



# Strengthening Local Government Own Source Revenue in Zambia

January 2019

Projected Property Taxes	Personal Levy	Other Levies	Fees & Charges	Permits & Licences	Total OSRs	Transfers	Total Revenues	OSR / Total Revenues
10,437,930	98,209	569,004	29,521,979	736,170	41,363,292	14,012,433	55,375,724	75%
39,546,216	299,529	3,387,146	27,038,972	6,806,207	77,078,071	34,253,795	111,331,866	69%
3,698,948	169,939	3,186,182	3,703,186	6,353,179	17,111,434	8,237,232	25,348,666	68%
-	10,340	79,520	390,196	234,875	714,930	8,233,454	8,948,384	8%

Source as % of Total OSR			External Opportunities (O)	External Threats (T)
25.2%	0.2%	1.4%	1. Diversity of LA specific leviable opportunities 2. The decentralisation process 5. Political good will 3. Technology developments	1. Political ill will 2. Economic stagnation
51.3%	0.4%	4.4%		
21.6%	1.0%	18.6%		
0.0%	1.4%	11.1%		
Internal Strengths (S)			SO "Maxi-Maxi" Strategy	ST "Maxi-Mini" Strategy
1. Existing systems. 2. Intimate local knowledge 3. New councillors			1. Use local knowledge to investigate, identify and asses possible local leviable opportunities; 2. Exploit available technologies to improve performance; 3. Orient councillors to buttress the decentralisation process and maintain political goodwill	1. Orient councillors to mitigate against political ill will; 2. Use local knowledge to identify multiple leviable options to mitigate risk by portfolio diversification
Internal Weaknesses (W)			WO "Mini-Maxi" Strategy	WT "Mini-Mini" Strategy
1. Continuing loss of institutional memory due to staff transfers 2. Sub-optimal work culture			1. Leverage Technology to create resource centres for Standard Operating Systems (SOPs) 2. Leverage Technology to develop multiple payment platforms;	1. Keep all stakeholders informed and



This project is funded by the European Union

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## FOREWORD

I am delighted to present the research findings on “Strengthening Own Source Revenue in Zambia” which is an attempt in pursuit of the ideals of an adequately resourced local government sector able to effectively deliver on its mandate. Given the tight fiscal challenges facing local authorities in Zambia, it has become imperative to innovate and make the most out of the available own sources of revenue in an effort to sustain service delivery. There is a growing appreciation of a strengthened own source revenue base which could be used pragmatically to overcome the financial challenges for local authorities.

The Intergovernmental Fiscal Architecture (IFA) acknowledges the fact that local authorities’ Own Source Revenues (OSR) have in the past been low and have systematically deteriorated over time as the Central Government (CG) has often interfered with levies, exemptions and rate levels. For example, revenue sources, such as the crop levy were scrapped, exemptions granted, tax rates curtailed, thereby affecting OSR administration and dramatically reducing the ability of local governments to mobilize own revenue.

In most local authorities, property valuation rolls are either incomplete or out-of-date which is attributed to the cumbersome and expensive nature of the process, thereby reducing the local authorities’ ability to mobilize property rates which constitute the main source of OSR in most councils. At the same time, LG administrations have been relaxed, often without the needed capacity nor backed by adequate local political will to improve the equity, efficiency and revenue collection from the available local revenue instruments.

While it is obligatory on the part of Government to make transfers to local government, such transfers do not come when most needed and are not sufficient to meet the needs of all the 116 local authorities. This combined with the ever-increasing expenditure budgets (usually occasioned by outside forces) and the growing demand for quality municipal services, pose a financial and governance challenge on all local authorities regardless of size.

This research is one of the knowledge products from the EU/DFID supported “Enhancing Local Government Capacity for Development Project” which responds to the current operational odds facing local authorities. The research draws conclusions from data collected from four Local Authorities, two cities (Livingstone and Kitwe) and one municipal (Chongwe) and one district (Kaputa) where it was found that to a large extent the revenue yield of most local authorities are affected by laws, regulations and procedures that create the frameworks within which the revenue sources are operated. Better management and targeting gives local authorities room for optimising revenue yields from existing sources. It is the Association’s view that the recommendations of this research will translate into action for improved municipal service delivery.



Maurice Mbolela  
**Executive Director**  
**LOCAL GOVERNMENT ASSOCIATION OF ZAMBIA**

# 1 BACKGROUND

## 1.1 THIS REPORT

This Report is the final of three deliverables in an assignment whose objective was **“To undertake a research on Strengthening Local Government Own Source Revenue in Zambia”**. The scope of the research and key expected deliverables are outlined in the research terms of reference and are reproduced below.

### 1.1.1 Scope of Work

The terms of reference outline the scope of work as “to cover, among other things the following areas:

- a) A review of existing policies and legislation that support Local Authorities to generate and collect own source revenue
- b) An assessment of Local Authorities’ revenue collection methods to identify their efficiency and effectiveness
- c) An outline of factors that enable or inhibit Local Authorities to collect own source revenue
- d) A recommendation of practical strategies that can be employed to improve Local Authorities own source revenue.”

### 1.1.2 Key Deliverable.

The expected deliverables are:

1. Inception report detailing the proposed methodology and agreed workplan submitted within 5 days from the date of signing the Contract,
2. Draft research report
3. Final consolidated research report after integrating ELGCD Project Implementation and Stakeholders comments in Hard and soft copy on CD in both MS Word and PDF Format.

An extract of the terms of reference are attached as Appendix 1. In line with the terms of reference, this inception report comments on provisions of the terms of reference, outlines our understanding of the assignment, based on that, presents our proposed methodology for undertaking the assignment and our proposed work plan.

### 1.1.3 The Assignment Context

The Intergovernmental Fiscal Architecture (IFA) lays out the GRZ position for establishing the fiscal arrangements between central and local government and therefore sets the GRZ policy position relating to how local government in a decentralised setting will be financed. Regarding Own Source Revenues (OSRs), the subject of this research, the IFA states that *“A major challenge in every country is to ensure that LGs have significant and visible local OSR which can both provide important local funding (at the margin) and, perhaps equally important, can enhance governance accountability, ownership and 'bounded' autonomy. There is increasing recognition that these local own revenues play a critical role in enhancing the state building of democratic government systems, creating opportunities to strengthen mutual accountability between residents and their locally-elected representatives”* (Cabinet Office, 2017, p. 22). The IFA further states that *“Any OSR reform strategy must place priority on **improving the core revenue collections from property rates, levies, fees and charges; rather than spending time searching for a new separate 'ideal' LG revenue base.** Consistent with theory and international best practice, the primary focus should be on property rates and business levies— the major, common sources of revenues for LGs”* (Cabinet Office, 2017, p. 22).

In line with the IFA, in this assignment, we will, therefore, focus on applying the assignment scope of work to the core local revenue sources of **“property rates, levies, fees and charges”** identified in the IFA.

## 1.2 LIMITATIONS

The objectives and deliverables of this research are clear and consistent with the scope outlined in the terms of reference. However, given the paucity of data available on Own Source Revenue (OSR) in Zambia and the conservative level of effort allotted to the assignment, 9-person days, the depth of analysis can feasibly be undertaken within those two constraints is severely limited. We mitigated the impact of these constraints by relying on data available in our data bases from previous assignments and on data dumps graciously provided by Dr Jimmy Chulu and Mr James Kema at short notice for which we are truly grateful.

## 2 METHODOLOGY

Given the assignment time constraints, as per the attached TORs, the methodology used, and presented in the Inception Report, was **primarily desk-based research** using documents already in the AnChiCon database, others obtained specifically for the assignment from key informants and web searches for current best global practices. In order to assure full compliance with the TORs, and in view of the different framework conditions for each core local revenue, we developed the compliance grid presented in Table 2-1 in which each core revenue source is presented in its own chapter and the TOR's specific scope elements form sections in each chapter.

Table 2-1: Assuring Compliance with The TORs

		Chapters			
		Property Rates	Levies	Fees	Charges
Sections in Each Chapter	Review of existing policies and legislation that support Local Authorities to generate and collect own source revenue	✓	✓	✓	✓
	Assess Local Authorities' revenue collection methods to identify their efficiency and effectiveness	✓	✓	✓	✓
	Outline of factors that enable or inhibit Local Authorities to collect own source revenue	✓	✓	✓	✓
	Recommend practical strategies that can be employed to improve Local Authorities own source revenue."	✓	✓	✓	✓

However, whereas SWOT Analyses and Strategy formulation matrices which give guidelines to appropriate strategies to develop have been given for each OSR source in chapter 4: Property Taxes, 5: Levies and 6: Fees and Charges, Chapter 7: Conclusions and Recommended Strategies and specifically section 7.2 fleshes out key recommendations for each source that will be discussed and expanded, if need arises, after client consultations

The methodology used to address each of the TOR's specific scope elements is outlined below:

### 2.1 REVIEW OF EXISTING POLICIES AND LEGISLATION

A number of the policy positions for OSR were identified and, where available, the enabling Acts and supporting regulations, statutory instruments and by-laws, which create the legal backdrop for the OSRs were identified. The IFA defines the criteria for reviewing possible revenue sources "revenue adequacy, efficiency, equity, administrative feasibility and political acceptability, including ability to collect revenue" (Cabinet Office, 2017, p. 22) which are based on the "cannons" of taxation initially articulated by Adam Smith in the 1770s.

In this research we use similar criteria, modified a bit in line with current global best practices, by adding buoyancy, a sub-component of adequacy to more clearly reflect that the source must not only be adequate now, but must have the ability to continue to be adequate in changing economic circumstances. These current best practices also include convenience as, in the current operating environments, somewhat different from Adam Smith's time, providing customer (taxpayer in this case) convenience is a basic business requirement<sup>1</sup>.

The attributes used are outlined below.

<sup>1</sup> Even my traditional bank, ZANACO, opens up to 19 hours at Manda hill for customer convenience so customers do not have to sneak off work to transact before the bank closes, even though, for customer convenience, the said customers can also deposit and withdraw money 24 hours per day through Automated Teller Machines (ATMs). Double convenience? This customer centrisms is crucial to ensuring customers have multiple convenient ways to pay their dues.

### 2.1.1 Revenue Adequacy / Productivity

This refers to the ability of the source to generate a significant share of the total revenue of a council on the basis that it is better to have a few good sources each contributing significant revenues to council coffers rather than a myriad of sources with none or only few generating significant income. This is in line with the Pareto Principle (the 80/20 rule) that suggest that “for many events, roughly 80% of the effects come from 20% of the causes. Therefore, efforts spent on improving the 20% causes, Pareto calls them the critical few, is more productive than spending similar efforts on the remaining 80% causes, which Pareto calls the useful many. That approach, the 80/20 rule, underlies the IFA recommendation to focus on selected core revenue sources, primarily “property rates, levies, fees and charges”.

For the purpose of this study, and given the multiplicity of revenue sources of councils, a source contributing more than 5% to total revenues will be considered as “contributing significant revenues to council coffers”.

### 2.1.2 Buoyancy / Elasticity

This refers to the ability of the source to generate rising revenue yields year on year to match inflation and growing expenditure needs as the demand for local public goods and services grows with time.

### 2.1.3 Administrative Feasibility / Simplicity

The source should be simple to understand and administer. Such a source helps payers better understand the system and reduces the costs of compliance.

### 2.1.4 Convenience

The time, place and mode of payment should be so fixed that it is not, inconvenient for the payer.

### 2.1.5 Efficiency / Economy

The cost of collecting a tax should be very small in relation to the amount collected.

## 2.2 ASSESSMENT OF LAS COLLECTION METHODOLOGY

In view of the fact that this was mostly a desk-based study, as much as possible existing reports were reviewed that included the methodologies of revenue collection. This was supported with experiences from other public service collections systems, particularly those leveraging ICTs such as online / mobile device-based payments systems and outsourcing.

Efficiency is normally understood to refer to how well resources are utilised relative to the results achieved, thus it is an assessment of the relationship between the cost of inputs and the benefits achieved from the application of those inputs. Questions like could the same results have been achieved for less cost or could better results have been achieved for the same cost all relate to efficiency. In the absence of data relating to cost of collection, it is not feasible to reasonably ascertain the efficiency of the methods applied to collect the revenues so collected. In this case the values of some revenues collected are known, but data relating to the cost of collection was unavailable during the review process. However, inferences of such costs can be made from an understanding of the relative methods used and options available for use. These have been used to inform the comments on efficiency.

Effectiveness is normally understood to refer to how the methods applied have resulted in achieving the results intended. In this case, collection efficiency, the amount collected compared to what was intended to be collected, is, despite the confusing terminology, a measure of effectiveness. This will therefore be used to measure how effective LAs have been in collecting the revenues they set out to collect. Thus, if two LAs set out to collect K 1 million and both collected K 900,000, a collection efficiency of 90%, they have the same level of effectiveness. However, if one of them spent K 10 thousand and the other K20 thousand, to collect similar amounts, then the methods used by the former would have been more efficient as they would have expended half the amount to achieve the same result thereby providing more value for money. While the ideal effectiveness of collection methods would result in a collection efficiency of 100%, or more if arrears are collected and included in the computation, for the purpose of this research we will benchmark anything above 80% as effective, between 60% and 79% as mildly effective and below 60% as ineffective.

## 2.3 FACTORS AFFECTING COLLECTION OF OSR

Both trend analyses, the comparison of OSR performances over time, and comparative analyses, the comparison of OSR performances between LAs, will be used to discern common underlying themes that could inhibit or enhance collection of OSRs. The related environmental scanning that might be used to do this are likely to include some form of PESTEL

Analysis, see Figure 2-1, in which the L (Legal) and P (Political / Policy) part of the analysis would have already been covered, to some extent in section 2.1 and the T(Technological) in 2.2.



Figure 2-1: PESTEL Analysis

### 2.4 STRATEGIES FOR IMPROVING OSR

In developing strategies for improving OSRs, for each OSR, in its legal and policy frameworks, collection methods and factors affecting them, SWOT analyses will be undertaken, and strategies developed according to the following approach:

- **Maxi-Maxi Strategy:** Strategies that use strengths to maximize opportunities.:
- **Maxi-Mini Strategy:** Strategies that use strengths to minimize threats.
- **Mini-Maxi Strategy:** Strategies that minimize weaknesses by taking advantage of opportunities.;
- **Mini-Mini Strategy:** Strategies that minimize weaknesses and avoid threats.

This approach is outlined in Table 2-2.

Table 2-2: SWOT and Strategy Formulation Matrix

	External Opportunities (O) 1. 2. n..	External Threats (T) 1. 2. 3n.
Internal Strengths (S) 1. 2. n	<b>SO</b> <i>"Maxi-Maxi" Strategy</i> Strategies that use strengths to maximize opportunities.	<b>ST</b> <i>"Maxi-Mini" Strategy</i> Strategies that use strengths to minimize threats.
Internal Weaknesses (W) 1. 2. n	<b>WO</b> <i>"Mini-Maxi" Strategy</i> Strategies that minimize weaknesses by taking advantage of opportunities.	<b>WT</b> <i>"Mini-Mini" Strategy</i> Strategies that minimize weaknesses and avoid threats.

### 3 OVERVIEW ON OSRS

#### 3.1 BACKGROUND

The IFA gives a great overview of the background of OSRs in LAs, worth repeating here in full. It states “Local Own Source Revenues (OSR) have in the past been low and have systematically deteriorated over time as the Central Government (CG) has often intervened on levies, exemptions and rate levels. Revenue sources, such as the crop levy were removed, exemptions granted, tax rates curtailed, thereby affecting OSR administration dramatically reducing the ability of local governments to mobilize own revenue. In most cases, property valuation rolls have been out-of-date, incomplete, cumbersome and expensive reducing the LG ability to mobilize property rates. At the same time, LG administrations have been relaxed, often without the needed capacity nor backed by adequate local political will to improve the equity, efficiency and revenue collection from the available local revenue instruments. Taxpayers have also been relaxed in paying their obligations due to lack of awareness, information, and/or incentives for voluntary compliance.” (Cabinet Office, 2017, pp. 2-3).

In reviewing the current status and developing recommendations, we used the foregoing overview as a backdrop to develop strategies that optimise the yield from OSRs despite the foregoing constraints.

#### 3.2 STATUS

Within the time available, some pertinent data from four LAs, two city and two district councils, (Livingstone, Kitwe, Chongwe and Kaputa) were found with reasonable detail to inform this research to some extent. Data from more LAs covering more time periods would have been more informative but is unlikely to have materially affected the inferences drawn in this research. However, if and when such data are available, this assertion can be tested.

Despite their different sizes, data from those four councils for 2017 indicates that Personal Levy produced the least revenues for those LAs, largely Property Tax, where this is charged, and Fees and Charges produced the most and Other Levies were trailing. The major differences show up in the relationship between OSR and total revenues with Kaputa showing that only 8% of total revenues came from OSRs and Livingstone showing 75% from OSRs. This snap shot is given in Table 3-1.

Table 3-1: Overview of 2017 OSR Performance for four LAs

	Projected Property Taxes	Personal Levy	Other Levies	Fees & Charges	Permits & Licences	Total OSRs	Transfers	Total Revenues	OSR / Total Revenues
Livingstone	10,437,930	98,209	569,004	29,521,979	736,170	41,363,292	14,012,433	55,375,724	75%
Kitwe	39,546,216	299,529	3,387,146	27,038,972	6,806,207	77,078,071	34,253,795	111,331,866	69%
Chongwe	3,698,948	169,939	3,186,182	3,703,186	6,353,179	17,111,434	8,237,232	25,348,666	68%
Kaputa (2016)	-	10,340	79,520	390,196	234,875	714,930	8,233,454	8,948,384	8%

	Source as % of Total OSR					Total OSRs
Livingstone	25.2%	0.2%	1.4%	71.4%	1.8%	100.0%
Kitwe	51.3%	0.4%	4.4%	35.1%	8.8%	100.0%
Chongwe	21.6%	1.0%	18.6%	21.6%	37.1%	100.0%
Kaputa (2016)	0.0%	1.4%	11.1%	54.6%	32.9%	100.0%

Source: Compiled from 2018 Budget preparation notes.

The rest of this report analyses the performance of each of the three core revenue sources, property taxes, other levies and fees and charges. Personal levy is not fully analysed as can already be seen here, it is a nuisance tax, and permits and licences are not analysed at all as they are, mostly, charges for provision of administrative functions of LAs and are not specifically either taxes and levies, which provide resources for provision of public goods and services, or charges and fees, which are charged as revenue for use of LA facilities or for goods provided by LAs.

## 4 PROPERTY TAXES

### 4.1 OVERVIEW

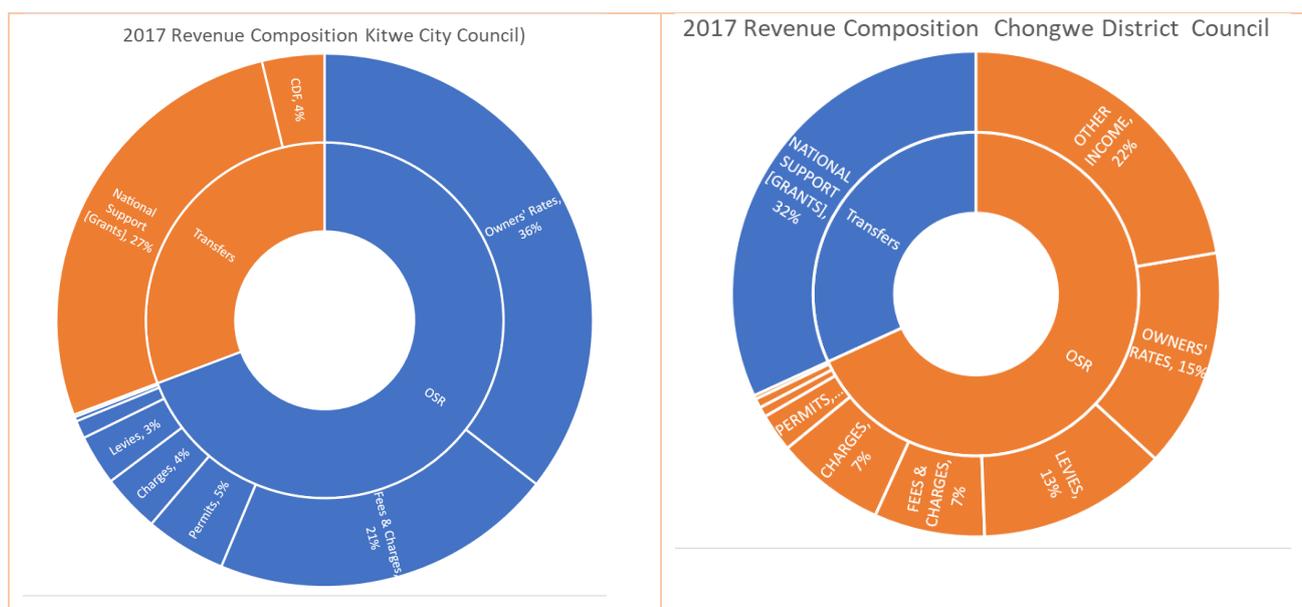
Rates / Property Taxes are certainly a major source of revenues, specifically so, for the larger authorities, as shown in Table 4-1.

Table 4-1: 2016 Rates Revenues Against Total Revenues- Southern and North western Provinces

Southern Province				North Western			
District	Revenues from rates 2016	Total Revenues 2016	% of Total	District	Revenues from Rates	Total Revenues 2016	% of Total
Siavonga	5,551,149.00	14,340,094.00	38.71%	Solwezi Muni	28,070,832.40	50,886,789.68	55.16%
Livingstone	11,945,425.39	38,402,964.01	31.11%	Mufumbwe	123,044.00	5,618,229.24	2.19%
Mazabuka	2,981,299	17,237,243.00	17.30%	Kabompo	1,939.00	2,899,424.00	0.07%
Sinazongwe	1,875,000.00	11,167,153.54	16.79%	Kasempa	7,500.00	12,429,563.00	0.06%
Chikankata	1,635,718.00	10,125,273.00	16.15%	Chavuma	-	4,263,534.00	0.00%
Monze	505,203.77	7,957,047.29	6.35%	Ikelenge	-	5,773,209.83	0.00%
Kalomo	278,502.80	7,798,514.56	3.57%	Kalumbila	-	1,553,519.00	0.00%
Choma	582,610.00	18,813,207.00	3.10%	Manyinga	-	3,276,365.00	0.00%
Gwembe	47,510.50	6,953,981.89	0.68%	Zambezi	-	5,174,663.82	0.00%
Zimba	21,015.00	5,824,446.00	0.36%	Mwinilungu	-	8,032,903.30	0.00%
Namwala	12,083.02	7,324,230.00	0.16%	Munshidamo	-	1,675,072.00	0.00%
Kazungula	2,070.00	8,886,197.00	0.02%				
Pemba	800.00	7,948,604.78	0.01%				
<b>Total 2016</b>	<b>25,438,386.48</b>	<b>162,778,956.07</b>	<b>15.63%</b>	<b>Total 2016</b>	<b>28,203,315.40</b>	<b>101,583,272.87</b>	<b>27.76%</b>

Source: Summarised from GIZ D4D data

This is further confirmed in Figure 4-1 where rates are 36% of 2017 revenues for Kitwe City Council and 15% for Chongwe District Council even though national transfers are nearly the same share of total revenues at 31% and 32% each respectively.



Source: Compiled from KCC Form 3 as at 31/10/2017 and CDC Receipts & Payments Account 2017  
Figure 4-1: 2017 Revenue Composition – Kitwe City Council and Chongwe District Council

## 4.2 EXISTING POLICIES AND LEGISLATION

The inadequacies of the previous legal framework for rating, the Rating Act No. 12 of 1997 as amended from time to time, as well as relatively consistent recommendations of how to address these inadequacies, have been well documented<sup>2</sup> over the last decade or so. Mostly as a result of that, a new Rating Act No. 21 of 2018 has been enacted and assented to on 23rd December 2018. This Act addresses a substantial number of the inadequacies previously cited, especially those relating to the undetermined length of time it took for key steps, outside the jurisdiction of local authorities, to be taken by these external parties. Some of these are cited below:

### 4.2.1 Appointment of Valuation Surveyor

Section 3 still requires the approval of the Minister to the appointment by LAs of Valuation Surveyors to undertake valuations (S3(1)). However, the Act now provides, in Section 3(2), that the Minister “shall” approve or reject such appointment within 30 days of receipt of appointment from the LA and, Section 3(3), what happens if approval is not forthcoming in 30 days, thus “Where an approval or rejection referred to in subsection (2) is not received within thirty days of the appointment, the approval shall be deemed to have been granted.

### 4.2.2 Awards by the Tribunal

The Valuation Tribunal, which previously had no provision of when to submit its awards after a sitting, now Section 34(3) provides that “The Tribunal shall render an award or decision within thirty days after conclusion of the hearing”. It still does not say what happens if the exceed 30 days, but it’s a major improvement on the previous act.

Further, relating to the expenses of the Tribunal, these have been shifted, in Section 36 from LAs as now “The expenses and costs of the Tribunal shall be paid out of funds appropriated by Parliament for the performance of the Tribunal’s functions under this Act”.

In January 2014, the LGAZ made submissions regarding various provisions in the rating act that were adversely affecting the effectiveness of rates as a source of LA revenues. Table 4-2 outlines how the 2018 Rating Act has, in addition to the above quoted instances, has addressed the issues previously raised.

Table 4-2: Selected LGAZ Submissions and Resulting 2018 Rating Act Provisions

LGAZ Submission	Relevant Old Provision	Now Revised
<p><b>The Rating Act, (S 4(1)), provides that the ‘Valuation Surveyor shall enter upon any rateable property’ for purposes of valuation. This requires door to door inspections of properties. Given the number of Valuation surveyors we have, less than 40, this might not be the most cost-effective method. With developments in GPS and other complimentary technologies it might be more time and cost effective to undertake valuations in different ways. In this regard it is recommended that:</b></p> <p><b>a) The Rating and Valuation fraternity explore the feasibility of undertaking mass valuations</b></p> <p><b>b) If such systems are feasible, propose changes to the Rating Act that would allow for their use instead of the current single property valuations.</b></p>	<p>4, (1) The valuation surveyor or any person assisting the valuation surveyor <b>shall</b>.</p> <p>(a) for the purpose of preparing or checking an entry in a main roll or a supplementary roll, or for the purpose of preparing or checking any rate, enter into, or upon, any rateable property at any reasonable hour in the day-time and survey or inspect that property;</p> <p>(b) serve a notice by delivery or prepaid registered post on leaseholder or any person in apparent occupation or charge of any rateable property <b>requiring the lease- holder</b> or that person to make a return in the form prescribed in the First Schedule; or</p>	<p>4. (1) For the purposes of preparing a main or supplementary roll, a Valuation Surveyor or any person assisting the Valuation Surveyor <b>may</b><sup>3</sup>—</p> <p>(a) enter into or on any rateable property at any reasonable hour during the day and survey that property;</p> <p><b>(b) use information communication technology to collect or capture data on any rateable property</b></p> <p>(c) serve a notice by <b>physical</b> delivery, prepaid registered post <b>or any other official means of communication</b> on an <b>occupier</b> of a rateable property <b>requiring the occupier</b> to make a return in the prescribed manner and form; and</p>

<sup>2</sup> To mention a few; (Banda, 2005), (Mapoma, Fischer, Kasase, Kalabo, & Chitembo, 2006), (Chitembo, Dineiger, Kamanga, & Phillips, 2008), (Chitembo A. , 2012), (Chulu, 2014) and (Raich, Hunter, & Chitembo, 2014),

<sup>3</sup> The provision of the *Rating (Amendment)* [No. 9 of 1999 to section 4 which changed the “may” in the section to “shall”, seems to have been reversed, intentionally or inadvertently.

	(c) put to a leaseholder or any person in apparent occupation or charge of any rateable property questions on such matters as may be necessary to enable the valuation surveyor to correctly value that property.	(d) put to an <b>occupier</b> of a rateable property questions on matters that may be necessary to enable the Valuation Surveyor to correctly value that property.
<p>In view of the real difficulties that the flat rate tax system was intended to address, and while other changes to the Rating Act proposed in this report are being considered it is recommended that:</p> <p>a) <b>Consideration be given to creating a provision in the Rates Act that allows for some form of provisional rating pending updating of the roll.</b></p>	<p>" property " includes land having any improvement on it;</p> <p>" leaseholder " means a person in whom a statutory lease, sublease or underlease is vested and who has privity of estate with the reversioner entitled to the reversion immediately upon the determination of that term, subject to the conditions laid down in section <i>thirteen</i>;</p>	<p>"property" includes land <b>on statutory lease, sublease, underlease or offer letter with or without any improvement on it;</b></p> <p>"leaseholder" means a person</p> <p>(a) in whom a state lease, sublease or underlease is vested and who has privity of estate with the reversioner entitled to the reversion immediately on the determination of that term; or</p> <p>(b) who has, subject to the conditions laid down in section 13, <b>received and accepted an offer letter from the Commissioner of Lands, a council or any person in authority over land;</b></p>

As a matter of urgency, it would be prudent for the LGAZ to find a way to review the new Rating Act vis-à-vis the various inadequacies in the previous law have been addressed. This would provide a great basis is for its continued advocacy for improving LA performances. In this regard, an issue that has received little attention is the restriction of valuation surveyors authorised to undertake the updating of valuation rolls to only those valuation surveyors that are not employed by LAs, a departure from past practice. This misconceived idea arises from both a mis-appreciation of the Rating Act as a fiscal tool and how it actually works as such a tool, and probably due to the issues raised by Ali, Fjeldstad and Kater. The misconception is that if LA employed valuation surveyors are allowed to update the valuation roll, they might unnecessarily increase property values to increase LA revenues. This ignores the fact that the rates levied on a property is the product the property value and rate levy or poundage determined by the LA. So if the fiscal gap<sup>4</sup> rates are supposed to close is, say K 1,000, it should not matter to the LA if an LA Valuer values all the rateable properties at K 1,000,000 and a non- LA Valuer values the same properties at K 800,000 as the LA would still get the required amount to close the fiscal gap by adjusting the poundage as shown in Table 4-3.

Table 4-3: Closing the Fiscal Gap

		LA Valuer	Non - LA Valuer
<b>A</b>	Property Value	1,000,000	800,000
<b>B</b>	Required Yield by LA	1,000	1,000
<b>C</b>	Rate Levy (Poundage) Ngwee in the Kwacha	0.100	0.125
<b>D</b>	<b>Yield (A x C)</b>	<b>1,000</b>	<b>1,000</b>

So as a fiscal tool, who undertakes the evaluation is irrelevant, and stopping LA Valuation Surveyors from undertaking the valuations just robs LAs of the ability to undertake updates, through supplementary valuation rolls, as frequently as they could. For fast growing towns, which for all practical purposes now include all city and municipal councils, and some district councils, this unnecessary impediment creates substantial opportunity costs on LAs.

In reviewing the 2018 Rating Act therefore, the term “Department responsible for valuation”, from which Valuation Surveyors can be appointed, needs to be clarified. Does it or does it not include those departments under LAs that might also be responsible for valuations? The monopolistic tendencies that have developed with the exclusion of Valuation Surveyors from LAs is counterproductive.

### 4.3 COLLECTION METHODS

In practice, bills for rates are sent out twice a year, January for the first half and July for the second half, even if the law does not specifically have provisions to that effect. Available 2018 budget preparation data from six local authorities indicate for 2017 the projected collection efficiency (for rates where data was disaggregated or local taxes where it was not) averaged 77% with Chongwe being the lowest at 55% and Solwezi being the highest and an outlier at 107%.

Table 4-4: Collection Efficiencies of Selected LAs (2017)

	Budget	Projected Actual	Collection %	Rating
<b>Rates</b>				
Livingstone	18,484,503	10,437,930	56%	ineffective
Kitwe	55,347,849	39,546,216	71%	Mildly effective
Chongwe	8,763,609	3,698,948	42%	ineffective
		Simple Average	57%	
<b>Local Taxes</b>				
Chipata	7,451,166	5,230,227	70%	Mildly effective
Solwezi	29,259,312	31,374,591	107%	Effective
Kasama	2,109,000	1,701,247	81%	Effective
		Simple Average	86%	
<b>Grand Totals</b>	<b>121,415,439</b>	<b>91,989,159</b>	<b>76%</b>	

Source: 2018 Budget preparation notes.

While Solwezi is indeed an outlier and a special case, in view of the mining activities happening there, consistent collections significantly below the billing rate implies that in due course, uncollected amounts outstanding will cause the LA operational cash flow issues that will adversely affect service delivery capacity. Increasing tariffs without increasing collection efficiency might simply mean the complying tax payers are penalised to support the non-compliant ones.

For Chibombo, for which data are available relative to uncollected rates (debtors), the debtors outstanding represent the equivalent of nearly three years billing as shown in Table 4-5.

Table 4-5: Chongwe - Rates Billing and Debtors

<b>Planned Billing 2018</b>	<b>8,063,609</b>	
<b>Debtors June 2018</b>	22,402,948	
<b>Out Standing</b>	2.78	Years

If the target was to collect all the full amount of bills sent out as planned, and perhaps a little bit more to cover collections towards arrears, the results achieved, 77%, are only partially effective and could be improved. If that improvement could be achieved at the same, or lower cost, then even the efficiency of resource utilisation would improve. However, if the planned revenues were overstated to artificially balance the budget, and the realistic plan was to collect only 70% of the stated planned amounts, then the methods used could be said to be effective, but the planning would then be the part that is ineffective and would compromise service delivery, especially if the cost of that service delivery was realistic.

#### 4.4 ENABLING AND INHIBITING FACTORS

The enabling factors are that rates as a local property tax is reasonably accepted and the 2018 Rating Act has addressed some of the inadequacies in the previous legal framework. How much has been addressed should be the subject of an immediate study to understand and circulate to LAs.

However, the institutional capacities of the LAs for administering the rating process are seriously impacted by the frequent transfers of staff as the team structure, Town Clerks / Council Secretaries, Directors of Legal Services and Directors of Finance, and key support staff under them, are frequently transferred and the intimate local knowledge required to purposefully interact with the tax payer is continuously lost.

Further, the potential offered by ICT platforms to provide multiple platforms for interaction with tax payers, including modes of making payments, are not being taken up as quickly as might be<sup>5</sup>. These can increase administration and collection efficiency as well speed of response and accuracy of data as the points for human intervention between taxpayer and the LAs are reduced and the tax payer can pay at a time and from a location of their convenience.

#### 4.5 SUMMARISING THE REVENUE SOURCE ATTRIBUTES

##### 4.5.1 Adequacy / Productivity

In places where there are a large number of un-exempted properties, property tax can be a substantial source of own source revenues, as shown in Table 4-6.

Table 4-6: Projected Property Taxes Relative to Total OSR (2017)

LA	Property Taxes	Total OSR	% of Total
Livingstone	10,437,930	41,319,415	25%
Kitwe	39,546,216	77,078,071	51%
Chongwe	3,698,948	17,269,827	21%

Source: Compiled from 2018 Budget preparation documents

##### 4.5.2 Buoyancy / Elasticity

Property tax does not automatically respond to changes in economic levels of activity or inflation. Updating of the tax base, the valuation roll, is cumbersome, overt and expensive while the process of establishing and modifying the rate levy is also overt and requires not only council approval, but also the Minister's approval, which to some extent, is contrary to required tenets of decentralisation. This revenue source is, therefore, not buoyant.

##### 4.5.3 Simplicity

While billing is relatively easy, the process of updating the valuation roll, getting that approved, setting the rate levy and getting that approved is complex and time consuming. This adversely affects the potential of the tax as a revenue source.

##### 4.5.4 Convenience

Convenience requires that the time, place and mode of payment should be so fixed that it is not, inconvenient for the payer. In view of changing technology and expectations, what was convenient ten years ago, before ATM, on-line banking and mobile device-based platforms, is no longer convenient but LAs have not, to a large extent, migrated their systems to catch up with technologies. This is somewhat surprising as the major LAs, in the time of main frame computers, forty years or so ago, were at the leading edges of utilising technologies to manage their business operations.

##### 4.5.5 Economical

The payments to Valuation Surveyors and Valuation Tribunals are high, especially the Tribunal costs for small out of reach districts. While the direct cost benefit of undertaking a valuation exercise is positive, the opportunity cost of waiting two to three years from the time of the council resolution to the roll implementation date, adversely affects that cost benefit outcome. This is especially so for rapidly developing districts. So, on that basis, this tax is not so economical to operate.

<sup>5</sup> In this case the 2018 Rating Act is ahead of LAs to some extent as it suggests Valuation Surveyors may “use information communication technology (ICT) to collect or capture data on any rateable property”

#### 4.6 SWOT ELEMENTS FOR PROPERTY TAX

In order to provide a framework for providing practical strategies relative to property tax, the characteristics of this revenue source described above, and outlines of feasible strategies are presented in the SWOT analysis and strategy formulation matrix presented in Table 4-7.

Table 4-7: Property Tax - SWOT and Strategy Formulation Matrix

	<b>External Opportunities (O)</b> 1. The decentralisation process 2. Political good will 3. Implementation of the IFA 4. 5. Rate payer acceptability; 6. Accelerated property development; 7. Technology developments 8. LGAZ	<b>External Threats (T)</b> 1. Updating of the Rating Act 2. Political ill will 3. Economic stagnation
<b>Internal Strengths (S)</b> 1. Existing systems. 2. Existing databases; 3. Available Capacity Development opportunities; 4. New councillors; 5. LGAZ	<b>SO</b> "Maxi-Maxi" Strategy 1. Use available technologies to improve existing systems and databases; 2. Use LGAZ to orient councillors to the developmental opportunities implicit in implementing the IFA and decentralisation; 3. Use LGAZ to maintain political good will at national level; 4. Use available CD opportunities to upgrade staff IT capacities through CPD activities; 5. Engage with the rate payers' associations to improve communications and compliance rates,	<b>ST</b> "Maxi-Mini" Strategy 1. Get LGAZ to be proactive in the Rating Act development process; 2. Engage councillors in communicating local developmental aspirations beyond to external stakeholders. 3. Develop district situation analyses (DSAs) to identify district specific revenue / property growth opportunities.
<b>Internal Weaknesses (W)</b> 1. Continuing loss of institutional memory due to staff transfers 2. Inconvenient compliance systems 3. Sub-optimal work culture	<b>WO</b> "Mini-Maxi" Strategy 1. Leverage Technology to create resource centres for Standard Operating Systems (SOPs) 2. Leverage Technology to develop multiple payment platforms; 3. Develop local e-magazines to show case LA activities in positive light to internal and external stakeholders.	<b>WT</b> "Mini-Mini" Strategy 1. Keep all stakeholders informed and engaged

## 5 LEVIES

### 5.1 OVERVIEW

#### 5.2 PERSONAL LEVY – A DETOUR

According to the Local Government Act defines a "Levy" " means a levy imposed under this Act"; Levies are taxes, normally, a sort of business or income tax. Among these, the most prevalent in Zambia is Personal Levy, an income tax. There are many reasons why Personal Levy is a nuisance tax which should be abolished, and Pro. Kelly cites these, which include the fact that it is a regressive tax, it not buoyant, it not equitable and the costs of administering it may outweigh the benefits. but also, Personal Levy, violets the IFA guidelines on revenue source sharing between Central and Local Government, an extract of which are attached as Appendix 4. From available data, personal levy contributes less than 1.5% of OSRs and less than 1% of total revenues as shown in Table 5-1.

Table 5-1: Personal Levy Contributions to LA Revenues – 2017

LA	Personal Levy	Total OSR	% Plevy OSR	Total Revenue	% Revenue
Livingstone	98,209	41,319,415	0.2%	55,375,724	0.18%
Kitwe	299,529	77,078,071	0.4%	111,331,866	0.27%
Chongwe	169,939	17,269,827	1.0%	25,348,666	0.67%
Kaputa (2016)	10,340	714,930	1.4%	8,948,384	0.12%

The inelasticity of personal levy is also apparent from data available from Chongwe, as this has fallen from 2.4% of OSR in 2010 to the 2017 level above of 1%, see details in Appendix 5. Further, in the thirty revenue sources for Chongwe in Appendix 5, only Personal Levy is an income tax.

The collection efficiency of personal levy, as a measure of the effectiveness of collection methods used, show that for Livingstone and Kitwe the collection efficiency is just above 60% and therefore mildly effective as shown in Table 5-2. This level of collection, assuming the planned revenue was correct, show a somewhat mildly ineffective to ineffective collection regimes.

Table 5-2: Personal levy Collection Efficiency

Personal Levy	Plan	Collection	Collection Efficiency	Rating
Livingstone	157,500.00	98,209	62%	Mildly effective
Kitwe	495,000.00	299,529	61%	Ineffective
Chongwe	8,763,609	169,939	2%	Ineffective
Kaputa (2016)		10,340		

That Chongwe collected only 2% of budgeted amount may reflect one of the issues that make this tax inequitable. If the budgeted K 8.76 million was realistic, even by half, given the proximity of Chongwe to Lusaka, it could be that a material number of tax payers who work and live in Chongwe, might be employed by Lusaka domiciled companies that might pay the levy to Lusaka City Council.

### 5.3 OTHER LEVIES

The other levies are mostly business related, in most cases ad valorem, taxes. Given that different LA have different socio-economic characteristics, there is a plethora of levies that have been applied in LAs in Zambia over time. For the LAs for which data are available, these levies yielded between 6 to 19 times more than personal levy for 2017 as shown in Table 5-3.

Table 5-3: Levies Compared to All OSRs – 2017

LA	Other Levies	Total OSR	% Other Levies OSR	Total Revenue	% Revenue	Times P Levy
Livingstone	569,004	41,319,415	1.4%	55,375,724	1.03%	5.8
Kitwe	3,387,146	77,078,071	4.4%	111,331,866	3.04%	11.3
Chongwe	3,186,182	17,269,827	18.4%	25,348,666	12.57%	18.7
Kaputa (2016)	79,520	714,930	11.1%	8,948,384	0.89%	7.7

Table 5-4 shows that for Chongwe, levies as a percentage of OSR doubled from almost 14% to in 2010 to almost 28% in 2012, a period of only 3 years. This attests to the fact that levies, being ad valorem business taxes, have some buoyance and therefore, compared to other traditional sources of LA revenues, have some advantage in this regard.

Table 5-4: Chongwe – Revenue Collection Trends 2010 – 2012

Source	2010		2011		2012	
	Revenue	% Revenue	Revenue	% Revenue	Revenue	% Revenue
Levies	K733,085,030	13.78%	K1,025,896,048	19.08%	K1,174,493,338	27.69%
Owners Rates	K357,553,064	6.72%	K990,814,790	18.43%	K1,054,685,380	24.87%
Plot Service Charges	K1,388,100,000	26.09%	K1,887,087,600	35.10%	K695,596,700	16.40%
Personal Levy	K164,387,209	3.09%	K130,226,537	2.42%	K131,034,618	3.09%
Banners and Billboards	K398,708,770	7.49%	K411,090,910	7.65%	K124,868,980	2.94%
Non-Significant	K654,827,138	12.31%	K914,648,667	17.01%	K943,603,158	22.25%
Other Income	K541,436,879	10.18%	K2,706,500	0.05%	K103,340,980	2.44%
Sale of Forms	K1,082,375,950	20.34%	K13,230,000	0.25%	K13,600,000	0.32%
Grand Total	<b>K5,320,474,040</b>	<b>100.00%</b>	<b>K5,375,701,052</b>	<b>100.00%</b>	<b>K4,241,223,154</b>	<b>100.00%</b>
Levies + Rates + Plots		<b>46.59%</b>		<b>72.62%</b>		<b>68.96%</b>

That for Chongwe, the 2017 levies are projected at 18% of OSRs is, probably, a reflection of the fact that levies were previously stopped by GRZ but have recently been re-instated. This new dispensation provides opportunities that are available for exploitation.

A detailed 2017 analysis of OSR collections for Chongwe, in which, for instance, rates are split three sub groups; Residential, Industrial/Commercial and Mining/Plant, shows that out of a total of 54 sources, the top eleven, that is 20% of the 54, accounted for almost 78% of the revenue collected, with the remaining 43 sources accounting for only 22% of revenue collected, see Appendix 6. This is not surprising as it is in line with the earlier described Pareto Principle (the 80/20 rule).

Finally, even though of the top three sources, “Plot Service Charges” is a non-recurrent revenue source and is based on a limited resource, land available for demarcation, which will eventually run out, it is correlated to increases in property tax. This is because the plots serviced and allocated will be occupied by property whose rateable value will keep increasing. The increase, while being partly due to inflation given limited supply and increasing demand, will also be, due the same factors of limited supply and increasing demand, to the reason that the properties developed are likely to be extended, modified or simply knocked down and bigger higher value multi-dweller and / or multi-use properties, built in their place. The development of a rather large and posh restaurant and, unfortunately, two huge casinos, between Manda Hill and Parliament Road opposite the Show Grounds in Lusaka, as well as an extremely posh high-rise hotel on Manchinch Road, all on what was previously ordinary residential properties, all in the same neighbourhood, is an example of the rapidly changing value and use of existing property being referred to here.

#### 5.4 EXISTING POLICIES AND LEGISLATION

Section 69 (1) of the Local Government Act provides that a council may make by-laws imposing levies on:

- “(a) a levy on leviable persons owning or occupying property or premises situated within the area of the council;
- (b) a levy on leviable persons carrying on a business, trade or occupation within the area of the council;
- (c) a levy on the purchase or sale of a commodity within the area of the council.”

To date, the major levies charged by LAs relate to item (b). An extract of the section is included as Appendix 7. However, section 82 of the Act provides that “82. (1) No by-law made by a council under this Act shall have the force of law until it has been confirmed by the Minister”.

This provision in section 82 seems somewhat at loggerheads with the national intent of decentralisation and has been used in the past to cancel all levies, to the detriment of councils. However, according to the Decentralisation Implementation Plan (DIP) 2014 – 2017, one of the outputs of the Legal and Regulatory Reforms component of the DIP is that the “Local Government Act and the Public Finance Act are reviewed and amended to facilitate transfer of functions and matching resources to the Councils”. If these reforms are undertaken, as intended, the above issue could be resolved.

## 5.5 COLLECTION METHODS

As levies are collected as specific business activities are undertaken, at points at which the business is undertaken, collection should be a relatively simple affair. However, as these transactions happen in the field, in some places, such as collection of a levy, like grain levy, quite remote from council offices, the possibility of fraudulent activities are high. Due to the high prevalence of cell phone use and cell phone talk time vendors, possibilities of introducing mobile device-based payment systems may reduce the risk of LAs being defrauded.

Table 5-5: Collection Efficiency – Other Levies

Other Levies	Plan	Collection	Collection Efficiency	Rating
Livingstone	1,344,933.27	569,004	42%	ineffective
Kitwe	7,331,588.64	3,387,146	46%	ineffective
Chongwe	2,587,485	3,186,182	123%	Effective
Kaputa (2016)		79,520		N/A

## 5.6 ENABLING AND INHIBITING FACTORS

The enabling factors for use of levies as revenue sources is the existing legal framework, even though it could be improved, and the acceptance of most reasonable levies by the business community as these fees, relative to other business costs, like transport, are fairly marginal.

The inhibiting factor is the uncertainty of the political will for levies. Even where the business community and the LA have mutually beneficial and agreed relationships relative to the levies, as was the case with the bicycle levy in Chipata and the agricultural production levy in Chibombo, politicians can, even after approving the levies, not only revoke them, but do so without providing alternative sources revenue to replace the revoked levies.

## 5.7 SUMMARISING THE REVENUE SOURCE ATTRIBUTES

### 5.7.1 Adequacy / Productivity

Levies provide adequate revenues for LAs, see Table 5-3 which compares Personal Levy collected to Levies collected and shows that four LAs all showing levies provided more than five to eighteen times more than personal levy revenues.

### 5.7.2 Buoyancy / Elasticity

Business levies are ad valorem taxes on business and therefore by definition are elastic in relation to the level of business activity. However, they are not inflation elastic as they need avert actions, including ministerial approval, for the fee rates to be adjusted as these are not inflation indexed. This source therefore, is only partially buoyant.

### 5.7.3 Simplicity

Most levies are a product of two elements, quantity of the leviable item and leviable rate per leviable item. This is simple enough for both transacting parties to work out without any difficulty.

### 5.7.4 Convenience

For most levies, the levy collector follows the levy payer to or along a route where the levy payer conducts their business and the transaction takes a short time. It is therefore convenient for the levy payer.

### 5.7.5 Economical

The effort of administering levies is relatively low. No accruals, no debtors, no billing.

## 5.8 SWOT ANALYSIS FOR LEVIES

In order to provide a framework for providing practical strategies relative to levies, the characteristics of this revenue source described above, and outlines of feasible strategies are presented in the SWOT analysis and strategy formulation matrix presented in Table 5-6.

Table 5-6: Levies - SWOT and Strategy Formulation Matrix

	<b>External Opportunities (O)</b> 1. Diversity of LA specific leviable opportunities 2. The decentralisation process 5. Political good will 3. Technology developments	<b>External Threats (T)</b> 1. Political ill will 2. Economic stagnation
<b>Internal Strengths (S)</b> 1. Existing systems. 2. Intimate local knowledge 3. New councillors	<b>SO</b> <b>"Maxi-Maxi" Strategy</b> 1. Use local knowledge to investigate, identify and assess possible local leviable opportunities; 2. Exploit available technologies to improve performance; 3. Orient councillors to buttress the decentralisation process and maintain political goodwill	<b>ST</b> <b>"Maxi-Mini" Strategy</b> 1. Orient councillors to mitigate against political ill will; 2. Use local knowledge to identify multiple leviable options to mitigate risk by portfolio diversification
<b>Internal Weaknesses (W)</b> 1. Continuing loss of institutional memory due to staff transfers 2. Sub-optimal work culture	<b>WO</b> <b>"Mini-Maxi" Strategy</b> 1. Leverage Technology to create resource centres for Standard Operating Systems (SOPs) 2. Leverage Technology to develop multiple payment platforms;	<b>WT</b> <b>"Mini-Mini" Strategy</b> 1. Keep all stakeholders informed and engaged

## 6 FEES AND CHARGES

### 6.1 OVERVIEW

Unlike rates and levies that are taxes that are paid for the provision of general public goods and services, fees and charges relate to amounts payable in exchange for receiving specific services or goods from the LA. These include market fees, parking fees, bus station fees, affidavit fees and refuse disposal, among others. These are different and apart from permits and licences which are payments for enabling an LA review and / or process an application for allowing (permitting) the applicant to do something they intend to do, that is, something not yet done or for allowing continuance of something being done. These include health permits, herbalist permits, transportation of opaque beer, nursery, pre-school permits, fire certificate and extension of business hours permits among others. These permits relate to the performance by LAs of regulatory functions of councils. An example of these are the health inspection functions arising from the regulations relating to the Public Health Act Cap 295 of the Laws of Zambia. However, in practice, the boundary between fees and charges on one hand and permits on the other, is not that clear cut.

As at 2017, Fees and charges are projected to out-perform, by far, levies as sources of OSR, except for Chongwe for which, at 1.16 times, the two are almost equal. This may show that Chongwe may have an increasing number of leviable business activities in its area, compared to the others who get more revenue from charging for services they render and facilities they provide than they do from local business taxes<sup>6</sup>.

Table 6-1 presents the relationships of fees and charges to total OSR for the four LAs for which data are available and also compares these to other levies.

Table 6-1: Fees and Charges Compared to All OSRs – 2017

LA	Fees & Charges	Total OSR	% Fees & Charges OSR	Total Revenue	% Revenue	Times Other Levies
Livingstone	29,521,979	41,319,415	71.4%	55,375,724	53.31%	51.88
Kitwe	27,038,972	77,078,071	35.1%	111,331,866	24.29%	7.98
Chongwe	3,703,186	17,269,827	21.4%	25,348,666	14.61%	1.16
Kaputa (2016)	390,196	714,930	54.6%	8,948,384	4.36%	4.91

<sup>6</sup> It would be more illustrative if more data were available from more LAs. Perhaps LGAZ might consider a resource centre in that regard?

However, the number of sources that make up this category; 25 for Chongwe, 33 for Kitwe and 32 for Livingstone, is high and therefore it is likely, using the Pareto principle that some of them might be nuisance charges and each LA may need to review its composition of fees and charges from time to time. This is probably because some of the items included may cover some items that might logically be under permits.

## 6.2 EXISTING POLICIES AND LEGISLATION

Both fees and charges, and permits, as described in this section, arise from section 70 (1) of the Local Government Act, reproduced Table 6-2.

Table 6-2: Local Government Act Providing for Imposition of other fees and charges

<p><b>70. (1) A council may impose fees or charges payable to the council-</b></p> <p style="padding-left: 40px;">(a) for any licence or permit issued under any by-law or regulation made under this Act;</p> <p style="padding-left: 40px;">(b) for <u>any service or facility provided or goods</u> or documents <u>supplied</u> by the council in pursuance of or in connection with the discharge of any function of the council.</p> <p>(2) All fees and charges imposed by a council under the section shall be regulated by by-law or, if not so regulated, may be imposed by resolution of the Council:</p> <p><i>(The emphasis ours)</i></p>	<p>Imposition of other fees and charges</p>
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In the context of this research, the focus is on the underlined bit of Section (1)(b) “any service or facility provided or goods ... provided” as to a large extent, Section (1)(a), relates to permits and licences. As in the case of Levies, section 71 provides that the Minister must approve the charges and comments made in the previous section, relative to section 71, apply here as well.

## 6.3 COLLECTION METHODS

As fees and charges are charged on services rendered, and normally paid upfront, collection efficiency is more a measure of the accuracy in forecasting what the demand for the services to be rendered might be. Kitwe and Livingstone overestimated the demand, or were defrauded, while Chongwe underestimated as shown in Table 6-3..

Table 6-3: Collection Efficiency – Fees & Charges

Fees & Charges	Plan	Collection	Collection Efficiency
Livingstone	41,850,093	29,521,979	71%
Kitwe	53,576,828	27,038,972	50%
Chongwe	2,267,475	3,703,186	163%
Kaputa (2016)		390,196	

For Chongwe, exceeding 100% on expected collections of levies as well as of fees and charges, may simply mean that the business activities in Chongwe are developing faster than the LA estimates.

## 6.4 ENABLING AND INHIBITING FACTORS

The enabling factors for the collection of fees and charges are basically that, like all transactional business activities, depend on the utility of the services being offered by the LA and are within LAs location specific. For instance, parking fees in crowded central business districts (CBDs), like Cairo Road, are feasible while the same for outlying areas might not be. So, LAs must evaluate the feasibility of each fee and charge in terms of supply and demand, exactly as any business would. Business feasibility analysis is, however, not really the strongest aspect of LA administrators.

However, being more business related than most LA fees are, opportunities arise in providing these services, or in revenue collection for working with the private sector and for utilising such technologies as parking meters for automating some collections, where market conditions provide such opportunities.

## 6.5 SUMMARISING THE REVENUE SOURCE ATTRIBUTES

The attributes of this source are similar, to a large extent, to those for levies. A key difference is that unlike levies, the “customers” for charges and fees have, as they do for any business dealing, choice. They can choose not to use some services or can get similar services from other suppliers and therefore the convenience factors for the payer have greater implications than for levies over which the payers have no choice. Proactively providing convenience for customers is not an area LAs are primarily focussed or skilled in.

### 6.5.1 Adequacy / Productivity

All the four LAs show significant revenues from fees and charges relative to other OSRs as these fees in three of the four LAs show that revenues from fees and charges were projected to contribute more than 10% of total revenues and even Kaputa, at nearly 4.4%, is within the significant source revenue ballpark suggested of 5% of total revenue.

### 6.5.2 Buoyancy / Elasticity

The buoyancy of fees and charges is similar to that of business levies as outlined in the preceding chapter, only partially buoyant.

### 6.5.3 Simplicity

Administering fees and charges is not simple as, because of the choice factor, to optimise this source, the LA must have market intelligence to be aware of competitor approaches and offerings. This is not an LA strong point and LAs therefore, tend to offer only services in which they have competitive advantages such as offering halls for gatherings in places where the only institution with such facility.

Even that effort, identifying marketable facilities or services to offer, is not always within the immediate means of LAs to identify, evaluate and prioritise. Possibilities for PPPs and for application of LED approaches in this area are most rife but unexploited. Exploitation of these approaches could transfer some administrative requirements to others while still retaining the facilities as revenue sources.

### 6.5.4 Convenience

The multiplicity of goods and services offered requires a service by service and LA by LA review of the modes of customer interaction used to assess convenience.

### 6.5.5 Economical

The limitations for assessing convenience apply to assessing the efficiency of methods applied for administering the services.

## 6.6 SWOT ANALYSIS FOR LEVIES

In order to provide a framework for providing practical strategies relative to levies, the characteristics of this revenue source described above and outlines of feasible strategies are presented in the SWOT analysis and strategy formulation matrix presented in

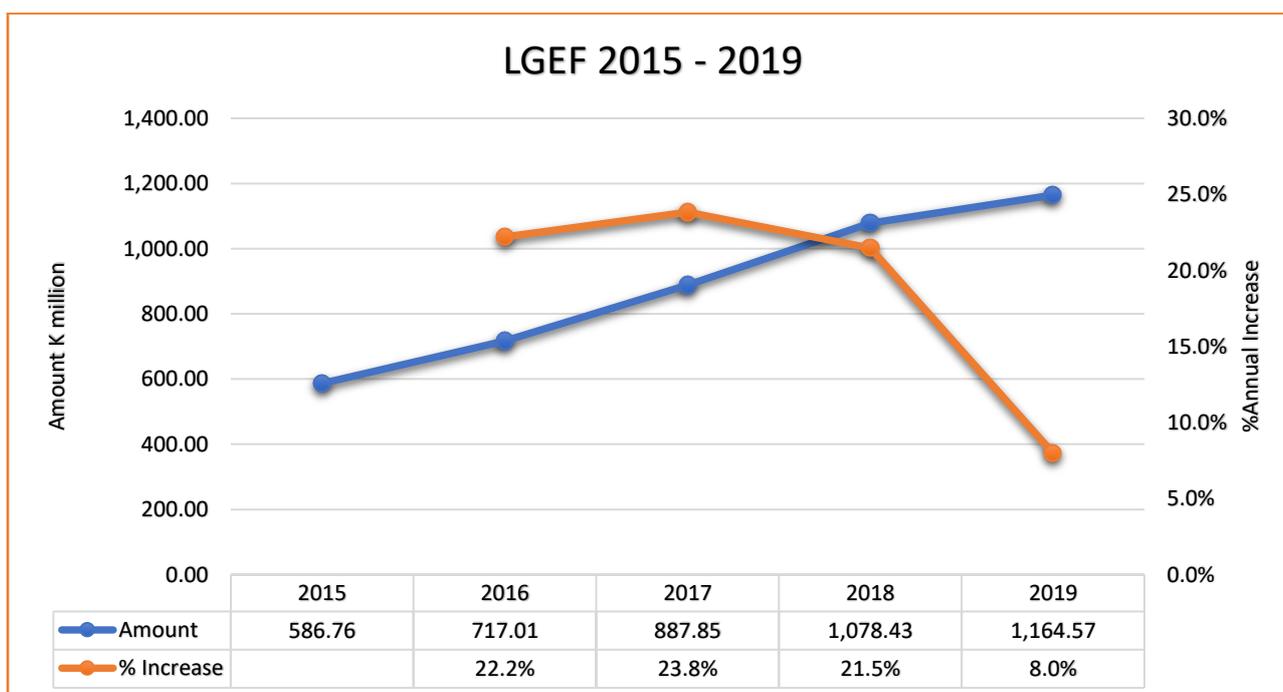
Table 6-4: Fees and Charges - SWOT and Strategy Formulation Matrix

	<b>External Opportunities (O)</b> 1. Diversity of LA specific community needs 2. Technology developments	<b>External Threats (T)</b> 1. Competing facilities & Service providers 2. Economic stagnation
<b>Internal Strengths (S)</b> 1. Existing facilities. 2. Intimate local knowledge	<b>SO</b> <b>"Maxi-Maxi" Strategy</b> 1. Use local knowledge to investigate, identify and asses existing & potential facility / interest needs; 2. Package services / facilities to meet local, regional and international demand 3. Exploit available technologies to create awareness of facilities services	<b>ST</b> <b>"Maxi-Mini" Strategy</b> 1. Explore areas for synergies; 2. Identify market niches and exploit competitive advantages
<b>Internal Weaknesses (W)</b> 1. Continuing loss of institutional memory due to staff transfers 2. Sub-optimal work culture	<b>WO</b> <b>"Mini-Maxi" Strategy</b> 1. Leverage Technology to create resource centres for Standard Operating Systems (SOPs) 2. Leverage Technology to develop multiple payment platforms;	<b>WT</b> <b>"Mini-Mini" Strategy</b> 1. Keep all stakeholders informed and engaged

## 7 CONCLUSIONS AND RECOMMENDED STRATEGIES

### 7.1 CONCLUSIONS

To a large extent the revenue yield of most LAs are affected by laws, regulations and procedures that create the frameworks within which the revenue sources are operated. The ongoing decentralisation process and related legal reforms, on the Local Government Act, for instance, create opportunities for addressing some existing constraints. However, due to the said constraints no OSR is sufficiently buoyant to keep abreast of inflation as the procedures required inhibit the possibility of inflation indexing. The only source of revenue for LAs that is truly buoyant is not an OSR but a transfer, the Local Government Equalisation Fund (LGEF) whose year to year trajectory, since 2015, shown in Figure 7-1, has been above the rate of inflation. Even though between 2018 and 2019 it has fallen of 8%, this is still within the striking distance of inflation.



Source: Compiled from GRZ budgets speeches for the years 2015 – 2019.

Figure 7-1: LGEF 2015 - 2019

However, even within the foregoing framework conditions constraints, LAs still have room for optimising revenue yields from existing sources by better management and targeting. Practical recommendations for strategies to do this are suggested in the section below.

## 7.2 RECOMMENDATIONS FOR PRACTICAL STRATEGIES FOR OPTIMISING LA OSRS

As a precaution, due to the diverse socio-economic, demographic and logistical conditions for each LA, the recommendations given here while generic, are specific enough to guide the development of LA specific strategies. Those diverse conditions mean that there is no one size fits all set of recommendations that would optimise every LA's OSR operations. Subject to that caveat, this section suggests some strategies for customisation by each LA.

In chapters 4 to 6, covering the core revenue sources of Property Tax, Levies and, Fees and Charges, source specific SWOT and Strategy Formulation Matrices give some direction of what strategies might be used to optimise OSRs. While these matrices provide a number of pointers, in line with the Pareto Principle outlined in this report, the key strategies that might have the best impact are outlined below. Any LA that works through each one and exhaust their potential, might wish to go back to the appropriate matrices to complete their logic for area specific situations and to use the approach to develop additional strategies.

### 7.2.1 General

Improved collection and analysis of revenue and expenditure data of all LAs in Zambia by the LGAZ would greatly enhance the capacity of the LGAZ to advocate for LAs and to identify variations in LA activities that might provide lessons for shared improvements of the performances of LAs.

### 7.2.2 Property Tax

**Valuation Roll Update:** Previously, while the valuation roll preparation process was expensive, not updating the roll was even more expensive in the long run. The Rates consultancy report observed that "Most councils are not able to clearly quantify the possible benefits of expenditure on the valuation roll process tending to view it as consumption expenditure. However from data available from the councils that have quantified the cost and benefits among the councils visited, the average internal rate of return of expenditure on a valuation roll is more than 100% in its first 5 years of implementation when the expenditure, both for the valuation and for the tribunal sitting" (Mapoma, Fischer, Kasase, Kalabo, & Chitembo, 2006, p. 15)<sup>7</sup> are taken in to account.

However, the 2018 Rating Act, has considerably lowered the cost of preparing the valuation roll by shifting the Tribunal expenses from LAs, which was a major cost especially for the smaller remote LAs, and increasing the properties to be valued to include land without development and land with a wider variety of ownership status than before.

**Leveraging Technologies:** ICTs are making communications between tax authorities and tax payers more convenient. ZRA has a payment system on line, various commercial utilities and some LAs have mobile device platforms for billing and receiving monies. The cost of these systems are falling and utility is increasing. Exploring available options in this respect should provide possibilities for optimising OSRs.

**Impact of Optimising Property Tax Operations:** It seems evident that optimising property tax operations through the somewhat improved legal framework now in place and through improving the efficiency and effectiveness of LAs in managing the process can greatly enhance the OSR status of the large to medium sized LAs. Less evident is the fact that doing so would also have positive impact on the revenues of smaller councils since the reduction in the fiscal gaps of the bigger councils, by increased property tax contributions, would allow more of the available vertical transfers to be freed to go to the smaller councils.

**Other Aspects:** Appendix 8, which was an extract of conditions under the previous Rating Act could now be reviewed in the light of the 2018 Rating Act.

### 7.2.3 Levies

**Rapid District Economic Profile Assessments:** for levies, which are taxes on business activities, LAs must, as a matter of priority, undertake rapid economic situation analyses to create inventories of existing and potential key activities that are being or can be undertaken in their jurisdictions. In this regard, especially regarding potential opportunities, most

<sup>7</sup> That report is available and its recommendations regarding what each individual LA might do are still valid.

localities are blind to the embarrassing wealth of opportunities that go begging<sup>8</sup>. Then strategies can be developed for exploiting them through PPPs or LED activities to expand the levies tax bases. Appendix 9 provides some guidelines of how such rapid assessments can be undertaken.

Linkages with PACRA might also help identify businesses in the jurisdictions of LAs. However, as businesses evolve, continuous scanning of the LA's jurisdictions can bring to light changes happening<sup>9</sup>.

**Leverage Technologies:** Keeping inventories / databases of any activity or items of interest has been completely simplified by ICTs, including on-line hosting of such inventories / databases to share with key stakeholders. These taxpayer databases form the tax base and are critical for levying business-related taxes. Without them, the basis for taxation does not exist. LAs have not serious taken advantage of these opportunities to date. As a priority, and for various reasons, PPPs, LEDs, community engagement and mobilisation, these inventories should be created as a matter of urgency.

#### 7.2.4 Fees and Charges

**Competitive Advantage:** While fees and charges are levied on business activities which can also be undertaken by the private sector, each LA has areas where they have competitive advantages which can be utilised. A number of these, but not all, opportunities exist because of the institutional mandates of LAs. The number of all activities that LAs currently charge fees for should be listed and evaluated on the basis of the revenue assessment criteria presented in this report. These should then be prioritised for those services than only councils are mandated to provide and those that can be done by others.

For those that are mandated, LAs should examine the feasibility of outsourcing them relative to directly providing them and how such outsourcing might be done.

**Collaborative Frameworks:** for those services, existing or potential, LAs develop and utilise collaborative platforms, such as with the local chambers of commerce or the ratepayer's associations, to undertake joint or shared responsibilities and rewards advantageous to their jurisdictions. The private sector cannot initiate such arrangements but LAs can. Also LAs have greater motivation for such arrangements as while everybody else can translocate, LAs are bound by the geographical coordinates that define their jurisdictions and therefore cannot move elsewhere if things do not work out.<sup>10</sup>

<sup>8</sup> Just a few examples: Luwingu has clay which is a nuisance during the rains, yet there are industries that can use clay as an input that would love to get their hand on that clay; , Bath, in England; Plombières-les-Bains, in France and up to 10 towns named "Hot Springs" in America are all famous for hot springs, we have plenty in Zambia; Stratford-upon-Avon in England is famous "for its associations with William Shakespeare.", Kabwe is the birth place of a living world re-known bestselling author, but as earlier stated, political will power to capitalise on these natural resources is neither here nor there..... ;

<sup>9</sup> In the past we used to undertake district situation analyses regularly, what has happened? With decentralisation we need these more than before.

A consultancy undertaken in 2008 has recommendations that are still valid and can be made available for use by interested councils, (Chitembo, Dineiger, Kamanga, & Phillips, 2008)

*Appendix 1: Terms of Reference*

## **1. Introduction**

Under the project “Enhancing Local Government Capacity for Development”, the Local Government Association of Zambia (LGAZ), in partnership with the Commonwealth Local Government Forum (CLGF) and the Ministry of Local Government (MLG), requires the services of an experienced Service Provider to undertake a research on *Strengthening Local Government Own Source Revenue in Zambia*.

### **1.1. Background**

The Government of Zambia relaunched the Decentralisation Policy (DP) (2002) and Decentralisation Implementation Plan (DIP) in 2013 with the objective of promoting effective and efficient service delivery and citizen participation in local governance and development. According to the Implementation Plan to the Seventh National Development Plan (7thNDP), the government is planning to decentralise 15 mandates to local authorities by 2018. The successful implementation of the DP therefore is critical in the achievement of the Zambia 7th NDP, as it is one of the key strategies the government has adopted to create an enabling policy framework. To be able to effectively deliver on their expanded mandate, which requires them to plan and deliver services and development in a participatory and inclusive manner, local authorities will need capacity strengthening in several strategic areas. Similarly, citizens, as rights holders will need to be empowered to be able to claim their rights and to effectively participate in local governance and development.

It is against this backdrop that the Local Government Association of Zambia (LGAZ) in partnership with the Commonwealth Local Government Forum (CLGF) and the Ministry of Local Government (MLG) with financial support from the European Union (EU) and UK Department for International Development (DFID), is implementing a project titled, ‘Enhancing Local Government Capacity for Development’ which aims to contribute to enhanced local governance for effective, efficient and inclusive service delivery in Zambia through three Outcome areas:

1. Improved leadership, institutional and operational capacities of local authorities for enhanced local governance.
2. Enhanced capacity of local authorities to plan and implement inclusive service delivery and promote local economic development.
3. Increased capacity for LGAZ to represent and support the local government sector in the decentralisation process in Zambia.

As a champion of local democracy and decentralisation, LGAZ is looked upon by local authorities and other stakeholders for information on local government and decentralization to inform decision making. Under the third Outcome area, the project is supporting LGAZ to establish a one-stop -shop/help desk to provide information and advisory services under its research function on issues pertaining to local government generally and decentralization in particular. Research on key topics on the current decentralization process will be commissioned to guide local authorities in the implementation of the decentralized functions.

Most Local Authorities in Zambia are grappling with meeting their service delivery and other recently decentralized mandates due to inadequate resources. While the Government, through the Ministry of Finance is committed to disbursing the Local Government Equalization Fund (LGEF) to all Local Authorities in Zambia, this is hardly adequate to meet the numerous mandates of Councils. Consequently, Local Authorities are expected to generate and collect own source revenue to supplement the LGEF and meet their mandates. The proposed study therefore is intended to provide local authorities with practical strategies on how they can enhance their own source revenue which will result in an autonomous and adequately resourced system of local government for sustainable development.

### **Objectives of the Assignment**

Under the overall guidance of the Project Manager, the Consultant will work closely with the project implementation team to achieve the objective below:

To undertake a research on *Strengthening Local Government Own Source Revenue in Zambia*.

### **2. Scope of Work**

The Consultant will undertake a study on practical strategies that can be employed by local authorities to strengthen their own source revenue. Specifically, the research will seek to cover, among other things the following areas:

- a A review of existing policies and legislation that support Local Authorities to generate and collect own source revenue
- b An assessment of Local Authorities' revenue collection methods to identify their efficiency and effectiveness
- c An outline of factors that enable or inhibit Local Authorities to collect own source revenue
- d A recommendation of practical strategies that can be employed to improve Local Authorities own source revenue

### **3. Key Deliverables**

The consultant will be required to provide the following outputs during the execution of the assignment

1. Inception report detailing the proposed methodology and agreed workplan submitted within 5 days from the date of signing the Contract,
2. Draft research report
3. Final consolidated research report after integrating ELGCD Project Implementation and Stakeholders comments in Hard and soft copy on CD in both MS Word and PDF Format.

### **4. Implementation timeframe**

The consultancy shall be undertaken over a period of nine (9) days that will start running from the date of signing the consultancy agreement.

Appendix 2: References

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Appendix 3: Comparison Draft Government IFA – Rating Bill provisions

Legend: In green: Major improvements with Rating Bill in line with Government IFA; in yellow: not in line

No.	Government IFA	Rating Bill	Rating Act
1	Simplification of the valuation methodology by <b>moving to relative mass valuation</b> to improve the transparency and 'explicability' to ratepayers which can encourage a higher degree of voluntary compliance.	Section 20 (1) and (2) Section 5 (4) new district – rating authority Section 32 (g) inclusion of omitted property Section 37 Tribunal ruling within 30 days of the hearing Section 39 Tribunal costs to be funded from Parliam. Appropriations Part II old (4) deleted	No provision, many administrative bottlenecks hampering swift Valuation Roll approval
2	Allow <b>non-government Valuation Department valuation surveyors</b> to produce rating valuation rolls.	Section 3 (1) – (3)	Only MLG GVD surveyors
3	Govt to formulate Standard Operating Procedures ( <b>SOPs</b> ) for property valuation, along with other rating administrative procedures	No SOP provision, but main procedural bottlenecks are addressed, details likely to be defined in the Rating Act Regulations	Currently MLG without a set of published SOP systems, guidelines and procedures
4	Inclusion of <b>collection and enforcement provisions</b> in the Rating Act such as late payment, interest, options to use tax liens/encumbrances/caveats on property titles consistent with the VAT and Income Tax legislation and the design of incentives, sanctions, and penalties.	Section 4 (2) (a) – (d) Section 5 (4) Section 24, Duty to pay Section 27 ( <b>unclear</b> ) Section 41 Section 25 Recovery of rates	Not any late payment penalty and/or interest on delinquent payments
5	Expanding coverage by lifting <b>exemptions</b> on certain properties, e.g. <ul style="list-style-type: none"> <li>- Mining equipment and properties operating under a Mining Lease through the Ministry of Mines</li> <li>- Large-scale commercial farms</li> <li>- LAs to have the power to provide partial remission of rates to large-scale farms who may provide community infrastructure and other positive externalities.</li> <li>-</li> </ul>	Not excluded from exemptions  Not excluded from exemptions Section 23 (4) limited to 25% General possibility of remission request	Exemptions in Section 6 (2) (a) – (k)
6	Clarify that valuation rolls are <b>valid for five (4) years from the date that the Valuation Tribunal</b> validates the valuation roll.	Section 8 (3) 5 years or longer periods Part II Definition of time of valuation = date of appointment of valuation surveyor	Valuation roll is valid for 5 years from the time the council contracted the Valuation Surveyor to prepare the valuation roll

No.	Government IFA	Rating Bill	Rating Act
7	Amend the Rating Act to clarify machinery & equipment as 'rateable' for <b>mining properties</b>	Not covered	Unclear
8	Property <b>liability</b> to be defined as on the owner, occupant and/or beneficiary.	Part I Definition of property, leaseholder etc. Section 6 (b)	On the property owner hence rates can only be levied on properties which were surveyed and have issued deeds under the Lands Act.
9	Properties for which property <b>owners cannot be properly identified</b> shall be removed from the valuation roll and shall not be liable for rates.	Not found	Rates only payable by property owners holding a title deed
10	Properties which have provisional letters by the council shall not be liable for rates.	Not found	Unclear
11	LAs will be given discretion, with accountability, to choose the <b>rate poundage for property rates</b> within specified limits set by the CG. Poundage rates will be <b>indexed by inflation</b> to maintain the real value of the property rates revenues.	No limits, no inflation indexation	Not included
12	Grants in Lieu of Rates will be made mandatory ('Shall', not 'may') but with a poundage rate set at about 80% (or 50%) of the commercial/industrial property poundage.	Section 20 (4) but still 'may' instead of 'shall'. No poundage rates	Unclear



*Appendix 4: IFA Revenue Source Allocation*

- (i) Central Government will retain responsibility for international trade taxes, VAT, the personal and corporate income taxes, natural resource taxes and major excises.
- (ii) Excises (selective sales taxes) currently collected by Central Government will be shared by both government levels, with those at the LG level applied to tax bases with relatively low mobility and with less ability for tax exporting (e.g., hotel rooms, entertainment, restaurants, etc.)
- (iii) LGs will be given revenue bases with lower mobility and those with stronger benefit linkages to location-specific local services, such as those taxes on properties and other less mobile revenue bases often collected through levies, fees and charges.
- (iv) Revenue bases such as those on mining, natural resources and game parks will be administered at the Central Government with the revenues shared with LGs based on agreed formula.

Source: (Cabinet Office, 2017, pp. 7-8)



**Research on Strengthening Local Government Own Source Revenue in Zambia**

Appendix 5: Chongwe District Council 2010 – 2011 Revenues Collected

SN	Source	2010		2011		2012	
		Revenue	% Revenue	Revenue	% Revenue	Revenue	% Revenue
	<b>OSR</b>	<b>5,320,474,040</b>	<b>78.25%</b>	<b>5,375,701,052</b>	<b>78.42%</b>	<b>4,241,223,154</b>	<b>62.83%</b>
1	Abattoir /Meat Inspection Fees		0.00%	141,603,125	2.07%	102,363,000	1.52%
2	Affidavits		0.00%	4,981,500	0.07%	2,130,000	0.03%
3	Banners and Billboards	398,708,770	5.86%	411,090,910	6.00%	124,868,980	1.85%
4	Base Station/Mast Levy	170,000,000	2.50%	210,019,553	3.06%	319,400,000	4.73%
5	Building Plan Inspection		0.00%	6,000,000	0.09%	6,051,400	0.09%
6	Bus Stop Fees	20,620,000	0.30%	20,807,000	0.30%	19,470,000	0.29%
7	Engineering Reports	6,450,000	0.09%		0.00%		0.00%
8	Exhibition of Commercial		0.00%	2,000,000	0.03%	943,000	0.01%
9	Extension of Business Hours		0.00%		0.00%	250,000	0.00%
10	Fire Charges	11,910,000	0.18%	72,657,500	1.06%	67,361,000	1.00%
11	Health Reports	17,437,500	0.26%	17,330,000	0.25%	24,334,000	0.36%
12	Herbalist Permit		0.00%	20,000	0.00%	225,000	0.00%
13	Hire of Chamber	2,781,000	0.04%	1,345,000	0.02%	640,000	0.01%
14	House Rentals	180,000	0.00%		0.00%	7,410,000	0.11%
15	Lease of Council Properties	121,017,128	1.78%		0.00%	57,120,238	0.85%
16	Lease of Council Transport		0.00%	1,395,000	0.02%	2,705,000	0.04%
17	Levies	733,085,030	10.78%	1,025,896,048	14.97%	1,174,493,338	17.40%
18	Licenses	70,651,310	1.04%	193,077,955	2.82%	174,996,480	2.59%
19	Market Fees	13,748,200	0.20%	27,607,400	0.40%	30,911,000	0.46%
20	Notice Board Adverts		0.00%		0.00%	80,000	0.00%
21	Notice of Marriage		0.00%	860,000	0.01%	80,000	0.00%
22	Office Rentals	50,642,000	0.74%	70,497,134	1.03%		0.00%
23	Other Income	541,436,879	7.96%	2,706,500	0.04%	103,340,980	1.53%
24	Owners Rates	357,553,064	5.26%	990,814,790	14.45%	1,054,685,380	15.62%
25	Pan Handling Fees	165,650,000	2.44%	119,312,500	1.74%	102,089,040	1.51%



SN	Source	2010		2011		2012	
		Revenue	% Revenue	Revenue	% Revenue	Revenue	% Revenue
26	Personal Levy	164,387,209	2.42%	130,226,537	1.90%	131,034,618	1.94%
27	Plot Service Charges	1,388,100,000	20.41%	1,887,087,600	27.53%	695,596,700	10.31%
28	Refuse Charges	3,740,000	0.06%	15,925,000	0.23%	17,913,000	0.27%
29	Registration of Clubs and Societies		0.00%	9,210,000	0.13%	7,131,000	0.11%
30	Sale of Forms	1,082,375,950	15.92%	13,230,000	0.19%	13,600,000	0.20%
	<b>Transfer</b>	<b>1,479,036,519</b>	<b>21.75%</b>	<b>1,479,036,519</b>	<b>21.58%</b>	<b>2,508,789,529</b>	<b>37.17%</b>
31	GRZ Grants	1,479,036,519	21.75%	1,479,036,519	21.58%	2,508,789,529	37.17%
	<b>Grand Total</b>	<b>6,799,510,559</b>	<b>100.00%</b>	<b>6,854,737,571</b>	<b>100.00%</b>	<b>6,750,012,683</b>	<b>100.00%</b>



Appendix 6: Chongwe 2017 OSR Collections - Pareto Ranking

SN	Source	Amount	% of Total	Top 20% Sources	Cumulative %
1	OWNERS' RATES: Industrial/Commercial	3,086,240	25.71%		25.71%
2	LEVIES: Birds levy	1,196,081	9.96%		35.67%
3	CHARGES: Service Charges-Residential plots	922,500	7.68%		43.35%
4	LEVIES: Business levy	728,291	6.07%		49.42%
5	CHARGES: Service Charges-Industrial plots	694,250	5.78%		55.20%
6	OWNERS' RATES: Residential	603,179	5.02%		60.23%
7	LEVIES: Crop Levy	551,660	4.60%		64.82%
8	PERMITS: Fire certificate	454,564	3.79%		68.61%
9	FEES & CHARGES: Abattoir/meet inspection fees	414,098	3.45%		72.06%
10	OTHER INCOME: Other income	381,426	3.18%		75.24%
11	LEVIES: Livestock levy	305,993	2.55%		77.78%
12	FEES & CHARGES: Communication mast levy	305,000	2.54%		80.33%
13	FEES & CHARGES: Billboards and banners	244,312	2.04%		82.36%
14	FEES & CHARGES: Rentals/lease of Council's properties	237,340	1.98%		84.34%
15	CHARGES: Other Charges	230,024	1.92%		86.25%
16	FEES & CHARGES: Plan scrutiny fees	228,554	1.90%		88.16%
17	LEVIES: Charcoal levy	199,427	1.66%		89.82%
18	LOCAL TAXES: Personal levy	169,939	1.42%		91.23%
19	DEBTORS: Other Debtors	158,392	1.32%		92.55%
20	LEVIES: Sand levy	134,235	1.12%		93.67%
21	FEES & CHARGES: Market fees	125,865	1.05%		94.72%
22	PERMITS: Health permits	95,075	0.79%		95.51%
23	FEES & CHARGES: Rentals from Houses	90,300	0.75%		96.26%
24	PERMITS: Transportation of opaque	76,705	0.64%		96.90%
25	LEVIES: Pole levy	67,655	0.56%		97.47%
26	FEES & CHARGES: Application forms fees	38,334	0.32%		97.79%
27	FEES & CHARGES: Refuse disposal	37,536	0.31%		98.10%
28	FEES & CHARGES: Lease of council transport	33,262	0.28%		98.38%
29	FEES & CHARGES: Bus station fees	27,965	0.23%		98.61%
30	FEES & CHARGES: Parking fees	26,792	0.22%		98.83%
31	LICENCES: Firearm and ammunition licence	25,699	0.21%		99.05%
32	LICENCES: Liquor Licence	21,031	0.18%		99.22%
33	LICENCES: Restaurant license	12,204	0.10%		99.32%
34	FEES & CHARGES: Other fees and charges	10,896	0.09%		99.41%
35	FEES & CHARGES: Building inspection-fees	10,712	0.09%		99.50%
36	PERMITS: Other permits	9,972	0.08%		99.59%
37	OWNERS' RATES: Mining/Plant	9,529	0.08%		99.66%
38	FEES & CHARGES: Penalties	6,265	0.05%		99.72%
39	PERMITS: Extension of business hours permits	5,400	0.04%		99.76%
40	FEES & CHARGES: Registration of clubs and societies	4,655	0.04%		99.80%
41	FEES & CHARGES: Change of premises use	4,170	0.03%		99.84%
42	LEVIES: Other levies	2,840	0.02%		99.86%
43	LICENCES: Dog license	2,560	0.02%		99.88%



44	FEES & CHARGES: Affidavit fees	2,537	0.02%		99.90%
45	LICENCES: stall licence	2,400	0.02%		99.92%
46	FEES & CHARGES: Container/Ntemba fees	2,365	0.02%		99.94%
47	FEES & CHARGES: change of ownership of plot	2,200	0.02%		99.96%
48	FEES & CHARGES: Notice of marriage fees	2,160	0.02%		99.98%
49	PERMITS: Herbalist permit	1,080	0.01%		99.99%
50	FEES & CHARGES: Hire of Halls	650	0.01%		99.99%
51	LICENCES: Occupancy license	548	0.00%		100.00%
52	FEES & CHARGES: Others	365	0.00%		100.00%
53	FEES & CHARGES: Exhibitions for commercial & non-commercial	60	0.00%		100.00%
54	FEES & CHARGES: Notice board advert fees	20	0.00%		100.00%
55	PERMITS: Nursery, pre school permits	-	0.00%		100.00%
56	LICENCES: Other license	-	0.00%		100.00%
57	CHARGES: Premium plot - commercial	-	0.00%		100.00%
58	OTHER INCOME: Service Interest on investments	-	0.00%		100.00%
<b>Grand Total</b>		<b>12,005,312</b>	<b>100.00%</b>		



69. (1) A council may, make by-laws imposing all or any of the following levies: Imposition of levies
- (a) a levy on leviable persons owning or occupying property or premises situated within the area of the council;
  - (b) a levy on leviable persons carrying on a business, trade or occupation within the area of the council;
  - (c) a levy on the purchase or sale of a commodity within the area of the council.
- (2) By-laws imposing a levy may-
- (a) make different provision with respect to different classes of property or premises, different classes of businesses, trade or occupations and different classes of commodities;
  - (b) make provision for-
    - (i) specifying the manner and times at which and the persons by whom a levy shall be paid and collected;
    - (ii) exemptions from a levy;
    - (iii) suspending a levy, in whole or in part.
- (3) The proceeds of a levy shall accrue to the council. (4) The amount of any levy which is not paid shall be recoverable by the council as a civil debt.

*Appendix 8: Property Tax Recommendations – Extract from 2 report*

Councils themselves the beneficiaries of the valuation roll process have some capacity constraints in respect of:

- Managing the process. The process is a list of procedures which must be taken in some sequence laid down in the Rating Act and outlined in
- The institutional memories of some councils are such that these procedures are not familiar. Some key operatives in some councils have never seen the Rating Act, let alone read it.

This procedure is so legalistic that there is no way it can be successfully implemented by council, even with the help of GVD, without council’s knowledge of the Rating Act.

- Assertiveness. In the valuation roll process, the councils pay; whether directly, through government or through co-operating partners, for the service of revaluing their areas. However, given that GVD is part of the parent Ministry, some councils surrender control of the process to the ‘Consultant’ to their detriment.

A council that accepts that a main valuation roll should just include new property and a sample of old property, as happened in Kalomo,

- Cost Benefit Analysis: Most councils are not able to clearly quantify the possible benefits of expenditure on the valuation roll process tending to view it as consumption expenditure. However from data available from the councils that have quantified the cost and benefits among the councils visited, the average internal rate of return of expenditure on a valuation roll more than 100% in its first 5 years of implementation when the expenditure, both for the valuation and for the tribunal sitting, taken a year apart, is compared to the incremental cash flow arising out of the use of a new valuation roll, see table Table 7-1 compiled from the field trip reports.

Such a rate of return, especially considering that the incremental cash would go on in perpetuity, is not available even in commerce where internal rate of returns are in the range of 35% to 75%.

For Lusaka for instance, given conservative K 4.8 billion potential additional cash per year, the opportunity cost of delay in implementing the roll is K 400 per month, more than K10 million per day.

- Planning: Given the high return on investment, and a five-year revaluation period, it should be possible for councils to create sinking funds for paying for the valuations when they become due. This is only possible however if they view the cost of the valuation process as a capital (investment) cost that generates additional income in the future, rather than operating (consumption) expenditure.

This five-year planning scheme has not been identified as a strategic investment opportunity and therefore every 5 years councils begin to scrounge for resources to pay for the valuation in the year that it is being undertaken. Similar magnitudes expenditures on other capital activities, such as purchase of motor vehicles, seems somehow easier to finance.

*Table 7-1: Return on Investment – Valuation Expenditure*

	Lusaka	Chipata	Petauke	Kitwe
Year 0	-K2,400,000,000	-K86,300,000	-K33,000,000	-K500,000,000
Year 1	-K64,000,000	-K43,000,000	-K26,200,000	-K40,000,000
Year 2	K4,853,000,000	K141,000,000	K71,000,000	K6,104,789,666
Year 3	K4,853,000,000	K141,000,000	K71,000,000	K6,104,789,666
Year 4	K4,853,000,000	K141,000,000	K71,000,000	K6,104,789,666
Year 5	K4,853,000,000	K141,000,000	K71,000,000	K6,104,789,666
Year 6	K4,853,000,000	K141,000,000	K71,000,000	K6,104,789,666
IRR	<b>98%</b>	<b>69%</b>	<b>79%</b>	<b>299%</b>
Ave IRR	<b>136%</b>			

Both the councils and GVD do not seem to be overly concerned with the time-value of money. For instance while the Valuation Surveyor for Lusaka City Council was appointed and the funding for the process obtained, K 1.5 billion short term commercial loan, before the beginning of this consultancy, now, almost eight weeks later, the work has not started as the parties are still ‘negotiating’ fees.

Given the K10 million per day opportunity cost and the debt charges now being paid for the borrowing, such lengthy ‘negotiations’ would seem to cost more than they would save.



*Appendix 9: Rapid Assessment of LA Revenue Potentials*

Most international experiences recommend the following steps:

1. As a first step, the major LA revenue sources should be listed and from this list identify those revenues whose potential can be estimated from others. E.g. Land/property tax payers often also have to pay certain user fees (e.g. refuse collection). Economic activities occur in commercial plots which are subject to land/property tax.
2. Often there is useful information in other ministries or institutions for assessing revenue potential. E.g. census, economic statistics, statistics on land sales, educational and health statistics, property and commercial registers, farmers' associations, chambers of commerce, information existing on enterprises providing massive services like electricity, water or telephone, information from urban planning, information from the national tax authority, etc.

Examples for the most important information which can be gathered:

- Average cost of housing (values or rentals paid, etc.)
- Amount of agricultural production in an area
- Municipal properties
- Amount of livestock
- Amount of personal property (cars, livestock)
- Average cost of house construction
- Number of houses /households (for service delivery)
- Number of business (perhaps by the types that form the base for taxation example: number of hotels)
- Production of the extraction industries
- Wood commercialisation

Two figures are always important: 1. Population (for calculation of per capita figures) - the number of adult persons and employed/self employed persons is also often of interest and 2. Inflation - inflation rates are needed for adjusting existing data, prices and tax levels to maintain real values.

3. Regarding land tax there are other methods which allow estimation of LA revenue potential:

a) Baseline projection:

**Step 1** calculation of growth in number of properties: assuming that the growth rate of population or some other proxy, can be used for estimating the growth rate of taxable properties. Basis is the average price of the properties on an existing tax roll. Calculation of the average value of the existing properties.

**Step 2** calculation of the new quantity and the new value considering yearly inflation.

**Step 3** adjustments for special areas and / or properties can be made, to account for their deviation from the norm.

From former tax rolls we can estimate the non-residential areas %, if all property is taxed.

- b) Estimating the number of houses: if there is a census on how many people are living in a household and the total number of inhabitants of a LA is known.

For certain areas with comparable constructions the average price for a square meter can be calculated. Often there is also information about the average size of houses.

From former tax rolls it is possible to estimate the non-residential areas % if all property is taxed.

- c) When the property tax is based on a rental value<sup>11</sup>:

Parameters: Total household income, average % of income used to pay house rents. Total households in the LA which rent their accommodation. Average members of a household.

3. If information does not exist to estimate the largest potential revenue sources for a LA, the LA itself may organise a data collection exercise or even a census (house to house, using a format to get information for taxation purposes). It is important that the data analysis methodology is considered as the data collection format is designed so as not to collect data that will never be analysed or used. However, the data collected must be processed by computer so that it can be done quickly and this will also allow much more effective analysis to be undertaken on the processed data.

A combination of the mentioned methods had also been used.

<sup>11</sup> In some countries property valuation is based on average rental levels. This is feasible only when there is an active rental market from which objective rental values can be deduced e.g. larger urban areas.

A knowledge product of the Enhancing Local Government Capacity for Development Project, a project funded by the European Union and UK Department for International Development and implemented by the Local Government Association of Zambia, Ministry of Local Government and the Commonwealth Local Government Forum.

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