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## SOURCES OF LOCAL GOVERNMENT FINANCING

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The Local Government Working Paper Series disseminates policy and legal analyses to improve local governance on the African Continent. The papers are short, preliminary studies intending to provide a brief look at relevant and timely topics. For additional information, please contact Prof. Jaap de Visser at [jdevisser@uwc.ac.za](mailto:jdevisser@uwc.ac.za) or visit the Local Government Project website at <http://www.communitylawcentre.org.za/communitylawcentre.org.za/clc-projects/local-government/>

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### 1. INTRODUCTION

Our paper on Local Government Financing will draw from the many years of practical experience that we have gained as Independent Auditors of most Urban Local Authorities (90 percent) and also as auditors to a significant number of Rural Local Authorities.

Overall, our observation is that almost all local authorities have been facing insurmountable challenges in raising enough funding to ensure effective service delivery ever since independence in 1980. Most of these challenges revolve around failure to ensure effective financial management systems that results in levying of sub-economic tariffs, failure to ensure cost recovery on essential services such as water and sewer provision, failure to recover debts owed in a hyperinflationary environment, lack of skilled and qualified staff due to skills flight to the private sector and to the Diaspora and generally poor financial accounting systems.

The Zimbabwean economy has been characterized by a continuous decline in Gross Domestic Product for the period since the year 2000 being a result of various factors chief among them being the fast track land redistribution program that resulted in huge declines in agricultural production among other factors. This has resulted in a very volatile macro-economic environment that manifested itself in hyperinflation reaching more than a billion percent by December 2008. There were widespread shortages of basic commodities and even a shortage of the Zimbabwean currency and foreign currency that resulted in disruption of business and closing of factories and businesses in the formal economy. This state of affairs particularly impacted very negatively on the operations of local authorities especially given that they needed to follow certain procedures in order to increase tariffs in an environment where other players were changing prices practically on an hourly basis.

In February 2009 the Zimbabwean government introduced a new multi-currency monetary system where-in the United States dollar and the South African Rand became the main functional currencies. This tended to stabilize the operating environment by eliminating hyperinflation and increasing business confidence through adoption of more prudent economic policies by the inclusive government. However this new dispensation brought with it new challenges for local authorities and other players in the economy. The high unemployment rate of around 80 percent and liquidity shortages brought about by the adoption of multi-currencies meant that most ratepayers could not afford the charges that most local authorities were demanding. As a result, most councils could not collect the monies that they bill their customers. In many instances the councils tended to set tariffs at very high and unaffordable levels and therefore the problems of poor service delivery continued into the year 2009.

## **2. LOCAL GOVERNMENT FINANCING**

### **How do local authorities finance their activities?**

Urban local authorities which encompass City Councils, Municipalities, Town Councils and Local Boards are governed by the Urban Councils Act (Chapter 29:15) while Rural Councils fall under the Rural District Councils Act (Chapter 29:13). These acts empower the councils to enact By-laws that allow the authority to raise revenue through various “service charges made for any services, amenities or facilities provided by council” and the “fixing and imposition of a supplementary charge” on immovable property in its area to “cover the expenses incurred by the council in the administration of the area concerned” and to impose fines and penalties for any breach of council By-laws.

Section 96 of the Rural District Councils Act provide for the imposition of a “Land development Levy” on owners of rural land within the council area or on owners of “mining locations situated on rural land within the council area “or on licensed dealers who carry on business on rural land within the council area” as well as the imposition of a “development levy on all persons who are heads of households within any communal or resettlement ward of the council”. The development levy is commonly referred to as “Unit Tax”.

The Act also empowers the council to impose “Special levies in rural areas” to cover expenses incurred as a result of any “development project or service within the council area or for expenses occasioned by unusual circumstances or conditions or from unequal demand on services provided by council”

Section 98 of the Act empowers the council to impose rates on any ratable property in any urban land within the council area or to impose special rates on owners of ratable property within the council area. The Act also empowers the council to impose an “interest charge on any amounts due to it that remain unpaid after a period of thirty days from the fixed date relating to the charge at a rate fixed by the council.

The Urban Councils Act’s part XIX provide for the imposition of rates on any ratable property within a council area or the imposition of special rates.

Section 221 provides for the council to “engage in any commercial, industrial, agricultural, or other activity for the purpose of raising revenue for the council.

In this section we will specify the various ways in which Local Governments finance their activities and distinguish the main differences between rural and urban local authorities since their

main sources of finance are largely different. We will seek to itemise the main sources of funding and explain the nature and significance of each revenue head to include:

**(i) Rates on Property and Land**

This is the main source of funding for most urban local authorities. An analysis of a number of urban councils reveal that rates on property and land constitute between 20 percent and 30 percent of total revenue (including supplementary rates on high density properties) However there are inefficiencies that have been noted that have prevented the effective and proper raising of revenue from this source. Most of the issues revolve around poor databases and poor financial accounting systems. In some cases councils are using outdated valuation rolls as a base for determining rates.

Councils are required to undertake a general valuation of all non-residential property within its area and a general assessment of all residential property within its area for rating purposes. State land and government buildings are however not charged any rates. Different tariffs are applied to land and to improvements when calculating the rates due. Supplementary valuations and assessments are done to capture those properties not on the general valuation roll or those whose values have been materially affected by alterations, additions or demolitions.

We have however noted that in numerous cases the councils fail to capture new properties onto their valuation rolls through supplementary valuations and thus losing a lot of revenue in the process. In other cases only the land is charged rates while the improvements are not captured or the valuations are grossly understated.

While the Act requires councils to establish “rating zones” and “ rating units to be assigned to residential properties” for rating purposes, it is noted that almost all urban local authorities have failed to comply and continue to base their rates for residential properties on valuations on their rolls as if they were non-residential properties.

It is noted that when Zimbabwe adopted the use of multi-currencies and demonetized the Zimbabwe dollar in February 2009, not a single council in Zimbabwe has regularized their valuation rolls to base the valuations on the new functional currencies thus making the imposition of rates in United States dollars illegal.

**(ii) Revenue From Service Delivery**

Revenue from service delivery includes income from activities such as provision of water, refuse removal, sewer and affluent removal, provision of health services at various hospitals and clinics operated by councils, etc.

Water provision was always an important source of revenue for most urban local authorities since independence in 1980 but this vital source of revenue was taken away by government in 2001 when the Zimbabwe National Water Authority (ZINWA) was given the mandate to manage and distribute water in all urban and rural centers. This deprived the local authorities of an important source of revenue and constrained their ability to collect other council debts since they could no longer cut off water in order to encourage payments from ratepayers. In 2009 the government reversed the decision to give the management of water and sewer services to ZINWA and this has now been given back to the various local authorities.

Water income can constitute as much as 40 percent of council revenues. A case in point is Harare City Council that has budgeted to raise about 44 percent of its 2010 revenues from water income. Masvingo municipality raised about 24 percent of its 2007 total income through water sales. (See table below). Sewerage charges and refuse removal fees constitute between 5 percent and 10 percent of total revenue. By contrast, the rural councils do not receive any significant income from water; refuse fees or sewer disposal fees due to the absence of large and densely populated settlements.

Health services fees are derived from fixed consultation fees on adults and a low charge on children under the age of 12 years (ordinarily about 50 percent of the adult rate). It also includes charges for any drugs that are dispensed usually at cost. Old aged patients are normally treated for free at most council hospitals and clinics. Income from health fees constitute between 1 and 5 percent of total revenues. Rural councils do not receive significant income from health fees since the clientele is mostly low income and not covered by health insurance.

Again we have noted numerous inefficiencies in the collection and levying of charges related to service provision that has resulted in the inability of councils to sustain provision of these services. These include the loss of revenue on water provision due to the inability of councils to repair water meters and the use of estimates instead of actual water consumption.

Of particular concern is the fact that most councils lack the ability to properly determine the cost of providing these services and setting appropriate tariffs that are based on cost recovery plus a reasonable mark-up. As a result we see a situation whereby sub-economic tariffs are set and the subsequent lack of investment in the infrastructure needed to continue providing quality services. We

have in recent years seen an alarming deterioration of water, refuse removal, sewer, roads and other infrastructure that as resulted in health crises such as the chlorella epidemic witnessed in 2008 when close to 100 000 people were infected and 4000 lost their lives.

In addition, there has been a huge skills flight that has seen qualified and experienced personnel leaving the public sector due to poor remuneration and conditions of service. This has further resulted in the deterioration of service provision in all urban and rural local authorities.

### **(ii) Fees Charged**

These include fees on various users of council amenities such as schools, flea markets, bus termini, caravan parks, cemeteries and crematoria, parkades and street parking, swimming pools, etc. Bus entry fees are earned by both rural and urban councils and for a council like Masvingo it constituted about 4 percent of total revenues in 2007. (See table below). Harare city council expects to raise about 2.6 percent of its 2010 revenue from parking fees and vehicle clamping and towing operations.

It is noted that generally there is lack of proper setting of fees charged and poor enforcement of By-laws governing the use of council amenities such as the parkades and caravan parks. As a result the councils are failing to maximize revenue generated from these sources.

### **(iii) Penalties and Fines**

These relate to penalties for breaches of council by-laws such as unapproved developments, illegal parking, pollution of the environment, etc. We also note that there are no efficient and effective systems to enforce council by-laws and maximizing collection of fines and penalties.

A case in point is the inability of councils to effectively police the street parking areas with the result that there is endemic violation of street parking By-laws and the Municipal Traffic Laws Enforcement Act (Chapter 29:10) and the loss of revenue in the process.

### **(iv) Licence Fees**

These relate to license fees on items such as vehicle licences, dog licences, hawker's licences, shop licences, etc.

Again there are challenges relating to poor enforcement and poor databases to ensure that all those who should pay for licenses actually do so.

**(v) Supplementary Charges**

These are charges levied on property owners in high density areas in lieu of property rates. The issues discussed above relating to rates apply equally to supplementary charges.

**(vi) Plan Approval and Development Fees**

Councils derive income from approving any developments within their areas of jurisdiction and these are pegged against the estimated values of proposed developments.

The funds raised through this source are normally credited to an Endowment Fund which is used for the development of on site and off site infrastructure with the council area.

**(vii) Revenue Generating Projects**

Most councils have set up income generating projects such as beer halls, breweries, farming, brick moulding, etc. in order to raise revenue as a means to reduce reliance on tariffs on ratepayers. While income generating projects may be an important source of income for some councils, we have noted that due to poor funding of the projects, poor management and inadequate accountability systems these projects generally perform poorly and in some cases are subsidized from other council operations instead of them being a source of income for councils.

The beer halls and breweries are mostly operated as independent operations with an independent board of Directors and management. They are then expected to pay a dividend to the council on a yearly basis. Unfortunately most of these ventures have seriously under performed and have failed to contribute anything to council. An example is the liquor marketing operations of the Harare City Council (Rufaro Marketing) that has failed to pay any dividend to the council in the last decade.

The Kwekwe City council operates the Kwekwe breweries and the Dandaro liquor marketing entities but both have failed to declare any dividends to council since 2006 since they are making losses are not generating enough profits.

**(viii) Lease of Land and Sale of Land**

This is an important source of funding for most councils. The land is either leased to various organizations or individuals or is sold for residential or commercial development to private individuals or organizations. There is lack of a proper data base of council owned land under lease and in most cases the lease rentals are sub-economic. Lease are often not reviewed when they are due for review and there is generally poor debt management.

The raising of revenue through sale of council owned land is increasingly becoming a significant source of income for councils. The funds raised are normally credited to the Estates account of the council.

**(ix) Rentals on Council Properties**

Most councils own properties such as houses and flats as well as commercial buildings which are rented out. The issues discussed above on leases apply to council owned properties that are rented out. In numerous cases the rentals are not reviewed regularly or when reviews are due as per the lease agreements. The rentals are often sub-economic resulting in councils failing to properly maintain the leased properties.

**(x) Proceeds from Natural Resources**

This is an important source of revenue for most rural authorities and relate to natural resources such as royalties on minerals within their areas of jurisdiction or hunting concessions within their areas. This is of particular importance to rural councils where most of the country's natural resources are based. These natural resources include minerals whether precious or base minerals, wildlife, woodlands, sand, ect and are often exploited by private individuals and corporates while council imposes royalties or permit fees for their exploitation.

**(xi) Interest on investments**

The Act requires that where a council "has in any fund or account moneys which are not immediately required for payment of expenditure payable from that fund or account, the council shall hold such moneys as balances on current account with a commercial bank or invest them "in various interest earning instruments with registered financial institutions, in treasury bills, locally registered securities issued by the state or municipalities or statutory bodies, etc.

Therefore income from investments can be an important source of income for councils but because of lack of liquidity within the councils the contribution from investment income is very minimal.

It however appears that councils cannot invest in riskier investment vehicles such as quoted and unquoted stocks without the Minister and the Minister responsible for finance's approval.

### **3. SIGNIFICANCE OF THE VARIOUS REVENUE SOURCES**

The importance of the various revenue sources to the various local authorities varies from council to council depending on a number of factors such as the demography, nature and size of main economic activities within the council area, the extent of industrialization, the size of the council, etc. For example we would expect the major urban councils to rely more on Rates and Supplementary charges as well as water and sewer income while rural councils such as Chipinge Rural District Council and Binga Rural District Councils derive most of their income from hunting concessions due to the wildlife resources within their areas.

We will analyse the 2010 budgets of some of the councils to determine the expected main sources of revenue as well as review historical financial statements of some of the councils to achieve the same goal.

#### **HARARE CITY COUNCIL 2010 BUDGET**

The Harare City Council has a total revenue budget of US\$ 230 million broken down as follows:

<b>REVENUE SOURCE</b>	<b>AMOUNT US \$ mil</b>	<b>%-age</b>
Supplementary charges	13.53	5.9
Water Income	77.33	33.6
Rates	47.96	20.8
Sewerage charges	14.69	6.4
Refuse Collection and sewer	24.87	10.8
Quarry Station (Income Gen. Project)	8.39	3.6
Street signs/advertising	1.65	0.7
Vehicle Licenses	4.85	2.1
Cemetery fees	1.35	0.58
Parking Fees and Vehicle Fines	4.75	2.1
Rentals – Council Properties	2.39	1.0
Fees – Schools	1.07	0.5
Health Fees	4.93	2.1
Shop licenses	2.44	1.1

Licenses-other	1.24	0.5
Hire of stadia	0.58	0.3
Other	18.07	7.85
<b><i>TOTAL</i></b>	<b><u>230.09</u></b>	<b><u>100</u></b>

### CAPITAL BUDGET

The council expects to spend a further US\$275.3 million on capital projects. The expenditure is expected to be funded as follows:

	<b>Amount US\$ mil</b>	<b>%-Age</b>
Internal Loans (CDF)	208.93	75.8
Contributions from Revenue	1.24	0.45
Government Loans	50.0	18.16
Joint Ventures	2.49	0.75
Other (Bank Loans)	12.97	4.71

<b>TOTAL</b>	<b>275.63</b>	<b>100</b>
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Given that the council's financials have not been audited since 2005 it will be very difficult for the council to raise the amount of US\$ 12 million from the open market as planned.

MASVINGO CITY COUNCIL 2007 HISTORICAL OUTTURN

<b>SOURCE OF REVENUE</b>	<b>AMOUNT Z\$ MIL</b>	<b>%-AGE</b>
Rates and Supplementary Charges	23 247 032	15.92
Licenses – Shop/Business	4 304 854	2.94
- Vehicle	420 405	0.29
Fines	1 345 893	0.92
Rent – Council Properties	13 899 655	9.48
Sale of Land	22 012 821	15.02
Hire of Hall/Stadiums	1 634 413	1.11
Refuse removal	8 728 541	5.95
Sewerage removal	16 619 560	11.34
Water income	34 583 877	23.59
Health fees	10 827 677	7.38
Cemetery fees	271 206	0.19
Plan Approval Fees	372 461	0.25
Sands/Plant and Brick Sales	675 617	0.46
Unit Tax (Peri-Urban)	343 947	0.24
Bus Entry Fees	5 923 298	4.04
Liquor Undertaking	289 987	0.20
Other	988 151	0.68
<b>TOTAL</b>	<b>146 589 395</b>	<b>100.00</b>

As can be seen above, the main source of income for the urban councils include Water Sales, Rates and Supplementary charges, Sewerage removal fees and sale of land. The Harare City council budget for 2010 also shows that water income is the single largest source of income contributing

about 33.6 percent of total revenue, while rates and supplementary charges are expected to contribute about 26.7 percent of total revenue.

*CHIPINGE RURAL DISTRICT COUNCIL : 2008 HISTORICAL PERFORMANCE*

<b>SOURCE OF REVENUE</b>	<b>AMOUNT Z\$ MIL</b>	<b>%-AGE</b>
Development Levy ( Rural Rates )	8 840 256 816	16.4
Leases (Land)	8 338 559 684	15.4
Property Development Levy	45 704 342	0.08
Office Rentals	1 203 223	0.01
Stand Servicing Fees	19 705 067 069	36.5
Shops Development Fees	8 370 745 103	15.5
Shop Licenses	8 320 745 047	15.4
Small Scale Far tax	2 433 057	0.01
Stand Application fees	6 347 630	0.01
Sand Royalties	4 004 167 43	0.01
Vehicle Licenses	948 131	0.08
Income Project (Kitchen)	52 254 425	0.09
Bus Entry Fees	73 146 140	0.14
Hunting Fees	22 437 626	0.04
Foreign Exchange Gain	21 082 216	0.04
Other Income	148 942 055	0.29
<b>TOTAL INCOME</b>	<b>53 996 876 731</b>	<b>100</b>

The sources of revenue for rural councils differ widely but the main sources include the development levy, unit tax and stand sales. For Chipinge Rural District Council another major source of funding is hunting concessions income. The amounts reflected above for hunting fees is

significantly understated since the foreign currency earnings were converted at the fixed official exchange rates instead of the widely used “black” market rates.

### **Capital Expenditure**

Our analysis of the capital accounts of a number of councils reveals that capital assets are mostly financed from either borrowings from government or from internally generated revenues. The degree of funding from self generated revenues as opposed to borrowings varies from one council to the other, but it was noted that from the early nineties to around the year 2005 government loans constituted about 50 percent of the funds for long term asset acquisitions while the balance came from internal revenues.

From 2005 the government was finding it difficult to fund the councils and the responsibility was given to the Reserve Bank of Zimbabwe, which provided loans for infrastructure through its quasi-fiscal operations. However, the level of funding from internal resources has progressively increased in the three years to the year 2008.

The review of the 2010 budgets for some of the councils show that they expect to fund capital expenditure from borrowings and grants from external sources such as from the government of China and from multilateral organizations such as the UNPD and UNICEF for water and sewer rehabilitation projects.

## **4. DO LOCAL AUTHORITIES RECEIVE FUNDING FROM CENTRAL GOVERNMENT**

Local authorities have been receiving direct funding from Central Government in various forms over the years. They have also been receiving funding from the Reserve Bank of Zimbabwe in order to assist in ensuring that there is continued service delivery especially on water and sewer provision. The funding is provided by central government in the form of:-

### **(i) Long Term Loans**

These have been extended to councils ever since independence and generally are concessionary and have generous terms such as low interest rates and long repayment periods. They are meant to support long-term asset acquisitions. Up to 50 percent of assets purchased between 1980 and 2005 were financed through government loans but due to lack of funds and failure to repay previous loans resulted in a drastic reduction in new loans from government in the period 2006 to 2008.

**(ii) Grants**

Government has also been providing direct grants to councils and these may be for short term operations or for long term asset acquisitions. Grants are mostly in the form of support for services such as health and education through salary grants. Grants are also extended for long-term projects and a case in point is the recent grant extended to the City of Harare for sewer and water reticulation upgrading of US\$17.1 million. This was however a ‘crisis’ grant due to the cholera epidemic of 2008 and the funds were advanced from monies provided by the UNPD and other multilateral agencies.

Grants are mostly in relation to the payment of salaries and allowances for health personnel as well as for schoolteachers. The government usually pays all teachers directly through its payroll while a salary grant is paid to the council for the payment of salaries of health professionals. The grant is usually 100 percent of the cost. There is no consistence in the payment of grants for long-term asset purchases and there were no significant grants extended in the past few years due to lack of funds.

In most cases the long-term loans received from Government have not been properly accounted for by both the Government and the councils. There are no properly documented loan agreements and there is no strict monitoring on use of funds by central government. In most cases both the principal and interest is never paid back by councils. Grants are provided to councils through the Public Sector Investment Programme and councils make bids to Central Government based on their needs and circumstances. It seems there is no consistence in the way councils are provided with such assistance.

**4.1 Loans From Other Non-Government Sources**

Local Authorities have in the past received funding from sources such as the World Bank (Urban II programme) for infrastructure (water & sewer) and for equipment such as computers and vehicles. At times funding has been provided on a government to government basis (e.g. sewer works for Chitungwiza Municipality funded by the Government of Japan).

Councils have also been receiving direct assistance from organizations such as UNICEF and the UNDP to mitigate the effects of the recent cholera outbreak that has affected almost all urban centers and many rural centers in Zimbabwe.

## 4.2 Borrowing Powers

The Urban Councils Act and the Rural District Councils Act set conditions to be met where councils seek to borrow from any source. Borrowings should be for:

- (a) the acquisition or construction of permanent works or undertakings;
- (b) the acquisition of immovable property or any interest therein;
- (c) the making of advances authorized by the Act
- (d) the payment of compensation;
- (e) the liquidation of the principal monies owing on account of previous borrowings;
- (f) the relief of general distress occasioned by some calamity in the council area;
- (g) the acquisition of plant, equipment, vehicles and the like.

However, all borrowings should be authorized by the Minister after an application has been lodged with him for the borrowing. The council is also required to put up a public notice of its intention to borrow in a newspaper stating the reasons for the borrowing and the amount thereof. The ratepayers are entitled to make any objections and the council shall take those objections into account when submitting their application to the Minister.

In addition to making borrowings from ‘the State, the Local Authority Pension Fund, a Municipal provident fund, a municipal Medical Aid Fund, or a Local Authority’ a council may also “with the consent of the Minister responsible for finance, issue stock, bonds, debentures, or bills or from any other source” including registered financial institutions and foreign governments or institutions or individuals.

The council may also make short term borrowings by means of a “bank overdraft or short term loans from any person for the purpose of temporary financial accommodation’ provided the borrowing is not applied towards the payment of salaries “of any permanent employee of the council unless the Minister has authorized “ the council to do so.

Where a council makes illegal borrowings the Act makes “all councilors who otherwise purport to have authorized the borrowing” to be “jointly and severally liable to repay the money so borrowed and the interest payable thereon”

Both urban and rural councils may borrow and the assets of the council secure the loans. The government only stands as a guarantor when council raises a municipal bonds or where the minister responsible for finance has issued any such guarantee. Banks are generally reluctant to provide long-

term finance to councils due to the perceived high risk associated with local authorities. However, short term bridging finance through bank overdrafts is generally available to most councils.

## **THE MAIN EXPENDITURE DRIVERS**

### **SALARIES**

The government has prescribed that salaries and wages should constitute not more than 32 percent of total recurrent expenditure. However, we have noted that most councils have been spending most of their income on salaries and wages with some of them spending as much as 75 percent of total expenditure as salaries and wages. Harare city council has budgeted salaries and wages to make up 34 percent of total revenue but in practice this will be difficult to achieve.

There is no effective monitoring by government to ensure compliance by the councils and as a result there has been a progressive deterioration in service delivery by the councils.

### **Water chemicals**

The water account generates the most income for most urban councils and besides the salaries bill for this account the other main cost items are water chemicals. The raw water of cities such as that of the city of Harare is so poor that they have to spend heavily on water chemicals some of which are imported.

The water account does show a surplus in most urban councils and it normally supports expenditure on social services such as schools, clinics and public amenities. In the case of Harare City council, it is expected that water chemicals will account for US\$ 26.68 million of that account's total expenditure of US\$ 98.29 million or 27 percent in 2010.

### **Repairs and Maintenance**

Repairs and maintenance is a key cost driver for most councils given the fact that most of them are operating with very old equipment and plant. The sewerage and water reticulation systems of most councils are now very old having been installed before independence in 1980. There are constant breakdowns at the water and sewerage plants and therefore driving up the repair bills.

The road network is also in a sorry state and there is need for continuous repairs and maintenance. The Harare city budget for 2010 shows that they expect repairs and maintenance to constitute about 14.47 percent of total expenditure for the year. About 44 percent of the repairs and maintenance bill will be on roads and public lighting while 30 percent will be for water and sewer reticulation and plant repairs.

## **Electricity**

Electricity is a major expense for most councils especially the urban councils that need to use it at their water works and at the sewerage works. Harare city council expects to spend US\$ 21.55 million in 2010 on electricity for both the sewer and water works. The cost of electricity and water chemicals will constitute about 20 percent of total expenditure for the entire council in 2010.

### **5. DO LOCAL GOVERNMENTS ADOPT THEIR OWN BUDGETS?**

Local authorities are required by law to craft their own budgets and are required to follow certain procedures in accordance with the relevant laws. The procedures to be followed on the crafting of budgets or estimates are provided for under section 288 of the Urban Councils Act and section 121 of the Rural District Councils Act. Rural councils as well as urban local authorities are required to “make available three copies of such estimates within two months of their approval by council to the Minister for his information.”

While the legislation does not require that the budget is approved by the responsible Minister, the Minister through various circulars prohibit Urban Local Authorities from applying certain levies such as supplementary charges without the approval his approval. This inhibits the efficient collection of revenue by the Urban Councils especially given the delays experienced in the approval process.

The legislation does not however prescribe the process to be followed in crafting the budget and leaves the entire responsibility of preparing the budget in the hands of the council’s finance committee and the approval by the council. The public and all other stakeholders are allowed to “inspect” the estimates but there is no provision for them to make their input in the budget formulation process. The Minister has however directed that in the interest of participatory democracy, the councils should hold consultation meetings with ratepayers and take into account their concerns when formulating the budget. The ratepayers are also allowed to make objections to the budget that is approved by council and council should take into account those objections before tabling the final budget estimates.

It is therefore illegal for any council to operate without an approved budget or supplementary budget. A council may not make any expenditure that is not budgeted and expected council revenues should cover all expenditure.

Due to poor financial and accounting systems there is often no proper monitoring of budgets and cost overruns are often not properly regularized through supplementary budgets as required by law. The council is prohibited from expending any monies “unless such expenditure has been covered by estimates or supplementary estimates approved in terms of the Act”.

## **6. What are the issues that arise from practice with regard to the above?**

At a practical level the deficiencies identified above result in:-

- (i) Poor service delivery due to lack of funding. e.g. poor or non-existent provision of portable water and poor refuse removal and sewer systems resulting in disease.
- (ii) Lack of adherence to the relevant laws and poor accountability at the local level. Very often the councils do not present audited financial statements to the Minister as required by law and can be several years behind with audits without any sanctions from the relevant authorities. In many instances councils violate the Act by borrowing without the necessary borrowing powers.
- (iii) Loss of skilled personnel due to poor remuneration resulting in poor service delivery and poor financial accounting systems. (Very often the councils are not audited in time and issues raised by audits are never rectified due to poor accountability regimes).
- (iv) Because of the poor financial reporting regimes and poor corporate governance structures that result in weak internal control systems, we often see many case of fraud, theft of council property and abuse of council assets within councils in Zimbabwe.

## **7. NEED FOR POLICY OR LAW REFORMS**

There is clearly a need for law reform interventions and also need to enhance accountability regimes between councils and the relevant Minister and Parliament. The reforms may include:

- (i) Amend the Urban Councils Act (Chapter 29:15) and the Rural District Councils Act (Chapter 29:13) to ensure the following:-

The current legislation does not impose a requirement for councils to report in terms of any recognized financial reporting framework or adhere to best practice in terms of financial reporting. There is clearly a need to require that financial reporting be in terms of International Financial Reporting Standards/International Public Sector Financial Reporting Standards.

This will encourage better reporting standards and ensure increased credibility of the financial statements as well as ensuring that there is increased comparability of the financials of different entities both within Zimbabwe and internationally. Lenders and international investors will have greater faith in financial statements that are in terms of internationally recognized financial reporting standards.

While the legislation requires councils to craft a budget at the beginning of each financial year, it does not impose a requirement for council to use the budget as a management tool in order to control the use of limited resources. No penalties are imposed for failure to adhere to the budget or to regularize cost overruns through a supplementary budget. As a result in most instances there is no effort to monitor budgets on a continuous basis and the budgeting process is done only as a statutory requirement.

The section of the Act dealing with budget formulation does not impose a requirement for the councils to consult with the key stakeholders before presenting the final budget estimates to the Minister. There is clearly a need for the legislation to make the ratepayers an important participant in formulating the budget and accord them the right to object to the proposed budget.

There may be need for specific constitutional provisions that recognize the role of local authorities and their relationship within Central Government as well as how fiscal support can be extended to the various Councils. At present the Minister determines the quantum and distribution of fiscal support at his discretion. This will ensure that there is clarity on how national revenue from taxation as collected by central government can be shared so that councils can deliver on decentralized functions such as health and education provision.

There is also need to decentralize the powers of central government to enable local authorities to levy taxation as a way to raise funding.

While the Act requires the councils to present audited financial statements to the Minister not more than six months after the end of each financial year, we see a situation where most councils are several years behind with their audits. There is no clear penalty imposed by the Act for failure to present audited financial statements within the prescribed period and more often than not the responsible Minister does not seem to be following up on those councils that fail to have their financials audited on time.

The Act should require that audited financial statements be transmitted to Parliament through the relevant portfolio committee and that the council make written responses to the auditor's report and management report and appear before the parliamentary committee to explain

reasons for failure to present audited accounts within the prescribed period. There should also be a requirement for councils to publish their audited financials in a newspaper circulating within their area of jurisdiction. This will encourage better transparency and accountability.

#### Acknowledgements

1. Urban Councils Act (Chapter 27:15) 1996
2. Rural District Councils Act (Chapter 27:13) 1996