IHS SINPA PAPERS

SINPA NUMBER 30 / 1999 ZAMBIA

INSTITUTE FOR HOUSING AND URBAN DEVELOPMENT STUDIES
ROTTERDAM / THE NETHERLANDS

Widening the resource base of Kitwe City council

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SINPA Research Report

WIDENING THE RESOURCE BASE OF KITWE CITY COUNCIL

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April 1999

SINPA Research Report Series - Zambia

Institute for Housing and Urban Development Studies

SUPPORT FOR IMPLEMENTATION OF NATIONAL PLANS OF ACTION

IHS - SINPA
Rotterdam, the Netherlands

SINPA

'Support to the implementation of the National Plan of Action (Zambia)'

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ACKNOWLEDGEMENTS

The consultants would like to thank the Councillors and officials, especially those of the finance department, of the Kitwe City Council for their support in preparing this report. We also appreciate support from the School of Built Environment at the Copperbelt University.

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22 April 1999

EXECUTIVE SUMMARY

The financing of local governments in Zambia has undergone a number of negative changes in recent decades. Financial transfers from national governments have ceased and a number of ill-founded declarations, policy and legislative changes have been made. These include zero-rating land, transferring from municipalities to central government and parastatal agencies of revenue-generating functions, the transfer of functions to local governments without financial support and the sale of council houses to tenants at below market rates. The situation is made worse by the generally poor performance of the national economy. The combined effect has been to seriously undermine the financial viability of all Zambian local governments, and the Kitwe City Council (KCC). In Kitwe's case, the decline and restructuring of the industrial base on the Copperbelt has further reduced the revenue potential of the city. In response, KCC has identified enhancing the city's revenue base as its top strategic priority. Support under the SINPA programme was mobilised in this regard.

Written accounts for KCC are available for the period prior to 1995 and audited accounts for the period prior to 1988. The following recent indicators were established from records assembled for 1998:

General Rate Fund Deficit:	K 1 billion to K 1.9 billion
Deficit on Commercial Undertakings:	K 62 million
Surplus on Water and Sewage:	K 381 million
Overdraft:	K 234 million at 55%
Proportion of Expenditure on Salaries and Establishment:	90%
Capital Expenditure:	Rehabilitation of Buchi Hall and purchase of vehicles

In addition, proceeds from the sale of houses are being used to fund salaries and other recurrent expenditure. These indicators show the impact that government policies and economic decline are having on KCC.

The report recommends measures by KCC in four main areas:

1) *Financial Management – Improve financial management systems to enable councillors and managers to readily obtain accurate financial information and manage financial resources better.*

    - Revision to the budget format and process.
    - Establishment of an Internal Audit function reporting to an Audit Sub-committee of the Finance and General Purpose Committee.
    - Actions to bring written and audited accounts up to date.
    - Procurement procedure improvements.
    - Installation of an integrated financial management system on a PC-based network.

2) *Revenue – Focus on improving collection of revenues from the existing main revenue sources.*

- Cost / benefit analyses of all revenue sources.
- Establishment of a performance-based Revenue Unit reporting to a Revenue Sub-committee of the Finance and General Purpose Committee.
- Improving the integrity of the property Roll and personal levy databases.
- Enhancement of billing systems including introducing protocols for action against defaulters.
- Action against arrears using external debt collectors.
- Improvements to asset management system.
- Amendment of leases on council-owned bus stations, shops and kiosks.
- Revision of the market levy system.
- System changes in the issuing of licenses and certificates.

3) *Expenditure – Downsizing and cost-saving measures to bring expenditure in line with actual income.*

- Improved debt management.
- Disposal of non-core functions and outsourcing of certain core functions.
- Disposal of loss-making commercial undertakings.
- Revision to personnel conditions of service.
- Establishment of downsizing funding measures.
- Participation of the private and community sectors in service financing and delivery.
- Better control over council motor vehicles.

4) *Financial Management Capacity – Building capacity of councillors and managers in financial management.*

- Financial management training for councillors.
- Financial management training for managers and staff.
- Training in revenue collection systems and procedures.
- Training in expenditure control.

SECTION 1: BACKGROUND

1. National context of the Project

Zambia with its 10.7 million inhabitants underwent several social and economic changes in the last ten years that make the country today one of the least developed countries in the world. The underdeveloped primary sector and the unbalanced secondary sector have made Zambia vulnerable to the market forces that were unleashed with globalisation. The secondary sector is dominated by the mining industry in the Copperbelt region and the decline in copper prices in the late 1980s weakened the country's economy considerably. Under the pressures of IMF, the World Bank and the European Union, Zambia adopted a Structural Adjustment Programme in the early 1990s. Ten year later it was concluded that the programme is 'biting hard without bringing the benefits hoped for' (EU Courier, July-August 1999, p.19). Poverty, unemployment, malnutrition and bad health are on the increase. The emergence of HIV/AIDS has also hit hard in Zambia, so much so that the average life expectancy at birth reduced with ten years to 42.7 years (Economic Intelligence Unit, UNDP/World Bank). WHO also reported in a recent bulletin that because of the virus Zambia has about 1 million orphans.

Public services, among them health care, are becoming too expensive and are, effectively, on the decline as the result of reduced public revenues. The Government Zambia has embarked on different strategies that could help out to overcome the current deficiencies. A Public Sector Reform Programme was initiated in 1996, public services are reorganised to allow the private sector to provide public services, and privatisation of the copper mines was set in. The government has initiated a decentralisation process. A Decentralisation Policy Bill was prepared in 1996. The Bill will delegate several public services to lower tiers of government, among them the municipal councils. The Bill has not been passed by the Parliament yet.

Kitwe with 700,000 inhabitants and in the heart of Copperbelt region faces all the social and economic ails of the country. The decline in demand for copper and the fall of copper prices has resulted in severe unemployment and a dwindling business that was erstwhile supporting the mines. The income of the Council fell too, as the yield of property taxes fell and the fiscal support of the central government disappeared. The current financial capacity allows the Kitwe Council allows just paying salaries. Maintenance, let alone, new capital works were barely undertaken for the past 10 years. The quality of services in Kitwe deteriorated which effected the payment discipline of its citizens negatively.

In this context, the SINPA project would meet a tremendous challenge to find opportunities to turn around the downward spiral of misery. In March 1997, a project formulation workshop laid out the objectives and components of the SINPA project. The outcome is reflected in the SINPA Project Document submitted to NEDA. The participants to the workshop included all major stakeholders and possible partner capacity building institutions, including the Copperbelt University. The four objectives of the SINPA-Zambia project were agreed and these are[1]:

1. Kitwe City Council staff has improved capacity in strategic areas;
2. Capacity building institutions run activities relevant to local government and its partners;
3. Linkages are improved between the demand and supply of capacity building services;
4. Relevant experiences are documented and accessible.

In addition to these objectives, the overall aim of the SINPA-Zambia project is to evolve and institutionalise an approach to encourage and support local implementation of policy and activities within the framework of the National Plan of Action[2]. The experiences developed within the context of Kitwe will form the basis for the development of this approach.

A number of meetings and workshops were held in 1997 and 1998 with the parties involved in the Project and these identified the following activities to be initiated in 1999 (Annual Plan SINPA-Zambia 1999):

O. Orientation workshop for councillors of Kitwe
A. Manpower development for agreed core activities
B. Widen the resource base of the KCC
C. Improve responsiveness of the council to needs of the stakeholders
D. Stimulating economic development in Kitwe
E. Refuse collection

2. This Report

In the context of financially unsupported decentralisation, all Zambian local governments are under pressure to better exploit their current sources of revenue, where possible to develop additional sources of revenue, and to optimise the use of those financial resources they do have. In this light, the KCC has identified ‘enhancement of the Council’s revenue base’ as its highest objective. The SINPA programme sets out terms of reference for support in this regard, as follows:

i) An analysis of current revenue collection systems.
ii) Suggested steps to increase the current revenue base.
iii) Exploration of additional sources of revenue within the current legislation.
iv) An analysis of the current accounting system for expenditures.
v) Suggested saving measures in current operations and expenditures.
vi) Suggested organisational and manpower requirements, reform and measures, including incentives.
vii) Formulation of a manpower capacity building strategy.

[1] See Project Proposal for SINPA, September 1997, p. 5-3 and Plan of Operations, September 1998, p. 12
[2] See Project Proposal for SINPA, September 1997, p. 5-8, and Plan of Operations, September 1998, p. 34

The above terms of reference have been arranged into four logical groups:

1) Financial position and financial management (iv).

2) Measures for improving revenue (i, ii and iii).

3) Measures for reducing expenditure (v).

4) Building financial management capacity (vi and vii).

This report, especially items dealing with proposed institutional changes, should be read in conjunction with SINPA Activity A: 'Manpower Development for Agreed Core Activities'.

3. Overview of Local Government Finance in Zambia

The financing of councils in Zambia has been adversely affected by various changes in central government policies. A report prepared by the Local Government Association of Zambia[3] provides a detailed history of the evolution of local government finances from 1960.

The 1960 to 1972 period was one of the most successful for Zambian local governments. During this period, they received grants from national government based on a predetermined formula and were also responsible for electricity distribution.

The 1973 to 1980 period saw the withdrawal of housing unit grants and a gradual reduction of all other grants. Land was declared to have no value by the Government of the Republic of Zambia (GRZ) thereby undermining local governments' property rates tax. Electricity distribution was withdrawn from local governments.

1981 to 1990 saw the introduction of the Local Administration Act (1980) which decentralised the system of local government. Many functions performed by GRZ were assigned to local governments without corresponding resources. In addition to these unfunded mandates, local governments embarked on a number of loss-making commercial ventures.

From 1991, several measures have been introduced with detrimental effects on local government finances. These include:

- The withdrawal of GRZ funding to local governments after the 1992 Budget Speech.
- The transfer of responsibilities for motor vehicle licensing from local governments to the Road Traffic Commission.
- A large increase in the number of properties exempted from property taxation by the new Rating Act of 1997.
- The sale of council-owned houses by GRZ to sitting tenants at below market values, reducing both the assets and rental incomes of councils.

[3] Local Government Association of Zambia, 1998: Position Paper on Financing Local Government in Zambia, Kitwe.

- A GRZ instruction prohibiting the eviction of rent or payment defaulters from council houses.

These measures have dramatically cut into local government own-revenue bases and have had a catastrophic impact on their financial viability. Removing GRZ financial transfers have also placed serious questions around the decentralisation programme and is counter to international trends (see table below).

Table 1: Percentage of Local Revenue from National Governments

	UK	**Denmark**	**Sweden**	**Germany**	**US**	**Netherlands**
Year	1981	1982		1981	1983	1981
%	60.3	55.5	25.5	39.5	54.9	84.7

Source: Local Government Association of Zambia.

It is noted that 'the most common solution to financing decentralisation has been to increase local government share in nationally collected taxes through automatic revenue sharing. This approach allows central governments to retain control of tax rates and tax administration, while ensuring local authorities a higher flow of revenue'.[4] As is seen in the instance of Kitwe, the impact of decentralisation without such central financial support has immediate implications for overall taxation levels, general public sector revenues and the viability of municipal delivery. Faced with increasing delivery responsibilities and limited revenue raising capability, the response of Kitwe has been to double taxation levels. The combined impact is expected to be a narrowing of the city's revenue base and an overall decrease in available financial resources.

[4] George E. Peterson: The Urban Age: Urban Finance Issue, September 1995, page3.

SECTION 2: CURRENT SITUATION

1. Financial Position and Financial Management

Several variances in available financial figures for KCC were noted. The most recent audited figures are for 1988, while unaudited accounts are available up to 1995. Financial actuals are not readily available. Figures used in the report were obtained during frequent interactions with the finance and computer sections.

1.1. Financial Position of the KCC

Kitwe is experiencing trying economic conditions caused by the poor performance of the national economy and the restructuring of the city's principal industrial base. The financial position of the KCC is directly affected by this situation.

In 1999, the KCC operated the following main funds – general rate fund, commercial fund (taverns and zoo kiosk), low-income housing fund, water and sewage fund and sale of houses fund.

The KCC's financial position over the past five years is difficult to determine. Printouts of actuals of income and expenditure on the general rate fund in 1998, obtained from the finance department's computer section, are provided below.

Table 2: Income and Expenditure on the General Rate Fund of the KCC, 1998

Source of Income	**1998**
Rates	1,767,483,973
Rent	425,759,991
Sundries	360,741,551
Fees and Charges	184,892,338
Personal Levy	7,926,641
License Fees	90,893,495
Hire Charges	19,627,663
Development Charges	40,980,285
Total Income	2,898,305,937
Expenditure	
Employees	(2,426,398,794)
Premises	(160,737,462)
Supplies	(53,876,437)
Plant and Transport	(95,962,373)
Establishment	(252,574,930)
Miscellaneous	(148,246,306)
Capital Contributions	(5,000,000)
Total Expenditure	(3,142,796,302)
Surplus / (Deficit)	(244,490,365)

The 1998 receipts and payments printout on the main KCC funds are outlined on the table below. Given the KCC's negative net investments and poor performance in debt collection, this is likely to provide a closer indication of the real financial situation of KCC.

Table 3: Receipts and Payments of KCC Funds, 1998 (K '000)

	Expected to Remain with KCC			Expected to be Sold / Corporatised				
	General Rate Fund	*Low Cost Housing*	*Sub-Total*	*Liquor Undertaking*	*Water and Sewage*	*Sale of Houses*	*Sub-Total*	*Grand Total*
Receipts	1,533,400	470,300	2,003,700	1,350,900	2,417,600	1,198,000	4,966,500	6,970,200
Payments	(3,005,200)	0	(3,005,200)	(1,413,300)	(2,036,400)	(900,800)	(4,350,500)	(7,355,700)
Surplus / (Deficit)	(1,471,800)	470,300	(1,001,500)	(62,400)	381,200	297,200	616,000	(385,500)

Source: KCC Computer Centre

Based on 1998 receipts and payments, the general rate fund was in K 1.5 billion deficit, the K 1.3 billion commercial fund was in K 62 million deficit, while the K 2.4 billion water and sewage fund returned a K 381 million surplus. KCC used K 600 million of the K 1.2 billion proceeds from the sale of houses to fund salaries, and K 300 million to fund other recurrent expenditures, including outstanding taxes to the Zambian Revenue Authority. This is serious action for a municipality to take, underlining the difficult financial position of KCC. Interest accrued on surplus funds is also used for recurrent expenditure in the general rate fund. At the same time, the council runs a substantial overdraft. Taking recurrent expenditure funded by asset sales into account, and surpluses on low cost housing, the general rate fund deficit is likely to be closer to K 1.9 billion.

Due to high inflation, the KCC cleared various outstanding principal debts during recent years. KCC currently has two major loans. First, a US$ 27 million ADB loan for rehabilitation of the water and sewage services (repaying at 7% over 25 years with an 8-year grace period). Second, a K 4.4 billion World Bank loan for restructuring of the water supply system. Overdraft facilities are being used as 'rolling borrowing', with outstanding overdrafts in April 1999 of K 234 million, serviced at 55%. Overdrafts have risen significantly over the past five years.

Virtually no on-budget capital expenditure has taken place in recent years. The main capital expenditure has been the purchase of KCC vehicles.

In March 1999, KCC introduced substantial increases to taxes, levies and charges (e.g. a 100% rates increase). This was done with the intention of reducing the budgeted deficit on the general rate fund for 1999 from K 3.3 billion to K 0.4 billion.

1.2. Management Accounting

The KCC's financial year runs from January to December. Under section 39(1) of the Local Government Act (22 of 1991), councils must submit estimates of revenues and expenditure (called the Revenue Estimates) to the Minister of Local Government and Housing for approval at least 60 days before the commencement of the financial year. KCC Financial Standing Orders lay out budgeting procedures in more detail. The 1999 Revenue Estimates were approved by KCC only in March 1999. Approval of budgets during the actual year to which they relate is reportedly a standard occurrence.

The Council's budget for 1999 is summarised in the table below:

Table 4: KCC 1999 Budget Summary of the General Rate Fund

	1998 Estimate	*1998 Revised*	*1999 Estimate*
Income	5,885,694,000	3,394,032,610	6,832,125,000
Expenditure			
Employees	(3,006,943,000)	(2,784,666,086)	(3,294,332,500)
Premises	(356,558,000)	(191,635,564)	(316,992,500)
Supplies and Services	(1,461,605,000)	(696,778,550)	(1,293,588,750)
Plant and Machinery	(836,032,000)	(606,363,706)	(712,575,000)
Establishment	(432,110,000)	(370,741,292)	(412,652,500)
Miscellaneous	(200,200,000)	(200,040,705)	(282,323,250)
Capital Contributions	0	0	(1,002,500,000)
Total	(6,293,448,000)	(4,850,225,903)	(7,314,964,500)
Surplus / (Deficit)	(407,754,000)	(1,456,193,293)	(482,839,500)

Source: Summarised from KCC 1999 Revenue and Capital Estimates

The budget is prepared on an incremental basis. Each item of expenditure is simply increased from the previous year's estimate to give the budget for that item for the coming year. The large variances between the 1998 estimates and 1998 revised estimates (compiled at 10 months) are worth noting. Further variance between 1998 revised estimates and 1998 actuals is expected. The consequence is that budgetary planning bears little relationship to the actual income and expenditure of KCC.

Variances between what is budgeted and what is actually spent also occur across standard categories. The analysis for 1993 indicates substantial variance. More recent budget estimates continue this trend.

Table 5: Variance Analysis by Expenditure Category

Category	Estimate 1993	Actual 1993	Est. %	Act %	Change
Employees	953,791,292	831,964,124	25.7%	31.3%	5.6%
Establishment	129,364,548	224,020,112	3.5%	8.4%	4.9%
Premises	635,447,309	500,102,658	17.1%	18.8%	1.7%
Miscellaneous	126,055,000	53,295,353	3.4%	2.0%	-1.4%
Debt Charges	164,956,492	33,052,238	4.4%	1.2%	-3.2%
Transport & Plant	609,783,770	337,985,009	16.4%	12.7%	-3.7%
Supplies & Services	1,087,898,000	676,437,996	29.3%	25.5%	-3.9%
Total	3,707,296,411	2,656,857,490			

Source: KCC Financial Statements

1.3. Financial Accounting

Section 43(3) of the Local Government Act requires the treasurer (director of finance) to present the council accounts to the council within six months of the close of the financial year. Accounts should also be subject to inspection by councillors at any time. By the mid-1990s, KCC was more than 5 years behind in writing its accounts. External accountants were appointed who in 1997 brought the council to 2 years behind. Since then, the council has again slipped to 4 years behind. The latest written accounts are for 1995. KCC is attempting to write the 1996 accounts by June 1999.

Accounting statements and records maintained by the finance department include balance sheets, income and expenditure statements, budgetary control statements, bank reconciliations, billing statements, statements of deposits and advances, and cashbooks.

The current accounting system (and all billing systems) is highly dependent on a centralised computer section (antiquated IBM mainframe on 1st generation Cobol). Data from the various sections of the department (e.g. valuation, revenue, accounts, expenditure control) are prepared by hand, batched within the section and sent for input by data clerks. Preparing reports involves lengthy interactions with non-financial computer staff. New programmes are written for each report requested. User departments reported that the centralised computer section seldom prepares reports timeously or in line with department requirements. Restructuring and modernising the computer section should be a high priority.

Procurement and Storage

Currently, most procurement is undertaken by the KCC Buyer and in some instances by line departments. Tenders are advertised only for contract work. All other purchases, irrespective of amount, are awarded on the basis of three quotations. Current procurement practices contravene the KCC's Financial Standing Orders in several respects. This includes the requirement for competitive tendering for purchases exceeding K 500,000. Instances are reported of the failure to follow proper tender procedures in the disposal and leasing of council properties. In particular, such decisions are reported to be made directly by council without the recommendations of the tender committee.

The stores are located at the mechanical workshop approximately 3 kilometres from the KCC main office. Departments make numerous individual trips to collect stores. It was observed that the KCC Buyer is also in charge of the council stores. The combining of the buying, receiving, custody and issuing functions in one officer is an internal control weakness.

1.4. Auditing

Internal Audit

The Financial Management Standing Orders provide for the establishment of an internal audit section in KCC. The internal audit section is headed by a Chief Internal Auditor, who is equivalent to a Chief Accountant (four positions below the post of director). The most qualified auditor in the section has an accounting diploma. Most others have secondary school education. The internal audit section previously reported to the director of finance, but has recently been moved to report to the Town Clerk.

An examination of the reports generated by the internal audit section indicates that their scope of work is narrow, with efforts concentrated mostly on routine issues. For example, the computer section has never been audited by the internal audit.

External Audit

The Minister of Local Government and Housing is required to appoint an external auditor of a council's accounts for each financial year. The latest audit report for the

KCC is for the 1988 financial year. The audit was undertaken by the Auditor General's office. A private audit firm is currently auditing the 1989 accounts and have issued a draft disclaimer of opinion as a result of the most basic underlying accounting records not being available.

The consultants were informed that the 1990 to 1995 accounts, though ready, cannot be audited as the Minister has not appointed an auditor.

1.5. Assessment

With several years of accounts unprepared and an outdated computer system it is difficult for KCC councillors and management to gain an understanding of the real financial position of the council. Similarly, strategic and management decisions on the use of funds are likely to be untransparent and possibly misguided. Several inadequacies in internal financial controls were noted.

2. Revenue

2.1. Sources of Revenue – General Rate Fund

Special purpose and discretionary grants from GRZ are no longer received, and there should be little expectation of their imminent resumption.

In 1999, KCC budgeted for an estimated income of K 6.8 billion on its general rate fund from 34 different sources (see appendices). Of these, the largest 9 sources contribute some 90% of revenue.

Table 6: Major Sources of Estimated Revenue to the General Rate Fund, 1999

	Revised 1998 Estimate	*1999 Estimate*	*% of total Estimated Revenue*
Rates	1,356,645,000	3,985,246,000	58
House Rents	455,735,000	630,679,000	9
Market Levy	101,666,000	480,000,000	7
Shop Rents	11,021,000	332,150,000	5
License Fees	24,800,000	225,000,000	3
Personal Levy	278,000,000	200,000,000	3
Interest Receivable	216,000,000	140,000,000	2
Sundries	392,312,280	112,000,000	2
Lease of Council Properties	0	90,000,000	1
25 Other Sources	557,853,330	637,050,000	9
Total	3,394,032,610	6,832,125,000	100

***Source**: KCC Computer Section*

Property Rates

The total rateable value of properties in Kitwe is K 273.499 billion. The Master Roll was prepared in 1996. The most recent Supplementary Roll for 1998 has recently been completed and will be used for the second period of 1999. Only buildings are valued as land was declared by GRZ in 1975 to have 'no value'. The new Rating Act of 1997 provides for the valuation of land and buildings. A small valuation section (4 persons) of the finance department prepares the Roll. All entries and amendments to the Roll are done by data entry clerks in the computer section where the Roll is electronically maintained. There is no co-ordination between the valuation section and the engineering department on the issuing of building certificates and rezonings.

In 1998, property rates were 0.5% p.a. for residential and 1.5% p.a. for commercial and industrial properties. In 1999, KCC increased all property taxes by 100% to 1% and 3% respectively. Property rates are charged twice per annum. Billing is done over the initial months of the period. There are numerous legal exemptions from property rates and a large number of exemptions identified on the master Roll that do not conform to the legislation. These were reported to be by ‘error’. Payments are made to cashiers at the KCC’s main office.

House Rents and Sale of Houses

Rents for council-owned houses are well below market rates. Two recent actions by GRZ have greatly aggravated the situation. In 1996, GRZ instructed councils to sell all council houses to tenants at well below market rates (some for as little as K 10,000 (US$ 4)). KCC has used some of the proceeds from the sale of these houses for recurrent expenditure. GRZ further issued a decree preventing the eviction of rental or purchase defaulters. Housing rentals are billed monthly. Payments are made to cashiers at the KCC’s main office and a cashier at the Buchi Office.

Market Levy, Shop Rents, License Fees and Leasing of Bus Stations

The market levy is charged daily for market stands, lock-up stands and market warehouses. Daily charges after a 50% increase in 1999 are around K 1,000. Cashiers located at the market collect market levies daily. A market master from the department of housing and social services is also present at the market. Ad hoc changes to market levies by the market masters and cashiers and weaknesses in actual collection and transfer of levies to the KCC are reported. Shop rents are for formal retail properties owned by the council in Kitwe. Shop rentals are billed monthly and payment is made at the KCC’s main office. Trade and manufacturing licenses are the main component of license fees.

KCC leases most of its bus stations to the United Transport and Taxi Association and one to a private operator. Rental amounts are billed monthly and payments are made to the KCC’s main office. Prior to 1999, rentals for bus stations had not been adjusted for many years.

Personal Levy

The personal levy is 1% p.a. (set by GRZ) applicable to persons with over a minimum income of K 300,000 p.a., with a maximum contribution of K 15,000 p.a. The capped maximum individual amount prevents progression of the personal levy tax. Ideally, GRZ should remove the cap. The personal levy is collected from employers against recorded employees (principally from pay rolls). Assessors from the revenue section open accounts for companies and record debits after establishing the number of employees and the amounts they are supposed to pay. Weaknesses in opening accounts for all companies and accurately recording the number of employees are noted. The 1998 assessment opened 560 accounts worth K 327 million. Retrenchments from ZCCM and other parastatals will reduce the number of registered companies and employees. Billing is done monthly and payment is made at the

KCC's main office. This is potentially a stable revenue source as employers deduct the tax from employee's salaries.

Others

The remaining revenue sources are minor or ad hoc. In most cases, licenses and certificates (building, fire, health, etc.) are issued by line departments against receipts issued by KCC cashiers. There have been numerous reports of line departments failing to obtain KCC receipts before issuing licences and certificates and weaknesses in collecting and transferring money to the cashiers. The finance department is attempting to have revenue officials accompany line departments on all site inspections.

2.2. Sources of Revenue – Commercial Fund and Water and Sewage Fund

The main sources of revenue for the commercial fund are the zoo kiosk and the council taverns. K 1.3 billion was raised from these sources in 1998, although the commercial section runs in significant deficit.

Receipts of K 2.4 billion to the water and sewage fund in 1998 were based principally on metered and flat rate (fixed charge) tariff systems. Fixed charges are made for sewage. As the flat rate for water is comparatively low (commercial K 80,000 p.m., industrial K 146,000), a high incidence of deliberate damage to meters is reported. Water and sewage tariffs are required to increase by 10% p.a. from 1997 in terms of the ADB loan. In 1999, KCC introduced a further 10% increase, lifting water tariffs by 20%. Billing is done monthly and is approximately three months behind. Arrears are considerable and are reportedly growing after tariff increases. An investigation of the water tariff structure is underway.

2.3. Revenue Collection Performance

The Rating Act provides a large number of statutory exemptions from property rates. In addition, however, there appear to be weaknesses with the integrity of the Valuation Roll and other taxation databases. For example, an initial review of the K 23.8 billion exemptions from property taxes found K 1.2 billion worth of properties that do not appear to qualify for exemption in terms of the Act.

Actual collection of revenues against estimated revenue potential is substantially low. Less than half of property rates and standing charges are collected. About half of personal levies are collected (see table below).

Table 7: Revenue Collection Performance on Property Rates and Personal Levies, 1998

	Annual Revenue Estimate	*Recorded Annual Collection*	*Collection Performance (%)*
Property Rates	3,428,312,000	902,000,000	26
Personal Levy	380,000,000	189,600,000	50
Total	3,808,312,000	1,091,600,000	29

Source: KCC Finance Department (1998 Budget and 1998 Receipts and Payments).

The administrative cost of collection cannot easily be calculated as costs are spread across several sections and budget codes. It is recommended that a cost of collection analysis should be undertaken to assess whether most of the smaller revenue sources are worth collecting. The use of budget codes for revenue collection should be standardised across sections and/or brought under a single cost centre.

Arrears on all sources of revenues are considerable. At the end of 1998, the main revenue sources to the general rate fund were in over K 4.6 billion arrears (see table below). The outstanding arrears are almost three times larger than the revenue actually collected from these sources in 1998. There are reports of undue interference from within and outside the KCC in the treatment of arrears.

Table 8: Arrears on the Main Revenue Sources of the General Rate Fund, 1998

	Arrears (K millions)
Rates	2,022
House Rents (Selfpayers)	1,761
Standing Charges	394
House Rents (General)	371
Personal Levy	81
Total	4,631

Source: KCC Finance Department

Arrears on water and sewage accounts stand at K 13.9 billion. Annual tariff increases might have led to a rapid growth in these arrears as, on average, the income of consumers has not changed at the same rate.

2.4. Assessment

The following issues are noted:

- Poor economic conditions are being experienced in Kitwe, affecting the overall revenue potential of the city.
- KCC already has a large number of taxes, levies, fees and charges (some 34 revenue sources).
- Rentals and leases are well below market rates.
- The integrity of taxation Rolls and databases is questionable.
- Collection rates from revenue sources are low.
- Arrears are high and growing, and few systematic measures are taken to redress the situation.

This suggests that KCC is not effectively taxing its current revenue base. In this context, introduction of new taxes, levies or charges will lack credibility and are unlikely to bring in more revenue than they will cost to administer. Raising taxation, levies or charges alone (as has been done in 1999) is likely to lead to fewer (i.e. more and more people will not pay) people contributing more (i.e. the smaller number who do pay will pay a lot) of the revenue base. Overall, this may in fact reduce and not increase the revenue accruing to KCC.

3. Expenditure

KCC is responsible for the provision of a range of services, including social services, housing, refuse collection, road maintenance, water and sewage and public health. In addition, KCC undertakes several commercial activities.

3.1. Expenditure Trends

Due to the unavailability of accounts, expenditure trends for KCC since 1995 cannot be assembled. The draft accounts for the period 1990 to 1995 put the proportion of the budget spent on administration (salaries, establishment and premises) in a range from 53 to 84%. The draft 1998 actuals indicate administration expenditure of around 90% suggesting a new platform. The 1998 salary bill alone is 92% of revenues collected in that year. This has occurred because while revenues have declined over recent years, staffing levels have remained fairly constant. This means that after paying salaries, very little remains for delivering and operating services. The resulting underemployment was observed in the mechanical workshop where numerous key KCC vehicles have been standing for periods of up to two years due to a lack of funds for repairs and replacement parts.

Table 9: Proportional Expenditure by Standard Category, 1990-1995, 1998 (%)

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1998*
Employees	45	67	41	31	37	40	77
Establishment	9	11	6	8	15	6	8
Premises	4	5	13	19	18	7	5
Total	58	84	60	59	69	53	90

Source: KCC Finance Department Abstracts of Accounts.

Left unchecked, the increase in salaries as a proportion of income places KCC in a ‘Catch-22’ situation. More and more income is used on salaries leaving less and less money to pay for the retrenchment of excess staff. This is likely to be why proceeds from the sale of houses have been used recently to pay salaries. Simultaneously, as less money is spent on visible delivery, collecting revenues becomes more difficult. One solution is to prioritise the funding of retrenchments over all other spending for several years, thereby reducing salary contributions and freeing up resources. This may also be funded by savings and one-off revenues from the disposal of non-core functions, such as the commercial undertakings.

3.2. Commercial Undertakings

The table below indicates that the commercial undertakings of KCC (such as taverns, hotels, ranches, tailoring shops, etc.) have been consistent loss-makers. It is likely that there are further hidden costs (such as administrative time and expenses carried in other sections) that would make the real losses of these activities greater. This is consistent with international trends where local governments almost never manage to operate commercial ventures profitably. Such activities are also not core activities for a municipality.

It is noted that KCC has leased out a number of commercial activities previously managed by the council. The main remaining activities under KCC management are a number of opaque beer taverns. KCC should dispose of these activities as rapidly as possible.

Table 10: Income and Expenditure of KCC Commercial Undertakings, 1990-1995, 1998 (K '000)

	1990	*1991*	*1992*	*1993*	*1994**	*1995*	*1998*
Income	37,375	70,269	184,725	520,374	594,214	858,620	1,350,900
Expenditure	(49,185)	(72,499)	(211,242)	(609,826)	(406,859)	(931,176)	(1,413,300)
Surplus / (Deficit)	(11,809)	(2,230)	(26,516)	(89,451)	187,355	(72,555)	(62,400)

* Possible anomaly due to record errors or disposal of commercial venture/s.
Source: KCC Finance Department Abstracts of Accounts.

3.3. Capital Expenditure

On-budget capital expenditure in recent years has tapered off. In 1998, of 23 projects identified on the capital budget, only the upgrading of Buchi Hall and the purchase of vehicles was undertaken. Falling real revenues and high salary costs will continue to squeeze capital expenditure. Off-budget capital expenditure occurs in the water and sewage section under the ADB and World Bank loans.

Of concern is that the reduction of capital spending (i.e. visible delivery) will hamper efforts to collect revenues.

3.4. Assessment

Expenditure in KCC has not reduced in line with the decrease in revenues. Salaries and establishment represent a growing proportion of expenditure, at the cost of capital expenditure and service delivery. Without downsizing, this pattern will continue. Considerable expenditure is also made on non-core activities. Most of these are run at a loss, contributing further to the overall deficit position of KCC.

4. Financial Management Capacity

An Acting Director employed on contract heads the finance department. The department has seven main sections, namely Revenue, Accountancy, Expenditure Control, Establishment, Computers, Valuation and Commercial. The staff establishment and filled posts are recorded under SINPA Activity A: 'Manpower Development for Agreed Core Activities'. Qualifications of finance department staff involved in financial management activities are outlined below.

Table 11: Highest Qualifications of Finance Department Personnel Active in Financial Management

Level of Education	Number
Professional Qualification	1
Postgraduate	0
Graduate	5
Diploma / Certificate	26
Secondary School	13
Primary School	16

Source: Survey.

The general qualification level of personnel involved in financial management is moderate. Overall, general financial management personnel would benefit considerably from further training and capacity building. Staff turnover is reported to be high. Frequent rotation of staff between sections, including for key positions such as head of accountancy, head of revenue and so on, is reported. Staff appear to be demotivated.

Most councillors have little or no training or experience in municipal financial management.

SECTION 3: RECOMMENDED MEASURES

KCC faces a difficult financial situation. If KCC is to continue to function and to deliver core services, strong action will be required under the leadership of the council. The measures recommended below are actions that the consultants believe KCC should undertake to:

- Improve general financial management and planning.
- Increase revenues.
- Reduce and target expenditure.
- Build general financial management capacity.

For each of these issues, **Key Focus Areas** are identified. These are areas where it is recommended that KCC focus their efforts to have maximum impact. For each key focus area, several **Recommended Actions** are made. Recommended actions suggest how improvements can be made in each key focus area.

1. Recommended Measures for Improving Financial Management and Planning

Ensuring accurate financial planning and adequate control of the utilisation of resources is a legal responsibility and priority for KCC. Without accurate and readily available financial information, it is difficult for councillors to exert their oversight responsibilities on council activities and spending. It is also difficult for council managers to plan and manage their activities. Effective internal control over the use of funds is needed to ensure that spending takes place responsibly and within approved budgets. Control is needed to safeguard the use of public resources. Finally, having accurate and credible financial figures and systems is critical to enable KCC to access external donor and loan support in the future.

It is critical for the basic systems of financial planning, management and control to operate effectively. This will allow the council to understand and enjoy oversight on council activities. The following measures to improve these systems are recommended.

Key Focus Area	Recommended Actions
1. Budget	1. Bring budget and budget process fully in line with the Financial Standing Orders. 2. Set target date for the completion of future year budgets as end-November of the current financial year. 3. Prepare a simplified and standard format memorandum to accompany the budget to council (providing a transparent summary of the budget and its implications). 4. Conduct a zero-based budget every five years, starting with the preparation of the 2000 budget. 5. Start preparation of the 2000 budget using zero-based budgeting techniques by start-July 1999. Target for completion is end-November 1999.

Key Focus Area	Recommended Actions
	6. Reduce variances between budget estimates and actuals. Balance 2000 budget against actual (not estimated) income collected in 1999. 7. Prepare a three-year budget projection for the 2000 budget in line with the KCC strategic plan. Outline revenue and expenditure implications of the 2000 budget on future three years. 8. Include a three-year projection to the capital budget. 9. Use a standard priority rating system to prioritise capital expenditure.
2. Internal Audit Function and FGPC	1. Establish the Internal Audit as a full department headed at a director level. 2. Establish an Audit Sub-committee of the Finance and General Purpose Committee (FGPC) to which the Internal Audit should report. 3. Include outside audit professionals in, including a representative from the Zambian Institute of Chartered Accountants, in the Audit Sub-committee. Check legal provisions of the Local Government Act in this regard. 4. The head of the Internal Audit should prepare and present to the Audit Sub-committee an annual audit management plan, including a schedule of audit activities and investigations for the year. 5. The internal audit director to be in attendance at full council and other relevant committees of council meetings.
3. Accounts	1. Prepare a time schedule for brining accounts up-to-date for presentation to FGPC. Target should be to have KCC up to date with accounts by mid-2000. 2. Create a separate team or a separate time allocation of staff members for maintaining current accounts versus for preparing historic accounts. 3. Obtain external assistance for historical accounts if necessary. 4. Prepare annual accounts preparation schedule in line with the requirements of the Local Government Act (22 of 1991) i.e. accounts to be presented to council within six months of the end of the financial year. 5. Seek authority from the Minister to appoint an external audit firm to undertake audits from 1990 to 1995, and to undertake audits as catch-up accounts years are completed.
4. Procurement	1. Ensure that proper procurement procedures and tender committees as determined in the Financial Standing Orders are used in all procurement and disposal, including the leasing of council properties. 2. Separate the buying from the receiving, storage and issuing of stores. 3. Relocate the stores from the mechanical workshop in Second Class Area to the KCC main building.

Key Focus Area	Recommended Actions
	4. Review the bank signatory panels, placing only department of finance management level staff on Panel A and administrative management level staff on Panel B.
5. Computer System	1. Urgently replace the current mainframe computer system with a modern PC-based network and suitable integrated financial management system, operating initially for relevant sections of the finance department. 2. Prepare a terms of reference for a financial user-needs analysis of the Accounts, Revenue, Expenditure Control, Establishment and Valuation sections of the finance department. 3. Appoint an appropriate consultant to undertake the financial user-needs analysis. 4. Assess whether the Open Accounts system provided and supported by the World Bank satisfies the results of the financial user-needs analysis. 5. If not, contact the programme manager for the World Bank supported programme and assess whether it can be extended to meet KCC needs. 6. If not, advertise for initial quotations for installation of an appropriate system to meet financial user-needs. 7. Prioritise the installation of the integrated financial management system in the standard priority rating system for capital projects.

2. Recommended Measures for Increasing Revenues

KCC can increase the revenue it receives by expanding its revenue base (i.e. by taxing more people and companies or by introducing new forms of taxes) or by improving collection from its existing revenue base (i.e. by making sure that everyone who is supposed to pay taxes does so). As noted previously, with 34 taxes, levies and charges used already and with the local economy declining, there is little realistic potential for introducing new taxes. Many of the existing smaller sources of revenue may in fact cost more to collect than the money they bring in. The statistics show, however, that there are many people who are not paying the taxes they are meant to and that KCC is collecting a relatively small portion of what it should be from existing tax payers. KCC should therefore prioritise improving the collection of revenues from its main revenue sources (e.g. property rates, personal levies, standing charges).

In brief, KCC should ensure that everyone who is liable to pay taxes is on the billing databases, that the billing system is strengthened and that strong and systematic action is taken against people who do not pay. A useful strategy for enforcement is to combine charges of taxes such as rates with charges for services such as water, itemised separately on a single bill. Failure to pay rates then results in water being disconnected. However, in the case of KCC where water is to be corporatised, this avenue may not be feasible. The following measures in this regard are recommended.

Key Focus Area	Recommended Actions
1. Cost / Benefit of Collecting Each Revenue	1. Prepare a schedule indicating the actual income derived from each of the 34 revenue sources and the cost of collection (i.e. staff, premises, stationery, computer time, etc.). 2. Standardise these costs into specific budget codes or sections within departments so that ongoing comparisons can easily be done. Bring main revenues under one cost centre. 3. In principle, where income from a revenue source is less than its cost and the situation cannot easily be reversed, then the activity should be terminated. This is the case unless the activity is needed for the public good, or the fee or charge partially offsets costs that would be incurred in any event. 4. Conduct the evaluation outlined above at six monthly periods.
2. Revenue Unit and FCGPC	1. Establish a Revenue Unit headed by a senior person employed on a performance-based three-year contract (reviewed annually). 2. Establish a Revenue Sub-committee of the FGPC to which the head of the Revenue Unit should report. 3. Revenue collection targets should be set for each main revenue source by the head of the Revenue Unit in consultation with the Director of Finance and the Revenue Sub-committee. The head of the Revenue Unit should report monthly to the Revenue Sub-committee on performance against targets. 4. A monthly report on revenue collection per Ward should be prepared and presented to the Revenue Sub-committee. 5. The capacity of the Legal Services section should be increased and a close relationship established with the revenue Unit. 6. The capacity of the internal debt collectors should be increased appropriately. 7. Outside debt collectors should be used for historical arrears and for future arrears if action by the internal debt collectors is unsuccessful (see below). 8. Strengthen relevant inspectorate and enforcement sections. 9. Ward Councillors should undertake a civic awareness campaign.
3. Property Rates Valuation Roll	1. Issue standard format for engineering department to provide monthly list to the Valuation Section of building certificates passed and approved township establishment, subdivisions and rezonings. 2. Check Roll for coding errors (i.e. industrial / commercial properties coded as residential. Pass errors identified to billing and issue bill for arrears bill. 3. Check all properties recorded on the property exemption list against the exemption provisions of the Rating Act. Pass errors identified to billing and issue bill for arrears bill. 4. Initiate preparation of the new Main Roll (including valuation of *land* and buildings) by June 1999. Begin using the recent Supplementary Roll in the interim. 5. Computerise valuation section and place responsibility for

Key Focus Area	Recommended Actions
	computer maintenance of the Roll with the Valuation Section (see previous recommendations for computer system).
4. Property Rates Billing System	1. Prepare bills to be issued within 1 month the start of the period to which they relate. 2. Issue bills with specific payment due dates (e.g. 31 January 1999). 3. Together with the Legal and other relevant sections, prepare a protocol for the treatment of non-payment consistent with the powers provided in the Rating Act, Local Government Act and common law. 4. Establish a team leader within the appropriate section responsible for each phase of the protocol, for example: • Issuing 30 day notices • Issuing notice of distress • Attachment of properties • Transfer arrears at end of protocol to debt collectors (see below). 5. Team leaders should prepare monthly reports on performance in terms of each phase of the protocol for presentation to the Revenue Unit (see below).
5. Property Rates Arrears	1. Introduce interest charges on arrears (based on inflation + penalty). 2. Prepare and maintain monthly debt arrears book and prepare monthly performance reports for presentation to the Revenue Unit (see below). 3. Contract external debt collectors on a performance basis to recover existing and future arrears. Monthly performance reports to be presented to Revenue Unit. 4. Agreements for arrears settlements to be concluded with council and managed by external debt collectors.
6. Personal Levy Database	1. Record actual employee names in personal levy database. 2. Ensure that all reports by assessors are entered as debits against the company account. 3. Issues standard format for the legal section to provide monthly lists to the Revenue section on trade and manufacturing licences issued. 4. Liase with Zambia Revenue Authority to cross check personal levy database against personal and company tax records. 5. Check personal levy database against Register of Companies. 6. Proper co-ordination with the legal services department against issued trade licences. 7. Computerise Revenue Section and place responsibility for computer maintenance of the personal levy database with the Revenue Section (see previous recommendations for computer system).
7. Personal Levy	1. Together with the Legal and other relevant sections, prepare a

Key Focus Area	Recommended Actions
Billing System	protocol for the treatment of non-payment consistent with the powers provided in the Personal Levy Act, Local Government Act and common law. 2. Introduce protocol as outlined for property rates billing system (see above).
8. Personal Levy Arrears	1. Introduce interest charges on arrears (based on inflation + penalty). 2. Prepare and maintain monthly debt arrears book and prepare monthly performance reports for presentation to the Revenue Unit (see below). 3. Contract external debt collectors on a performance basis to recover existing and future arrears. Monthly performance reports to be presented to Revenue Unit. 4. Agreements for arrears settlements to be concluded with council and managed by external debt collectors.
9. Standing Charges – Asset Management	1. Cross check the Asset Register against leases. Identify and act on inconsistencies. 2. Prepare and maintain central Asset Management Book, including copies of all leases and schedule of terms and payments. 3. Prepare monthly report for Revenue Unit.
10. Standing Charges -- Arrears	1. Introduce interest charges on arrears (inflation + penalty). 2. Issue final notices for repeat payment defaults. 3. Cancel lease and re-advertise if there is no or partial response within notice period.
11. Standing Charges – Bus Stations	1. Review all leases. 2. Raise rental amounts to market values. Payment should be a flat rental amount not contingent on the profitability of the lessee. 3. Reduce periods on leases to one year. 4. Make annual renewal contingent on lessee's payment record. 5. Re-advertise if lessee has failed to pay or is in arrears.
12. Standing Charges – Market Levies	1. Conduct a full investigation of the management, levy and levy collection systems used for the markets. 2. Investigate the option of leasing a whole market or large market sections annually at flat rate rentals to private / community market managers (with performance criteria for maintenance of the markets). This could substantially reduce administrative costs to council and introduce a predictable / enforceable income stream. 3. The same procedures as for bus station leases would apply (see above).
13. Standing Charges -- Other	1. Investigate similar approaches as outlined for bus stations and markets for smaller revenue areas such as public toilets, shops and the abattoir.

Key Focus Area	Recommended Actions
14. Issuing of Licenses	1. In conjunction with Internal Audit, revise system of issuing of certificates and licenses by line departments against receipts issued by cashiers. Possibly channel the issuing of the final certificate / license through the cashier against prior payment record.
15. Water Tariffs	1. Raise water flat rates for non-metered industrial and commercial properties to 20% over the average metered rates for commercial and industrial properties respectively.

3. Recommended Measures for Reducing Expenditure

In the context of reducing revenues, the need to manage and reduce expenditure becomes critical. As noted previously, KCC also faces a squeeze between salaries, delivery and the costs of downsizing. The following measures to reduce expenditure are therefore recommended.

Key Focus Area	Recommended Actions
1. Debt	1. The council overdraft facilities are being used as rolling borrowing. Currently they stand at K234 million. Interest is charged at 55%. 2. This is the most expensive form of borrowing. Rolling overdrafts should be ceased. This is possible through improved arrears recovery and general expenditure and staff reductions.
3. Disposal of Non-Core Functions and Outsourcing of Certain Core Functions	1. From a financial perspective, all non core and a number of core functions should be disposed of or outsourced. These include: • Taverns • Refuse collection • Public Toilets • Mechanical Workshop • Security services • Maintenance and cleaning of council properties • Pest control • Fire services • Road maintenance 2. Opportunities for the outsourcing of remaining core functions should be explored (for example fire services).
4. Commercial Undertakings and Other Loss-Making Activities	1. The council taverns should be disposed of as rapidly as possible through sale or lease. 2. Other non-core activities identified in SINPA A and especially non-core loss-makers should be disposed of as rapidly as possible.
5. Personnel Expenditure and Downsizing	1. Review current terms of employment, specifically: • Social holiday provisions for management should be reviewed with a view to being eliminated. • Free medical and dental services for the parents should be

Key Focus Area	Recommended Actions
	reviewed with a view to being eliminated. • Free medical and dental services for employees and their immediate families should be modified to a cost-sharing scheme such as PAMSCO. • Burial and funeral benefits that include parents of the employees should be modified to exclude the parents of the employee. 2. Reduce staff to those required to undertake core functions, including through out-sourcing following the recommendations of SINPA Activity A. 3. Prepare a downsizing schedule in line with the recommendations of SINPA Activity A. Phase downsizing to coincide with revenues becoming available to a retrenchment fund (see below). 4. Establish a retrenchment fund from savings from the disposal of non-core functions and revenues from the sale or lease of any related assets. (For example, disposal or leasing of taverns could provide a substantial contribution to a retrenchment fund).
6. Social Service Provisions	1. Investigate the participation of the private and community sectors in the financing and delivery of social services as per the recommendations of SINPA Activity A.
7. Motor Vehicle Expenses	1. Tighten control on the use of vehicles and the maintenance of logbooks. Penalise supervisors and offenders. 2. Assess to whom all council vehicles are currently allocated. Maintain an allocation record. 3. Tighten the system of fuel entitlement. 4. Dispose of council vehicles within 4 to 5 years to reduce maintenance costs. 5. Below Town Clerk level, consider changing from the system of personal-to-holder vehicles to a vehicle allowance and loan system.

4. Recommended Measures for Building Financial Management Capacity

It is important that KCC builds a sustainable foundation of financial management capacity both of councillors, management and staff. New skills are also needed for new roles. For example, outsourcing implies a different role for the city council. Capacity building will be required in setting performance requirements, contracting out, contract management, and so on. A programme of financial management capacity building is recommended, focusing as much as possible on targeted on-the-job training, short seminars, workshops and courses. The following programme of training is recommended.

Key Financial Management Capacity Areas	Recommended Capacity Building Actions	Recipients
1. Councillor Financial Management	1. A general course on local government financial management for councillors.	Councillors
	2. A more intensive short course on local government financial management for councillors who are members of the FGPC.	FGPC
	3. Preparation of a handbook of financial management for councillors (based on KCC Financial Standing Orders).	Councillors
	4. Capital investment prioritising	Councillors
2. Financial Management for Staff	1. Workshop on the KCC Financial Standing Orders.	Middle & senior level staff
	2. Targeted financial management training for relevant personnel on:	
	2.1. Budgeting Procedures (including zero-based budgeting)	All dept's Senior Management
	2.2. Budgetary Control	Accts & dept'l managers
	2.3. Value for Money Assessments	Internal audit & dept'l managers
	2.4. Privatisation, Outsourcing and Delegation	All senior management
	2.5. Contract Management	Outsource managers
	2.6. Accounting Systems and Procedures	Accounts
	3. General Computer Skills Training	Finance dept
	4. Financial Computer Skills Training	Finance dept
	5. Capital Investment Appraisal	Senior management
3. Revenue Collection	1. Approaches to Billing	Revenue section
	2. Billing Systems and Procedures	Revenue section
	3. Revenue Collection Systems and Procedures	Revenue section
	4. Property Valuation	Valuation section and revenue sect
	5. Debt Collection and Control	Revenue section & legal services
4. Expenditure Control	1. Internal Controls in Councils	Accounts & internal audit
	2. Auditing Techniques	Internal audit
	3. Fraud and Investigation	Internal audit

Key Financial Management Capacity Areas	Recommended Capacity Building Actions	Recipients
	4. Computer Assisted Audit Techniques 5. Procurement and Stores Management 6. Tendering Procedures	Internal audit Procurement & internal audit Procurement, tender committee & internal audit

SECTION 4: CONCLUSION

KCC has correctly identified the enhancement of its revenue base as the top priority for the council. The support work conducted under the SINPA programme in this area has attempted to identify key areas in the KCC's current financial management, revenue collection, expenditure control and capacity where strategic action by the council will have the maximum positive impact. Recommendations of practical actions to be taken in each of these areas are also suggested. Finally, proposals for further support under SINPA to build the financial management capacity of KCC in this context are made.

Both KCC councillors and management have indicated their understanding of the difficult situation in which the council finds itself today. Accordingly, KCC is faced with a number of hard choices and financial decisions. In this context, strong leadership by the councillors and senior management of the council is essential. It is hoped that this report and the further support provided by the SINPA programme will assist in this important challenge.

SECTION 5: PROPOSED SINPA ACTIVITIES IN 1999-2000

2nd Quarter 1999

Presentation of report and recommendations to KCC	SINPA
Consideration of report and recommendations	KCC
Report and recommendation clarification (if requested)	SINPA
Decision-making and council resolutions	KCC

3rd Quarter 1999

Facilitated workshop on implementation	KCC, SINPA
Development of implementation plan	KCC
Schedule of training in line with implementation plan	KCC, SINPA
Municipal financial management training course for councillors	SINPA
Preparation of Financial Management Standing Orders handbook	KCC, SINPA

4th Quarter 1999

Implementation support	SINPA
Specialist courses in Financial Management for staff	SINPA
Mission visit, implementation review	KCC, SINPA
Facilitated training workshops with Internal Audit and Revenue Unit	KCC, SINPA
Setting implementation priorities for the year 2000	KCC

1st Half 2000

Implementation support	SINPA
Staff training in specialist areas	SINPA

2nd Half 2000

Mission visit, implementation review	KCC, SINPA
Implementation support	SINPA
Staff training in specialist areas	SINPA

APPENDICES

1. Persons Consulted

Mrs LJ Jere	Department of Finance
Mrs IT Mundia	Department of Legal Services
Mr TC Hakakata	Department of Finance
Mr T Kamwendo	Kitwe Chamber of Commerce
Mr T Chileshe	Department of Finance
Mr Promise Kaminsa	Department of Public Health
Mr N Yuyi	Rate and Rent Payers Association
Mr MB Mbaimbai	Department of Administration
Mr M Mbolela	Local Government Association of Zambia
Mr M Halweendo	Internal Audit
Mr L Simbeye	Department of Water and Sewage Services
Mr J Ngwata	Department of Engineering
Mr I Mwale	Department of Finance
Mr F Mwemba	Department of Finance
Mr E Kalunga	Department of Finance
Mr E Appel	Kitwe Chamber of Commerce
Mr DM Silondwa	Department of Water and Sewage Services
Mr D Bufumu	Department of Finance
Mr BM Waluzimba	Department of Engineering
Mr ASP Jere	Department of Water and Sewage Services
Mr AK Mwaba	Department of Water and Sewage Services
Mr A Choobe	Department of Housing and Social Services
Dr Matilda Simpungwe	Department of Public Health
Acting Head	Stores
Acting Head	Mechanical Workshop

2. Documents Used

- Draft Audit Report for Kitwe, 1989
- Kitwe City Council Abstracts of Accounts, 1990. 1991, 1992, 1993, 1994, 1995
- Kitwe City Council Conditions of Service for Local Government Officers, Divisions I, II, III and IV
- Kitwe City Council Conditions of Service for Non-Unionised Staff
- Kitwe City Council Revenue Estimates, 1995, 1996, 1997, 1998, 1999
- Kitwe City Council Strategic Plan, 1999-2003
- Kitwe District Council Financial Standing Orders.
- Local Government Act, 1991
- Local Government Association of Zambia: Position Paper on Financing Local Government in Zambia
- Local Government Association of Zambia, Final Report on the National Policy Seminar: Local Government in Zambia – Assessing Opportunities and Need, 1997
- Local Government Support Project, 6th Six-monthly and Final Report, 1997
- Personal Levy Act
- Rating Act, 1997
- Report on the Accounts of the Local Councils Presented to the National Assembly by Hon Bennie Mwiinga, MP Minister of Local Government and Housing, 1996
- SINPA Annual Plan, 1999-04-21 SINPA Workshop Proceedings, 1999

3. KCC Income Estimate on the General Rate Fund, 1999

KCC 1999 Estimate of Income					
By Maginitude	Estimate 1998	Rev. Est. 1998	Estimate 1999	% age	Cum % age
Rates	3,428,312,000	1,356,645,000	3,985,246,000	58.33%	58.33%
House Rent	569,382,000	455,735,000	630,679,000	9.23%	67.56%
Markert Levy	90,000,000	101,666,000	480,000,000	7.03%	74.59%
Shop Rents	-	11,021,000	332,150,000	4.86%	79.45%
Licence fees	-	24,800,000	225,000,000	3.29%	82.74%
Personal Levy	380,000,000	278,000,000	200,000,000	2.93%	85.67%
Interest Receivable	20,000,000	216,000,000	140,000,000	2.05%	87.72%
Sundries	440,600,000	392,312,280	112,000,000	1.64%	89.36%
Lease of Council Property	107,000,000	-	90,000,000	1.32%	90.68%
Hire Charges	9,100,000	7,666,330	85,000,000	1.24%	91.92%
Banners	-	21,680,000	72,000,000	1.05%	92.97%
Rent Kiosks	20,000,000	32,148,000	66,908,000	0.98%	93.95%
Refuse Removal	60,000,000	48,280,000	60,000,000	0.88%	94.83%
Hire of Hall & Chairs	-	-	55,067,000	0.81%	95.64%
Street Vending	-	48,800,000	50,000,000	0.73%	96.37%
Health Permits	-	16,800,000	46,800,000	0.68%	97.05%
Sale of Forms	-	-	45,000,000	0.66%	97.71%
Fees & Charges	419,000,000	111,066,000	34,900,000	0.51%	98.22%
Graves & Wreaths	-	3,840,000	27,000,000	0.40%	98.62%
Marriages	-	-	25,000,000	0.37%	98.98%
Plan Scrutiny Fees	-	9,610,000	16,000,000	0.23%	99.22%
Sundry Grants in Aid	20,000,000	-	10,000,000	0.15%	99.37%
Search Fees	36,000,000	8,468,000	6,000,000	0.09%	99.45%
Survey Fees	-	904,000	5,625,000	0.08%	99.54%
Sale of Plan Prints	-	834,000	5,250,000	0.08%	99.61%
Site Rent	10,000,000	-	5,000,000	0.07%	99.69%
Computer Fees	-	-	5,000,000	0.07%	99.76%
Hire of Premises	-	-	5,000,000	0.07%	99.83%
Course fees	3,500,000	2,861,000	3,500,000	0.05%	99.88%
Hire of Legal Services	-	3,000,000	3,000,000	0.04%	99.93%
Sale of Refuse Bins	-	-	2,000,000	0.03%	99.96%
Repairs Tenants	5,000,000	-	1,500,000	0.02%	99.98%
Registration Fees	5,000,000	896,000	1,500,000	0.02%	100.00%
GRZ Grants	262,800,000	241,000,000	-	0.00%	100.00%
	5,885,694,000	3,394,032,610	6,832,125,000	100%	

4. Case Study of the Delegation of a Core Function: Benoni Fire and Emergency Services

After the Benoni town Council took a decision to contract out its fire and emergency services, some people feared that the local authority would gradually lose control of this important operation. But the man who runs the private company, which took over the services, believes that the Council is in a better position than ever to demand the very best.

Anyone who believes that a local authority ends up losing control of a service, which has been contracted out to the private sector, will find a firm opponent in Stephen Barber. "We have the most closely policed fire service in the country," say's Barber, who heads the Benoni Fire and Emergency Services (BFES).

Five years ago, the BFES became the first privately operated company in South Africa tom provide fire and emergency services on behalf of the local authority. The five-year contract, under which BFES has operated, Barber say's lays down tough performance standards. The contract also imposes financial penalties when these are not met. And the presence of three city councillors on the company's 12-strong board ensures that the local authority keeps the BFES under a watchful eye.

"The councillors on the board are involved in the day-to-day running of the service. They have a closer involvement than in the past and they have their finger much more on the pause. No fire service is subjected to the levels of scrutiny that we are," Barber says. "Having operated as a public sector fire service and now like this, the BFES is subject to far greater monitoring. Before, we were treated like another municipal department."

The system the Benoni Town Council (BTC) implemented in Aril 1992, saw the local authority sell all its vehicles to the BFES. That generated R2,4 Million for the council and further income came the council's way from the rental of property to the new company. The council started off holding a 30% shareholding in BFES, but that has now decreased to 5% in compliance with the law.

At the time of the take-overs, the BFES employed 178 people in its fire and emergency services. The new company took on every single worker, with no loss of benefits. The staff complement has now risen to 200.They own 20% of the company's shares and have a representative on the board.

"There were two unions involved, the emergency service trade union and the other was a traditional municipal union," Barber says. "We made an offer of employment directly to each individual, with retention of benefits, which they accepted. That negated any requirement for a direct negotiation with the union at the time."

"I think that by and the large trade union movements are not overly enthusiastic about contracting out. They associate this with job losses, but in fact the opposite is true. The more efficient your operation is the more jobs will be created. In my opinion, job security is greater in the private sector at the moment. There is a very real risk that certain local authority may find themselves in a financial position where they have to make some very though decisions."

The financial position of the Benoni Council, at least, was significantly improved by the contracting out of the fire and emergency services. Conservative calculations predict the BTC will have saved more than R16 Million over the 5-year contract period.

That did not prevent the Benoni Council driving a hard bargain with the BFES when that contract came up for renewal at the end of last year. "We were put under a lot of pressure and the city council managed to negotiate for its self a very good fee structure," Barber say. Once again, He points, this proves that the local authority does not sacrifice power and influence by contacting out.

Over the past 5 years, though, the BFES has also flourished. The company's success has spawned 9 new companies in related fields, whose income streams flow into a new holding company called Fire and Emergency Services Holdings (FES).

The new operations includes Emergency Services Vehicles (Pty) LTD, which supplies emergency vehicles and equipment, and Harwil Engineering, which ,manufactures and maintains fire engines and equipment. Group turnover has increased from R10.7 Million in 1992 to a predicted R50 Million in the group's current financial year.

As a result of that growth, the FES group has created more than 100 new posts as well as several temporary positions. And that has given a focus to one of the most important areas of the BFES's work -- training new emergency service workers from disadvantaged communities.

"At the time we took over the services from the council we did not have a single non-white fire fighter," Barber says. "Half of the fire fighters in our expanded service are now non-white. We have put several hundred young men through programs that have made them employable."

Barber estimates contract services to local authorities like Benoni account for no more than 30% of the company's revenue. The rest is generated by taking advantage of commercial opportunities, like a contract secured to provide paramedic services to the air force of the United Arab Emirates.

Resumen en Espagnol

Ampliando la Base de Recursos de la Municipalidad de Kitwe

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Seminario SINPA

IHS, Rotterdam

19-21 de Septiembre de 2000

El financiamiento de los gobiernos locales en Zambia en las últimas décadas ha sido sujeto a varios cambios negativos. Se ha puesto fin a las transferencias del gobierno central, se han hecho varias declaraciones no bien pensadas, y se han efectuado cambios legales y políticos inadecuados. Los cambios incluyen: la exención de los terrenos de los impuestos, la transferencia de los poderes de recaudación de los gobiernos locales al gobierno central y las agencias para-estatales, la transferencia de funciones a los gobiernos locales sin el apoyo financiero correspondiente y la venta de casas de alquiler subvencionadas a sus ocupantes debajo de los niveles del mercado. Esta situación se agudiza por el pobre rendimiento general de la economía nacional. El efecto total ha sido la debilitación de la viabilidad financiera de todos los gobiernos locales de Zambia y de la Municipalidad de Kitwe. En el caso de Kitwe su capacidad de recaudación ha sido reducida aún más por la disminución y reestructuración de la base industrial del "cinturón de cobre". Ante esta situación, la Municipalidad ha identificado la ampliación de la base de recursos de la ciudad como su prioridad estratégica. En este marco fue solicitado el apoyo del Programa SINPA.

Cuentas escritas del gobierno municipal existen para el periodo hasta1995 y cuentas auditadas hasta 1988. Las cifras siguientes, sacadas de varias fuentes, se refieren al año 1998:

Déficit en la Cuenta de Contribuciones Generales:	K1 billón
Déficit de las Empresas Comerciales:	K62 millones
Superávit en las Actividades de Agua y Alcantarillado:	K381 millones
Sobregiro:	K 234 millones al 55%
Porcentaje de ingresos dedicados a los salarios	
y la planilla prevista:	90%
Gastos capitales:	Rehabilitación de Buchi Hall y la adquisición de vehículos.

Adicionalmente, se están utilizando los ingresos de la venta de casas de alquiler subvencionadas para pagar sueldos y otros gastos recurrentes. Las cifras arriba presentadas demuestran el impacto que las políticas gubernamentales y el deterioro económico tienen sobre la Municipalidad de Kitwe.

El informe hace recomendaciones en cuatro áreas principales:

1) Gestión Financiera – mejorar los sistemas de gestión financiera para que los concejales y gerentes puedan obtener información financiera fácilmente y manejar mejor los recursos financieros.

- Revisión del formato y proceso presupuestario.
- Establecimiento de una unidad de auditoría interna responsable ante un Sub-comité del Comité de Finanzas.
- Acciones para actualizar las cuentas escritas y auditadas.
- Mejoramiento de los procedimientos para adquisiciones.
- Montaje de un sistema de gestión financiera integrado sistematizado

2) Ingresos – enfocarse en mejorar la recaudación de las fuentes principales existentes.

- Análisis de costo-beneficio de todas las fuentes de ingresos.
- Establecimiento de una performance-based Unidad de Recaudaciones (evaluada según resultados) responsable ante un Sub-comité de Recaudaciones del Comité de Finanzas.
- Mejoramiento de la integridad del catastro y base de datos de gravamen personal.
- Mejoramiento de los sistemas de cobranza, inclusive la introducción de medidas contra los morosos.
- La toma de acciones de recuperación de deudas a través de recaudadores privados.
- Mejoramiento del sistema de gestión de bienes.
- Enmienda de los contratos de arrendamiento de las paradas municipales de buses, así como las tiendas y kioskos propiedad de la Municipalidad.
- Revisión delo sistema de impuestos sobre los mercados
- Cambios en el sistema de emisión de licencias y certificados.

3) Gastos – reducción y medidas de ahorro de costos para equilibrar los gastos con los ingresos.

- Mejoramiento de la gestión de deudas.

- Enajenación de funciones no básicas principales y la contratación de ciertas funciones básicas principales al sector privado.
- Enajenación de empresas comerciales no- rentables.
- Revisión de las condiciones de empleo del personal.
- Establecimiento de medidas para financiar la reducción de tamaño de la planilla.
- Participación del sector privado y la comunidad en el financiamiento y prestación de servicios.
- Mejor control de los vehículos de la Municipalidad.

4) Capacidad de Gestión Financiera – creación de una capcidad de gestión financiera entre los concejales y gerentes.

- Capacitación en gestión financiera para los concejales.
- Capacitación en gestión financiera para los gerentes y el personal.
- Capacitación en los sistemas y procedimientos de recaudación.
- Capacitación en el control de gastos.