RELATIONSHIP BETWEEN REVENUE AND EXPENDITURE OF LOCAL GOVERNMENTS IN NIGERIA: EVIDENCE FROM KHANA LOCAL GOVERNMENT AREA

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Abstract

This study is aimed at examining the relationship between the revenue and expenditure of Khana Local Government Area of Rivers State, Nigeria. The Autoregressive Distributed Lags modeling and the Granger Causality technique were employed in determining the relationships between selected revenue sources and total expenditure of the Local Government Area, using time series data from 1994 to 2018. The result of the data analysis reveals that 99.47% of the changes in total expenditure of the council depend on the selected revenue, which also has a long run relationship with expenditure. The study found that only federal allocations have significant positive impact on expenditure. However, internally generated revenue as well as aids, have weak but significant positive relationships with total expenditure in the long-run. In conclusion, the execution of the socio-economic ideology of local governments in Nigeria depends mostly on allocations from the federation account. Therefore, local governments in Nigeria should seek alternative means of raising revenue rather than depend solely on statutory allocations from the federal and state governments, if they are to meaningfully achieve the objective of enhancing grassroots development. More so, local government bosses should adopt necessary strategies towards the reassessment and restructuring of the internal revenue generation machinery in order to maximize their revenue earnings, since internally generated revenue has the potential of significantly enhancing the capital expenditures of the local government areas.

Key Words**:** Local Government Area, Revenue, Capital Expenditure, Recurrent Expenditure, Federation Account.

Introduction

The sole aim for the establishment of the local government system of administration in Nigeria was hinged on the need to bring the presence of government to the grassroots which has undoubtedly led to various notable developments and administrative reforms in this tier since independence in 1960. Agba, Ogwu and Chukwurah (2013) assert that the local government administrative structure was created in Nigeria to decentralise governance, bring government closer to the people at the grassroots, and render social services. Agba, Stephen and Nnamani (2014) also noted that they are pivotal in engendering national development; and are purposefully located and responsible for the governance of about 70 percent of the estimated Nigerian population. Thus, local governments are in a vintage position to aggregate and articulate the needs of the majority of Nigerians and facilitate rural development through the application of the needed financial and human resources in their operations.

Local government councils were created to provide and deliver local public goods and services in order to hasten development. These include social services such as good roads, dispensaries, clinics, primary schools and so on. Local governments, therefore bring government closer to the people at the grassroots level with a view to bridging the unnecessary gap normally created by a centralized system of administration, and allowing them to participate in the running of government affairs. To this end, it is expected that the local government councils are strategically positioned to maximize the developmental objectives of governance by ensuring that the least person has a feel of government.

One major factor that has militated against the effective performance of local government councils in Nigeria has been finance, given the limited statutory allocations from the federation account and the meagre internally generated revenue. Since development is highly associated with funds, much revenue is needed to plan, execute and maintain infrastructures and facilities at the local government level (Edogbanya and Sule, 2013). They stressed that the needed revenue generated for such developmental projects like construction of accessible roads, building of public schools, healthcare centers, construction of bridges, among others, are generated from taxes, royalties, haulages, fines and grants from states, national and international governments. Thus, the local government cannot embark, execute and possibly carryout the maintenance of these projects and other responsibilities without adequate revenue generation.

As enshrined in the 1999 Constitution, the functions of a local government council include participation of such council in the government of a state in the following matters: the provision and maintenance of primary, adult and vocational education; the development of agriculture and natural resources, other than the exploitation of minerals; the provision and maintenance of health services; and such other functions as may be conferred on a local government council by the House of Assembly of the state". Many local governments in Nigeria are no longer able to perform their responsibilities as a result of poor finances arising from inadequate revenue generation. This is further aggravated by the prevailing inflationary situation in the country, which erodes the value of funds available to render such essential social services to the people.

Furthermore, with dwindling oil revenue, which has thronged most states and even the federal government into a high level of indebtedness; and inability to sustain the payment of salaries to civil servants, the fate of the local government council is further worsened. This therefore calls for a pragmatic, systematic and critical appraisal of the revenues and expenditures of local governments in Nigeria with a view to providing solutions that could reposition the local governments on the springboard of growth and the achievement of their underlying objectives.

However, most of the local government councils in Nigeria have underperformed. Local government operations and performance between 1999 and 2013 present an enigma in terms of justifying the reasons for their creation. The demands and expectations from the local government councils over this period have been on the increase while the finance required in delivering the dividends of democracy and good governance at the grassroots has continued to dwindle. Though the value of total revenue of local governments seems to have grown considerably over the years, expenditure – especially those of a capital nature – have been sparse; whereas local government bosses still lament zero-allocations.

In Khana Local Government Area of Rivers State, Nigeria, there has been a low level of government presence at the local level. The effect of this has been poor environmental sanitation, poor maintenance of local roads, poor quality of market stalls and motor parks as well as poor security, among others. The inability of the government, past and present, to address these issues is often linked to inadequate revenue and high wage bill as well as the appropriation of funds to political god-fathers. The sensitive nature of these issues has aroused concerns about the fate of the people at the grassroots as well as justifications for the continued existence of the local government administrative structure. Is the poor performance of local governments just an issue of inadequate financing, or is it the case of gross mismanagement of financial resources?

In a bid to find answers to the above dilemma, it becomes necessary to examine the revenue generation of Khana Local Government Area as well as its expenditure so as to explore possible relationship; thereby helping to understand whether there are clogs in the administrative wheels of local governments which have negative impact on socio-economic growth and development. These form the basis of this research. Specifically, the study aims at examining the relationship between federal and state allocations, internal generated revenue, aids, grants and other revenue sources of Khana Local Government Area and its aggregate expenditure.

The rest of the study is organized in four sections. Section two reviews theoretical and empirical literature on local government fiscal operations as adopted in Nigeria. The third section contains the methodology which addresses the design, method of data analysis, as well as the model specification; among others. In section four, the data obtained is analyzed and the findings discussed while the conclusion and recommendations are contained in section five.

Literature Review

Conceptual Framework

The concept of revenue has been described by various scholars. Hamid (2008) views revenue as receipts from taxation as well as non-tax revenue. Revenues are also realized from the disposal of government properties or from other interests, returns on investment as well as earnings from user charges. Dandago and Alabade (2000) see it as an income required by government to finance its growing expenditure. Oladimeji (1985) described revenue as the total income generated from federal, state and local government. He stated further that what makes local government a constitutional matter is the revenue sharing perspective. Fayemi (1991) defined revenue as all tools of income to government such as taxes, rates, fees, fines, duties, penalties, rents, dues, proceeds and other receipts of government to which the legislature has the power of appropriation. He classified government revenue as recurrent and capital revenue.

The main sources of local government revenue include taxes or levies from shops and kiosks, tenements rates, license fees, slaughter slab fees, naming of streets, rights of occupancy fees on land in rural areas, market taxes, motor park levies, domestic animal license fees, wrong parking charges, signboard and advertisement permit fees, etc.

The capacity of local government to generate revenue internally is one very crucial consideration for the creation of a local government council. However, studies by Akindele (2003) and Ekpo and Ndebbio (1998), among others, have shown that local governments in Nigeria depend solely on statutory allocations from the federal government. Though a certain fraction of the federation account is allocated to local governments, these funds are not enough to meet their expenditure requirements.

Public expenditure is incurred to provide public sector infrastructure and services in support of economic and social objectives (Dancorry, 1997). Mbedzi and Gondo (2010) categorized expenditure outcomes into three basic objectives that any system needs to achieve. These objectives include instilling aggregate fiscal discipline, facilitating strategic prioritization of expenditure across programmes and projects, and to encourage technical efficiency in the use of budget resources. Adenugba (2013) opined that public expenditure, if well managed by improving the allocation of those scarce resources in accordance with priorities identified, will have significant impact on internally generated fund of municipalities.

Ukah (2009) categorized public expenditure into capital and recurrent expenditure. Recurrent expenditure refers to expenditure outlays necessary for the day-to-day running of government consumption expenditure. Capital expenditure of government refers to investment outlays that increase the stock of capital of the nation. He stressed on the urgent need for efficient management and control of government expenditure to ensure performance optimality. Nnanna (2002) argues that poor public expenditure management system creates difficulty in controlling spending and this affects both internally and externally generated funds of decentralized government. He further states that equity, transparency, accountability and capacity building should be entrenched in expenditure management system.

Local Government Administration in Nigeria

Studies by Onyedikachi (2016), Olasupo and Fayomi (2012) and Asaju (2010), among others, have attempted to trace the evolution of the local government system of administration in Nigeria, which dates back to the colonial days. According to these studies, the colonial administration was established based on indirect rule; through traditional rulers and institutions. This led to the establishment of native authorities from the 1890s to the 1930s, whose main function was to maintain law and order. Olasupo and Fayomi (2012) recognized it as a form of indigenous rule under colonial authorities whereby “traditional institutions of chiefs and other traditional rulers administer the natives under the supervision of British Administrative Officer’’.

According to Olasupo and Fayomi (2012), the failure of the first phase of Local government administration development was attributed to three factors. First, it lacked executive powers to assist the local and rural poor. Second, under the system, communities felt no strong sense of belonging and self-involvement in the system called local government because most of the members of the council were not free to express their minds. Third, the new nomenclature – Sole Native Authority System made them largely dictatorial and autocratic. Certain inconsistencies in this system necessitated the first reforms in the 1930s and the 1940s culminating in the establishment of chiefs-in-council and chiefs-and-council in place of sole native authorities. Since then other reforms have been undertaken to position local government system in Nigeria.

It was the 1976 Local Government Reform that marked a turning point in the historical development of local government administration in Nigeria. The major thrust of the reform, as stated by Orewa and Adewumi (1992), "is to entrust political responsibility to where it is most crucial and beneficial, that is to the people. It also aimed at social and development of and the effective delivery of the respective local population scattered all over the country". The 1976 reform followed extensive consultations with stakeholders and experts at all the levels of the federating units. The reform also conceptualized local government as the third tier of government operating with a common institutional framework with defined functions and responsibilities, having its statutory share of allocation direct from the Federation Account and empowered to exercise control over its spending. In addition, the reform provided for a democratically elected local government councils. All the provisions of the 1976 Reform were entrenched in the 1979 Constitution which anchored in the Second Republic.

Mabogunje (1995) identified some of the major expectations from local governments as: improving the living standards of the subsistence population through mobilization and allocation of resources to achieve desirable balance over time between the welfare and productive services available to the rural subsistence population; ensuring mass participation aimed at achieving both allocative rationality plus equity with redistributive efficiency; making the process self-sustaining: this requires appropriate skills acquisition and development; capacity building; and availability/presence of functional institutions at local, state and federal levels to facilitate optimal use of available resources and the development of the rural areas.

The Nigerian federation currently has 774 local government units created for grassroots administration and for delivering services to the people at the various local levels as well as creating a relationship with the local people through which the government can be responsive to their needs and demands. In addition, local governments also exist to ensure effective political involvement of the local people in the policy making process as well as in the affairs of government (Afrobarometer, 2013).

Performance of Local Governments in Nigeria

The performance of local governments has been receiving increasing attention in Nigeria over the past decades, from both academic and civil society sectors. All over the world and especially in Africa, local government is seen as a means of enhancing development and service delivery, improve governance and deepen democracy (Buccus, Hemson, Hicks and Piper, 2007).

However, excessive control of this level of government by the state and federal governments has restricted its fiscal jurisdiction as well as rubbed it of its autonomy. As such, the financial resources available to it as a level of government have continued to dwindle, hence, remain grossly inadequate to carry out the functions for which it was created (Salahu, 2015).

The first major attempt to comprehensively examine the finances of Nigerian local governments took place in 1976, through the introduction of the 1976 guideline for local government reforms initiated by the Murtala/Obasanjo's military regime. The reform and the 1979 constitution of the Federal Republic of Nigeria identified reasonably adequate sources of revenue for the local governments. These are the mandatory statutory allocations from the Federal and State governments, aside other internal revenue generation sources.

The 1976 Nation-wide reform of the local government system in Nigeria apparently provided a panacea for all the structural problems of this level of government. But by 1989, most of the problems resurfaced. The catalogue of problems remained those of inadequate financial and other resources, frequent transfer of functions to and from local governments, lack of autonomy definable in terms of excessive control exercised by both central and state governments and inadequate involvement of the community in decision-making (Bello-Imam, 2007). All these, in one way or the other, have seriously affected the financial autonomy as well as the performance of local governments in Nigeria.

Theoretical Framework

The need for local governments in Nigeria to have some degree of autonomy to be able to discharge their responsibilities effectively informed the 1986 local government reform. However, the effectiveness with which such responsibilities can be discharged will depend on the revenue base of such government. Public revenue decentralization, therefore, empowers lower tiers of government to raise taxes and carry out spending activities within specified legal criteria. This is referred to as the Overlapping Authority Model (OAM) propounded by Wright (1978) on inter-governmental relationships. Bello (2014) emphasized that the overlapping authority model presents a hierarchical view of the relationship between the federal, state and local governments stressing that the states and local governments are seen as means for locally administering centrally determined services.

Public revenue decentralization occurs when much of the money is raised centrally but part of it is allocated to lower levels of government through some revenue-sharing formula otherwise known as administrative decentralization. Oates (1993) opines a contrary view that the principles of centralization is costly because it leads the government to provide public goods that diverge from the preferences of the citizens in particular areas (regions, provinces, states, local governments). He also argues that when these preferences vary among geographical area, a uniform package chosen by a nation's government is likely to force some localities to consume more or less than they would like to consume.

In the literature, two major forms of decentralization are recognized; which are de-concentration and devolution (Olowu, 1995). The first refers to the transfer of state responsibilities and resources from the centre to the periphery, within the same administrative system. It indicates an internal form of delegation of responsibilities among officials of the organization. On the other hand, devolution entails the transfer of specified responsibilities and resources to the community, who are usually represented by their elected (i.e. non-appointed) officials. For most African governments, however, decentralization is now viewed as a strategy for mobilizing local resources and an initiative for national development.

Since it has become evident that federal or state governments, alone, cannot guarantee development in the local areas, it then becomes imperative for the power, authority, and responsibility to be transferred from the central or state government to the local government for the purpose of enhancing development in the rural areas. This is important because of the remoteness of the federal government to the rural people. It is believed that decentralization would make the local governments more competent in the management of their own affairs. The 1976 local government reform, in particular, was aimed at decentralizing of some significant functions of the state government at local levels in order to harness local resources to fund development.

Empirical Review

Few empirical studies exist on local government fiscal operations in Nigeria. For example, Nwanne (2015) evaluated the effect of the Nigerian tax policy on the ability of local governments to raise and spend money in discharge of their statutory responsibilities. He employed the Ordinary Least Square regression and the Chow Test of structural stability. The study found that the tax policy had a significant positive effect on the expenditure of local governments, as well as improving the ability of local governments to raise revenue through various forms of taxes. Hence local governments would fare better when they fully avail themselves to the opportunities within the tax policy which make fiscal operations easier and more efficient.
Simeon, Abidogun and Olugbenga (2013) evaluated the relationship between revenue and expenditure of thirty local governments in the State of Osun, Nigeria, based on monthly income and expenditure over a period of sixty months. Three different sources of local governments' income: Internally Generated Revenue (IGR), Statutory Allocation (SA) and Value Added Tax (VAT) were considered as predictor variables while expenditure was taken as response. Multiple Linear Regression was used as statistical tool. After the application of All Possible Regression Method of Selection of the Best Regression Model, Statutory Allocation was recommended as the principal determinant of the local government expenditure in the South West Zone of Nigeria.

Ogujiuba and Abraham (2012) also examined the revenue-spending hypothesis for Nigeria using macro data from 1970 to 2011. Applying correlation analysis, granger causality test, regression analysis, lag regression model, vector error correction model and impulse response analysis, they reported that revenue and expenditure are highly correlated and that causality runs from revenue to expenditure in Nigeria. The vector error correction model also proves that there is a significant long run relationship between revenue and expenditure.

Elyasil and Rahimi (2012) also investigated the relationship between government revenue and expenditure in Iran by applying the bounds testing approach to cointegration. They showed that there is a bidirectional causal relationship between government expenditure and revenues in both the long run and short run. Furthermore, Ali and Shah (2012), examined government revenue and expenditure nexus in the case of Pakistan using annual data for the period 1976-2009. The study applied the Johansen co-integration and Granger causality techniques and found no relationship among the variables both in the long run and the short run.

Emelogu and Uche (2010) studied the relationship between government revenue and government expenditure in Nigeria using time series data from 1970 to 2007. The study utilized the Engel-Granger two-step co-integration technique, the Johansen co-integration method and the Granger causality test within the Error Correction Modeling (ECM) framework and found a long-run relationship between the two variables and a unidirectional causality running from government revenue to government in Nigeria.

Zinaz and Samina (2010) employed Granger causality test on a bivariate model to study the causality between government expenditure and tax revenue. They concluded that there exists a unilateral stable long run relationship running from expenditures to revenues in Malaysia. In Romania, Hye and Jalil (2010) adopted the autoregressive distributive lag approach to cointegration, variance decomposition and rolling regression method to determine the causal relationship between expenditure and revenue of government. The results indicate that bidirectional long run relationship exists between government expenditure and revenue. The variance decomposition result further suggests that government revenue shock has sharp impact on the government expenditure compared to the revenue collection response to shock in government expenditure.

Waziri (2010), cited in Nwanne (2010, critically examined the growth of public expenditure hypothesis of Adolf Wagner, employing data on the overall expenditure of Nigerian local governments between 1993 and 2002, and some primary data. The paper examined the basic features of local governments' spending, including their distribution between consumption spending (recurrent) and investment spending (capital) in relation to economic growth. He further examined the relative efficiency of the local governments in resource utilization and concluded that local governments in the country are most affected by the low level of capacity for development.

Similarly, Adedokun (2010) examined local government tax mobilization and utilization in Nigeria. The study examined the allocations to local governments from the federation account between 1993 and 1997, as well as the revenue from taxes, fees, and so on and tried to estimate the total revenue base of local governments in the country. He opined that expenditure assignment should match with revenue generating powers in order for local governments to discharge their functions effectively.

Al-Qudair (2005) examined the long run equilibrium relationship between government expenditure and revenues in the Kingdom of Saudi Arabia using cointegration technique, Error Correction Model (ECM) and Granger causality test. The cointegration test indicates the existence of long run equilibrium between government expenditure and revenues. The causality tests show the existence of a bi-directional causal relationship between government expenditure and revenue in the long and the short run.

Shadbegian (1999) estimated the impact of local tax and expenditure limitations (TELs) on the level and structure of local government revenue; using a panel data set on 2955 counties (1962–87), which was analysed through regression analysis. It was established that TELs decrease the level of property and "other" taxes, but increase the level of miscellaneous revenue, partially offsetting the decrease in taxes. Thus, TELs shift the revenue structure of local government away from taxes and toward miscellaneous revenue. However, more stringent TEL laws eliminate local government's ability to increase the level of miscellaneous revenue to offset the decrease in taxes.

Ekpo and Ndebbio (1998) analysed fiscal operations in 13 local governments in Nigeria which were randomly selected over the period 1980-1991 and focused on allocations to these local governments from the Federal Account (FA) and how these were spent. The study found that the LGAs were heavily dependent on federal allocations in order to meet both recurrent and capital expenditures. The study highlighted a serious case of lack of revenue from sources other than federal allocation.

This study joins few others to examine the revenue-expenditure relationships of sub-governments like the state and local governments in Nigeria. Its main focus is to look at disaggregated components of local government revenue and expenditure unlike the case in some other studies which focus on aggregated components like revenue allocation, total expenditure and total revenue, etc.

Methodology

Secondary source of data was used in this study. The data was generated from Khana Local Government council financial reports for the period, 1994 - 2018. In the course of data analysis, several techniques which include the ADF Unit Root test, Autoregressive Distributed Lag (ARDL) Bonds test as well as Pairwise Granger Causality Test, were adopted to analyse the relationships between the variables of the study in a bid to realize the objectives of the study.

Model Specification

The assumption of this study is that local government expenditure (EXP) is a function of revenue (REV), which can be expressed as:

$$EXP = f(REV) \text{ ----------------------------------- } (1)$$

This is further expressed mathematically in the loglinear form as follows:

$$LogTEX = \beta_0 + \beta_1 LogFED + \beta_2 LogSTA + \beta_3 LogIGR + \beta_4 LogAGO + \mu \text{ ---------------- } (2)$$

Where TEX = Total Expenditure,
FED = Federal Allocation to the LGA,
STA = State Allocation to the LGA,
IGR = Internally Generated Revenue,
AGO = Aids and Grants,
β_0=Intercept, β_1, $\beta 2$, $\beta 3$ & β_4 = Coefficients of the regression, μ = Error term
The apriori expectations are: $\beta_1, \beta_2, \beta_3, \beta_4 > 0$

Data Analysis

The descriptive characteristics of the data generated are presented in the table below.

Table 1: Descriptive Statistics

	FED	STA	IGR	AGO	TEX
Mean	672.0520	57.65200	20.16000	13.00400	771.1920
Median	361.8000	18.60000	23.70000	6.800000	412.5000
Maximum	2114.400	300.0000	36.90000	38.00000	2529.100
Minimum	13.40000	1.000000	0.000000	1.000000	15.80000
Std. Dev.	719.2440	73.56272	12.45860	11.45504	827.9443
Skewness	0.854464	1.545852	-0.283971	0.648664	0.931036
Kurtosis	2.226581	5.501162	1.673691	2.312138	2.479037
Jarque-Bera	3.665222	16.47338	2.168391	2.246056	3.894494
Probability	0.159995	0.000265	0.338174	0.325293	0.142666
Sum	16801.30	1441.300	504.0000	325.1000	19279.80
Sum Sq. Dev.	12415486	129875.4	3725.200	3149.230	16451804
Observations	25	25	25	25	25

Source: **Author's computation using E-views**

Correlation Statistics

The correlations among the variables of study are given below.

Table 2: Correlation Statistics

	FED	STA	IGR	AGO	TEX
FED	1.000000	0.897379	0.844634	0.873638	0.974819
STA	0.897379	1.000000	0.768249	0.758842	0.892267
IGR	0.844634	0.768249	1.000000	0.854127	0.838468
AGO	0.873638	0.758842	0.854127	1.000000	0.832982
TEX	0.974819	0.892267	0.838468	0.832982	1.000000

Source: **Author's computation using E-views**

Table 1 indicates that with an annual average allocation of N672m to Khana LGA, federal allocations constitute 87% of the average total expenditure for the period. Aids and grants constitute the lowest source of revenue for the LGA. Table 4.2 also shows that all the variables have positive correlations with TEX.

Unit Root Test

The unit root test is carried out to determine whether the variables in the time series have a unit root, and thus stationary; or otherwise. The Augumented Dickey Fuller (ADF) and the Philips-Perron (PP) tests were carried out to determine stationarity of the variables.

Table 3. ADF Unit Root Test

Variables	t-statistic	Critical value (0.05)	Prob.	Order of Integration
LogTEX	-5.275770	-2.998064	0.0003	*I*(1)
LogFED	-4.714250	-2.998064	0.0011	*I*(1)
LogSTA	-13.77228	-3.004861	0.0000	*I*(2)
LogIGR	-3.202221	-2.998064	0.0329	*I*(1)
LogAGO	-5.795431	-2.998064	0.0001	*I*(1)

Source: **Authors' Computation using E-views**

The result of the unit root test above shows that all the variables are integrated at their first differences, except STA, which is integrated at the second difference. Since the variables are not integrated at the same level, the dynamic and long run relationship existing between the variables shall therefore be determined through the employment of Autoregressive Distributed Lags (ARDL).

Table 4: Autoregressive Distributed Lags (ARDL) Result

Dependent Variable: LOG(TEX)
Method: ARDL
Date: 08/29/19 Time: 15:37
Sample (adjusted): 1994 2018
Included observations: 24 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOG(TEX(-1))	0.056211	0.111281	0.505121	0.6204
LOG(FED)	0.850504	0.107219	7.932418	0.0000
LOG(STA)	0.079704	0.070034	1.138078	0.2718

LOG(STA(-1))	-0.142087	0.072441	-1.961401	0.0675
LOG(IGR)	0.055150	0.092800	0.594289	0.5606
LOG(AGO)	-0.013532	0.093831	-0.144218	0.8871
LOG(AGO(-1))	0.180953	0.088502	2.044616	0.0577
C	0.356418	0.385078	0.925573	0.3684

R-squared	0.996322	Mean dependent var	5.897382
Adjusted R-squared	0.994713	S.D. dependent var	1.494738
S.E. of regression	0.108687	Akaike info criterion	-1.339485
Sum squared resid	0.189006	Schwarz criterion	-0.946800
Log likelihood	24.07382	Hannan-Quinn criter.	-1.235305
F-statistic	619.1603	Durbin-Watson stat	2.168047
Prob(F-statistic)	0.000000		

Source: **Author's computation using E-views**

The result indicates that only FED has significant relationship with TEX at 1% while all other revenue sources have insignificant relationships with TEX. It also shows that the independent variables jointly determine 99.47% of the changes in TEX, other factors held constant.

Table 5: ARDL Long Run Estimation

ARDL Long Run Form and Bounds Test
Dependent Variable: DLOG(TEX)
Selected Model: ARDL(1, 0, 1, 0, 1)
Case 3: Unrestricted Constant and No Trend
Date: 08/29/19 Time: 15:40
Sample: 1994 2018
Included observations: 24

Conditional Error Correction Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.356418	0.385078	0.925573	0.3684
LOG(TEX(-1))*	-0.943789	0.111281	-8.481114	0.0000
LOG(FED)**	0.850504	0.107219	7.932418	0.0000
LOG(STA(-1))	-0.062382	0.098859	-0.631024	0.5369
LOG(IGR)**	0.055150	0.092800	0.594289	0.5606
LOG(AGO(-1))	0.167421	0.111764	1.497995	0.1536
DLOG(STA)	0.079704	0.070034	1.138078	0.2718
DLOG(AGO)	-0.013532	0.093831	-0.144218	0.8871

* p-value incompatible with t-Bounds distribution.
** Variable interpreted as Z = Z(-1) + D(Z).

Levels Equation
Case 3: Unrestricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(FED)	0.901159	0.127902	7.045680	0.0000
LOG(STA)	-0.066098	0.109475	-0.603772	0.5545
LOG(IGR)	0.058435	0.095210	0.613748	0.5480
LOG(AGO)	0.177393	0.124847	1.420881	0.1745

EC = LOG(TEX) - (0.9012*LOG(FED) -0.0661*LOG(STA) + 0.0584*LOG(IGR) + 0.1774*LOG(AGO))

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	26.59897	10%	2.45	3.52
K	4	5%	2.86	4.01
		2.5%	3.25	4.49
		1%	3.74	5.06

Source: Researcher's computation using E-views

The table above indicates an F-value of 26.60, which is greater than the critical values. Thus, the null hypothesis of no long run relationship is rejected; therefore long run relationship exists between revenue and expenditure of Khana LGA. The result also shows that all the variables are insignificant in the long run, except FED, which is significant at 1%.

Table 6: Granger Causality Test

Pairwise Granger Causality Tests
Date: 08/29/19 Time: 15:46
Sample: 1994 2018
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
FED does not Granger Cause TEX	23	5.81098	0.0113
TEX does not Granger Cause FED		3.45711	0.0536
STA does not Granger Cause TEX	23	7.25540	0.0049
TEX does not Granger Cause STA		7.56166	0.0041
IGR does not Granger Cause TEX	23	2.77068	0.0893
TEX does not Granger Cause IGR		14.5477	0.0002
AGO does not Granger Cause TEX	23	8.28230	0.0028
TEX does not Granger Cause AGO		0.65478	0.5315

Source: Researcher's computation using E-views

The result above indicates causality relationships FED, STA and AGO IGR to TEX, which implies that these variables significantly cause changes in the expenditure performance of Khana LGA. More so, TEX also granger causes STA and IGR.

Discussion of Findings

First, Khana LGA, like all other tiers of government depends solely on the allocation that comes from the federation account for driving its activities. It is therefore not surprising that over 87% of its expenditure is derived from federal allocations. This implies that fluctuations in oil earnings, which determine the size of the federation account, will significantly affect the performance of the LGA. Similarly, the coefficient of determination (R^2 adjusted) implies that the selected variables determine 99.47% of changes in the expenditure performance of Khana LGA.

Also, from the result of the ARDL regression result in table 4.5, the F-value of 619.16 indicates that aggregate finance impact significantly on LGA overall expenditure at 1% level of significance. Analysis of the independent variables indicates that only federal allocations (FED) have significant positive impact on expenditure of Khana LGA, at 1% level of significance. This is because the allocations from the federation account is the most sizeable and consistent source of funding for government organs, of which Khana LGA is not an exception. This supports the findings of Abiodun and Olugbenga (2013), which established that statutory allocation was the principal determinant of the local government expenditure in the South West Zone of Nigeria.

On the other hand, state allocations (STA), has insignificant relationship with total expenditure both in the short and long runs. The reason is that states support funding for local governments are often subject to political considerations, thus of little or no significance to socio-economic development. The overbearing nature of states on local government finances has also informed recent agitations for local government autonomy. Contrastingly, though IGR has positive relationship with total expenditure, it does not have significant impact, except weak positive impact at 10% level of significance in the long run. The reason is that the IGR in Khana LGA has been very small, owing to a lack of strategic framework for mobilizing IGR in the area, as well as the low income emanating from the low industrial capacity of the area. This has, to a very large extent, impeded performance in the LGA, especially when the wage bill is too compacted to leave meaningful funding for developmental projects. This, Waziri (2010) noted, results in low level of capacity for development.

Lastly, the Granger causality test reveals that federal and state allocations, as well as IGR and aids can have causality on expenditure. Thus, the efficient harnessing of these revenue sources could enhance performance of the LGA. Therefore, as observed by Ekpo and Ndebbio (1998), LGAs are heavily dependent on federal allocations in order to meet both recurrent and capital expenditures, which is a major setback to their performances.

Conclusion

The study examined the relationship between the revenue and expenditure of Khana Local Government Area of Rivers State, Nigeria, with a view to assessing its implication on performance. The ARDL modeling technique was employed in determining the relationships between selected revenue sources and the expenditure of the LGA, using time series data from 1994 to 2018.

The result of the data analysis reveals that selected revenue sources determined 99.47% of the changes in total expenditure of the council. The F-value of 619.16 reveals that the aggregate revenue has significant impact on total expenditure at 1% level of significance. Also, the t-values of 7.045, -0.604, 0.614 and 1.421 reveal that only federal allocations has significant long run relationship with total expenditure. In addition, the Bounds Test F-statistic of 26.60 also indicates that long run relationship exists between the revenue sources and total expenditure.

The study concludes that the execution of the socio-economic ideology of local governments in

Nigeria depends mostly on allocations from the federation account, which has positive impact, both in the short and long runs on expenditure. Again, a weak significant positive relationship exists between IGR and total expenditure in the long run. In the same vein, aids and grants made to LGAs also significantly enhances their performance. In addition, the internal revenue capacity of the Khana LGA is weak and therefore does not significantly influence total expenditure which is the case in most LGAs in Nigeria, although it has the potential to contribute significantly to performance.

Recommendations

In consideration of the findings and conclusions made in the course of this study, the following policy recommendations are advocated.

1. Local governments in Nigeria should seek alternative means of raising revenue rather than depending on statutory allocations from the federal and state governments, if they are to meaningfully achieve the objective of enhancing grassroots development.
2. Local government bosses should adopt necessary strategies towards the reassessment and restructuring of the internal revenue generation machinery in order to maximize their revenue earnings, since IGR has the potential of significantly enhancing the capital expenditures of the LGAs.
3. There should be an absolute stop to the appropriation of significant proportion of monthly allocations for the settlement of Godfathers and allies – the very issue that has imprisoned most local government chairmen, and suppressed many developmental initiatives.
4. Training and re-training programmes for the revenue officials should be organized from time to time in order to enable them meet the challenges of the new millennium.
5. Efforts should be intensified in punishing fraudulent LGA chairmen and officials, who sacrifice the developmental aspirations of the local populace for the achievement of their own selfish personal agenda as well as those of their political godfathers, who installed them.
6. There should be formation of revenue monitoring committee, which should be constituted not based on party affiliations or sentiments, so as to check the effectiveness of revenue collections.
7. There should also be external audit committees that would, from time to time, monitor the expenditure performance of local governments in Nigeria, so as to engender a sense of responsibility and accountability in LGA bosses; which would help in expanding the socio-economic gains of the local populace.

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