

PARLIAMENTARY SUBMISSION

COMMITTEE ON LOCAL GOVERNMENT ACCOUNTS

**REVENUE MOBILIZATION AND UTILISATION IN LOCAL
AUTHORITIES**

1. IS THE LEGAL FRAMEWORK GOVERNING REVENUE MOBILISATION AND UTILISATION BY LOCAL AUTHORITIES ADEQUATE?

There are many sources through which councils raise revenue to finance their operations. The sources may be categorised as councils own, government and loans among others. Government funds Local Authorities through the Local Government Equalisation Fund which is the main source of the income for most local authorities. The Local Government Equalisation Fund was established under Article 163 (1) of the Constitution of Zambia as amended by Act No. 2 of 2016. The Fund was operationalised in 2015 following the enactment of the Local Government (amendment) Act, No.12 of 2014. This Act has been repealed and replaced by the Local Government Act, No. 2 of 201. The new Act provided guidance on the apportionment, management, utilisation and accountability of the Local Government Equalisation Fund.

In the case of traditional revenue sources, Local Authorities raise income through; local taxes/rates, levies, fees and charges. Levies are taxes on economic activities taking place within council jurisdiction. Levies are imposed through council by laws, in accordance with section 69 (1) of the Local Government Act Cap 281. Fees and charges are imposed for the services rendered by the council, to the residents living within their boundaries. Councils derive power to effect fees and charges, from section 70 (1) of the Local Government Act Cap 281 of the Laws of Zambia, which states that a Council may impose fees or charges payable to the Council.

Zambia has an adequate legal framework governing domestic resource mobilization, however, raising sufficient revenue is one of the most intractable problems facing most local authorities, and the majority of councils are unable to meet their statutory functions and obligations. Although local authorities have vast powers to raise and generate their own revenues, few are able to take advantage of this provision due the fact that their resource base is too small to sustain their operations. As a result, local authorities have accumulated crushing burdens of debt or arrears and are now faced with financial crises.

With regards to utilization, the Local Government (Amendment) Act, No. 12 of 2014, states that about 80 per cent of the funds must be utilised by councils for the payment of salaries and provision of services in communities, while 20 per cent must be utilised on implementing capital projects. The legal framework governing utilization of funds is adequate, however, only a few councils have been implementing this provision while most of them were utilising the whole amount of the Local Government Equalisation Fund on the payment of salaries and operations, leading to numerous audit queries. The main cause for this abnormally is small resource base that most local authorities have hence their dependence on the Local Government Equalization Fund.

INTRODUCTION

2. ARE THE PROCEDURES GOVERNING EXPENDITURE OF REVENUE IN LOCAL AUTHORITIES SUFFICIENT? ARE THERE ANY GAPS AND WHAT CAN BE SUGGESTED?

Proper expenditure procedures will ensure that expenditures are made in such a way that Local Authorities optimises their chances of achieving their strategic goals within available resources while at the same time creating synergies within the local economy. The Local Government Act has laid out procedures which govern expenditure of revenue in Local Authorities. The Local Government Act, as a principle Law, provides for the creation of other laws for effective governance of the councils. These are in form of Statutory Instruments or Standing Orders, such as the following:

- Financial regulations S.I. No. 125 which provides controls and management of Council funds;
- Service Regulations S.I. No. 115 which provides regulations for the Local Government Officers and;
- Council Standing Orders which is a code of conduct that regulates Council staff behaviour and Councillors conducts.

The Local Government Act also highlights the following as measures aimed at governing expenditure of revenue in Local Authorities;

- The financial year of a local authority shall be the period of twelve months ending on 31st December in each year.
- A local authority shall cause to be prepared an annual budget in accordance with the National Planning and Budget Act, 2018 which is yet to be enacted.
- Subject to the Constitution and the Public Finance Management Act, 2018, the Minister responsible for finance, may in consultation with a local authority, make regulations for the (a) administration and management of a general or special fund; (b) activities that those funds shall finance and the manner of financing; and (c) any other matter necessary for the efficient operation, administration and management of the funds.
- A local authority shall cause to be kept proper books of accounts and other records relating to the accounts of the local authority. The accounts of the local authority shall be audited annually by the Auditor-General or an auditor appointed by the Auditor-General.
- The accounts of a local authority, shall be open for inspection by members of the public during normal office hours on the payment of a prescribed fee. As soon as practicable, but not later than three months after the financial year, a local authority shall submit to the Minister a report concerning the activities of a local authority during the financial year which will include information on the financial affairs of a

local authority and there shall be appended to that report; (a) an audited statement of financial position; (b) an audited statement of comprehensive income; and (c) other information that the Minister may require.

- Subject to the Public Finance Management Act, 2018, a local authority may, with the approval of the Minister responsible for finance invest the funds of a local authority that it does not immediately require. For example Kapiri Mposhi Town Council have built an executive lodge expected to generate an annual profit of K1.4 million to boost revenue.
- A local authority shall use at least twenty percent of the funds received by a local authority from the Equalisation Fund, in any financial year, to finance capital expenditure. A balance in the Equalisation Fund at the close of each financial year shall be retained by the Equalisation Fund and any deficiency realised in any year shall, subject to the approval of the Minister responsible for finance, be offset against the realised surplus.
- The Minister shall cause an annual report to be prepared on the operations of the Equalisation Fund and laid before the National Assembly.

Gaps

- Some local authorities have a low resource base as well as limited capacity to support revenue generation, this has resulted in them being over dependent on government financing through Local Government Equalization Fund. This has led to the failure to adhere to the percentage requirements which states that 80 per cent of the funds must be utilised by councils for the payment of salaries and provision of services in communities, while 20 per cent must be utilised on implementing capital projects. Most Local Authorities are utilising the whole amount of the Equalization Fund on the payment of salaries and operations, which negatively affects their expenditure on capital projects.
- Delayed disbursement of the Equalization Fund by the Treasury to the Ministry of Local Government for subsequent disbursement to Local Authorities negatively affects their ability to meet their financial obligations as well as implement projects.
- The Local Government Act has various restrictions which require approval by the Minister of Finance. Given that all the major decisions are made only with the Minister's approval, the current legal operating framework goes against the whole essence of decentralization which aims at legally transferring powers to Local Authorities.
- Lack of Guidelines on the Interpretation of capital expenditure such as what constitutes capital expenditure which has led to numerous queries on the utilization of the Local Government Equalisation Fund.
- Most local authorities misinterpret the definition of capital expenditure in order to misapply the 20 per cent of the Equalisation Fund. This is evident by the numerous queries in the Auditor General's Report, as well as inappropriate expenses being paid

for by local authorities, such as procurement of office furniture and procurement of personal to holder vehicles for principal officers, among others.

Suggestions on what should be done

- Local Authorities need to come up with comprehensive domestic resource mobilization strategies aimed at enhancing revenue collection from other sources of income in order to lessen their dependency on the Local Government Equalization Fund. This will also ensure that the 20% of the fund will be allocated towards the implementation of capital project.
- There is need for the principles of corporate governance to be embedded in the running of Local Authorities. Refresher courses in corporate governance should be offered to Principal Officers, this will encourage efficient utilization of public resources, which will curb misapplication of funds.
- There is need for disciplinary action to be taken against Principal Officer who fail to adhere to the percentage requirement of the utilization of the Local Government Equalization Fund by purchasing luxurious assets such as personal to holder motor vehicles.
- There is need for a universal definition and guidance to be shared with all Local Authorities on what constitute capital expenditure so as to curb its misinterpretation, which has lead to many audit queries.
- There is need for timely disbursement of funds by the Treasury to the Ministry of Local Government, which will ensure the effective implementation of the Decentralization Policy as well as provide timely resources for community developmental projects.
- In order to facilitate the implementation of the decentralization policy, there is need for powers on major decision making to be transferred from the Ministry of Finance to Local Authorities, this will reduce on the bureaucracy of waiting for approval from the Minister as well as vast more powers in Local Authorities.

3. III. WHAT STRATEGIES WOULD YOU THINK, IF EMPLOYED, MAY ENHANCE REVENUE MOBILISATION IN LOCAL AUTHORITIES IN ZAMBIA?

Councils need to be innovative in service provision to enhance revenue in-flows by implementing alternative services that could potentially generate revenue and improve current revenue collection systems.

Strategies for alternative sources of revenue mobilisation may include:

a). Creation of council car parks in designated places

Currently, there is a challenge with regards to organised and secure parking in most central

business districts in cities. The council should consider creating adequate and properly run car parks in designated areas to service the central business districts in various towns. This will ensure that cities are well organised and secure while also generating revenue for the councils. The car park operators should be council staff that are trained to run an automated revenue collection pay-point for clients that wish to park their cars in safe and secure spaces while they go about their business in the CBD.

In 2017, Parkrite that was subcontracted to manage parking in the CBD by the Lusaka City Council was reported to have raised K970 000 from inception of the contract. This is evidence that the council, through better implementation and management of the initiative is able to generate much more revenue if parking facilities were enhanced and managed electronically as is the case of parking systems used at airports.

b). Implementing public transport systems run by the council

The council needs to consider running a public transport system through public-private partnerships with transport service providers to service various areas within the city. This has been done in countries such as South Africa and Namibia. In Namibia, the city of Windhoek municipality runs the 'City of Windhoek' bus service within the city in order to generate revenue for the municipality. This is also the case in South Africa, the municipality in Cape Town runs the 'MyCiTi' bus service and in Johannesburg the 'MetroBus' generates revenue for their councils. These transport services run on a schedule across various routes to ensure the service is provided efficiently. While this might enhance revenue collection for the councils, it could also ease the congestion experienced in cities through a coordinated and efficient transport system. Similarly, councils can procure buses to hire out to various entities such as churches and schools in order to generate additional income from themselves.

c). Enhance waste management collection services by the municipality

Currently, the waste management collection is uncoordinated in various townships within cities with unregistered and private individuals running these services, particularly in high density residential areas and townships. This can be improved if the councils coordinated these services through a scheduled collection of garbage by council staff in townships or through enhanced partnerships with private operators for provision of waste management services. That way, residents would be required to pay for these services directly to the councils or at rates from which the council can generate a fair revenue from private partners. Thus, increasing their revenue collections in residential areas and trading spaces.

Strategies for enhanced revenue collection systems may include:

a). Implementation of electronic revenue collection systems

Revenue collection has been a challenge for councils particularly in markets and bus stations. This can be improved if systems are automated in order to reduce the porousness that comes with running a manual payment system. Council revenue collectors are often hindered by political interference from individuals that run markets and bus stations, in turn hindering them from conducting their duties. In the same vein, revenue collected by these individuals deprives the councils the necessary resources to maintain facilities in the city. This can be improved by ensuring that all council levies paid at bus stations and markets are made through an automated system and electronic receipts are generated at designated council kiosks manned by council revenue collectors. Alternatively, the use of mobile money systems could ease compliance by traders and reduce administrative costs associated with revenue collection.

b). Setting up revenue collection targets

Councils need to set up revenue collection targets to ensure that they are strictly enforcing the collection of various levies and service charges from the public. This will also entail close supervision of revenue collectors, enhanced inspection of levied services and strict monitoring of systems put in place for revenue collection. Targets will also enhance accountability among revenue collectors and council staff in charge of implementing and providing municipal services to the general public.

BEST PRACTICES IN STRATEGIES THAT ENHANCE REVENUE COLLECTION



Namibia: Public transport systems run by the council

Namibia through the City of Windhoek municipality runs a public transport system with about 74 buses servicing various routes across Windhoek. The 'City of Windhoek' bus service generates approximately between N\$40,000 to over N\$45,000 daily which translates into monthly revenue of between N\$886,400 to over N\$1 million. At the current exchange rate the daily income generation by the Namibian Councils translates to is approximately K38,500 to over K43,300 per day. This could be a potential revenue enhancing strategy for councils in Zambia given the number of commuters that rely on public transport.

Tanzania: Implementation of electronic revenue collection systems



In Tanzania, the Arusha city council is making use of ICTs to enhance revenue collection and transparency through the Local Government Revenue Collection Information System (LGRCIS). This has eased administration of property taxes and is currently linked to mobile money services such as M-pesa, Airtel Money and Tigo-pesa to ease settlement of bills by clients. The system also makes it easier for councils to identify and flag defaulters as well as enhance record keeping by eliminating manual records that were cumbersome to maintain. The council has noticed an increase in their revenue collection and compliance since the implementation of the automated system. This could work for Zambia if settlements of levies and service charges such those in the markets and bus stations were enabled on mobile money services. This could address the issue of revenue slipping through private individuals. Currently, only the Chirundu city council is linked to mobile money services.

South Africa: Enhance waste management collection services by the municipality



In South Africa, the municipalities are responsible for offering comprehensive waste management services to residents. The City of Cape Town for instance, provides wheelie bins to residents upon application at a fee and have a weekly waste collection schedule in order to enhance service provision to residents. This is an important service from the councils that can generate revenue. Currently, in the Zambian case, these services are being offered through private individuals who in some cases are not registered with the councils in various areas. This is a huge potential for the council to increase their revenue base by enforcing strictly monitoring waste management units both public and private.

4. WHAT OTHER CHALLENGES DO YOU THINK HAVE HAMPERED EFFICIENT COLLECTION OF REVENUE IN LOCAL AUTHORITIES?

Increased control and political interference by individuals

There has been a rise in political interference from individuals taking over the running of bus stations and markets which has hindered council staff from adequately collecting revenue. This has resulted in poor management and maintenance of these facilities and councils being deprived of these resources to conduct their mandates. Curbing this trend and de-politicizing council facilities could potentially improve how revenue is collected along-side the implementation of tighter system controls and automated receipting.

Inadequate knowledge on legal provisions governing revenue collection

The general public need to be continuously sensitized on the legal provisions that govern revenue collection by councils in order to improve public compliance. Similarly, revenue collectors need to be adequately equipped with knowledge in order to implement these provisions. In the same vein, security needs to be provided for revenue collectors as they are at risk of facing resistance in some areas while under-taking their duties.

Unregulated trading areas

Street-vending poses a challenge to efficient revenue collection as trading is done in unregulated spaces that do not provide trading facilities such as along road-sides, shop aisles and corridors. In view of this, revenue collection could be better coordinated if marketeers and traders used the designated trading facilities provided by the councils.

Insufficient service provision by councils

When councils are not able to provide services that they are mandated to, it negatively impacts their revenue collection. The public does not see the importance of paying various levies and taxes when service delivery is poor. There has been a growing trend in the allocation of plots in areas that have not been serviced by councils which is a challenge for enhanced revenue collection. For instance, property owners pay service charges to the councils for provision of water, garbage collection, sewage management among others, however, some of these services are not delivered to the public by most councils. This leads to the loss of public confidence in the council's ability to provide services, consequently resulting in the public being unwilling to pay these levies and service charges.

5. WHAT RECOMMENDATIONS WOULD YOU SUGGEST REGARDING THE WAY FORWARD?

1. PMRC urges local authorities to implement automated payment systems to enhance revenue collection and accountability. Councils need to be linked to mobile money services to ease payment of levies and service charges.
2. We suggest that local authorities learn from other institutions such as ZRA on best practices and strategies to enhance revenue collection.
3. We urge local councils to enhance service provision which is likely to improve revenue collection and compliance by the general public.
4. We suggest that local councils visit other municipalities that are performing well and have implemented good revenue collection systems to draw lessons and strategies to enhance revenue collection.
5. We are of the view that conducting continuous sensitization to the general public on the importance of paying council levies and service charges in a timely manner will improve compliance and revenue collection.

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