Theories of Local Government Financing: A Comprehensive Theoretical Review

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Article Info

ISSN (online): 2582-7138
Impact Factor: 5.307 (SJIF)
Volume: 04
Issue: 05
September-October 2023
Received: 01-07-2023;
Accepted: 05-10-2023
Page No: 765-773

Abstract

This journal article provides a comprehensive theoretical review of various models and theories that underpin local government financing. It explores the Principal Agency theory, the Theory of Fiscal Federalism, the Benefits-Pay-Principle theory, the Cost-of-Service Theory of Taxation, the Efficiency Service theory, the Intergovernmental Fiscal Framework, the Revenue Enhanced Model, the Benefit Model of Local Finance, the Modified Quantitative Service Delivery Model (MQSDM), and the Theory of Fiscal Federalism. The article examines the foundations, principles, and applications of these theories in the context of local government finance. By addressing the theoretical underpinnings of local government financing, this article contributes to a deeper understanding of the complexities and challenges involved in funding essential public services and infrastructure at the local level.

DOI: https://doi.org/10.54660/.IJMRGE.2023.4.5.765-773

Keywords: Principal Agency theory, Theory of Fiscal Federalism, Benefits-Pay-Principle theory, Cost-of-Service Theory of Taxation, Efficiency Service theory, Intergovernmental Fiscal Framework, Revenue Enhanced Model, Benefit Model of Local Finance, Modified Quantitative Service Delivery Model (MQSDM), Theory of Fiscal Federalism

Introduction

Local government financing is a multifaceted and intricate field that lies at the heart of effective public service delivery, infrastructure development, and the overall well-being of communities. Ensuring the adequate funding of local governments is a complex endeavor, and the pursuit of sound financial policies necessitates a solid theoretical foundation. This journal article embarks on an exploration of the diverse theories and models that underpin local government financing, providing insights into their principles, applications, and contributions to the fiscal landscape of local governance.

The theories to be examined in this article encompass a wide spectrum of financial paradigms, each offering distinct perspectives and approaches to local government financing. From the Principal Agency theory, which addresses issues of accountability and delegation in the context of local governance, to the Theory of Fiscal Federalism, which explores the allocation of financial responsibilities among different tiers of government, these theories shed light on the intricacies of fiscal dynamics at the local level.

The Benefits-Pay-Principle theory underscores the significance of aligning taxation with the benefits individuals receive from public services, while the Cost-of-Service Theory of Taxation delves into the intricate calculus of taxing based on the costs of service provision. In contrast, the Efficiency Service theory focuses on the pursuit of cost-effective and responsive service delivery, presenting a compelling argument for optimizing resource allocation.

The Intergovernmental Fiscal Framework elucidates the collaborative nature of local government financing, emphasizing the interplay between various levels of government. On the other hand, the Revenue Enhanced Model seeks to harness revenue-generating opportunities to bolster local finances, enabling municipalities to meet their financial obligations effectively.

The Benefit Model of Local Finance brings equity to the forefront, emphasizing the need to ensure that financial burdens align with the advantages accrued from public goods. The Modified Quantitative Service Delivery Model (MQSDM) introduces a quantitative perspective, offering a structured approach to assessing the cost and quality of public services. Finally, the Theory of Fiscal Federalism serves as a comprehensive framework that examines the division of fiscal responsibilities and revenue-sharing mechanisms among federal, state, and local governments.

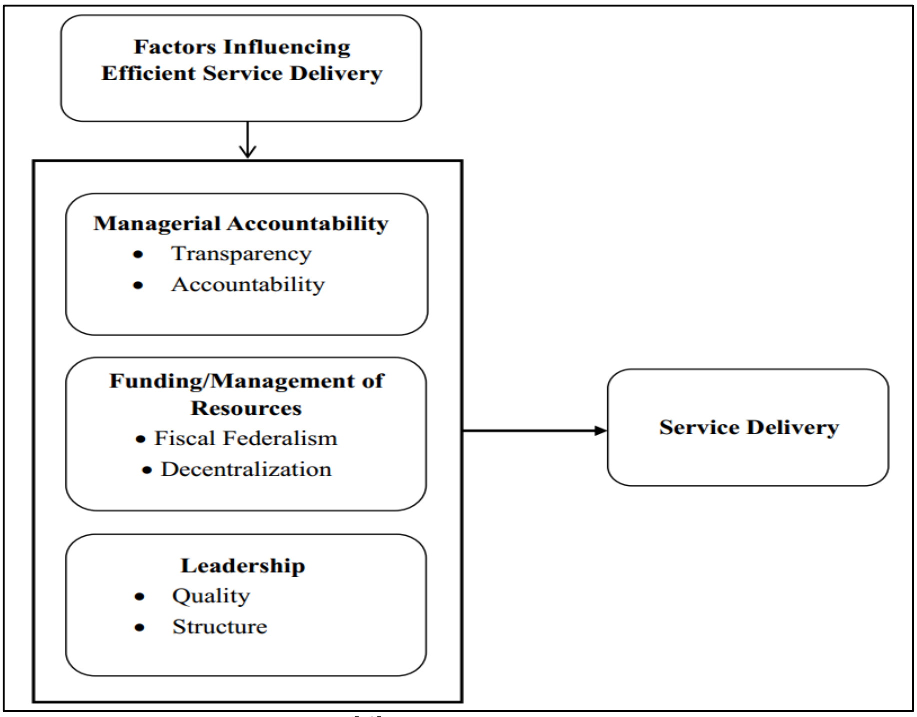
As we delve into these theories, we aim to unravel the intricacies of local government financing, emphasizing the relevance of each theory within the evolving landscape of local governance. Through this exploration, we aspire to deepen our understanding of the theoretical underpinnings that inform local government financing practices and contribute to the ongoing discourse on fiscal policies and financial strategies at the local level.

The main theories as outlined earlier that can explain local governance financing and service delivery include the Principal Agency theory; the Theory of Fiscal Federalism; the Benefits-Pay-Principle theory; the Cost-of-Service Theory of Taxation; the Efficiency Service theory; the Intergovernmental Fiscal Framework; the Revenue Enhanced Model; the Benefit Model of Local Finance; Modified Quantitative Service Delivery Model (MQSDM) and the Theory of Fiscal Federalism.

Reviewing theories of local government financing

Modified Quantitative Service Delivery Model (MQSDM)

The theoretical lens of the Modified Quantitative Service Delivery Model (MQSDM) developed by Khalil and Adelabu (2012) [19] underpins the study. The Modified Quantitative Service Delivery Model (MQSDM) is a framework that has been developed to assess the efficiency and effectiveness of service delivery in local governance (Khalil & Adelabu, 2012) [19]. It aims to provide a comprehensive understanding of the relationship between financing and service delivery, and how this can be improved. Hence, this theory was of great relevance to this study which aimed to examine the mismatch between locally generated revenue and service delivery in selected local authorities on the Copperbelt Province of Zambia towards developing a revenue-service delivery model for the local authorities. According to Khalil and Adelabu (2012) [19], the MQSDM is the model for efficient service delivery in the public service sector. From this model, funding, managerial accountability and leadership, are the critical variables for efficient and effective service delivery in the public service sector as demonstrated in Figure 1.



***Source*:** Khalil and Adelabu (2012) [19]

Fig 1: Modified Quantitative Service Delivery Model (MQSDM)

As concluded by Khalil and Adelabu (2012) [19], the MQSDM is equally good for nations with weak institutions including African countries because emphasis on funding cum management of resources, managerial accountability and leadership quality is elaborated. Hence, the model was of great importance to this research, which aimed to examine the link between locally generated revenue and service delivery by local government authorities in the Copperbelt Province of Zambia.

Theory of Fiscal Federalism

The study is also anchored on the theoretical lens of the fiscal federalism theory. The economist, Richard Musgrave in 1959, introduced the theory (Rotulo, Epstein & Kondilis, 2020) [33]. The theory is also known as the “decentralisation theorem” (Arowolo, 2011; Majocchi, 2016). Fiscal federalism theory deals with the division of governmental functions and financial relations among levels of government (Agba, Ocheni & Nnamani, 2014). As cited by Dewata *et al.* (2021) [12], the theory of fiscal federalism is an understanding that prioritises fiscal decentralisation as the root of development and effective public service delivery. According to King (2022) [20], federalism is taken to mean a system of government where revenue and expenditure functions are divided among the tiers/levels of government. This division is usually done to enhance the government's effective provision of public goods and services at different levels to the citizens (Agba et al., 2014; Chandra, 2015).

Voigt and Blume (2012) argue that fiscal federalism should be understood as a system of public management rather than a constitutional structure. Ahmad and Brosio (2013) further expanded upon this concept by providing an explanation that fiscal federalism establishes a broad normative framework for the allocation of responsibilities to various tiers of government and the suitable budgetary mechanisms for executing these responsibilities. The concept of fiscal federalism theory has garnered significant attention within the field of public finance, as it provides a crucial framework for comprehending the allocation of fiscal obligations and resources among several tiers of government within a federal system (Rao, 2016; Singh, 2017). Fiscal federalism pertains to the distribution of authority to levy taxes and allocate spending responsibilities across different tiers of government (Agba et al., 2014; Bird, 2018; Majocchi, 2016) [2]. Hueglin and Fenna (2015) posits that fiscal federalism is fundamentally grounded in a political framework known as federalism. Fiscal federalism, as described by Arowolo (2011), is a comprehensive normative framework that governs the allocation of responsibilities among several tiers of government and the corresponding fiscal tools employed to fulfil these responsibilities.

According to Majochhi (2016), fiscal federalism has the potential to impact socio-economic growth and enhance the welfare of individuals. In the context of fiscal federalism, Musgrave (1959) posits that decentralisation is a mechanism aimed at enhancing community prosperity by effectively managing intergovernmental revenues and costs. The notion of fiscal federalism posits that the allocation of tax and expenditure powers among several levels of government occurs, even in countries with a "unitary" form of government, albeit through informal means (Chandra, 2015; Prakash, 2012). According to scholarly sources such as Boex and Kelly (2013) and Prakash (2012), the idea posits that the presence of "informal" power distribution might complement the "formal" establishment of federations, potentially leading unitary states to operate in a manner similar to federal systems. The concept of fiscal federalism is based on several theoretical principles. These include determining the ideal level of fiscal decentralisation, establishing principles for assigning functions and sources of finance to governments at different levels, and designing appropriate inter-governmental transfer schemes to achieve the goals of equity and efficiency. Scholars such as Chandra (2015), Rao (2016) and Singh (2017) have discussed these ideas.

A key aspect of Musgrave's (1959) theory relates to the benefits of decentralisation in optimizing public service provision. More so, the Musgrave's (1959) fiscal federalism theory emphasises intergovernmental transfers as a means of mitigating fiscal disparities among different levels of government. Importantly, the theory acknowledges the significance of revenue assignment and tax structure in achieving an optimal fiscal federalism framework (Hughes-Hallett, 2017; Ahmad & Brosio, 2013). Musgrave (1959) contends that tax policy choices must align with the assignment of expenditure responsibilities, while also considering the principles of subsidiarity and economies of scale to avoid inefficiencies and overlaps in service provision. According to the theory, for financially healthy local governments to exist, responsibilities and functions must be allocated in accordance with their taxing power and ability to generate funds internally (Agba et al., 2014; Weingast, 2014; Rao, 2016; Singh, 2017). Coker and Adams (2012) stated that one of the objectives of fiscal federalism is to increase that autonomy of sub-national government by incorporating incentives for them to mobilize revenues of their own.

While primarily celebrated for groundbreaking contributions, Musgrave's (1959) fiscal federalism theory has also faced criticism. Scholars have argued that the theory does not fully address asymmetric information problems and the potential for rent-seeking behavior (Chandra, 2015). Moreover, the theory neglects the impact of political dynamics on intergovernmental relations (Hughes-Hallett, 2017). However, the theory is of great importance and relevance to this present study as it helps in explaining the mismatch between locally generated revenue and public service delivery by the local authorities in Zambia. The theory of fiscal federalism plays a crucial role in understanding the dynamics of local governance financing and service delivery. This theory was relevant to the study as it helped in determining how revenue can be allocated and distributed among local governments for efficient service delivery. Furthermore, fiscal federalism provided insights into revenue generation at the local level. It helps determine which taxes should be levied by local governments and how they should be collected to ensure that local authorities have sufficient resources to meet their financial obligations towards service delivery.

Principal Agency Theory

The emergence of Principal-agency theory began in 1976 with a study by Jensen and Meckling (1976) entitled "Theory of the firm: Managerial behavior, agency costs, and ownership structure". In their arguments, Jensen and Meckling (1976) explained, "principal-agency theory is a commitment between the principal and the agent to carry out a principal's task, which links the decision-making power entrusted to the agent as the decision-making power". Principal-agency theory is referred to by this phrase as a commitment between the principal (a person or organisation that enters into an agreement) and the agent (a person or organisation that carries out tasks for and on behalf of the principal) (Dewata *et al.*, 2021) [12]. The theory, which has its roots in economics, aims to explain the connection between the "principal" and the "agent" (Dewata *et al.*, 2021; Shoko, 2018) [12]. The party that is experiencing obstacles that prevent it from achieving particular goals on its own is known as the principal (Shin & Jhee, 2021).

Consequently, a representative is employed with the explicit purpose of attaining the goals of the principal at a designated expense. The primary objective of the theory is to examine and address potential issues that may arise between the principal and the agent by employing the optimal contract (Bodin & Taks, 2022). In the present scenario, local governments assume the role of representatives of the citizenry, as they enter into agreements with the federal government to deliver goods and services to the broader population (Kivisto & Zalyevska, 2015). The theory also recognises that there is often a divergence in objectives between the principal and agent (Kivisto & Zalyevska, 2015). The potential consequences of such actions include the compromised utilisation of public funds, since the agent may engage in misappropriation, leading to a decline in client payments for services rendered (Bodin & Taks, 2022). The principal-agent theory posits that the agent often experiences a degree of autonomy, which in turn requires the implementation of administrative, political, and economic decentralisation (Jubery *et al.*, 2017).

Accountability, openness, responsibility, and value for money are fundamental principles of decentralisation and are crucial for providing services (Jubery *et al.*, 2017; Shoko, 2018). Since states are larger organisations, hiring local authorities who are more accessible to the public leads to improved revenue mobilisation, which is essential for the delivery of high-quality products and services (Bodin & Taks, 2022; Jubery *et al.*, 2017; Shoko, 2018). This idea has been determined to be pertinent to the current investigation. This is because fiscal decentralisation is connected to the Principal-agency theory, which was developed by Jensen and Meckling in 1976. This theory relates the agent's decision-making authority to the principal's commitment to task completion.

Benefits-Pay-Principle Theory

It is worth noting that the Benefits-Pay-Principle (BPP) theory that suggests that tax allocation should be based on the benefits derived from government-provided goods and services (Mushimbwa, 2020) [28]. According to proponents of this viewpoint, the implementation of user fees and charges represents the most effective strategy for augmenting the revenue of local government entities. This is due to the rationale that the expenses associated with providing products and the consumers themselves (Upendo, 2019) [38] would shoulder services. Notwithstanding its widespread acceptance among the general populace, this notion is accompanied with the limitation that numerous local government services tend to disproportionately favour individuals with limited financial means (Coker *et al.*, 2015; Mushimbwa, 2020) [28]. From a theoretical perspective, it can be argued that the collection of income should be contingent upon the utilisation of specific public services offered by a local governing body. Consequently, in accordance with this notion, strategies for revenue collection should prioritise the collection of rent from individuals or entities that utilise a certain service (Mushimbwa, 2020) [28]. In the regard, the BPP theory was of great importance to this study as it helped in explaining the mismatch between locally generated revenue and service delivery by the local authorities in the Copperbelt Province in Zambia.

According to Coker *et al.* (2015), a revenue collection strategy must identify the methods and channels that can maximise rent capture from users of a public service. This theory argues that those who benefit the most from certain government services or programs should bear a greater tax burden. By adhering to this principle, the tax system can achieve greater fairness and equity. Moreover, this tax theory encourages efficient resource allocation. By taxing those who benefit the most, the government can reallocate funds to provide better public goods and services. This promotes economic growth and enhances the overall well-being of society. For instance, the revenue generated from taxing luxury goods can be used to improve education, healthcare, and social welfare programs, benefiting the less fortunate (Upendo, 2019) [38]. One of the main advantages of the BPP theory is that it promotes a sense of fairness among taxpayers. In a society where some individuals or businesses reap significant benefits from government services or infrastructure, it is only fair that they contribute a larger share of taxes. For example, a corporation that utilises public roads and transportation systems extensively should pay more in taxes to support their maintenance and improvement.

Intergovernmental Fiscal Framework

According to Purfield (2016), the Intergovernmental Fiscal Framework has evolved over the years. The intergovernmental fiscal framework is an essential aspect of governance and public administration (Fjeldstad et al., 2014) [15]. It refers to the system through which financial resources are allocated and shared between different levels of government within a country (Gunawardena, 2017; Majali, 2019). Eichler, Wegener and Zimmermann (2012) as a grant of financial independence and authority to local government described the intergovernmental fiscal framework, such as in the setting of tariffs and taxes for revenues that would create cash for the expenditure. This framework plays a crucial role in determining the fiscal capacities and responsibilities of each level of government, ensuring effective service delivery, promoting economic stability, and fostering cooperative federalism (Fjeldstad, 2016) [13]. It aims to reduce disparities in fiscal capacities among various subnational governments, ensuring that each level of government can meet the needs of its citizens adequately according to Mtantato and Peters (2017). This supports the relevance of the framework to the present study as it aided in developing the conceptual model for the study as well as the model for locally generated revenue and service delivery in the Copperbelt Province in Zambia.

Through mechanisms such as fiscal equalisation transfers, the framework helps in allocating resources to subnational governments with lower revenue-generating potential, enabling them to provide essential public services. Another important goal of the intergovernmental fiscal framework is to enhance fiscal discipline and accountability. It establishes clear rules and procedures for resource allocation, expenditure management, and revenue mobilisation at each level of government (Eichler *et al.*, 2012; Fjeldstad, 2016) [13]. The framework also encourages subnational governments to enhance their revenue-generation capacities, reducing their dependence on intergovernmental transfers and increasing fiscal sustainability (Gunawardena, 2017). In the majority of nations, intergovernmental fiscal transfers represent a key component of subnational finance (Fjeldstad et al., 2014; Majali, 2019; Mtantato & Peters, 2017) [15]. They are employed to make sure that income generally correspond to the needs of various subnational government levels in terms of expenditures (Majali, 2019).

According to Sijabat (2016) citing Broadway and Shah (2007), intergovernmental transfers differ between nations, as are the responsibilities given to the subnational government and how the transferring government uses them to achieve its policy goals. However, despite its numerous benefits, the intergovernmental fiscal framework also faces several challenges and criticisms. A major challenge is striking the right balance between fiscal autonomy and intergovernmental cooperation (Sijabat, 2016). While subnational governments require fiscal autonomy to respond to the specific needs and priorities of their jurisdictions, excessive autonomy can lead to fragmentation, inefficiency, and unequal service delivery (Fjeldstad et al., 2014; Gunawardena, 2017) [15].

Benefit Model of Local Finance

The other theoretical model relevant to this research study is the Benefit Model of Local Finance proposed by Bird (2011b). The benefit model of local finance is a system that aims to distribute the costs of local services based on the benefits received by different individuals or groups within a community (Chishimba *et al.*, 2021). The "matching principle" is posited as the fundamental prerequisite for the attainment of efficiency and effectiveness in local governance, as stated by Bird (2018) [2]. According to Bird (2018) [2], the model posits that there should be a correspondence between expenditure obligations and local revenue resources, as well as a correspondence between revenue capacities and political accountability. According to Chishimba (2019), this particular model argues for the allocation of sufficient authority and financial resources to local governments in order to effectively address the needs and desires of their respective inhabitants. Moreover, according to Bird (2018) [2], the model posits that areas of benefit should be aligned with areas of financing, which is referred to as "the benefit model of local finance."

According to Bird (2018) [2], the primary economic function of local government is to offer public services to local residents who are willing to bear the associated costs. Furthermore, local governments should be responsible and answerable to their citizens for the actions they take, as long as the citizens themselves fund those actions. As a result, it is recommended that local governments adopt a policy of charging for the services they offer, whenever feasible. In cases where charging is not practical, local governments should fund these services through taxes imposed on local residents, unless the central government is willing to provide financial support (Bird, 2018) [2]. According to Bird (2011), the concept suggests that subnational revenues need to be derived exclusively from local citizens, ideally based on the perceived advantages they derive from local services. As stated by Bird (2018) [2], the primary principle of the local finance benefit model is to implement charges whenever feasible.

According to Bird (2018) [2], in order to enhance efficiency, it is recommended that charges be imposed on the direct beneficiaries of benefits, including citizens, businesses, and tangible assets such as real property. In addition, the model asserts that it is advantageous for local governments to have access to revenue sources that align with their strengths, such as residential property taxes and user charges for local services. Moreover, they should be actively encouraged and allowed to utilise these sources (Bird, 2018) [2]. This model is often used in local governments to ensure fairness and equity in the provision of public goods and services. As local governments continue to face budgetary constraints and evolving needs, the benefit model of local finance offers a framework that can support efficient and effective service provision. Hence, the model has been found relevant to this research study as it helps in explaining the mismatch between locally generated revenue and service delivery by local governments in the Copperbelt of Zambia.

Local Government Finance Model

More so, the other model forming the theoretical framework for this research study is the Local Government Finance Model developed by the Institute for Fiscal Studies (IFS), in partnership with the Chartered Institute of Public Finance and Accountancy (CIPFA) (Rivenbark, Roenigk & Allison, 2010). Thus, the model is also known as the IFS-CIPFA Local Government Finance model (Phillips, 2023). The local government finance model is a crucial aspect of governance that determines how local authorities generate revenue to fund essential services and infrastructure development. This model varies across different countries, but its primary objective remains consistent: to ensure the financial sustainability of local governments. An important aspect of the local government finance model is fiscal decentralisation (Phillips, 2023). This involves granting greater autonomy to local authorities in managing their finances and making decisions regarding expenditure priorities (Rivenbark et al., 2010). As stated by Rivenbark et al. (2010), fiscal decentralisation promotes accountability and responsiveness by allowing communities to have a say in how their tax dollars are spent. In this study, the model aided in guiding the development of the conceptual framework as well as the model for locally generated revenue and service delivery in the Copperbelt Province in Zambia.

Cost of service theory

The other theory forming the theoretical framework for this study is the Cost-of-service theory. Adam Smith is regarded as the most prominent past proponent of the cost-of-service theory of taxes (Chauke, 2016). According to this argument, citizens should pay taxes based on the price of the services they receive (Chishimba, 2019; Samuelson, 2012). The cost of the government providing certain services to citizens should be shared by all citizens, and each individual's tax burden should be proportional to the cost of the benefit they receive (Chishimba *et al.*, 2021). According to Vaillancourt et al. (2010), in theory, local sources of income ought to be adequate to cover the costs of providing the services that local governments ought to offer to the community. This theory is pertinent to the research on locally generated income and service delivery by local governments in Zambia because it explains the rationale for local government taxation and the levels of taxes and services that should be provided by the governments using an economically equitable mechanism. This approach has drawn criticism, though, as it is very difficult to determine the overall cost of the services provided by the local government, and as a result, it is challenging to determine how to distribute the total cost among the inhabitants (Chishimba, 2019).

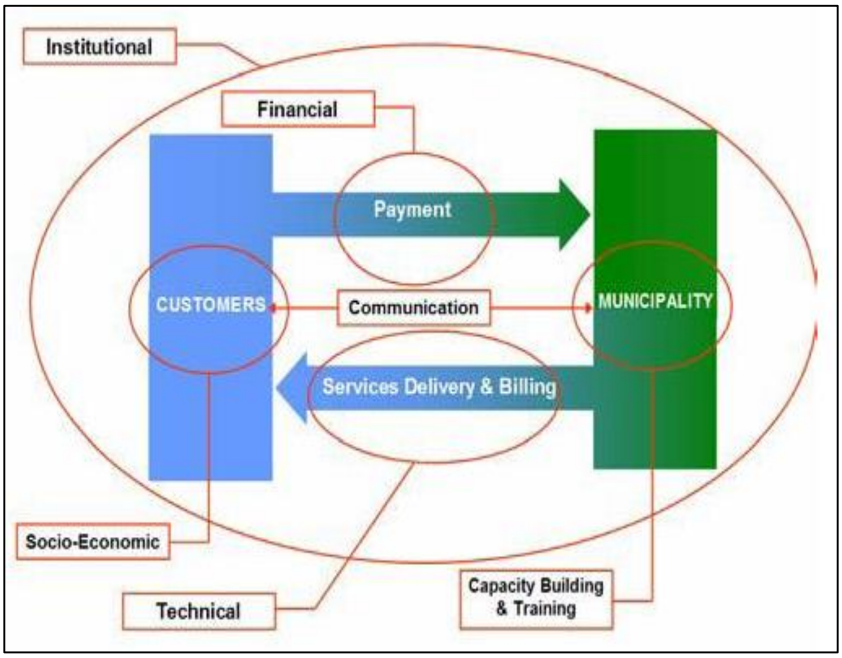
Efficiency Services Theory

The Efficiency service theory also forms the theoretical framework for this study. The fundamental proposition of this theory posits that the primary objective of local governance is to deliver services to the populace, based on the premise that it is the most effective entity for providing localised services (Chishimba, 2019). According to Chishimba *et al.* (2021) and Ebel and Yilmaz (2016), this theory posits that the primary function of local government is to deliver services directly to the local populace, and it is considered the most effective entity for providing services that are inherently localised. According to Majekodunmi (2012), proponents of efficiency services argue that the fundamental tenet of this theory is centered on the notion that the primary function of local government is to deliver services to the local populace. According to the efficiency services theory, it is argued that the small size of the population facilitates the effective delivery of essential social services (Majekodunmi, 2012; Olugboyega, 2022).

Osborne, Radnor and Nasi (2013) argue that the key argument put out by the efficient-service delivery school is that the primary role of local government is to effectively facilitate the provision of services. Moreover, the concept asserts that the primary objective of local governance is to proficiently advocate for and unite the concerns and ambitions of the citizenry, ultimately resulting in enhanced and more streamlined delivery of public services (Olugboyega, 2022). Based on the efficiency-services hypothesis, the fundamental focal point of local government ought to be center on the provision of services. The assessment of its success ought to be predicated upon this criterion, as proposed by Majekodunmi (2012). According to Chishimba (2019), the efficiency services theory posits that the small size of the population facilitates the effective delivery of essential social services. In light of this, improved locally generate revenue can enhance efficient service delivery by the local authorities in Zambia hence making the theory of great relevance to this research.

The Revenue Enhanced Model

The Revenue Enhanced Model developed by the USAID in 2006 as a guide to municipalities toward increased revenue for local governments, also serves as the study's theoretical foundation. The model suggests that the provision of metered services, accurate billing, (i) effective and efficient debt management, (ii) accurate billing, and (iii) metered service provision can all increase and sustain revenue for local governments. The model is depicted in Figure 2.4. The lack of political will, a lack of skills and competence, inadequate and erroneous legislation, and a lack of integration and coordination within local authorities are some factors that affect successful revenue collection, according to USAID (2006).



***Source*:** USAID (2006)

Fig 2: Revenue Enhancement Model

The model emphasises cost minimisation, decreased inefficiencies, and decreased uncollected revenue (Garaiza, 2014, Zhou & Chilunjika, 2013). The USAID (2006) asserts that a successful communication strategy has helped municipalities align their revenue targets with customer expectations. Building capacities and investing in training are necessary if local authorities are to achieve effective revenue collection (Zivanai *et al.*, 2014). Local governments also need to be technically prepared for precise billing (USAID, 2006). In order to forecast tax revenues with accuracy, the socioeconomic environment of the taxpayers must also be taken into account while creating the budget (Garaiza, 2014). According to a report by USAID (2006), it was proposed that the implementation of a robust communication strategy, the supply of metered services, precise billing practices, and effective debt and credit management could enhance and maintain income generation for local authorities. According to Zivanai *et al.* (2014), there is a positive correlation between the affordability of levies and the likelihood of citizens making payments. Denhere et al (2011) concur that service delivery according to the USAID (2006) model has to be improved for residents to start paying bills. The model, which was also used by Zivanai *et al.* (2014), was of much relevance to this present study because it aids in giving local governments a comprehensive approach to efficient revenue collection. The model also aided in explaining some of the factors impacting collection of locally generated revenue by the local authorities in the Copperbelt Province, Zambia. This is because the model focuses on improving revenue collection systems to enhance service provision at the local level.

New Public Financial Management Theory

The New Public Financial Management (NPFM) theory is a modern approach to financial management that emphasizes transparency, accountability, and efficiency in the use of public resources (Fisher, 2022). The theory is a modern approach to public financial management that emerged in the 1990s. It challenges the traditional methods of financial management in the public sector and aims to improve accountability, transparency, and efficiency in government spending (Garcia-Sanchez & Cuadrado-Ballesteros, 2016).

The NPFM has emerged as a new theory aiming to enhance revenue generation and management within local governments (Fisher, 2022). According to Garcia-Sanchez and Cuadrado-Ballesteros (2016), NPFM refers to "reforms introduced in systems, procedures, organizations, and law for obtaining and effectively using public financial resources, which encompass not only expenditures but also revenues and debt in the context of public budgeting, accounting, internal and external control, and financial reporting".

The theory emphasizes the need to enhance revenue capacities at the local level, enabling local governments to meet citizens' demands effectively (Bovaird & Löffler, 2015). This NPFM theory encourages local governments to adopt innovative strategies to diversify and expand their revenue base (Garcia-Sanchez & Cuadrado-Ballesteros, 2016). Traditionally, local governments heavily relied on central government transfers and property taxes. However, the NPFM theory calls for broader revenue streams such as user fees, grants, public-private partnerships, and local taxes, enabling local governments to collect more revenue and reduce dependency on a single source (Bovaird & Löffler, 2015).

Under this theory, local governments are expected to strengthen their revenue planning and forecasting capabilities. By adopting sophisticated forecasting models and utilizing technological solutions, local governments can better project future revenue flows, enabling them to allocate resources more efficiently and accurately plan for development projects (Bovaird & Löffler, 2015). Additionally, the theory emphasizes the importance of proactive revenue administration and enforcement measures such as automation of revenue collection processes to prevent revenue leakages and tackle corruption (Garcia-Sanchez & Cuadrado-Ballesteros, 2016). Furthermore, outsourcing in local government authorities came as the result of management reforms in public sectors organizations through the NPFM practices introduced in revenue collection to help local authorities collect enough revenue for their own use (Lukio & Mganga, 2016). In conclusion, the theory brings forth a paradigm shift in the way local governments approach revenue generation and management.

Conclusion

The realm of local government financing is a complex and dynamic arena that is deeply rooted in a diverse array of theories and models, each offering unique insights into the allocation, management, and utilization of financial resources. Throughout this exploration of theories, including the Principal Agency theory, the Theory of Fiscal Federalism, the Benefits-Pay-Principle theory, the Cost-of-Service Theory of Taxation, the Efficiency Service theory, the Intergovernmental Fiscal Framework, the Revenue Enhanced Model, the Benefit Model of Local Finance, the Modified Quantitative Service Delivery Model (MQSDM), and the Theory of Fiscal Federalism, we have traversed a landscape rich with intellectual contributions to the understanding of local government financing.

These theories collectively inform the ways in which local governments navigate the intricate web of financial responsibilities, revenue generation, and equitable resource distribution. The Principal Agency theory underscores the importance of accountability and delegation within local governance structures, highlighting the need for effective oversight and decision-making. The Theory of Fiscal Federalism explores the delicate balance of fiscal responsibilities and revenue-sharing mechanisms among various tiers of government, ensuring that services are delivered efficiently and equitably.

The Benefits-Pay-Principle theory and the Cost-of-Service Theory of Taxation offer alternative perspectives on taxation, emphasizing the alignment of financial contributions with the benefits and costs of services provided. The Efficiency Service theory champions the pursuit of cost-effective and responsive service delivery, promoting prudent resource allocation. The Intergovernmental Fiscal Framework underscores the collaborative nature of local government financing, emphasizing the interplay between different levels of government to achieve fiscal objectives.

The Revenue Enhanced Model encourages the exploration of revenue-generating opportunities to fortify local finances, granting municipalities the capacity to meet their financial obligations effectively. The Benefit Model of Local Finance places equity at the forefront, ensuring that financial burdens are commensurate with the benefits derived from public goods. The Modified Quantitative Service Delivery Model (MQSDM) introduces a quantitative approach to assess the cost and quality of public services, offering structured insights into service evaluation.

Lastly, the Theory of Fiscal Federalism, a comprehensive framework, holistically examines the division of fiscal responsibilities among federal, state, and local governments, providing the overarching structure within which these theories operate.

In conclusion, the exploration of these theories serves as a testament to the depth and breadth of intellectual contributions that guide and inform local government financing practices. These theories offer a solid theoretical foundation that helps municipalities tackle the complex challenges of funding public services and infrastructure. They underscore the significance of fiscal prudence, equitable taxation, and efficient resource allocation in achieving the fiscal well-being of communities.

As local governments continue to adapt to evolving social, economic, and political contexts, these theories provide essential guidance and insights that are vital for making informed financial decisions. In this dynamic landscape, the blend of theory and practice remains critical, and the theoretical underpinnings explored in this article will continue to influence the financial strategies and policies at the local level, fostering better governance and improved quality of life for communities.

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