank these factors in terms of their influence on revenue collection in Municipal council of Nyeri?

- Government policies and regulations [ ]
- LAIFOMS [ ]
- Revenue enhancement plans [ ]
- Employee skills [ ]
30. Suggest the general measures that can improve the revenue collection in Municipal council of Nyeri?

THANK YOU