**TERMS OF REFERENCE**

**FOR THE**

**FINANCE COMMISSION**

1. **Background**

The Government of Botswana provides between 80 to 96% as Revenue Support Grant (RSG) to Local Authorities for their Recurrent Budget while Development Budget is funded at 100%. The councils are thus expected to generate the other 10 to 20% of the RSG. This being the case, it is disturbing to note that Councils are owed millions of Pula from property rates, service levy, sewerage connection, sanitation fees and other critical income streams.

In response to these challenges of poor collection of revenues by Councils, the Ministry of Local Government established a Task Team in 2010, to come up with revenue collection and budget management strategies, explore potential sources of revenue to expand the revenue base of councils and to explore possible areas of partnerships with the private sector for investment. The task team compiled a report with a number of recommendations to which the Finance Commission will be expected to follow up and implement accordingly.

The idea of partnerships in development has become widely practiced globally. It is now increasingly recognized that Local Authorities should play a more pro-active role in promoting economic and social development to improve economic growth, facilitate regional competitiveness of cities/towns, and generally promote state-society relations. Such an approach, it is hoped, will reduce over reliance of Local Authorities on Central Government.

1. **Justification for the Establishment of the Finance Commission:**

Fiscal decentralisation issues have typically been categorised into the following five basic building blocks:

1. The assignment of expenditure responsibilities to different local government levels - what are the functions and expenditure responsibilities of each user department?
2. The assignment of tax and revenue sources to local government levels - once LGs are assigned certain expenditure responsibilities, which tax or non-tax revenue sources will be made available to LGs in order to meet those responsibilities?
3. Intergovernmental fiscal transfers - in addition to assigning local revenue sources to LGs it is common that central government provide LGs with additional resources through a system of intergovernmental fiscal transfers or grants.
4. LG borrowing – LGs may borrow (in a variety of ways) to finance revenue shortfalls.
5. LG finance institutional structures and procedures, including coordination arrangements and support.

The above mentioned building blocks are an affirmation of the challenges facing local government in meeting their obligations of service delivery. Firstly it is common knowledge that the functions of local government are not always accompanied by adequate resources; that available tax and revenue sources do not attract substantial income as compared to tax collected by central government; that RSGs are not predictable as there is no financing formula for local government in Botswana; local government borrowing has strict conditions that are not favourable to the working conditions of local government and that budget management of councils remains a major issue of concern.

1. **The purpose of the Commission**

A fundamental premise of planning in Botswana is that it should, to the extent possible, be based on a “bottom up” approach whereby the people express their needs, and these needs, in turn, should be the basis for district and, eventually, national planning and development financing. It is against this premise that BALA advocates for a national and district development planning and budget process that will introduce the concept of the “Peoples’ Budget” which has the potential to stimulate increased community participation and ownership of local development initiatives.

* There is need to establish tariff policies through community participation
* Advocate for an increased tax based financing formula and allow the LAs to determine their economic value.
* LAs should have a framework to operate from, for revenue generation and systems for Public Private Partnership engagement.
* Internal audits at local level should be strengthened through appropriate reporting structures and remedial action following appropriate corporate governance procedures.
* LAs should be allowed to borrow, and access liquidity markets.
* Initiate and guide implementation of new and innovative ways to finance local government programmes.
* Promote innovative public and private solutions to financing infrastructure and service delivery, which leverage economic opportunity of localities.

1. **OBJECTIVES**
   1. To act as an Advisory Body to the Executive Committee of BALA and the General Membership on matters relating to local government finance and resource mobilization.
   2. To assist Local Authorities access current thinking and innovations on ways to increase the flow of domestic and international funding support.
   3. To provide policy and technical advice to the Executive Committee on local government finance matters.
   4. To serve as a resource to the association and local governments through provision of a pool of expertise, providing guidance on policy and technical matters and to act as a “sounding board” to members on their proposals and concerns.
   5. To act as a channel through which information and knowledge may be captured and disseminated to members, this will work through the BALA web based information gateway and meetings.
   6. To undertake research, develop position papers and conduct public debates on local government finance matters.
2. **Key Performance Areas of the Finance Commission**
   1. Prudent Financial Management
   2. Property Administration
   3. Budgeting and Controls
   4. Inventory Management
   5. Corporate Governance Systems
   6. Securing Capital Funds
   7. Revenue Base Increase
   8. Community, Public Private Partnerships to ultimately achieve Financial Independence for the Local Authorities.
   9. Innovative local government financing systems
3. **Membership of the Commission:**

The membership will be drawn from amongst Councillors, council staff, government staff, community members and the private sector in accordance with Constitution of BALA.

The Botswana Association of Local Authorities will be the Secretariat of the Commission and or appoint appropriate secretary. In addition, expertise advice will be sought from relevant organizations.

1. **Role of Chairperson**

The Chairperson, vice chairperson and members of the Commission shall be elected in accordance with the provisions of the Constitution of BALA.

The Chairperson shall;

* Direct proceedings during meetings
* Convene meetings
* Provide guidance and leadership to the commission

**8. Meetings**

The Commission shall meet quarterly or as and when need arises.

**9. Decision making**

Decisions shall be made through voting.

1. Operation of the Commission
2. The Commission shall act at all times in accordance with the constitution of BALA, the Local Government Act of 2012 and within the parameters of all Laws of the Republic of Botswana.
3. The Commission shall form a quorum when simple majority of the total Membership of the Commission is present.

c) If the Chairman is absent from the meeting, Vice chairperson shall preside if they are both absent then the members present will determine among themselves, who will preside.

1. The resolutions of the Commission shall be on the basis of a simple majority.
2. Reporting

The Commission shall report to BALA Executive Committee and the General Members Assembly.

1. Review of the Terms of Reference

BALA will review the terms of reference of the Commission as and when the need arises.

1. Winding Up of the Commission.

The Commission will stand dissolved when the Executive Committee of BALA is dissolved at the biennial elective National Conference and similarly, the Commission will be elected not more than ninety days after the biennial elective Conference.