

# Presentation



**FISCAL DISCIPLINE FOR IMPROVED  
SERVICE DELIVERY**

**MMDCDS CONFERENCE**

**CAPE COAST**

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**JOSEPH ANTWI-MOF**

# Out line



- Introduction
- Concept of fiscal discipline
- Measuring fiscal discipline
- MMDAs Experience in Ghana
  - Fiscal challenges in the assemblies
  - Budget
  - Role of MMDCD as managers of MMDAs
- Benefits

# Introduction



- Fiscal discipline is a key value in public finance management at national and local levels.
- Given limited resources, increasing expenditure claims result in chronically high deficits and increasing debt and tax burdens if not fiscally restrained.
- Fiscal discipline pertains to all key measures of fiscal performance:
  - the total revenue,
  - the financial balance, and
  - debt management .
- Fiscal discipline is achieved when *constraints on one total are accompanied by constraints on other budget aggregates*

# Characteristics of poor fiscal Management



- Expenditure is consistently greater than the amount of revenues raised
- Consistent growing of planned expenditures, leading to over-budget expenditure
- Poor strategic prioritization in resource allocation for development projects
- The impact is
  - poor services delivery to in our cities
  - is a manifestation of how local government have failed to utilize the resources at its disposal in an efficient and effective way

# Characteristics of poor fiscal health Cont



- **Remedies**
- Lies in being able to ensure that resource revenues are not wasted on recurrent expenditures;
- Resources are put to productive use, meaning invested that will be beneficial to the people
- Although much of the recent indiscipline originate from the politicians ,
- however, the administrative layer of government is also unable to resist it, knowing its potential dangers,.

# Why Should Local Governments Pursue Fiscal Discipline?



- Unsustainable fiscal policies can jeopardize service delivery
- Help avoid the impacts of high abandoned services and infrastructure
- Accumulated and excessive commitment put local government in debt trap
- Sound fiscally policies can reduce stock of debt and
- lead to releases of revenue for investment without the need to accumulate additional debt.

# Poor Fiscal Discipline



- Failure to maintain fiscal discipline during implementation of budgets lead to
  - imposition of in-year expenditure cuts and
  - disruption of local services.
- Similarly, avoidance of difficult recurrent expenditure adjustments lead to
  - postponement or termination of discretionary expenditures
  - decrease the quality and quantity of services.

## Cont.



- Insufficient expenditure to build social and economic infrastructure decreases the level and quality of service delivery.
- lack of spending on local infrastructure undermine local governments' economic competitiveness, affecting future revenues
- Insufficient expenditure to maintain infrastructure reduces the lifespan, increases future maintenance costs, and can trigger crisis spending outlays when critical infrastructure fails



- **fiscal discipline is exercised**
  - if Local government agencies execute the appropriations bill faithfully by spending approved amounts of money on approved intended items or purposes
  - if cooperation among stakeholders (Elected members and Management) maintain smooth budgetary processes.
  - if the parochial interests of all stakeholders are reduced in the normal budgetary procedure and fiscal discipline

# Measuring Fiscal health



- - Ratio of Total Intergovernmental grants to Total Revenue
- - Ratio of Total IGF to Total Revenue
- - Ratio of Commitments to Total Revenue
- - Ratio of Debt (Assessed Value of works done/goods procured and services accessed but not paid) to Total Revenue



- **METROPOLITAN/MUNICIPAL ASSEMBLIES IN GHANA**



- Chapter six Article 35 (6)d of the 1992 Constitution provides as *follows make democracy a reality by decentralizing the administrative and financial machinery of government to the regions and districts*
- Chapter 20 Article 240 (2)c of the 1992 Constitution provides as *there shall be established for each local government unit a;*

# Key Services



- **LG Act 1993 Section 10—Functions of District Assemblies**
  - (3) Without prejudice to subsections (1) and (2) of this section, a District Assembly shall—
    - (a) be responsible for the overall development of the district and shall ensure the preparation and submission through the Regional Co-ordinating Council—
      - (i) of development plans of the district to the Commission for approval; and
      - (ii) of the budget of the district related to the approved plans to the Minister for Finance for approval;

# Key Services



- (b) formulate and execute plans, programmes and strategies for the effective mobilization of the resources necessary for the overall development of the district;
- (c) promote and support productive activity and social development in the district and remove any obstacles to initiative and development;
- (d) initiate programmes for the development of basic infrastructure and provide municipal works and services in the district;



- (e) be responsible for the development, improvement and management of human settlements and the environment in the district;
- (f) in co-operation with the appropriate national and local security agencies be responsible for the maintenance of security and public safety in the district;
- (g) ensure ready access to courts in the district for the promotion of justice;
- Refer to LI 1961,2009 –Services in details



- **Section 11—District Assemblies to Approve Budgets.** Subject to section 10 (3) (a) of this Act, a District Assembly shall be responsible for the preparation and approval of its annual budget.

# Fiscal Challenges



- **Budget Preparation**
  - revenue and
  - expenditure
- **Budget Implementation**
  - Procurement
  - Cash management
  - **Accounting recording and reporting**

# Budget

## REVENUE

Poor contract for outsourcing of revenue collection

Poor revenue collection by revenue collectors

High untapped revenue sources

Collection of cash from revenue collectors instead of from bank

Delays in the releases of funds

Diversions of projects funds to pay for other projects-money is fungible

## EXPENDITURE

Thin spread of budget allocations

High contract sums of projects and programmes

High number of uncompleted projects denying the citizens the expected services from the projects

High commitments on many on-going projects

Accumulated arrears-value of work done not paid- this sometimes lead to judgment debt

**Financial Irregularities Cluster**

**Specific Circumstances Considered As Irregular**

**Cash Management Irregularities**

- Direct Disbursement from revenue
- Misappropriation
- Unpresented value books
- Unsubstantiated payments
- Unrecovered loans
- Unearned salaries
- Unrecovered rent and imprest
- Missing PVs
- Failure to pre-audit PVs & Warrants
- Payments made without Warrants
- Unapproved loans
- Unapproved overdraft
- Revenue collected but not accounted for

**Contract  
Management  
Irregularities**

- **Award of contract not covered by PPL**
- **Payment without engineers certificate**
- **Payment without bank guarantee**
- **Overpayment of contract sum**
- **Unsubstantiated payments**
- **Abandoned projects**
- **Failure to pay retention after the defect liability period**
- **Variation of contract without approval**
- **Completed projects not in use**
- **Payment of contingencies without justification**

## **Procurement and Stores Management Irregularities**

- **Unrecorded stores**
- **Stores not accounted for**
- **Fuel not accounted for**
- **Purchase not recorded in stores ledger**
- **Breaking of bulk to circumvent PPA provisions**
- **Payment for goods not supplied**
- **Goods not routed stores**
- **Purchase without multiple quotations**

## **Tax Irregularities**

- **statutory tax/social security irregularities**
- **purchased from non-VAT registered entities**
- **failure to withhold tax**
- **failure to pay withheld tax to GRA**
- **failure to obtain VAT invoices for payment**
- **penalty for delayed tax or SSNIT payment**



- **Misappropriation**
- 16. Misappropriation of funds. For the year 2013, a total of GH¢138,180.85 was misappropriated by 14 Assemblies
- **Direct disbursements from revenue-six** Assemblies expended a total of GH¢124,924.51
- **Uncollected Revenue-Twelve** Assemblies were owed a total of GH¢1,142,080.13 as a December 2013



- **Unsubstantiated payments-** 81 Assemblies were unable to provide independent verifiable evidence to support payments amounting to GH¢4,565,105.62 for the supply of goods and services
- **Unrecovered rent, imprests and advances-**54 Assemblies were owed a total of GH¢506,091.94
- **Unearned salaries-**29 Assemblies resulted in the payment of GH¢361,380.81



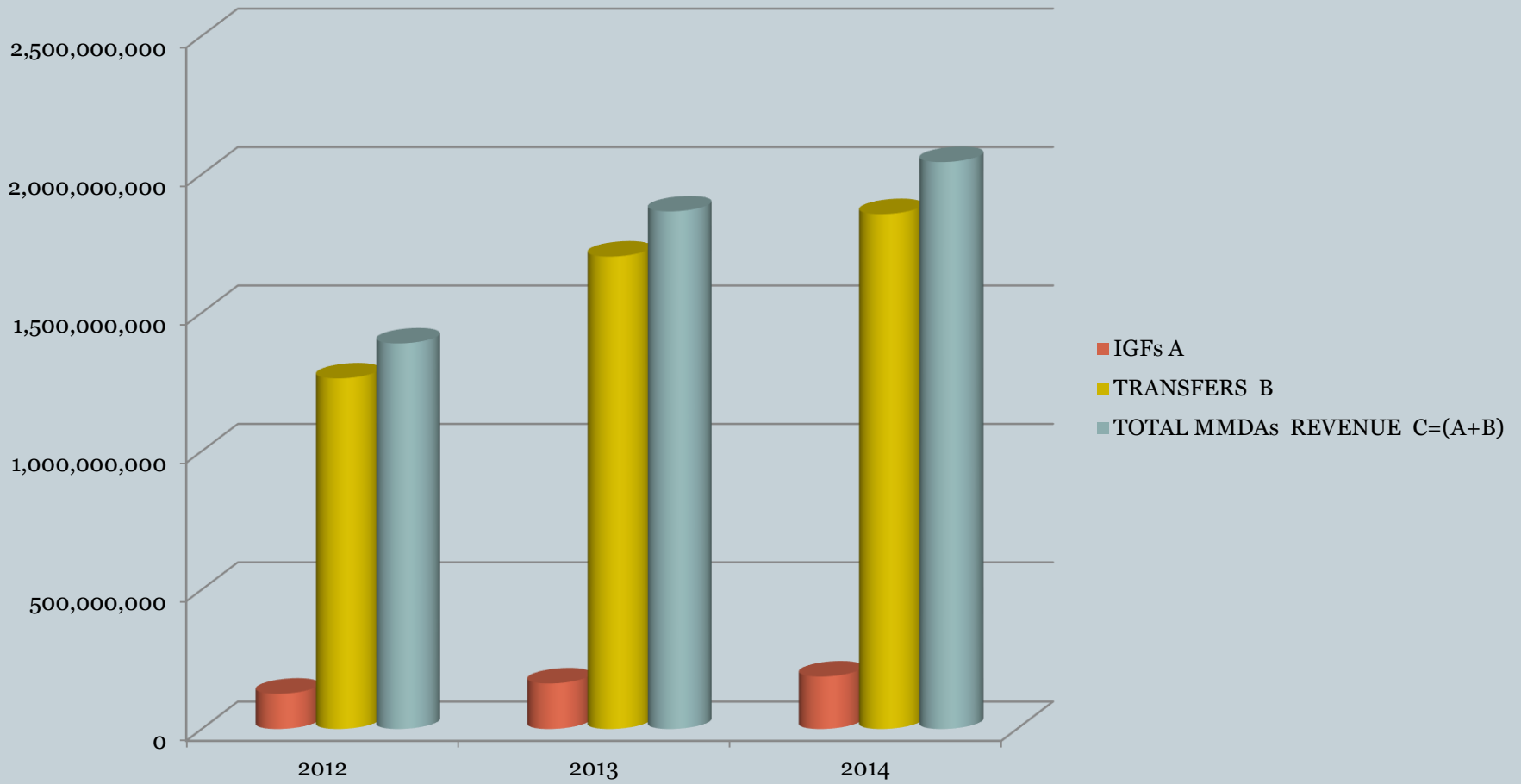
- **Procurement and contract irregularities-**
  - uncompetitive procurements GH¢398,951.01 at 17 Assemblies
  - unaccounted for fuel and other stores in the sum of GH¢1,150,214.17 at 36 Assemblies
  - goods and services valued at GH¢10,828.00 paid for but not supplied to two Assemblies.

# Total Revenue Available to MMDAs -2012-2014

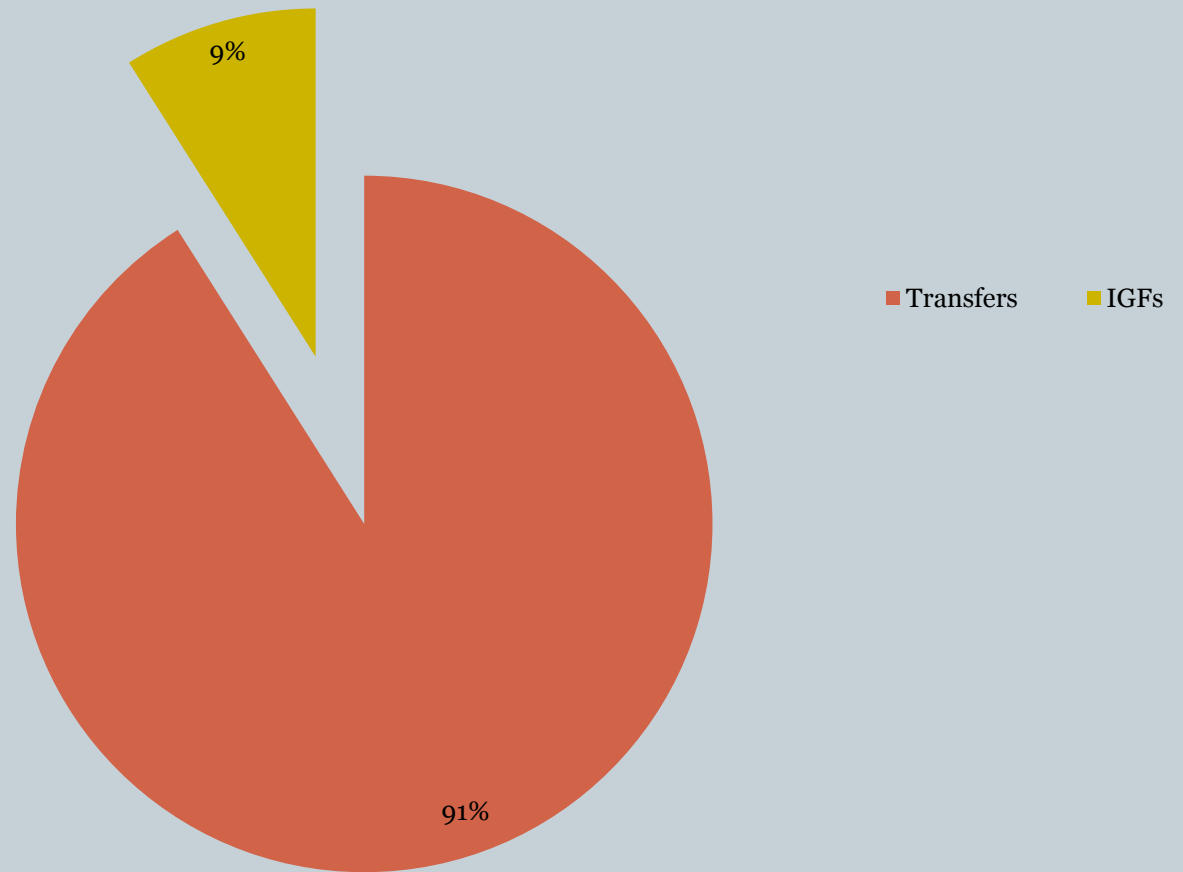


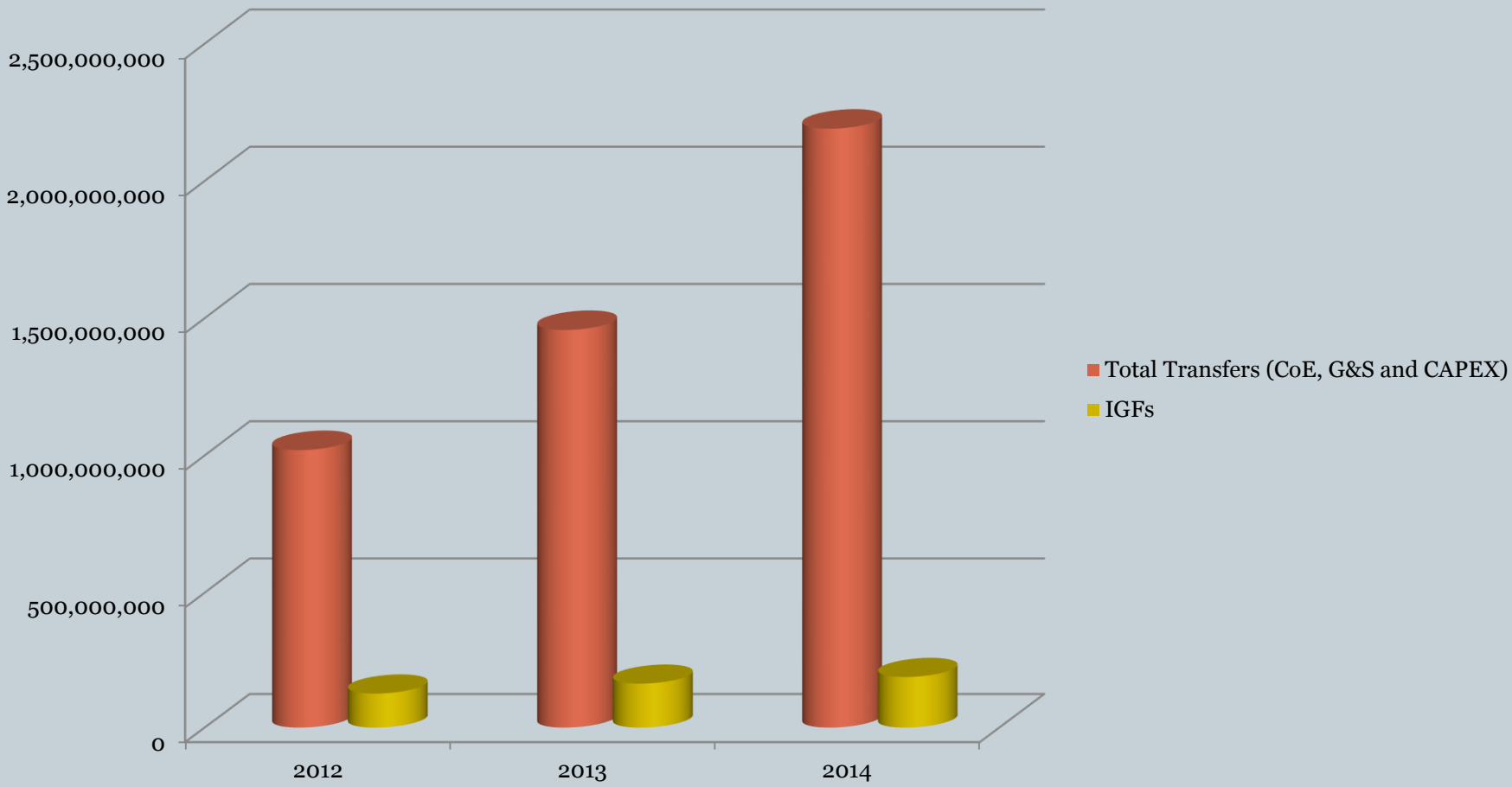
YEAR	IGFs	TRANSFERS	TOTAL MMDAs REVENUE	IGF as a % of total revenue
	A	B	C=(A+B)	A/C*100
2012	126,234,106	1,262,741,295	1,388,975,401	0.09
2013	163,097,022	1,702,874,819	1,865,971,841	0.09
2014	187,818,793	1,856,215,338	2,044,034,131	0.09
<b>TOTAL</b>	<b>477,149,921</b>	<b>4,821,831,452</b>	<b>5,298,981,373</b>	<b>0.09</b>

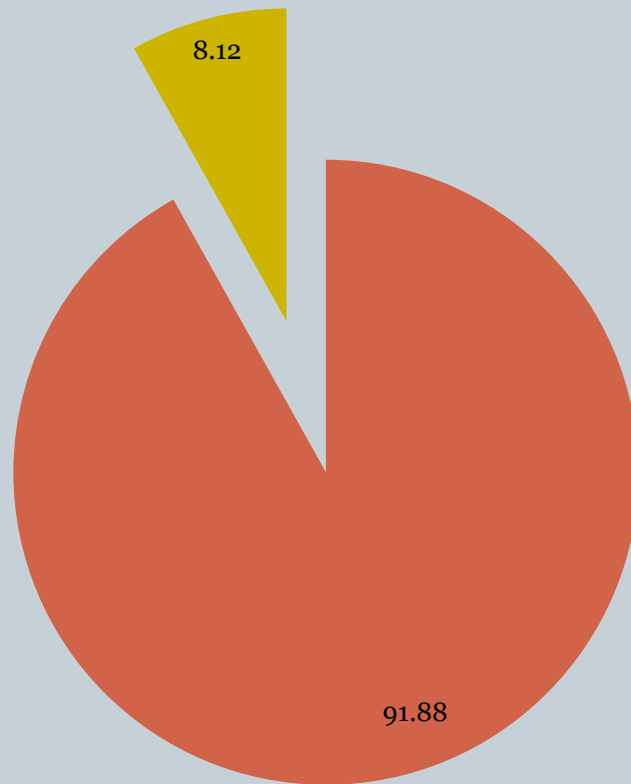
# IGF and Transfers to Assemblies



# Total revenue /IGFs-2012-2014







■ Transerfs (including Basic Education)

■ IGF

# Resource Allocation

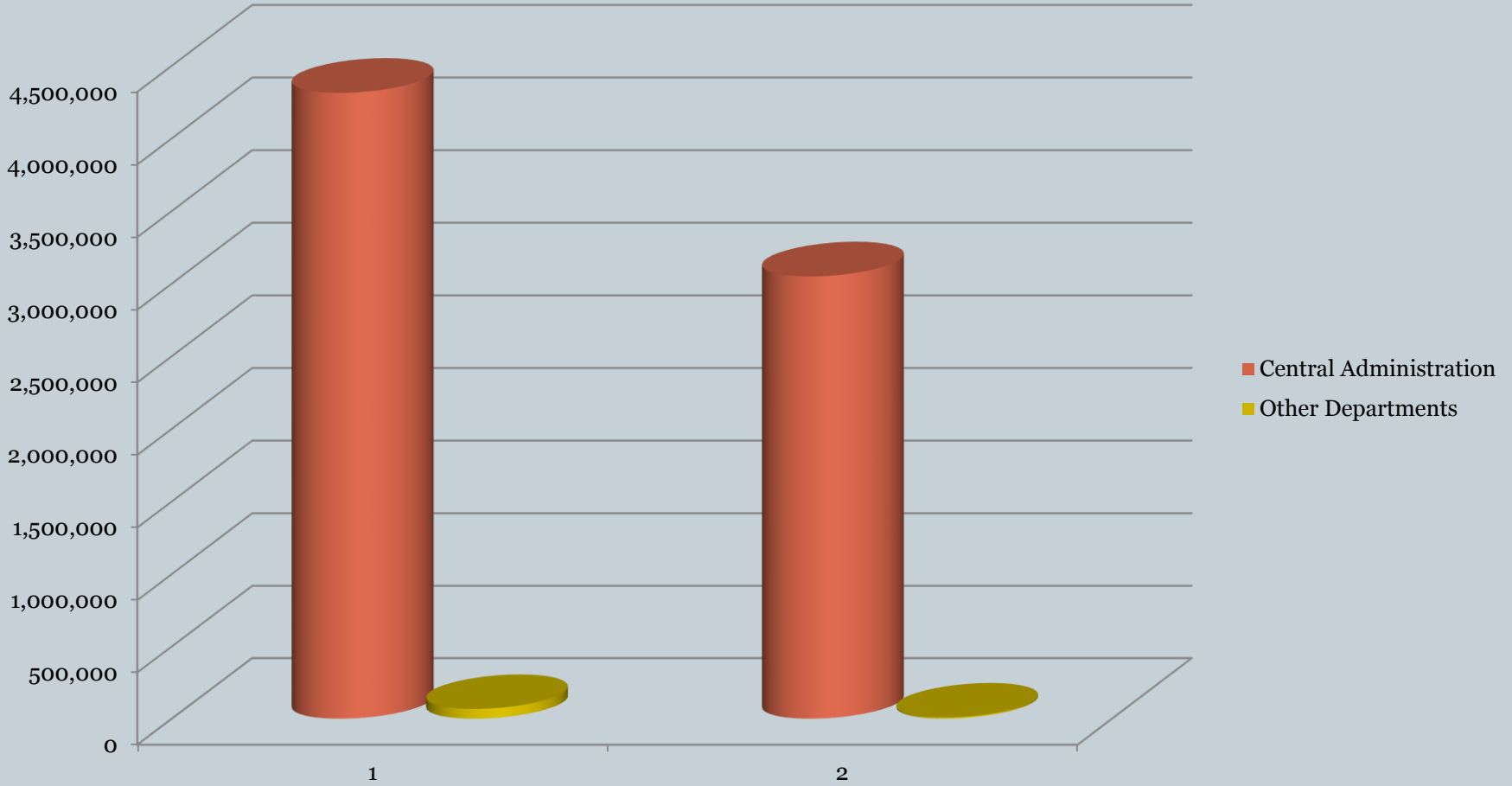


- High resources allocation for administration
- Service areas least served of resources for service delivery
- where resources allocation to the departments it is spent on their behalf

# Total Resource Allocation -2012-2014



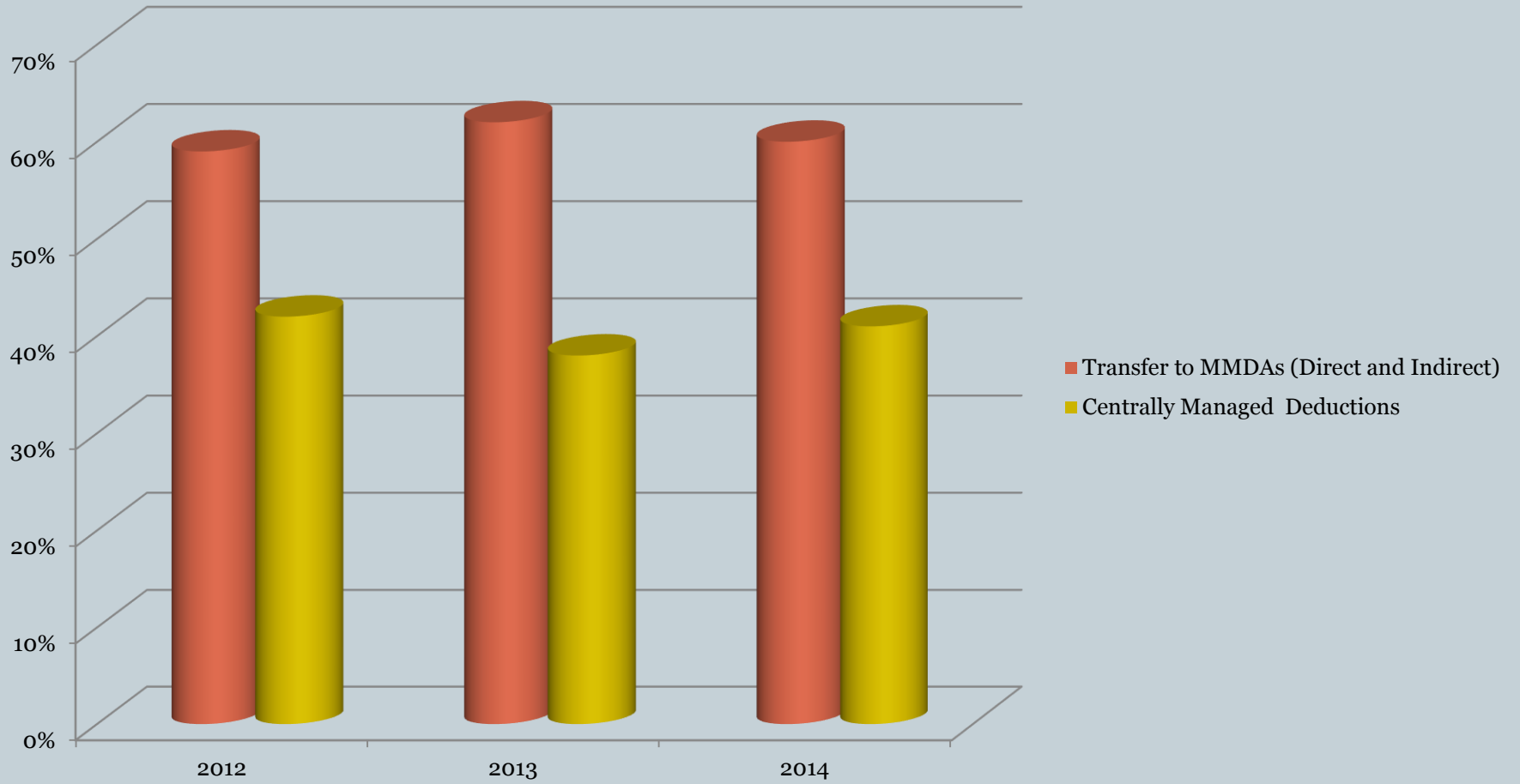
	<b>Budget GH¢</b>	<b>Actual GH¢</b>
<b>Central Administration</b>	4,313,673	3,049,617
<b>Other Departments</b>	67,109	7,993
<b>Total</b>	4,380,782	3,057,610



# Management of DACF



	2012	2013	2014
<b>Transfer to MMDAs(direct &amp; indirect )</b>	487,992,000.00	689,865,385.00	825,940,000.00
<b>Centrally managed Deductions</b>	369,733,704.00	426,631,734.00	543,825,297.00



# Role of MMDCDs



- Ensure fiscal data for Multi-year perspective on budgeting
- Adhere to fiscal rules in the LG Act 1993, Act 462/FAA/FAR/Audit Service Act/Internal Audit Agency Act to maintain fiscal health
- Monitor revenue collection activities in the assembly
- Work to reduce over spending

# Commitments, Arrears and Debts



- Fiscal health and stability is not complete without sound mechanisms for debt management
- Debts are necessary for infrastructure and service delivery , however, as managers keep commitment and arrears under control
- mechanisms that restrict the amount, type, and maturity of debts are necessary for long-term fiscal health and stability



- **Transparency** in government finances implies ‘openness about policy intentions, formulation and implementation’
- Several studies find that fiscal transparency is associated with improved fiscal discipline and improved service delivery
- **Off budget expenditures** - categories of government expenditure that are often not subject to normal budgetary procedures and not included in budget documentation, thereby reducing the degree of transparency of fiscal operations, while at the same time creating potential liabilities that can undermine fiscal sustainability.

# Benefits of Fiscal Discipline



- Fiscal discipline not only helps governments avoid the negative consequences of extreme fiscal stress, but also makes a positive contribution to fiscal outcomes

At the macroeconomic level, fiscal discipline supports

- fiscal stabilization function, as
- effective distribution and use of resources.



• **THANK YOU**