FIRST REPORT OF THE COMMITTEE ON ESTIMATES FOR THE FOURTH SESSION OF THE TENTH NATIONAL ASSEMBLY APPOINTED ON 23RD SEPTEMBER, 2009

Consisting of:

Mr H H Hamududu, MP (Chairperson); Mr E M Hachipuka, MP; Mr S Chisanga, MP; Mr J P L Mulenga, MP; Mr A M Nyirenda, MP; Mrs S T Masebo, MP; Mrs E K Chitika-Molobeka, MP; Mr E M Sing'ombe, MP; and Mr G Lubinda, MP.

THE HONOURABLE MR SPEAKER
NATIONAL ASSEMBLY
PARLIAMENT BUILDINGS
LUSAKA

Sir, following the guidance that your Committee should table the Report of the previous Committee for the Third Session of the Tenth National Assembly, your Committee studied the Report in detail and, on Thursday, 8th October, 2009, adopted it.

Your Committee, Mr Speaker, now have the honour to present the Report.

H H Hamududu, MP — October, 2009

CHAIRPERSON — **LUSAKA**

REPORT OF THE COMMITTEE ON ESTIMATES FOR THE THIRD SESSION OF THE TENTH NATIONAL ASSEMBLY APPOINTED ON 21ST JANUARY, 2009

Consisting of:

Mr B Imenda, MP (Chairperson); Mr J P L Mulenga, MP; Mr E M Hachipuka, MP; Mr H H Hamududu, MP; Ms J Kapata, MP; Mr S Chisanga, MP; Mr E M Sing'ombe, MP; and Mr A M Nyirenda, MP.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
Lusaka

Your Committee now have the honour to present the Report on their deliberations.

Functions of the Committee

2. The functions of your Committee are as follows:

(a) to examine the estimates and Excess Expenditure Appropriation Bill;
(b) to report on the economies, improvement in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates, examine whether the money is well laid out within the limits of the policy implied in the estimates;
(c) to suggest alternative policies in order to bring about efficiency and economy in administration;
(d) to carry out regular examination and scrutiny on budgets, estimates and management thereof, and conduct budget hearings; and
(e) to make recommendations in a report to the House for consideration and implementation in future budget estimates.

Meetings of the Committee

3. Your Committee held fifteen meetings during the year under review to consider submissions from various relevant stakeholders, including four Permanent Secretaries and the Secretary to the Treasury in the Ministry of Finance and National Planning.

4. **Programme of Work**

Your Committee adopted the following Programme of Work during the year under review:

(a) consideration of Action-Taken Report;

(b) consideration of budget estimates and budget legislation; for the financial year 1st January to 31st December, 2009;

(c) consideration of the budgetary performance of the Ministry of Local Government and Housing for 2007 and 2008;

(d) consideration of the measures in place to broaden the tax base and enhance the contribution of non-tax revenue to national income; and

(e) tours to selected local authorities and revenue collection centres.

Procedure Adopted by the Committee

5. During their deliberations, your Committee considered both written and oral evidence pertaining to the budgetary performance of the Ministry of Local Government and Housing and selected local authorities for the years 2007 and 2008. The local authorities selected for your Committee's study were: Kitwe City Council, Livingstone City Council, Nakonde District Council and Mpulungu District Council. Your Committee also received both written and oral submissions related to possible measures that could be taken in order to broaden the tax base and enhance the contribution of non-tax revenue to national income. Further, your Committee also undertook tours of projects of the selected local authorities during the period under review, as well as to selected revenue collection centres.

Organisation of the Committee's Report

6. Your Committee's report is arranged in four parts: Part A outlines the findings, observations and recommendations of your Committee with regard to the review of the budgetary performance of the Ministry of Local Government and Housing and selected local authorities; Part B enumerates the findings and recommendations of your Committee on possible measures that could be taken to broaden the tax base and enhance the contribution of non-tax revenue to national income; Part C outlines the findings of your Committee arising from their local tours; and Part D contains the observations and recommendations of your Committee with regard to outstanding matters from the Action-Taken Report on your previous Committee's report for 2008.

PART A: REVIEW OF THE BUDGETARY PERFORMANCE OF THE MINISTRY OF LOCAL GOVERNMENT AND HOUSING AND SELECTED LOCAL AUTHORITIES FOR THE YEARS 2007 AND 2008

7. Your Committee recognised the fact that local government was a crucial sphere of the national governance structure, one which impacted directly on the life of every citizen through the provision of critical services, such as solid waste management, firefighting services, environmental health services, community development services, local roads, drainage, street lights, amenities such as markets, bus stops, parks and gardens and in some cases water and sanitation, as provided by the *Local Government Act*, Cap 281 of the Laws of Zambia and other relevant legislation. There was no doubt that central government covered a wide range of national policy issues in the civil sphere as its functions were largely those of guidance, regulation and control, but in the social sphere, service provision was left mainly to other agencies, namely, industry, commerce, public corporations and local government institutions. In other words, the local government system was an integral part of the Zambian governance structure. In short, your Committee noted that under the *Local Government Act*, local authorities were public bodies that had a multiplicity of duties impacting on the whole social and economic fabric of the Zambian society. Accordingly, improved provision of services by the local authorities could provide an impetus to Zambia's development efforts.

In light of the foregoing, your Committee were concerned about the apparent collapse of the fiscal environment in which the Zambian local government system operated. They observed that without good financial profiles, local authorities would not be able to perform all the functions required of them. They noted that one positive measure taken by the Government in this direction was the proposed Inter-governmental Fiscal Architecture being developed by the Ministry of Finance and National Planning, but which was yet to be operationalised. In this regard, your Committee noted with sadness that the local government sector in Zambia was not able to provide the necessary services to their communities due to the dire financial status of most local authorities. Realising that a vibrant local government system was critical to the success of the poverty reduction efforts that the country was engaged in, your Committee resolved to review the operations of the Ministry of Local Government and Housing as well as selected local authorities for the period 2007 to 2008. The local authorities selected for your Committee's study were Kitwe City Council, Livingstone City Council, Nakonde District Council and Mpulungu District Council.

(a) Ministry of Local Government and Housing

8. Your Committee learnt from their interactions with various stakeholders that the Ministry of Local Government and Housing was responsible for two heads of expenditure in the budget, namely: Head 20 and Head 29. The budgetary performance of the Ministry during the period 2007 and 2008 financial years is shown in the table below.

Head 29

Year	Approved Estimates	Actual Releases	Performance (%)
2007	191,900,414,558	192,096,105,886	99.9
2008	217,670,098,577	155,382,382,315	71.4

Head 20

Year	Approved Estimates	Actual Releases	Performance (%)
2007	57,938,413,845 (domestically financed)	52,186,675,435	90.1
2008	75,639,936,735 (domestically financed)	40,526,663,624	53.6

The 2008 approved budget estimate under Head 29 was above the 2007 level by K24,569,684,019 or 12.52 percent, whilst under Head 20, the 2008 approved budget estimate was above the 2007 level by K55,481,406,484 or 12.72 percent. A sum of K1.2 billion out of the budget for Head 29 in 2007 was financed from external resources while the total estimates in 2008 were wholly financed from domestic resources. The programmes under Head 20 were financed from both domestic and foreign resources.

In 2007, about 16.6 percent of the budget and 17.0 percent of the releases to the Ministry of Local Government and Housing (Head 29) was spent on administrative programmes while the balance of about 83 percent was utilised to finance core programmes. In 2008, administrative programmes under Head 29 accounted for 15.3 percent of the budget and 20.4 percent of releases. In addition, against the combined total budget for the Ministry of Local Government and Housing (that is, sum of total allocations under Heads 20 and 29), the proportion spent on administrative programmes was 5.1 percent and 4.7 percent in 2007 and 2008 respectively.

(b) Selected Local Authorities

9. As already indicated, your Committee undertook a study of the budgetary performance of some selected local authorities, namely: Kitwe City Council, Livingstone City Council, Nakonde District Council and Mpulungu District Council. In the tables set out below is a synopsis of the budgetary performance of these local authorities for the 2007 and 2008 financial years as presented to your Committee.

(i) Kitwe City Council

2007 Budgetary performance

- **Revenue**

Source	Budget (K)	Actual (K)	Performance (%)
Owners Rates	16,029,320,000	13,654,299,000	85.18
Standing Charges	806,558,000	571,329,000	70.83
Bus stations Fee	2,500,000,000	2,197,536,000	87.90
Personal levy	530,000,000	620,548,000	117.08
Licence fees	1,016,800,000	537,062,000	52.82
Market Levies	1,617,960,000	853,536,000	52.75
Fees and Charges	809,000,000	644,907,000	79.72
Banners and Bill Boards	502,301,000	386,442,000	76.93
Plot Premium	1,500,000,000	1,237,533,000	82.50
Sundry Grant Aid	2,500,000,000	666,000,000	26.64
Toll Gates Income	2,000,000,000	0	0
Other Incomes	6,030,718,000	3,837,200,000	63.63
TOTAL	**30,675,387,500**	**25,206,392,000**	**82.17**

- **Expenditure**

	Budget (K)	Actual (K)	Performance (%)
Employees	20,966,632,000	16,657,326,216	79.45
Premises	1,370,983,000	774,321,600	56.48
Supplies and Services	2,751,689,000	662,645,000	24.08
Plant and Transport	2,131,697,000	2,477,894,000	116.24
Establishment	2,525,590,000	2,402,923,000	95.14
Miscellaneous	974,306,000	831,952,767	85.39
RCCO	5,120,000,600	1,141,907,000	22.30
TOTAL	**35,840,897,000**	**24,948,969,583**	**69.61**

2008 Budgetary Performance

- **Revenue**

Source	**Budget** (K)	**Actual** (K)	**Performance** (%
Owners Rates	15,684,643,000	13,278,682,000	84.66
Standing Charges	1,134,400,000	235,772,000	20.72
Bus stations Fee	3,000,000,000	2,584,716,000	86.16
Personal levy	661,695,000	494,836,000	74.79
Licence fees	1,216,800,000	892,287,000	73.32
Market Levies	1,676,618,000	910,737,000	54.32
Fees and Charges	1,802,240,000	691,308,000	38.36
Banners & Bill Boards	1,800,000,000	246,779,000	13.71
Plot Premium	2,800,000,000	1,820,838,000	65.00
GRZ/Sundry Grant Aid*	726,000,000	1,000,000,000	137.74
Toll Gates Income	0	0	0
Other Incomes	11,153,129,000	3,608,574,680	32.35
TOTAL	**41,655,525,000**	**25,764,529,680**	**61.85**

*The actual income under GRZ/Sundry Grant Aid comprised the Recurrent Grant (K400,000,000), General Grant (K400,000,000) and Squatter Upgrading Grant (K200,000,000).

- **Expenditure**

	Budget (K)	Actual (K)	Performance (%)
Employees	20,930,632,000	18,792,623,128	89.78
Premises	2,082,799,000	350,630,300	16.81
Supplies and Services	2,851,092,000	664,568,700	23.29
Plant and Transport	5,361,717,000	1,351,704,000	25.20
Establishment	3,799,575,000	2,632,832,400	69.29
Miscellaneous	1,633,410,000	972,721,200	59.52
RCCO	4,996,300,000	514,290,000	10.29
TOTAL	**41,655,525,000**	**25,279,369,728**	**60.69**

The estimated total expenditure for the year 2008 was K41,655,525,000 out of which K25,279,369,728 was spent, representing about 60.69 percent performance against budget as shown in the table above *(ii) Livingstone City Council*

Income and Expenditure Statement – 2007

REVENUE

		Budgeted	Actual	Variance
A	Local Taxes	6,782,762,928.00	3,112,779,454.47	3,669,983,473.53
B	Charges	2,791,270,572.00	2,780,436,640.99	10,833,931.01
C	Other Receipts (e.g health permits, etc)	1,367,430,000.00	465,301,190.58	902,128,809.42
D	National Support (incl CDF)	290,000,000.00	882,388,985.50	-592,388,985.50
	GRAND TOTAL	**11,231,463,500.00**	**7,230,906,271.54**	**4,000,557,228.46**

EXPENDITURE

		BUDGET	ACTUAL	VARIANCE
A	Personal Emoluments	3,249,050,190.00	2,722,916,644.00	526,133,546.00
B	Premises	364,957,500.00	314,340,937.83	50,616,562.17
C	Vehicle Plant & Equipment	335,675,000.00	859,573,761.49	-523,898,761.49
D	Administrative Expenses	357,066,500.00	346,827,180.96	10,239,319.04
E	Provision of Services	4,342,919,245.00	1,225,541,803.71	3,117,377,441.29
F	Other Expenses	639,470,750.00	877,380,881.94	237,910,131.94
G	R C C O	608,330,000.00	49,415,000.00	558,915,000.00
H	CONSTITUENCY DEVELOPT FUND	260,000,000.00	400,000.00	59,600,000.00
I	Accrued Expenditure	1,273,994,315.00	1,394,218,766.09	-120,224,451.09
	GRAND TOTAL	**11,231,463,500.00**	**7,412,480,019.36**	**3,818,983,480.64**

Income and Expenditure Statement - 2008

REVENUE

		Budgeted	Actual	Variance
A	Local Taxes	9,510,820,950	6,370,077,646	3,140,743,303
B	Charges	2,499,749,572	2,261,480,761	238,268,811
C	Other Receipts	1,378,308,194	834,464,698	543,843,496
D	National Support	760,000,000	3,135,705,603	2,375,705,603
	GRAND TOTAL	14,148,878,716	12,601,728,708	1,547,150,008
	EXPENDITURE			
A	Personal Emoluments	4,331,356,895	3,832,529,977	498,826,918
B	Premises	200,470,500	421,570,083	221,099,583
C	Vehicle Plant & Equipment	459,890,000	347,171,252	112,718,748
D	Administrative Expenses	417,013,700	385,376,047	31,637,653
E	Provision of Services	5,613,555,618	3,484,584,112	2,128,971,507
G	R C C O	3,126,592,003	3,496,330,735	-369,738,732
	GRAND TOTAL	**14,148,878,716**	**11,967,562,205**	**2,181,316,511**

(iii) *Nakonde District Council*

- **Revenue 2007**

	Estimates	**Actual Income**		
Income	**For 2007 (K)**	**For the Year (K)**	**%**	**Variance (K)**
1. Local Taxes	1,992,816,000.00	2,929,443,215.93	75	(936,627,215.9)3
2. Charges	428,240,000.00	430,807,944.00	11	(2,567,944.00)
3. Other Income	77,000,000.00	73,753,831.81	2	3,246,168.19
4. National Support	425,914,000.00	470,000,000.00	12	(44,086,000.00)
Grand Total	**2,923,970,00.00**	**3,904,004,991.74**	**100**	**-980,034,991.74**

- **Expenditure -2007**

	Estimates for 2007 (K)	**Actual Expenditure for the Year (K)**	**%**	
Code and Details				**Variance (K)**
1. Personal Emoluments	1,134,537,000.00	1,901,253,941.53		(766,716,941.53)
2. Premises	49,630,000.00	68,162,300.00		(18,532,300.00)
3. Supplies & Services	107,047,000.00	147,027,663.00		(39,980,663.00)
4. Vehicles, Plant, Eqpmnt	105,240,000.00	214,532,235.00		(109,292,235.00)
5. Provision of Services	1,155,066,00.00	773,912,229.00		381,153,771.00
6. Miscellaneous Expenses	292,450,000.00	383,776,401.25		(91,326,401.25)
7. Revenue Contr to Capital	80,000,000.00	67,514,800.00		12,485,200.00
Grand Total	**2,923,970,000.00**	**3,556,179,569.78**		**632,209,569.78**

- **Revenue - 2008**

	Estimates	**Total Income**	
Details	**For 2008 (K)**	**To date (K)**	**Variance (K)**
1.Local Taxes	3,041,140,000.00	3,405,694,408.70	(364,554,408.70)
2 Charges	501,875,000.00	153,520,425.00	348,354,575.00
3. Other Income	128,000,000.00	85,497,998.79	42,502,001.21
4. National Support	350,000,000.00	493,665,368.00	(143,665,368.00)
Grand Total	**4,021,015,000.00**	**4,138,378,200.49**	**- 117,363,200.49**

Expenditure - 2008

Code & Details	**Estimates For 2008 (K)**	**Actual Expenditure for The Year (K)**	**Variance (K)**
1. Personal Emoluments	1,544,000,000.00	2,121,073,132.48	(577,073,132.48)
2.Premises	66,500,000.00	76,643,436.52	(10,143,436.52)
3 Supplies & Services	143,240,000.00	190,570,472.00	(47,330,472.00)
4. Vehicles, Plant & Equipment	125,000,000.00	216,423,900.00	(91,423,900.00)
5. Provision Of Services	1,672,680,000.00	1,195,007,699.73	477,672,300.27
6.Miscellaneous Expenses	409,595,000.00	361,875,166.68	47,719,833.32
7. Revenue Contrib To Capital	60,000,000.00	101,662,500.00	(41,662,500.00)
Grand Total	**4,021,015,000.00**	**4,263,256,307.41**	**- 242,241,307.41**

(iv) Mpulungu District Council

Budgetary Performance 2007

RECEIPTS C0DE	**HEADS/SUBHEADS**	**APPROVED BUDGET 2007**	**ACTUAL AS AT 31/12/2007**	**%**	**BALANCE (variance)**
1	LOCAL TAXES	1,128,056,081.00	836,301,463.26	74.14	291,754,617.74
2	CHARGES	422,370,000.00	247,344,300.00	58.56	175,025,700.00
3	OTHER RECEIPTS	441,955,000.00	45,588,800.00	10.32	396,366,200.00
4	NATIONAL SUPPORT	504,000,000.00	756,213,879.40	150.04	252,213,879.40
	GRAND TOTAL	**2,496,381,081.00**	**1,885,448,442.66**	**75.53**	**610,932,638.34**
EXPENDITURE C0DE	**HEADS/SUBHEADS**	**APPROVED BUDGET 2007**	**ACTUAL AS AT 31/12/2007**	**%**	**BALANCE (variance)**
1	PERSONAL EMOLUMENTS	695,737,846.00	842,107,211.66	121.04	146,369,365.66
2	PREMISES	44,542,500.00	30,084,217.66	67.54	14,458,282.34
3	VEHICLE, PLANT & EQUIP.	173,270,000.00	92,086,460.00	53.15	81,183,540.00
4	SUPPLIES & SERVICES	51,813,000.00	44,460,100.00	85.81	7,352,900.00
5	PROVISION OF SERVICES	976,203,035.00	212,881,095.13	21.81	763,321,939.87
6	OTHER EXPENSES	288,810,500.00	156,601,835.53	54.22	132,208,664.47
7	DEBT REDEMPTION	266,004,200.00	173,695,247.72	65.30	92,308,952.28
	GRAND TOTAL	**2,496,381,081.00**	**1,551,916,167.70**	**62.17**	**944,464,913.30**

Budgetary Performance 2008

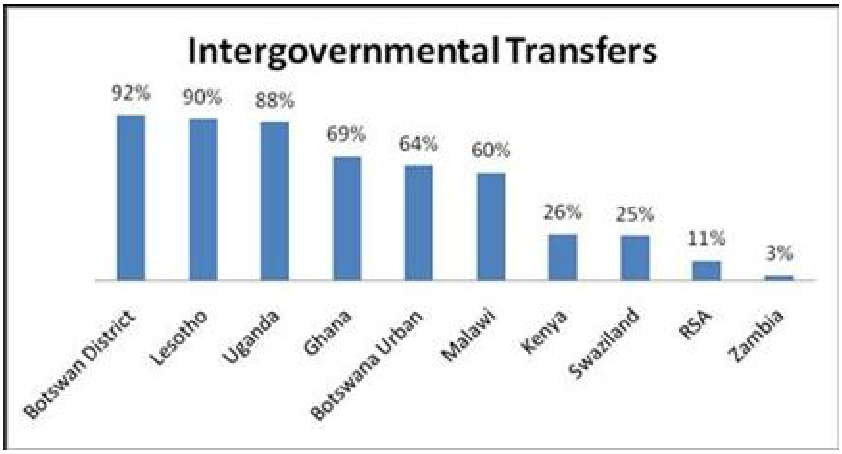
RECEIPTS C0DE	HEADS/SUBHEADS	APPROVED BUDGET 2008	ACTUAL AS AT 31/12/2008	%	BALANCE (varriance)
1	LOCAL TAXES	1,173,041,995.00	774,002,311.04	65.98	399,039,683.96
2	CHARGES	445,230,000.00	211,066,096.09	47.41	234,163,903.91
3	OTHER RECEIPTS	117,939,400.00	42,964,660.00	36.43	74,974,740.00
4	NATIONAL SUPPORT	781,842,774.00	882,903,474.72	112.93	101,060,700.72
	GRAND TOTAL	**2,518,054,169.00**	**1,910,936,541.85**	**75.89**	**607,117,627.15**
EXPENDITURE C0DE	**HEADS/SUBHEADS**	**APPROVED BUDGET 2008**	**ACTUAL AS AT 31/12/2008**	**%**	**BALANCE (varriance)**
1	PERSONAL EMOLUMENTS	855,312,464.00	642,184,844.66	75.08	213,127,619.34
2	PREMISES	41,523,500.00	17,419,992.55	41.95	24,103,507.45
3	VEHICLE, PLANT & EQUIP.	175,537,354.00	99,749,170.00	56.83	75,788,184.00
4	SUPPLIES & SERVICES	47,421,000.00	37,822,425.00	79.76	9,598,575.00
5	PROVISION OF SERVICES	1,007,245,500.00	288,760,677.73	28.67	718,484,822.27
6	OTHER EXPENSES	246,100,000.00	156,868,947.07	63.74	89,231,052.93
7	DEBT REDEMPTION	144,914,351.00	54,013,425.90	37.27	90,900,925.10
	GRAND TOTAL	**2,518,054,169.00**	**1,296,819,482.91**	**51.50**	**1,221,234,686.09**

Information made available to your Committee was that the main sources of revenue for local authorities were property rates, levies, fees, charges and grants. It was evident from the budgets of the selected local authorities which were examined by your Committee that local taxes provided the bulk of all the revenue sources at their disposal and, of these, rates or property tax remained the stable and most reliable source. It was reported to your Committee that in case of local authorities in the rural areas, crop levy was a major source of revenue, but it was not buoyant, as revenues tended to be unstable on account of weather fluctuations. The other source, apart from local taxes, was in form of Government grants. The grants were classified as follows:

- Recurrent grants;
- Restructuring grants;
- Capital grants; and
- Grants in lieu of rates.

Your Committee observed that grants in lieu of rates should not be classified as grants because these were payments for government properties which were captured in the valuation rolls of various local authorities. In any case, the contribution of Government grants to the revenues of the local authorities whose budgets your Committee scrutinised was very low at 4% for Kitwe, Livingstone 1.7% and 12% for Nakonde during 2007 and 2008. In fact, available statistics indicated that national support to local government in Zambia was a meager 3% as illustrated in the bar chart set out below, depicting a comparative analysis among some Commonwealth countries.

Comparisons



Source: Commonwealth Local Government Handbook, 2007

Expenditure Responsibility

10. Your Committee noted that the income generated by local authorities was used to meet operational expenses, provision of basic services such as building and maintenance of infrastructure, community development and implementing all aspects of Government policies at local level, including personal emoluments for all local authority staff. In this regard, local authorities were obliged to follow regulations laid down in the *Local Government Act*, as well as guidelines issued by the Ministry of Local Government and Housing from time to time. According to guidelines issued by the Ministry of Local Government and Housing, expenditure on personal emoluments had to be limited to 40% of the total local authority budget.

In terms of capital expenditure, it was sadly noted by your Committee that none of the local authorities selected for this study were able to undertake major capital projects because the amounts of money required were too large and, therefore, difficult, if not impossible, to be mobilised from local revenue sources. Some selected local authorities such as Kitwe and Livingstone were able to defray the cost of smaller capital works as revenue contribution to capital outlay (RCCO) but they had to seek funding from other sources such as cooperating partners for larger capital projects. For example, in the case of Kitwe, an attempt was made to seek donor funding for the construction of the bridge across the Kafue River in the sum of K36.9 billion, although this was not actualised. Similarly, infrastructure rehabilitation and development in Livingstone was undertaken, but this could only be done with the support of the World Bank in the sum of $4.2 million.

Constraints in Budgetary Performance of the Ministry of Local Government and Housing and Selected Local Authorities

11. Your Committee noted that the Ministry's budget performance during the period under review was predicated upon the execution of the budget as a whole. By and large, the good performance of the overall budget in 2007 also accounted for the high level of releases recorded under Heads 29 and 20. Your Committee were informed that, on the contrary, a number of unforeseen expenditures that had to be accommodated within the budget in 2008 adversely affected programme implementation in the Ministry. These included a larger-than-planned civil service wage award, Presidential elections and augmentation of resources to the Fertiliser Support Programme in 2008. These unplanned expenditures meant that the Treasury could only release 71.4 percent of the amount budgeted under Head 29 and 53.6 percent of the domestically financed amount under Head 20.

Your Committee further observed that while local authorities countrywide continued to derive most of their income from local sources, the financial base of the local government system, which was a critical aspect of their survival, was depleted, partly because of Government policies over a number of years. Information presented to your Committee revealed that there were various factors affecting the budgetary performance of the local authorities. Generally, there was a difference in terms of buoyancy of the tax base of large local authorities and the extent to which small rural municipalities could raise funds from their communities. The major constraints are set out hereunder.

(i) Public Apathy to Pay for Services – All the selected local authorities experienced low revenue collection rates, mainly as a result of a negative public attitude towards payment for services. This could partly be attributed to local authorities' failure to provide adequate services because of the depleted revenue base but the other contributing factor was the bad publicity to which the local government system was subjected. As a matter of fact, it was disappointing to note that even some Government leaders, who were better placed to understand the challenges confronting local government, contributed significantly to the bad publicity that the local authorities had been subjected to over a long period of time.

(ii) Depleted Local Revenue Base – Your Committee noted that the revenue base of the local government system had been depleted as a result of centralistic Government policies over a long period of time. These policies had led to the most buoyant revenue sources being centralised at Government level or through the creation of single service bodies. Examples of these were trading revenues from electricity, water, house rentals and motor vehicle road tax. The options left in terms of local revenue sources were not sufficient to meet the costs of service delivery for local authorities.

(iii) Ministerial Directives – The depleted revenue base of local authorities was exacerbated by the fact that the few remaining sources of revenue for local authorities were subject to approval by the central Government who sometimes made arbitrary decisions not to allow the local authorities to impose new levies or increase existing ones.

(iv) In some cases, decisions were made to suspend or scrap certain levies without substituting them with new sources of revenue or increased Government grants. Further, there were no consultations undertaken with the local authorities before these decisions were made, thereby distorting the local authorities' revenue collection projections as this was usually done when the local authorities' budgets were already approved and in the implementation process. An example of such a situation included the fish levy charged to fish traders who procured fish from Mpulungu Harbour. The Ministry of Local Government and Housing had for a long time refused to allow the local authority to increase the levy from the current K500 despite the price of fish having risen from K2,500 to K14,000 per kilogramme during the same period. Another instance was that of the directive to councils countrywide midway through the 2008 financial year to reduce and standardise monthly rentals paid by private mobile telephone companies countrywide for their masts to K4.5 million per month. In Mpulungu, one of the mobile telephone companies had previously been paying K15 million as per agreement with the local authority and the Council had budgeted with this amount in mind. This instruction, therefore, had a negative impact on the revenue position of the Council and subsequently on the Councils' capacity to provide services to the community.

(v) Cumbersome Valuation Roll Updating Procedures – The provisions of the *Rating Act*, which regulated the updating and approval of valuation rolls, had the effect of making this source of revenue for local government inelastic. For example, Nakonde District Council was still using the valuation roll for Isoka after several years of its secession from that district. This was despite Nakonde District Council having made several attempts to have its own valuation roll in place. Needless to say, property rates were a potential source of revenues which could significantly improve the financial position of these local authorities.

(vi) Defaulting by Government Departments – Your Committee observed that one of the major sources of revenue for local authorities was rentals from various buildings owned by these local authorities. However, in many cases, Government departments occupying council buildings defaulted in paying the monthly rentals, resulting in colossal amounts of unpaid arrears. This further narrowed the revenue sources available to the local authorities.

(vii) Unpredictable and Late Release of Government Grants – The guidelines issued by the Ministry of Local Government and Housing on budgeting for local authorities did not include an indicative level of Government grants. This made it difficult to predict revenue inflows from central transfers. The situation was compounded by late release, or non-release at all, of such grants. This was clearly evident in the budgets for Kitwe and Nakonde Councils, which revealed that the grants in lieu of rates were not received by these local authorities during the 2008 fiscal year. In this regard, it was sadly noted by your Committee that in some cases, grants to local authorities were not disbursed but diverted to other programmes at the discretion of the Ministry of Local Government and Housing. For example, in the past few years, the Ministry of Local Government and Housing had used Councils' grants to purchase vehicles for programmes such as the Make Zambia Clean and Healthy Campaign. Admittedly, this was a good and important programme, but it was done without prior consultation with and consensus of the local authorities. Further, information available indicated that 100 hearses had been purchased for all the local authorities in the country from grants. Again, as much as this was one of the responsibilities of local authorities, there were other programmes which were of a higher priority which the local authorities could not undertake due to this diversion of the requisite funds.

(viii) Late Approval of Budgets – The late approval of local authority budgets by the Ministry of Local Government and Housing, even when these were submitted on time, had a very devastating effect on the performance of local authorities' budgets. For example, the budgets for Kitwe and Livingstone City Councils for the fiscal year 2008 were approved in October and September, 2008 respectively. This meant that in terms of revenue, the collections were only effected for the remaining three and four months of the year respectively and this contributed to the low revenue collection recorded by the two Councils during that fiscal year.

(ix) Government Policy Changes – Your Committee were concerned that some of the policy changes introduced by the Government without consultation with the local authorities over the years had compounded the historically poor fiscal position of many local authorities. One example was the decision to retire all officers who had rendered twenty two or more years of service to the local authorities. The decision was not coupled with a provision of resources to cater for the separation packages. As Councils were not consulted before the decision was made, no resources were set aside by the local authorities to meet this expenditure, resulting in the accumulation of debts to the former employees. Another policy decision was that of the sale of council houses below market prices. This resulted in local authorities incurring huge costs for processing of title deeds in favour of the sitting tenants as most of the houses were sold for far less than even the cost of processing title deeds. This decision was also taken without consulting the local authorities, and, hence, its implementation and the associated costs were not planned for, and this contributed significantly to the accumulation of debts of the local authorities. Further, the policy decision and directive to transfer certain assets to newly created water utility companies while the councils retained all liabilities, including staff liabilities, meant that the councils' debt portfolio grew even bigger. As much as these decisions may have had their merits, proper planning with regard to how to handle the resultant liabilities would have helped to keep the local authorities financially stable.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

12. In light of the foregoing concerns with regard to the budgetary performance of the Ministry of Local Government and Housing and the selected local authorities, your Committee note that the situation prevailing in the Zambian local government system is grave and constitutes an emergency. In order to effectively address the problems facing all local authorities in the country, it is necessary to urgently address the major concerns highlighted in your Committee's Report. In doing so, the issues set out hereunder need to be addressed.

(i) Improved Planning Processes – From the outset, your Committee wish to stress that there is need for the Government to improve the planning processes and to adhere to laid down plans if such plans are to achieve their objectives. For example, your Committee do not agree that the need to allocate adequate budgetary funding to the Fertilizer Support Programme could not be anticipated during the planning and budgeting period. As such, and as important as this Programme is, they do not support the practice of financing it at the expense of other equally important programmes in the local government sector. The Fertilizer Support programme is a long-standing Government programme which should be adequately planned and budgeted for without resorting to supplementary funding because the Government is aware of how many farmers are eligible for support under the Programme. Therefore, your Committee call for an immediate end to the practice of diverting funding from local government to other non-emergency programmes.

(ii) Inter-governmental Fiscal Architecture – There is need to accelerate the development and implementation of the Inter-governmental Fiscal Architecture, envisaged by the Ministry of Finance and National Planning, which is expected to address, among other things, the equitable sharing of centrally collected revenues and taxes between central government and local government in line with the responsibilities of these two levels of Government. Your Committee direct that they be availed a progress report on the matter.

(iii) Constitutional Entrenchment of the Principles, Functions and Funding for Local Government – It is necessary that the principles, functions and funding for local government are fully entrenched in the Zambian governance system. Without this, the system of local government will remain unsustainable and even vulnerable to political machinations. Your Committee note that some proposals in relation to this have already been made in the Mung'omba Draft Constitution and these will be considered by the National Constitutional Conference (NCC) in due course. In view of the fact that the entrenchment of the principles of an equitable system of the inter-governmental fiscal relations is critical to the survival of the local government system, your Committee hope that this matter will be seriously deliberated upon by the NCC and resolved expeditiously. Your Committee will await a progress report on this matter.

(iv) Level of Administration Costs Vis-à-Vis Service Provision – Your Committee wish to place on record their disappointment that some of the local authorities whose budgets they reviewed spent an inordinately large proportion of their budgets for 2007 and 2008 on personal emoluments. In particular, your Committee note that Kitwe City Council spent well over 50 percent of their budgets on personal emoluments in both 2007 and 2008. This is unacceptable and should not be allowed as these Councils' priority should be service provision. Your Committee reiterate the need for this priority to be exhibited in the manner resources are apportioned to various activities. They strongly recommend that the Government should ensure that all councils adhere to the guidelines of spending at least 60 percent of their budget on service provision.

(v) Public Apathy to Pay for Services – Your Committee agree that the level of public service provision by local authorities countrywide is so low that it does not inspire confidence among citizens. Therefore, most Zambians do not feel obliged to pay for these non-existent services. Your Committee call on all local authorities countrywide to show commitment in the provision of services to their communities in line with their mandate. In this regard, your Committee re-emphasise the need to allocate a higher proportion of resources to service provision than to personal emoluments.

(vi) Timely Disbursement of Grants – Your Committee urge the Government to timely release grants to local authorities in order to enable the local authorities undertake their functions effectively.

(vii) Timely Payment of Rentals by Government Departments – Your Committee emphasise that the Government must ensure that all its departments settle their rental bills with the respective landlords, who happen to be the local authorities, in a timely manner so that the liquidity situation of these local authorities is not adversely affected.

Your Committee, in this light, also call upon all local authorities to make more concerted efforts towards clearing arrears to statutory bodies such as Local Authorities Superannuation Fund (LASF), National Pension Scheme Authority (NAPSA) and Zambia Revenue Authority (ZRA). Your Committee urge the Ministry of Local Government and Housing to mete out disciplinary action against any councils which will utilise funds meant to meet these liabilities on other activities.

(viii) Amendment of the *Rating Act* and Preparation of Valuation Rolls – Your Committee recommend that in an effort to boost the revenue base of councils, the *Rating Act* should be reviewed in order to address the concerns of local authorities. In the same vein, your Committee implore the Government to render urgent assistance to all seventy two local authorities countrywide with a view to ensuring that each of them has an up-to-date valuation roll as this is a potential substantial source of revenue for local authorities.

(ix) Need for Local Authorities to Open up Land for Development - Your Committee implore all the local authorities countrywide to make efforts to open up land for development and not wait for central Government to do this for them. Further, local authorities should play a proactive and not reactive role in efforts to attract investment in their areas. It is only when such efforts of local authorities are noticeable that residents will willingly pay for local services.

(x) Funds for Capital Projects – Your Committee sadly note that currently, local authorities do not have the capacity to raise funds for capital projects considering that most of their properties, such as housing estates, which they previously used as collateral for borrowing, have been sold. Your Committee, therefore, recommend that the Government should assist local authorities by guaranteeing or providing loans to the local authorities for major capital projects at concessionary rates as was the case in the past.

(xi) Deadline for budget approvals – Your Committee strongly condemn the incessant delays in the approval of local authorities' budgets by the Ministry of Local Government and Housing. In this regard, they strongly recommend that consideration and approval of budgets for local authorities should be done within the first quarter of each financial year at the latest. In the same vein, your Committee implore the local authorities to ensure that their proposed budgets are submitted in time, and in conformity with ministerial directives, failure to which disciplinary action should be taken against all erring officers.

(xii) Government Policy Changes and Ministerial Directives – Your Committee strongly advise the Ministry of Local Government and Housing to exercise their supervisory jurisdiction over the local authorities carefully and in full consultation with the local authorities. This will avert the imminent financial collapse of the local government system caused by the imposition of ministerial directives without due consideration of the actual situation prevailing in these local authorities. In the same vein, your Committee implore the Government to thoroughly evaluate the impact that intended policy changes are likely to have on the operations of local authorities and to take measures to mitigate such impact. Your Committee emphasise that the local government system is an integral part of the Zambian Government and should be seen and treated as such by all, especially Government officials and functionaries. Your Committee condemn in the strongest terms the apparent inclination on the part of central Government to abandon the local authorities to their own devices as if they were non-governmental entities when in fact they play a critical complementary role in the provision of various public services.

In a nutshell, your Committee strongly stress that the fundamental constraints highlighted in this report adversely affect the budgetary performance of local authorities and their capacity to provide the much-needed services to the various communities that they are meant to serve. Most of these constraints are related to lack of government support in terms of funding and general lack of political will to implement policies and laws that could give effect to the Councils' proper management and administration of financial affairs. In this regard, they call for decisive action by the Government to ensure that this situation is addressed as a matter of urgency.

PART B: A STUDY OF EFFORTS BEING TAKEN TO BROADEN THE TAX BASE AND ENHANCE THE CONTRIBUTION OF NON-TAX REVENUE TO NATIONAL INCOME

13. Your Committee noted that increasingly, there had been demands for the Government to increase public expenditure, particularly, in key social and economic sectors such as health, education, agriculture, water and sanitation. The Government had, therefore, been compelled to increase its revenue yield. Since it had been difficult to increase internal or external borrowing and no new tax sources had been identified, Government's response to the fiscal squeeze had

been to keep on increasing the taxes paid by the small proportion of formal sector operators. Additionally, an analysis of the tax structure revealed that personal income tax contributed a higher proportion to national revenues than did corporate tax. In fact, in the 2007 budget, while the contribution of workers to tax revenue through Pay As You Earn (PAYE) amounted to 27 percent, corporate enterprises contributed a paltry 12 percent with the mining industry, which was enjoying unprecedented windfall profits, contributed a measly 1 percent. Your Committee noted that the situation was exacerbated by the fact that in the quest to create an enabling environment to attract foreign direct investment, Government had lost access to significant revenue sources through the granting of generous tax incentives, concessions, rebates, breaks and holidays, which practice had contributed to eroding the tax base even further. The small tax paying population in Zambia was, therefore, over-taxed, and this created an incentive for possible tax evasion. Moreover, a majority of informal sector operators were neither registered for tax, nor did they actually pay any direct tax despite the fact that they generated substantial incomes.

Further, it had been argued that substantial increases in the national incomes were potentially available from non-tax revenues, which may consist of fees and fines for public services, such as visa and land registration fees, among others. However, it had been observed that charges for various public services in Zambia were lower than economic costs and even lower than the cost of maintenance of the infrastructure used in the provision of these services. In some cases, no charges were payable for use of certain public infrastructure. A good example in this regard was the absence of toll gates countrywide despite the country's roads being used as transit routes for the transportation of various goods across the region. There were also problems associated with revenue leakages through corruption.

In light of the foregoing concerns, your Committee resolved to focus their attention on the need to broaden the tax base and increase the contribution of non-tax revenue to national income. The objective in seeking to broaden the tax and non-tax revenue bases would be to secure a steady and more predictable source of revenue and reduce dependence on more volatile revenue sources, such as trade taxes, which were susceptible to external shocks. It was also hoped that in this way, the outcome of your Committee's work would contribute to mitigating the adverse impact of the volatility and uncertainty in aid flows which often complicated budget execution. It was also envisaged that broadening the tax base would contribute to the country's revenues and also create space for lowering taxes while still collecting the same level of resources at a lower tax rate.

During the deliberations, your Committee were informed that taxation remained the main source of Government revenues in Zambia, and until alternative sources of Government finances were found, it would remain an important tool for mobilising resources to run the Government structure. This was not unique to Zambia as many other countries, including developed ones, depended heavily on taxes. In Zambia, like in many other countries, taxes were levied on income, consumption of goods and services and international trade transactions, among others. Your Committee also learnt that the tax base of a country was determined by the total value of goods and services that were produced and imported into the economy as well as the growth rate of the economy. Economic growth expanded the tax base by increasing the income levels of producers and workers and the quantity of goods and services produced and consumed domestically. The tax base of a country could also be broadened through policy by bringing into the tax net goods and services that were currently outside the net. In Zambia, the Zambia Revenue Authority was responsible for collecting tax revenues, while various Government ministries were in charge of collecting non-tax revenue.

MEASURES BEING TAKEN TO BROADEN THE TAX REVENUE BASE

14. Your Committee were informed that the Ministry of Finance and National Planning had plans to broaden the tax base in order to achieve higher revenue collections for the Government and create space to lower taxes. The efforts under consideration were planned to be implemented through the revision of relevant tax legislation, including the issues set out hereunder.

a) *Revising the Value Added Tax Act* – This would be done in order to increase the number of goods and services that were standard rated at 16 percent. Efforts would also be made to resist pressures to add more goods and services, which were currently vatable, to the list of zero-rated or exempt supplies;

b) *Reducing the Number of VAT Exempt Goods and Services* – there was need to reduce the number of VAT exempt goods and services, which currently included items such as books, magazines and newspapers, food and agricultural products, water and sewerage and domestic transportation;

c) *Undertaking consultations with stakeholders* **-** taxpayers and other stakeholders would be consulted on proposals for broadening the tax base; this process was intended to involve the general public in tax and non-tax measure policy formulation;

d) *Eliminating all Unwarranted Exemptions on Imports* – This would be done in order to increase the number of goods and services on which taxes could be collected; and

e) *Resisting Pressure to Re-introduce Incentives* – The Government would aim to resist pressure to re-introduce extensive generous and discretionary tax incentives based on tax holidays and rate reductions, because these were cost ineffective, they enhanced economic distortions, were inequitable and tended to complicate tax administration.

Milestones Achieved

Your Committee learnt that in the quest to broaden the tax base, the Government had so far achieved the following:

- *VAT Sensitisation Campaigns* **-** Campaigns carried out by the Zambia Revenue Authority to sensitise the public on the benefits of demanding Value Added Tax receipts had helped to improve the performance of domestic VAT collections.

- *Introduction of Presumptive Tax* **-** One of the most vexing problems in the country had been how to expand the tax base beyond the formal sector. The broad base of the VAT and the income taxes made them most suitable as effective contributors to tax revenue. However, taxpayers paying Pay As You Earn (PAYE) were understandably resentful at having to carry such a large proportion of the burden. But the Government recognised that many producers, traders and self-employed persons in the informal sector had lower incomes than those in the formal sector, hence, it was not feasible to assume that the application to them of the same tax regime as was applied in the formal sector would increase revenue in proportion to their relative numbers. It was, however, acknowledged that there was certainly quite a significant tax base in the informal sector and, in the interests of efficiency, equity and revenue, it was important to attempt to capture as much of it as possible.

However, the Committee were informed that the basic problem was one of capturing the informal sector at the minimum cost of administration. Those in the informal sector were not expected to observe the complicated record-keeping standards required for the application of such taxes as VAT and income tax, thus, the presumptive tax had been introduced to capture taxpayers in the informal sector while at the same time trying to minimise the cost of administration. Presumptive taxation referred to simplified and cost-effective schemes for taxing small and medium-sized businesses. There were different types of presumptive taxes, but Zambia had chosen two, namely:

(a) turnover tax on those below the VAT threshold of K200 million per annum as a replacement for both VAT and income tax; and

(b) standard assessment in the field of public passenger transport.

- *The Introduction of Advance Income Tax* - The introduction of Advance Income Tax was aimed at compelling non-registered traders, particularly, those involved in cross border trade, to register for income tax and pay their fair share of income tax. The treasury had witnessed an improvement in compliance among this category of taxpayers.

CONSTRAINTS TO BROADENING THE TAX BASE

15. Your Committee were informed that although the tax base of the country could be broadened through economic growth and a deliberate Government policy of bringing into the tax net goods and services that were not currently taxed, the practicality of this was constrained by many factors, as set out below.

(a) Increasing Tax Competition

The policy response to tax competition in the region, in an effort to attract foreign investment, was one of the major factors that had constrained efforts to broaden the tax base. In the recent past, the Zambian Government had become aggressive in attracting foreign investment through various tax concessions. These concessions, however, contributed to shrinking the tax base by excluding certain categories of taxpayers from the net. Examples included the reduction or removal of taxes by way of incentives to stimulate investment in the economy.

(b) Discrimination in the Treatment of Sectors for Tax Purposes

Another problem with the Zambian tax system emanated from the fact that the design of policy discriminated sectors for tax treatment, in an effort to assist the poor or to foster development. This contributed to the erosion of the tax base. For example, because the agriculture sector was considered one of the key sectors of the economy, the Government had lowered the tax rate payable as income tax by companies in the sector to 15 percent, compared to the standard rate of 30 percent applicable in other sectors. In most cases goods, equipment and some raw materials imported in this sector were duty free.

(c) Unemployment, Large Agriculture Sector and Dominance of an Informal Economy

The high level of unemployment in the country was one of the factors constraining efforts to broaden the tax base. This had given rise to an economy characterised by a large informal sector, which, by virtue of its nature, was unregistered and unregulated. These characteristics of this sector of the economy made it very difficult for the Government to collect taxes efficiently as there were no records of transactions. As most operators in the informal sector were of no fixed abode, they could not easily be located. Unfortunately, tax evasion increased with informality. Further, owing to their heavy reliance on the agriculture sector, most producers in this sector were peasant farmers who were not capable of keeping records of their transactions. Administering modern taxes such as presumptive taxes and VAT for such people was very difficult.

(d) Vulnerability of the Economy to External Factors

The heavy dependence on tax revenues from international trade transactions made the Zambian economy vulnerable to external shocks. Vulnerability of the economy to external factors implied that in many instances the Government had to reduce or remove taxes in response to rising prices of commodities on the international market, such as fuel and food. For instance in 2008, the Government removed duty on energy efficient equipment, to mitigate against the effects of the energy crisis; the removal of excise duty on kerosene; the reduction of excise duty on petrol from 45 to 36 percent through Statutory Instrument No. 100 of 2008; and the reduction of excise duty on diesel from 15 to 7 percent. While it was recognised that such measures constrained efforts to broaden the tax base, these measures also had the impact of mitigating the adverse effects on the poor arising from external factors.

(f) Taxpayer Response

Your Committee were informed that while Government aimed at formulating a broad based policy on taxation, these efforts were constrained by sentiments and pressure from taxpayers. There were numerous ways taxpayers could directly or indirectly enhance or place limits on government's taxing ability. These included direct initiatives through lobbying, advocacy and demonstrations. For example, in 2006, the Government, based on the review undertaken in collaboration with the International Monetary Fund, came up with certain tax proposals aimed at broadening the tax base. Partly because there were demonstrations and lobbying, all VAT proposals were rejected and dropped from the 2006 budget. In effect, this placed a limitation on the Government's ability to broaden the base by limiting the power to tax.

(g) Failure of the Tax System to Reach some Significant Taxpayers

Your Committee also noted the argument by some stakeholders that the tax system failed to reach or adequately tax landowners, foreign corporations and other wealthy individuals. In this regard, your Committee noted that a number of stakeholders pointed to possible transfer pricing practices being common among foreign corporations, particularly in the mining sector.

(g) Government Liberalisation Policy

Your Committee noted that trade liberalisation and tariff reduction deprived local investors the opportunity of competing favourably on both the local and international markets and therefore compromised their capacity to contribute to tax revenues, further narrowing the tax base.

MEASURES BEING TAKEN TO ENHANCE THE CONTRIBUTION OF NON-TAX REVENUE TO NATIONAL INCOME

16. Your Committee were informed that the performance of non-tax revenue had not been impressive in that, in the last five years, collections had consistently fallen far below the budget projected figures. While non-tax revenues such as medical levy had met their quota, the fines and fees had not, despite the increases in the actual chargeable fees and fines. This indicated a serious flaw in the collection and accountability systems for non-tax revenue in general.

Your Committee were informed that in the area of non-tax revenue, the Treasury, in collaboration with collecting ministries, was undertaking the following activities:

a) putting in place measures to shorten the procedure of accounting for revenues collected before they could be channeled towards financing of revenue generating activities. For example, the appropriation-in-aid which allowed a revenue collecting department to retain part of the revenue collected in order to enhance revenue collection activities; this had made it easier for departments to have access to funding in order to meet their operational expenses;

b) conducting consultations with ministries and departments on how appropriation-in-aid could be best implemented since its re-introduction in 2005; these consultations were on-going;

c) undertaking measures to ensure strict regulation, harvest and export of Zambian forest resources, particularly, timber, so as to ensure that there was a corresponding gain to the country in terms of both revenue to the treasury and improved conservation of the forest resources;

d) implementing measures that would ensure prioritisation of revenue collection activities so that revenue collection agencies could be in a position to meet their revenue targets;

e) opening of transit accounts to reduce delays in banking of Government revenues;

f) holding refresher workshops and seminars for all non-tax revenue collecting staff on revenue collection; the seminars were also meant to remind officers on Government procedures of handling public funds in line with Financial Regulations;

g) through funding, taking steps to deal with the identified constraints of infrastructure, human resources and equipment, so that non tax revenue could begin to contribute significantly to national revenue and, eventually, contribute to the economic growth of the country. For example, the Immigration Department and Zambia Police had bought motor vehicles for revenue monitoring in an effort to enhance the provision of logistics for non-tax revenue collecting agencies;

h) gradual upward reviewing of charges, fees and levies to cost recovery levels as well as revising statutes to cover activities for which no payments were required for Government services rendered. Examples included the ongoing renewal of passports at revised rates. A cautious approach had been adopted with the pace and magnitude of the upward revision of fees, fines, charges and levies in order to avoid the possibility of the exercise having a negative impact on the economy. As such, Government had been revising the charges in phases and would continue to do so until all of them were updated;

i) revising a number of fees, fines charges and levies in departments and ministries and a number of these had seen an improvement in non-tax revenue collections compared to the previous years. Fees, fines, charges and levies revised so far included ground rent, survey and miscellaneous fees, road user fees, passport fees, visa fees, police clearance certificate fees, Interpol clearance fees, non-criminal finger print for employment fees; police clearance certificate of registration fees, police clearance fees for certificate for resident permits, and Zambian citizenship fees;

j) conducting quarterly revenue inspections to expeditiously resolve setbacks in revenue flows; and

k) introducing the Integrated Financial Management Information Systems (IFMIS) under the Public Expenditure Management and Financial Accountability (PEMFA) reforms would, among other things, allow for easier and automated tracking of revenue collections by Government agencies.

CONSTRAINTS TO BROADENING THE NON-TAX REVENUE BASE

17. Your Committee were informed that the major constraints to efforts being made to broaden the non-tax revenue base are as set out hereunder.

(a) Inadequate Funding to Revenue Collecting Departments

Owing to the limited budgetary resources available, most revenue collecting programmes were not funded adequately. The Government had also realised from their revenue monitoring visits in ministries, Provinces and Spending Agencies (MPSAs) that, although the treasury provided funding to revenue collecting institutions, revenue generating programmes were not given priority. In the light of this, the Ministry had, in recent budget Call Circulars, advised MPSAs to give priority to revenue generating programmes. It was also for the purpose of enhancing non-tax revenue collections that in 2006, the Government re-introduced appropriation-in-aid (AIA), partly to address this problem of lack of funding to revenue generating programmes. In the last two years, there had been a noticeable increase in non-tax revenue in some institutions which applied this AIA on revenue generating programmes. Since the AIA was in most cases appropriated at ministry headquarters, the treasury envisaged expanding it to the provinces where potential for more revenues had been identified.

(b) Poor Infrastructure

A well developed infrastructure was one of the key requirements for efficient and effective collection and depositing of non tax revenue. It was worth noting that Zambia still needed to develop her infrastructure, as the road network in outlaying areas was poor, some stations were still not computerised, borders remained porous, rural banks close to revenue collecting points were limited and, in some instances, these stations did not have safes. Further, some stations were not electrified, and so modern equipment using advanced technology could not be installed. As a result of the lack of the infrastructure necessary to support the mobilisation of non tax revenue, efforts to broaden both the tax and non-tax revenue base were constrained.

(c) Grant Aided Institutions Allowed to Retain Revenue

Institutions such as the Judiciary, Energy Regulation Board (ERB) and Zambia Wildlife Authority collected substantial amounts of money on behalf of the Government. Despite this, some of these institutions were also among the spending agencies that were funded by the central Government. While it was acknowledged that the aim of such funding was to ensure the smooth operation of the institutions, this negatively impacted on the Government's non-tax revenue base.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

18. Following their study, your Committee wish to make the observations and recommendations set out below.

(a) Expenditure vs Revenue in the Zambian Budget Process - Your Committee note that in the Zambian budgetary process, as well as in various Government operations, there is an over-concentration on the expenditure side of the budget and, as a result, the revenue side tends to be neglected. While appreciating the need for focus on the prioritisation of expenditure programmes, your Committee are of the view that there is urgent need to change this mindset among all concerned, so that revenue generation and related programmes receive adequate attention, particularly in the light of the fact that Zambia's over-reliance on unpredictable donor financing of the budget is increasingly proving to be unsustainable and the continued high levels of Government borrowing are economically untenable. They wish to be informed of Government's strategy in this regard.

(b) Taxation of the Gemstone Mining Sub-Sector - Your Committee observe that there is need to increase the Government's off-take from the gemstone mining sub-sector in terms of taxation and they insist that this is an achievable objective. They agree that currently, most gemstone miners operate in an informal manner, but stress that this need not continue to be the case as this is a fairly well organised industry and one through which the Government's revenue yield could be significantly increased. Your Committee are, in fact, shocked that while faced with serious deficits in successive budgets, the Government has not hitherto made any efforts to bring this sector into the tax net. In light of this, your Committee wish to reiterate that it is imperative for the Government to work out mechanisms of taxing the gemstone sub-sector without further delay. In this regard, your Committee call for close collaboration between the Zambia Revenue Authority, the Ministry of Mines and Minerals Development, which is the licensing authority for this sub-sector, and other stakeholders to generate and maintain an up-to-date and accurate database on the operators in the sector as well as their production levels and values for tax purposes. They note that gemstone mining operations are licenced by the Government to exploit minerals in specific geological areas which are known to the Ministry of Mines and Minerals Development and can easily be located through the use of geological maps. There should, therefore, be no excuse of failure to locate the gemstone miners for purposes of taxation. Further, the Government must seriously consider fencing off the gemstone mining areas and making them restricted areas so that there is strict control and accountability for all production and exports. They call for a serious study of management of gemstone mining in neighbouring countries such as Botswana, Namibia and South Africa who continue to earn large amounts of foreign exchange from this sector.

(c) Value Added Tax - Your Committee note that the domestic VAT contribution to total tax collected decreased from 38 percent to 28 percent over the period 1995 to 2007. They, therefore, recommend that a number of items which are currently exempt or zero rated under the VAT regime be considered for inclusion in the base. These could include certain food and agriculture products (excluding maize meal and other basic unprocessed foods) and packaged tours. VAT could also be charged on other services such as banking services; import cargo handling services; stock broking services; insurance services; and electronic media advertisements, among others. Considering that internet shopping is slowly becoming a trading point, the Government can also find ways of taxing this service and the activities connected to it.

(d) Re-activation of the Property Market - Your Committee implore the Government to re-activate the property market and collect appropriate taxes from this source through withholding tax. This tax has acquired added significance following the Government's policy on home ownership and sale of houses through which many urban residents have become real estate owners and have rented out their properties. Therefore, these new property owners are liable to pay withholding tax under the current *Income Tax Act*. Your Committee note that although withholding tax is not new in the Zambian tax system, it has not been effectively enforced. They are cheered by reports that ZRA is now re-emphasising its collection with a view to increasing compliance and wish to be availed a comprehensive report on these efforts.

(e) Making the Tax System More Progressive - Your Committee recommend that Government consider adjusting the income tax rate and introducing more progressiveness in the fiscal regime as a measure aimed at broadening the tax base.

(f) Taxing the Informal Sector – Your Committee note that the informal economy in Zambia currently accounts for a very large population of urban residents. Further, according to the Living Conditions Monitoring Survey (2004), 83 percent of the labour force in the country is engaged in some form of economic activity in the informal economy. Of this number, 56 percent are based in the urban areas. They emphasise that it is incumbent upon the Government to design policies aimed at imposing taxes on the informal sector in order to equitably distribute the tax burden, and to implement them with the requisite political will and resolve. This is the only way that the revenue targets under the Government's fiscal policy can be attained. While appreciating the efforts made in respect of Advance Income Tax, Turnover Tax and Presumptive Tax, your Committee maintain that these efforts are inadequate. They wish to be availed a comprehensive report on other initiatives being undertaken with a view to broadening the tax base.

(g) Import Duties – Your Committee note that the scope for eliminating import duty exemptions is limited as most of the foregone revenue is from protected items (by special agreements (such as in the mining industry) or conventions (diplomats)). The shift from trade taxes, like customs duties, to income taxes since 1994 had also been fueled to a significant extent by trade liberalisation arising from progressive tariff reductions under regional initiatives like COMESA, SADC and globally the World Trade Organsation and the European Union. However, your Committee maintain there are a number of exemptions that could be considered for elimination. Your Committee are concerned that there has been a proliferation of exemptions granted to various would-be taxpayers, pursuant to the provisions of Section 89 of the *Customs and Excise Act*, which gives the Minister powers to grant exemptions without recourse to Parliament. Your Committee further wish to stress that there is a critical need to be very strategic in giving incentives to foreign investors, particularly tax exemptions. Zambia needs to reduce tax incentives as this narrows the avenues for tax collection. Additionally, through tax cuts and frequent tax exemptions for foreign investors, developing countries, in this case Zambia, forego revenues without ensuring the corresponding development benefits of the investments thus promoted. They recognise that these incentives are not free as the Zambian Government has to give up some programmes which could benefit the majority of the population. They are of the strong view that rather than overloading the tax system with exemptions, it would be more effective for the Government to directly address impediments to investment, such as poor infrastructure and the high cost of doing business.

In light of the foregoing, your Committee urge the Government to review Section 89 of the *Income Tax Act* with a view of limiting its use.

(h) Improved Investment Policies – Your Committee are of the strong view that it is vital for the Zambian Government to sharpen the country's investment policies to place emphasis on local investors so that the country can retain and increase its investment capacity, unlike the current situation where most investors are non-resident and very easily leave the country at the first sign of turbulence in the economy, however temporary such turbulence may be. This way, the country will have a sure and stable source of revenues.

(i) Enterprise Promotion and Employment Creation – Your Committee implore the Government to galvanise the people of Zambia to seize available opportunities to create enterprises, for example by adding value to the agriculture produce. Zambia could take a leaf from other African countries such as Ghana and South Africa who produce drinks from locally grown fruits such as mangoes and pineapples. Such initiatives could have multiplier effects by creating employment in rural areas and adding value to excess produce that would otherwise go to waste. It is only when real jobs were created that the tax base will be broadened. Such initiatives would also result in increased incomes which would be available for the Government to impose taxes on. Your Committee note and appreciate the efforts being made under the Citizens Economic Empowerment Commission (CEEC) in this direction, but wish to emphasise that they find these efforts inadequate. There is need to urgently step them up if the overall objectives are to be achieved. They wish to be availed a full report on Government efforts and initiatives in this regard.

(j) Strengthening Revenue Administration - Your Committee reiterate that it is critical to strengthen revenue administration, especially in light of the recent decline in VAT yields. They note that ZRA has embarked on a modernisation programme, through the strengthening of tax enforcement and revenue collection. In the same vein, it is gratifying to note that a dedicated unit has been set up to administer taxation in the mining sector. They are hopeful that this measure will be coupled with a specialised audit unit so as to arrest the incidence of transfer pricing and boost tax collection. To facilitate this, some form of indicative price system should be introduced in the taxation of mining activity.

(k) Operational Funding for the Zambia Revenue Authority – Your Committee note that in order for the ZRA to operate efficiently and continue to exceed their collection targets as they have consistently done in the past, they need to have adequate operational funding. In this regard, they urge the Government to seriously and expeditiously consider the proposal made by the Authority to be allowed to retain a 2.5 percent of their collections to meet their operational costs. They will await a report on the matter.

(l) Enhanced use of Information and Communication Technology (ICT) – Your Committee implore the Government to facilitate the efficient and cost effective collection of non-tax revenue by encouraging and assisting revenue collecting departments to make full use of advanced ICT. They note that a number of the agencies have embarked on computerisation programmes to improve efficiency and ensure that their processes are cost effective as well as secure. These include the Road Transport and Safety Agency (RTSA), the Ministry of Agriculture (Land Registry), the department of Immigration and the Passports Office. It is gratifying to note that significant increases have been recorded in the non-tax revenue collections in these departments following the computerisation programmes.

(m) Collaboration among Non-tax Revenue Collectors – Your Committee urge the Government to encourage close collaboration among non-tax revenue collecting agencies through the utilisation of already existing revenue collection systems of other agencies to improve other agencies' revenue collection capacity. A case in point in this regard is the RTSA which uses the ZRA system to collect motor vehicle fees on importation. Further, your Committee note that proposals are being considered to have a single stop payment shop at the border posts for all border agencies so that all payments can be channeled through this single payment system. In the same vein, the issue of lack of or dilapidated infrastructure at Zambia's borders must be comprehensively and urgently addressed. Your Committee will await progress reports on these matters.

(n) Grant Aided Institutions Allowed to Retain Revenue – Your Committee note that this matter has been raised at various fora in the past, including in some of your Committee's previous reports. Your Committee wish to restate their dissatisfaction over the fact that grant-aided institutions are not only allowed to retain 100 percent of their collections for their administrative costs but, in addition, they still clamour for Government subvention. In this regard, your Committee wish to reiterate their recommendation that it is necessary for the Government to review the policy and legislation governing the utilisation of revenues collected by grant-aided institutions with a view to making necessary amendments aimed at ensuring that these revenues are accounted for through the treasury and benefit the ordinary Zambians through various projects.

PART C: FINDINGS FROM THE COMMITTEE'S LOCAL TOURS

19. In their quest to contribute to the improved revenue collection, your Committee toured some tax revenue collection facilities. The tour included visits to selected border posts. Further, pursuant to their study on the budgetary performance of the Ministry of Local Government and Housing, your Committee visited some local authorities. Their findings are set out below.

Border Posts

(a) Chirundu One Stop Border Post

20. The Station Manager, Zambia Revenue Authority, Chirundu, informed your Committee that the Chirundu One Stop Border Post (OSBP) was a COMESA initiative in the quest to advance the ongoing regional integration. The infrastructure was built with financial and technical assistance from the British aid agency, the Department for International Development (DFID) and Japanese aid through the Japanese International Cooperation Agency (JICA). Your Committee also learnt that Chirundu Border Post was the main entry point for commercial traffic entering Zambia from the south or proceeding through Zambia to the Democratic Republic of

Congo, Burundi, Rwanda, Tanzania, Kenya and Malawi. The Border was equally busy for traffic going in the opposite direction. It was learnt that the border post handled an average of 270 trucks per day, making it the busiest border point in Zambia and the most utilised inland border point in the region. Your Committee also were informed that the aim of establishing a OSBP was to decongest the border and reduce on duplication of activities. Traffic crossing the border had to be cleared by numerous government agencies on either side of the border such as the Police, Immigration, Customs, Ministry of Communications and Transport, Ministry of Health, Ministry of Agriculture, the Bureau of Standards, the Drug Enforcement Commission and the Road Transport and Safety Agency (RTSA). The OSBP would have two identical sets of agencies by having a juxtaposed facility handling traffic going in only one direction on either side of the border. Thus, north-bound traffic would be dealt with either on the Zambian or Zimbabwean side by officials from both countries and the same would apply to south bound traffic.

Zambia Revenue Authority

The Station Manager stated that the ZRA complex had two terminals, one for commercial cargo and the other for the traveling public. On revenue collection, it was learnt that the station's target was K2 trillion per year. However, total collections in 2006/7 amounted to K1.6 trillion, while in 2008/9, due to the economic down turn, trade was negatively affected and actual collection was K1.5 trillion against a target of K1.2 trillion. Further, by August 2009, revenue collected at Chirundu Border Post amounted to a sum of K600 billion.

The Station Manager stated that the border had not yet commenced operating as a One Stop Border Post although it was expected to be operational in the following month or two. He also explained that ZRA had acquired a scanner to screen the type of cargo coming into the country. This had enhanced the revenue collection performance.

Immigration Department

Your Committee were informed that the Immigration Department collected revenue through visa fees and penalties. An average sum of K90 million was collected per month at the Chirundu Immigration Station.

Challenges

The major challenges encountered by the station included the following:

- staffing levels in all Government agencies operating at the border were very low;
- the Immigration Department, which had an establishment of twenty-seven officers, operated with thirteen;
- security lighting was poor at the station;
- the Chirundu border post complex design had glaring deficiencies, for example, the pavement of pan bricks was cracking and had developed depressions and potholes all over. Your Committee heard that the design had not provided for increased and heavy traffic of over forty tonnes;
- the design deficiencies of the infrastructure also manifested in some offices being in wrong places, which made it cumbersome to attend to clients as officers had to come out of one office and walk to another. Further, the Ministry of Health was using an office as a laboratory to test maize for GMOs since no laboratory was provided for at design stage;
- some offices were not supplied with electricity; as a result, computers could not be used; instead, work was still done manually;

- ZRA could not use some of the revenue collected to recruit staff, carry out maintenance work and construct enough houses to accommodate officers as the complex fell under the Ministry of Works and Supply. Therefore, all capital projects were carried out by that Ministry. The Ministry of Works and Supply had envisaged building more than 362 houses during the design stage and a consultant was paid for this work. However, most of the funding went to the Zambia Police whose camp had to be demolished to make way for the complex. As a result, only fifty houses were built;
- there had been problems in harmonising the operations of the Zambian and Zimbabwean side of the Border. The donors had budgeted for a sum of US$ 4 million for the facilities on both sides. However, Zimbabwe came up with a budget of US$ 14 million and the donors had been reluctant to release the funds, thus delaying the project further; and
- a number of offices were not in use.

Your Committee learnt that a new bridge for heavy vehicles was being planned and would be funded by donors while the old one would be rehabilitated for use by small vehicles.

Way Forward

Your Committee were informed that ZRA needed to retain at least 2.2% of the annual revenue collections in order to attend to urgent capital projects, recruit qualified personnel and carry out some maintenance work.

There was need for Zambia and Zimbabwe to harmonise some laws in order to ensure that the OSBP operated smoothly. The Ministry of Works and Supply and ZRA should ensure that they had consultative meetings more frequently.

(b) Siavonga Border Post

21. Your Committee were informed that the Siavonga Border Post used to collect between K6 billion and K9 billion per month before the economic downturn. In the year 2006/7, the border was very busy and cleared between forty and fifty small vehicles daily. Traffic had fallen to ten per day and revenue collected had also reduced to K3.5 billion per month. The Station Manager, ZRA, Siavonga, informed your Committee that due to the age of the bridge over the Kariba Dam, the tonnage allowed to cross had been reduced to three tonnes.

It was learnt that in the year 2008, the Immigration Department used to clear as many as 200 to 300 persons per day, mostly cross-border traders crossing into Zambia. The number had declined as the economic environment in Zimbabwe had been improving. The staffing level at Siavonga Border Post was ten although the establishment was twelve.

(c) Kazungula Border Post

22. The Station Manager, ZRA, Kazungula, informed your Committee that Kazungula was one of the border posts earmarked to become a One Stop Border Post. It was learnt that the Station faced a huge problem of clearing trucks because some of the pontoons used over the Zambezi River were old and often broke down. The border cleared between 40 and 100 trucks per day.

The Permanent Secretary, Ministry of Works and Supply, informed your Committee that the final detailed engineering designs of the bridge across the Zambezi were expected in November, 2009. It was anticipated that the construction works would commence in March 2010 at an estimated cost of US$ 14 million to be financed by the Japanese Government and the African Development

Bank (ADB). The project was expected to be completed in 2012. The infrastructure would include storage facilities. There were also plans to include a railway line which would join three countries, namely, Zambia, Botswana and Namibia.

The Permanent Secretary stated that the security fencing and expansion of the parking space was going to be done from collections by the Engineering Services Corporation (ESCO) who operated and maintained the pontoons.

Zambia Revenue Authority

The Station Manager informed your Committee that ZRA used to collect on average a sum of K400 million before 2006. The collection rose to K22 billion by 2008. The increase in revenue collection was attributed to the introduction of the pre-clearance system. In order to accelerate clearance of trucks, some reputable and trusted clients such as the mines were accredited. This allowed such clients to open credit accounts. The money was collected within ten days after clearance. In order to further decongest the border, some clients were allowed to clear their cargo in Livingstone.

Challenges

The following were some of the major challenges being faced in the operations of the border post:

- there was no security fence, making the border porous and, therefore, reducing its potential for revenue collection;
- staffing levels for all agencies operating at the border were low. In fact, the border was operating at 56% staff level;
- most staff lived in Livingstone due to lack of accommodation in Kazungula. They worked in shifts as they could not commute everyday to and from Livingstone;
- the lack of banking facilities at the border; it was revealed by the Station Manager that huge sums of money were sometimes kept in a safe in one of the offices waiting for the mobile bank which operated three or four days in a week; and
- the border post faced a severe shortage of computers as only three were in use.

Way Forward

- Your Committee were informed that in order to alleviate accommodation problems, ZRA had been working closely with the Kazungula District Council. Funds raised from confiscated fuel was given to the Council to open up land for construction of houses.
- Joint patrols by officers from the Zambia Police, Zambia Revenue Authority and Immigration were carried out to reduce illegal crossing of the border.
- It was necessary for the Government to encourage financial institutions to erect permanent structures in the District.
- There was need to introduce a scanner at Kazungula since it handled a huge amount of commercial cargo.

(d) Kasumbalesa Border Post

23. The Kasumbalesa Border Post was one of the border posts earmarked to become a One Stop Border Post. Your Committee learnt that the border mainly handled cargo transiting to the Democratic Republic of Congo. The revenue collection was not as high as it was at Chirundu and Kazungula Border Posts. The border cleared between 180 and 200 trucks carrying commercial

cargo per day. However, the poor infrastructure delayed clearance leading to trucks spending a number of days at the border.

While ZRA collected a sum of K500 million at this border per month, the Immigration Department collected K906 million per month. It was revealed that before 2008, ZRA used to collected between K5 billion and K7 billion due to tax imposed on copper and cobalt concentrates. When this tax was abolished, the revenue collection drastically decreased to current levels.

Your Committee were informed that while ZRA used the banking facility in Chililabombwe, the Immigration Department banked in Ndola.

Challenges

- Lack of parking space had forced truckers to park along the road. Trucks formed long queues stretching for about one kilometre along the road. In the process, even the no-man's land was congested.
- The border was very porous, thus a lot of revenue was lost as a large number of people transacted business through bush tracks.
- The Immigration Department had an establishment of twenty-five officers at the border post.

(e) Kipushi Border Post

24. Your Committee toured Kipushi Border Post where they met the ZRA Station Manager and the Officer-in-Charge in the Immigration Department.

Immigration Department

The Officer-in-Charge informed your Committee that the border post had extremely poor facilities. There was no security fence and, as a result, the border was extremely porous. A lot of revenue was lost as people freely used bush tracks. Office accommodation was in a very bad state and had very poor furniture. There was one computer and a very small safe which was used to keep some revenue collected before it was banked. Accountable documents at the border post were kept on open book shelves because the safe was too small to accommodate both the books and the money. Banking was often delayed due to lack of transport. The station had one old broken down vehicle. In addition, the road from Solwezi was impassable during the rainy season.

The Permanent Secretary, Ministry of Works and Supply, informed your Committee that plans were in place to provide adequate means of transport to all border posts. Kipushi border post would get motor cycles. On average, revenue collected at this station was US$ 15,000 per month.

Zambia Revenue Authority

The Station Manager informed your Committee that ZRA collected on average a sum of K15 million per month. However, a lot of goods were smuggled into Zambia through bush tracks. Business at Kipushi Border Post had increased due to congestion at Kasumbalesa Border Post.

Challenges

Your Committee learnt that Kipushi Border Post was supplied with electric power supply and water from the DRC side of the border. The officers bought water in pails, although there was a river about a kilometer from the border post on the Zambian side.

Your Committee learnt that a lot of business transactions went on at a place called Limata located between Kasumbalesa and Kipushi Border Posts where there was proper border post infrastructure on the DRC side but nothing on the Zambian side.

Kipushi Border Post had very old and dilapidated structures.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

25. Your Committee observe as follows:

a) staff levels at all border posts visited by your Committee are very low;
b) there is poor accommodation for staff at almost all border posts visited;
c) most border posts do not have security fencing, making them very porous;
d) the Chirundu Border Post has glaring design deficiencies;
e) the Zambia Revenue Authority has not been functioning independently;
f) inadequate funding of the ZRA has hampered operations;
g) many pieces of legislation on the Zambian and Zimbabwean sides are not in harmony, which may negatively affect the smooth operations of the One-Stop-Border-Post;
h) there is lack of utility facilities such as banks at many border posts which puts the lives of officers at risk as they are forced to keep large amounts of money in safes for some days before banking it;
i) the infrastructure at Kipushi Border Post is derelict; and
j) at a place called Limata, which is located between Kipushi and Kasumbalesa, business transactions are thriving and the Democratic Republic of Congo has erected proper border infrastructure while there is nothing on the Zambian side. This results in unnecessary revenue loss.

Arising from these observations, your Committee recommend as follows:

a) the Government should fund all departments and agencies at border posts adequately to enhance their performance;

b) the design deficiencies noted at Chirundu should not be repeated when constructing other One-Stop-Border-Posts, and efforts should be made to urgently address these deficiencies;
c) ZRA should be allowed to retain some of their annual revenue collection to enable the Authority to recruit adequate and skilled human resources and undertake some capital projects;
d) ZRA should be allowed to operate independently to enhance efficiency;
e) Zambia and Zimbabwe should harmonise all legislation that has the potential to negatively affect the operations of the One-Stop-Border-Post at Chirundu so as to enhance its performance ;
f) the Government should urgently ensure that proper border infrastructure is put in place at Kipushi to tap into the trade potential in the Congo market; and

g) if it is proved that there is adequate business transactions at Limata, a new border post should be erected there. If this is not the case, the relevant wings of the Zambian Government must engage their counterparts in the Democratic Republic of Congo with a view of harmonising the location of border infrastructure in the area; and
h) the construction of Kazungula bridge must be expedited in order to capture the border's potential for revenue collection. They also call upon the ZRA to procure a scanner for Kazungula border post to speed up clearing of trucks. They will await a progress report on these matters.

2. LOCAL AUTHORITIES

(a) Livingstone City Council

26. In Livingstone, your Committee held a meeting with Livingstone City Council management. During the meeting, your Committee were informed that the Livingstone City Council had an approved budget amounting to a sum of K18.1 billion. The revenue was collected from rates, personal levy, licences and grants from the Central Government which amounted to K1.8 billion. It was revealed that the Council commenced preparation of the Valuation Roll in 2005 and completed the exercise in 2008. The Valuation Roll indicated that a sum of K1.5 trillion was collectible by the local authorities. Other areas of revenue collection included bill boards, market and bus station fees.

It was heard that most councils, including the Livingstone City Council, did not have property to rent out as most of these had been sold to individuals. On markets, your Committee learnt that the markets in Livingstone were very old and derelict. Bus stations were not centralised and, therefore, collection of levy was very difficult. Your Committee were informed that the European Union and World Bank would fund the construction of an ultra-modern market and bus terminal which would enhance revenue collection. The European Union had constructed curio shops and a modern park at Mukuni Park where vendors would be charged a small fee for five years before the Council fully took over and begun to charge economic fees. The construction of the Mukuni Park had to be planned under the ten year Integrated Development Plan. The Town Clerk informed your Committee that the Council was engaging the private sector to exploit the Private Public Partnership approach in order to initiate a number of projects in the City.

Your Committee were further informed that the Japanese Aid Agency (JICA) had begun the construction of the main roads in Livingstone under a bilateral agreement with the Government of the Republic of Zambia.

Challenges

The following were some of the challenges faced by the local authority:

- the Livingstone City Council was sued by retirees over terminal benefits. The retirees won the case and the Council was ordered to pay the 137 retirees a total sum of K90 billion, in installments of K60 million every three months;
- the Council owed the defence lawyers legal costs in the sum of K110 million; and
- the Council owed ZRA, and had other statutory debts including PAYE, in excess of K 1 billion.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

27. Arising from their tour of Livingstone City Council, your Committee observe as follows:

a) the City Council has potential to be self sustaining but needs assistance to liquidate the debts, particularly amounts owed to retirees, ZRA, PAYE and legal costs; and
b) a lot of capital projects are being undertaken, including the main road that passes through the City to the Falls.

Your Committee, therefore, recommend:

that as the Livingstone City Council is doing a commendable job, the Government should assist the Council liquidate the statutory obligations so as to make the Council more self sustaining.

your Committee wish to be availed with a progress report on the construction of the modern bus terminal and market which will broaden the revenue base of the Council.

(b) Kitwe City Council

28. During a meeting between Kitwe City Council management and your Committee, the Town Clerk informed your Committee that most of the revenue that the Council received was from local taxes. This was inadequate to provide adequate services.

Your Committee were informed that the Council raised revenue through the taxes set out hereunder.

(i) **Owners' Rates**: This was levied as a percentage of the annual value of ratable property. However, this levy was inflation inelastic. Owners' rate taxation contributed 59% of the Council's total income.

The Town Clerk stated that the Council's budget for the 2009 financial year was K48 billion instead of K59 billion. It had to be cut because grants from the Government were not released in full.

Your Committee learnt that the Valuation Roll completed in 2003 was in excess of K2 trillion for over 49,000 properties. However, your Committee learnt that the process of preparation of the Valuation Rolls was very long and expensive. The Roll was expected to be reviewed every five years in order to capture new properties.

(ii) **Personal Levy:** Your Committee learnt that, like rates, personal levy was inflation inelastic. It remained the same even when salaries had been reviewed. The Council could not review personal levy since, by law, only Parliament could approve any increase above the ceiling at K15,000 per month.

(iii) **Licences:** The Town Clerk explained that councils were empowered to collect any licence fee for any type of business operated in their areas.

In addition, the Councils were empowered to impose levies, fees and charges on the citizens by way of by-laws or Council resolutions.

It was stated that the Council no longer collected rentals from most of the property because most property had been sold. However, the Council was planning to build 500 houses for rent on seventy hectares of land. Other sources of revenue included special and general grants, loans, land development fund, bilateral and multilateral aid. These grants were normally at the discretion of the parent ministry while loans could only be secured to finance capital projects. The loans were used to finance non-profitable projects such as roads and bridges. Therefore, the loans were charged to the Council's revenue accounts. Revenue realised from water charges, market fees, cattle levy, issuance of marriage certificates, commercial ventures and tender documents, inter alia, were meant to support in the Council's operations.

Your Committee were further informed that market levies offered some potential in revenue collection. However, the Town Clerk bemoaned the control some marketeers' associations had on the collection of market levies in markets such as Chisokone Market in Kitwe. It was learnt that most of the revenue was collected by an association known as ZANAMA. The Council collected on average a sum of K60 million per month but in comparison spent a sum of K120 million on garbage collection.

An agreement was entered into with the European Union (EU) to construct three ultra-modern markets, namely, Nakadoli in Chimwemwe, Buchi and Ndeke at a cost of US$ 8 million. In addition, the Council planned to construct two modern bus terminals. The markets had since been constructed but the Council could not operationalise them. The Town Clerk explained that they had learnt from the New Soweto Market in Lusaka that there was a requirement that the Republican President should first officially open such a facility. However, the Permanent Secretary, Ministry of Local Government and Housing stated that the Council need not wait for the official opening ceremony in order to operationalise the markets. He contended that the official opening ceremony could be done after the markets were in operation.

The Permanent Secretary further informed your Committee that the issue of marketeers' associations having more control over the collection of market levies should not be tolerated. He reiterated that councils were aware that they had the mandate to control the collection of all such levies. Your Committee were informed that councils could remove any such association, should they decide to do so.

Challenges

The following were some of the major challenges encountered by the Council in its operations:

- lack of political will to control marketeers' associations which controlled collection of market and bus station fees;
- loss of revenue from rentals after the Government decided to sell houses;
- the Road Development Agency (RDA) which collected fuel levy and had pledged to work on the ring road that connected Chibuluma mines and other mines such as Mopani, Konkola Copper Mines and Lumwana with the rest of the country, had not fulfilled its pledge. The road was in a very bad state; and
- a number of by-laws could not be brought to life through Statutory Instruments because of delays at the parent ministry. Your Committee learnt that the Kitwe City Council had submitted nine drafts for approval but to date, none had been responded to.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

29. Pursuant to their tour of Kitwe City Council, your Committee observe as follows:

a) consultative meetings between the parent ministry and councils are not held frequently. This has affected development in the councils.

b) the delay in operationalising modern markets and passing of by-laws, which are meant to enhance revenue collection is indicative of poor communication; and
c) the RDA seems to be overwhelmed with too many road projects which need urgent attention throughout the country.

Your Committee, therefore, recommend as follows:

- the Ministry of Local Government and Housing and councils should hold frequent consultative meetings in order to ensure that councils are fully aware of their mandate and the Ministry is aware of councils' requirement in order to enhance revenue collection;
- councils should be given back the mandate to attend to roads in their jurisdictions. They should initiate revenue collection measures so that issues such as road construction and maintenance in their jurisdictions are attended to promptly; and
- the Kitwe ring road which connects the copper mines to other parts of the country needs to be attended to urgently.

PART D: CONSIDERATION OF THE ACTION-TAKEN REPORT ON THE REPORT OF THE COMMITTEE ON ESTIMATES FOR THE YEAR 2008

Your previous Committee observed that one of the fundamental constraints to budget implementation in a number of institutions during the period under review was absorption capacity. Additionally, certain issues such as the appreciation of the local currency in 2006 and lengthy tender processes were cited as impeding factors to availability of funds and budget implementation.

In the light of these observations, your previous Committee made the recommendations outlined below. They wished to be availed progress reports on these matters.

30**.** **(a)** ***Poor Revenue Collections*** – Your previous Committee reiterated their recommendations in previous reports that the Government should urgently prioritise non-tax revenue collection so as to reduce the over-reliance on tax revenues to finance Government expenditures, especially in view of the very narrow tax base. In this regard, your previous Committee wished to be informed of specific and practical steps being taken by the Government to increase the contribution of non-tax revenue to national income.

In response, it was stated in the Action Taken Report that Government attributed poor collections of revenue to a number of reasons, including the following factors:-

- understaffing of revenue collection units;
- inadequate capacity of staff to undertake revenue collection;
- inadequate transport and equipment in revenue collection units;
- low levels of some fees or levies; and
- ministries and departments placing more emphasis on expenditure rather than revenue collection, resulting in allocation of more funds to other core activities of their operations rather than funding of revenue collection activities.

While Government was determined to address these weaknesses in revenue collecting institutions, it recognised that capacity would not be built overnight but in the medium to long term. Nonetheless, Government had already taken some specific and practical steps to enhance non-tax revenue collections and contribution to national income. These included the following:

- recruitment of accounting and other qualified staff to fill vacant posts in revenue collection centres;
- capacity building through training and workshops of revenue collecting staff, including familiarisation with Government financial regulations;
- provision of logistics including transport;
- starting the process of revising non tax legislation;
- encouraging Ministries to budget for revenue generating activities. To achieve this, the Ministry of Finance and National Planning had prioritised the funding of revenue generation activities in budgets for Ministries and Departments involved in revenue collection. Revenue collecting Ministries and Department were also allowed to retain a part of the revenues collected for their operations under Appropriation-in-Aid (A-I-A) as an incentive to the institutions;
- the on-going programme by the Government of rehabilitating and constructing border infrastructure for revenue collecting and security agencies at border areas, which should result in improved operations and increased non-tax revenue collections; and
- the development of the draft Water Resources Management Bill through the Water Resources Action Plan (WRAP). The Bill, among other things, addresses the widening of the collection of revenue in the water sector and issues of determining fines and fees. Following extensive stakeholder consultation, the Bill had been submitted to Cabinet for consideration.

Further, it was pointed out that not all revenue collection institutions recorded poor collections. The Immigration Department and the Zambia Police were among such agencies that had consistently collected above the set revenue targets.

To further enhance non-tax revenue collection, the Immigration Department was working on improving the processing of various immigration permits and visas. The department was undertaking the following measures:-

- opening more border controls in various parts of the country to ensure increased revenue collection;
- improving the infrastructure at the border controls to ease the clearance and movement of people; and
- intensifying operations in order to ensure that foreign nationals in the country obtained the necessary immigration permits and visas which would lead to increased revenue collection.

Government was also paying particular attention to the units and sections in the Zambia Police Service that were engaged in the generation of non-tax revenue. Measures were being put in place to adequately equip the respective revenue collection units and sections such as the fingerprints and traffic as set out hereunder.

- So far, the fingerprints section had been computerised. Government expected to increase the revenue collected from this section once the new system was fully operational.
- As regards the traffic section, a budgetary allocation had been made for 2009 for the procurement of traffic equipment, which included speed trap machines. Once acquired, these would be distributed to Central and Copperbelt Provinces, respectively, which currently did not have speed trap machines. The revenue base would be boosted once these two Provinces received the equipment.

Another measure taken was to give Appropriation-In-Aid to the concerned institutions. Thus Traffic, Interpol and Forensic Sciences departments had received their Appropriation-In-Aid. For the previous two years, the Zambia Police had exceeded its annual revenue targets.

The Office of Registrar of Societies, being one of the Revenue Collectors in the Ministry of Home Affairs, had plans to establish offices in the districts throughout the country to enhance registration of societies and inspections, which would also improve revenue collection.

The department had also allocated some funds in the 2009 budget to procure 4x4 vehicles for all the offices to be opened.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee request for specific statistics on how many qualified staff have been recruited and deployed to revenue collection centres, including the dates of such deployment. They also wish to know if the deployment has since been completed or, if not, when it will be completed. With regard to the reported opening of more border controls in various parts of the country, your Committee wish to be informed as to whether appropriate budgetary provisions have been made for this programme, whether it has in fact commenced, and the time frame for its completion. Similarly, your Committee seek an update on whether the government has since made budgetary provisions for the establishment of offices of the Registrar of the Societies in all the districts as reported, the status of implementation of the programme and when it is expected to be completed.

Further, your Committee wish to be informed of specific measures taken to enhance the revenue collection efforts of the Zambia Police. In this vein, they appeal to the Government to devise a system where traffic offences can attract a ticket to avoid on-the-spot payments to officers which have led to high levels of corruption.

31. **(b)** ***Low Budget Ceilings –*** Your previous Committee observed that the issue of low budget ceilings should urgently be addressed, especially for programmes and projects that could have a significant impact on poverty reduction and wealth creation. For example, the Government should increase its investment in the non-tax revenue collection activities under the Ministry of Home Affairs and programmes in the energy and water sectors so as to alleviate the difficulties being faced by the Zambian people through the multiplier effect that these programmes could have on the economy.

The response in the Action-Taken Report indicated that the Government noted your Committee's concern that budgetary ceilings fell short of the ideal institutional requirements. It was stated that budgetary ceilings were determined by the size of the resource envelope in a particular year and Government's prioritisation of programmes in line with the Fifth National Development Plan.

As was the case with other revenue collecting institutions, in addition to the monthly funding received from the Treasury, the Immigration and Water Affairs Departments were using Appropriation-In-Aid to strengthen their operations. Furthermore, the on-going programme of rehabilitating and constructing border infrastructure for revenue collecting and security agencies at border areas was expected to result in improved operations and increased non-tax revenue collections.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

While appreciating the Appropriation-in-Aid initiative, your Committee strongly recommend that the management of the initiative should be urgently reviewed so that it can directly benefit the collection centres. They also re-emphasise the need for budget ceilings to be set in consultation with Controlling Officers. They further call for improved accountability for all revenues collected.

32. **(c)** ***Lack of Qualified Human Resources -*** Human capital at institutional level, from the national to the district level, needed to be improved. In this light, the previous Committee noted that there was need for Ttreasury authority to be granted for the restructuring of the Ministry of Home Affairs so that appropriately qualified personnel could be recruited. Efforts by the Ministry of Energy and Water Development to recruit qualified personnel should also be supported.

In the Action Taken Report, it was reported that the Government was addressing your Committee's concerns regarding shortage of staff in the Immigration Department. As indicated in the 2009–2011 Medium-Term Expenditure Framework, the Government would undertake the recruitment of 100 immigration officers and 1000 police officers per annum, commencing in 2009.

Recruitment of personnel in other sectors would be increased once the Government created enough fiscal space to accommodate the requirements.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee wish to be informed of progress on the recruitment and deployment of the Immigration and Police Officers and also the time frame for completion of the programme.

33. **(d)** ***Absorption Capacity*** – Your previous Committee strongly urged the Government to ensure that absorption capacity was enhanced among all Ministries and that funds were released only when the respective Ministries were ready to expend those funds on approved activities.

In the Action-Taken Report, it was reported that the Government was enhancing the absorption capacity through the Ministry of Finance and National Planning, basing the release of funds on Ministries' annual funding profiles. The Government had made a lot of effort to release a big portion of the capital budget in the second and third quarters so that MPSAs could have adequate time to absorb the resources.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee wish to be apprised of the specific measures taken by the Government to enhance the absorption capacity of available resources by the line Ministries.

34. **(e)** ***Low Fees and Fines*** – The Government should urgently review *the Fees and Fines Act* in order to enhance the levels of non-tax revenues collectible by the various non-tax revenue collecting institutions.

It was reported in the Action-Taken Report that the Government had in the recent past started revising fees and fines in Departments and Ministries and a number of these had seen an improvement in non-tax revenues collections compared to the previous years. However, it was not possible to revise fees, fines, charges and levies upwards all at once because of the negative impact this may have on the economy. In addition, those paying may not have the capacity to pay. As such, the Government would be revising these charges in batches until all of them were updated.

As reported above, the Government, through the Water Resources Action Plan (WRAP), had developed a draft Water Resources Management Bill which, among other things, addressed the widening of the collection of revenue in the determination of fines and fees in the water sector. Following extensive stakeholder consultations, the Bill had been submitted to Cabinet for consideration.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Noting that the Water Resources Management Bill had been on the cards for a long time now, your Committee wish to be availed a progress report on the status of the Bill.

35. **(f)** ***Lack of Coordination*** **–** Your previous Committee noted that there was need for legislation under the Revised Water Policy where issues of shared waters and other cross-cutting issues should be addressed. In this regard, sectors that had programmes and projects that impacted on water resources should coordinate with the Ministry of Energy and Water Development for integrated and coordinated planning and management. Closely related to this, consideration should be given to the possibility of funding programmes according to sectors, and not Ministries, in order to ease the process of sharing available resources. If this was done, duplication of efforts would be avoided and priority programmes such as infrastructure development would not be jeopardised by financial ceilings.

In response, it was stated in the Action-Taken Report that the revised National Water Policy, which was now before Cabinet for consideration, took into account the concerns of the Committee regarding the roles and obligations of all stakeholders in the water sector. This would prevent any duplication of efforts and aid in the overall coordination of the sector.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee wish to be availed a progress report on the status of the National Water Policy and the time frame for conclusion of consideration of the policy.

OUTSTANDING ISSUES ARISING FROM THE MID-TERM REVIEW OF THE IMPLEMENTATION OF THE NEW MINING SECTOR TAX REGIME

36. Your previous Committee noted with happiness that Government's determination to ensure that the mining sector contributed equitably to the revenue of the Republic had not waned.

In this vein, they wished to emphasise that the mining tax regime was law and that all persons operating within the jurisdiction of the Zambian legal system were subject thereto. In this vein, while they welcomed and encouraged Government's efforts at negotiations with the mining sector, they reiterated that the results of the dialogue should be implemented in a prospective and not retrospective manner.

In the Action-taken Report, it was reported that the Government would ensure that the new mining tax regime was fully implemented. To this end, the Government had put in place measures to enhance capacity within the Zambia Revenue Authority by creating a specialised unit that would focus on collecting taxes from the mining companies. This unit would specialise in advanced audit and would ensure that all taxes from mining companies were paid in full.

Government had also set up a Technical Committee to review and evaluate all the complaints so far received from the mining companies on the fiscal regime and, where necessary, propose adjustments to the regime for inclusion in the 2009 Budget. The Technical Committee was chaired by the Secretary to the Treasury and included experts from the Ministry of Finance and National Planning, Ministry of Justice, Ministry of Mines and Minerals Development, ZCCM Investments Holdings Plc and Zambia Revenue Authority.

The Government also took note of your Committee's recommendations that whatever the outcome of the review, it should be implemented in a prospective and not retrospective manner.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee note the response and wish to find out if all taxes that arose from the 2008 mining sector tax regime have since been collected. They wish to be availed evidence of such payment.

FINDINGS FROM THE TOURS OF THE COMMITTEE

(I) Local Tours

37. With reference to their findings during the local tours, your previous Committee made the observations and recommendations outlined below:

38. **(a)** ***Transport*** – Your previous Committee noted with displeasure that officers at a number of border posts were expected to use personal finances to meet the transport costs for official duties such as border patrols and banking of Government revenues. This was unacceptable and your previous Committee condemned it in the strongest terms. They strongly urged the Government to take immediate steps to provide the officers in the Immigration Department with reliable transport suitable for the terrain in which they were operating so that officers could operate effectively.

In response, it was indicated that the Government was aware of the critical transport situation in the Immigration Department. Needy border posts were being identified so that they could be given reliable vehicles. The 2009 budget for the Ministry of Home Affairs had provision for the purchase of vehicles, some of which would go to the needy border posts that would be identified.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee wish to be availed a detailed breakdown of the distribution of the vehicles procured, including the type of vehicles and the stations they had been allocated to.

39. **(b)** ***Banking of revenues*** - Your previous Committee sympathised with some of the Immigration Officers in outlying border areas who were unable to adhere to the financial regulations which required that revenue be banked within twenty-four hours of collection. For example, at Mwami, Chanida, Kazungula, Shangombo, Kalabo and Sikongo, this was practically impossible because of the vast distances to the nearest banking facilities and in view of lack of transport at these stations. Your previous Committee also implored the Government to urgently address the problem of banking of revenues collected in foreign currency as well as the exchange rates applied by commercial banks when remitting such revenues to the Bank of Zambia to ensure that exchange losses were minimised.

It was stated in response in the Action-Taken Report that the Government, in the past six years, had been reviewing legislation and regulations to strengthen the public financial management system. The reforms, which were ongoing, had included:-

(i) revision and enactment of the Public Finance Act in 2004 and its Financial Regulations in 2006; and

(ii) enactment of the Public Procurement Act (2008) and the Accountants Act (2008), both of which are key areas in the management of public funds.

Through the ongoing reforms, therefore, the Government expected to address any shortcomings in the public financial management system, including banking of revenues collected in foreign currency as well as the exchange rates applied by commercial banks when remitting such revenues to the Bank of Zambia.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee wish to be availed the specific measures being taken by the Government to address problems associated with delayed banking on account of lack of transport to banking facilities and exchange losses relating to revenues collected in foreign currency.

40. **(c)** ***Low staffing levels*** - Your previous Committee were concerned about the general shortage of staff in the Immigration Department. They particularly noted that the situation where some border posts were manned by a single Immigration Officer, as they found in Shangombo, Kalabo and Sikongo, was unacceptable and a danger to the security of the nation. Your previous Committee condemned this arrangement in the strongest terms. They noted that it also meant that there was no effective revenue collection mechanism at many of the border posts as illegal entry into the country was rampant.

Your previous Committee also strongly urged the Government to deploy enough officers to Chanida Border Post in order to enable the officers to operate shorter shifts or arrangements should immediately be made to close the border earlier. They, further, noted that a Cabinet decision to allow the Department to recruit new staff had not been acted upon by the Ministry of Finance and National Planning for the past three years. They wondered on what basis and under what authority the Ministry of Finance and National Planning had decided not to act on a Cabinet decision for so long. Your previous Committee emphasised that they did not expect the Ministry of Finance and National Planning to be a stumbling block in the implementation of important and urgent Government programmes such as this one. They implored the Office of the Vice-President to seriously look into the issue and expeditiously resolve this matter.

In response, it was reported in the Action-Taken Report that the Government was aware that human capital in the economic sectors and public order and safety needed to be improved. The Government had in the past placed a cap on the growth of personal emoluments in the public service, as a share of the national budget because it was observed that the bulk of resources were being spent on personal emoluments, hence crowding out other programmes including capital expenditure.

While still maintaining the cap on the growth of Personal Emoluments as a share of the national budget, the Government was addressing the shortage of staff in the Immigration Department and Police Service. As indicated in the 2009–2011 Medium-Term Expenditure Framework, the Government would undertake the recruitment of 100 immigration officers and 1000 police officers per annum, commencing in 2009.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee wish to be availed a progress report on the recruitment and deployment Police and Immigration Officers which was scheduled to commence in 2009.

41. **(d)** ***Accommodation*** **-** Your previous Committee noted that the offices occupied by immigration and police officers in the border areas left much to be desired. Office accommodation was totally inadequate and poorly ventilated, to say the least, while residential accommodation for these officers was either non-existent or in a very deplorable state which, in some cases, even posed danger to human life as the houses were in danger of collapsing at any time. Your previous Committee drew the Government's attention to the houses occupied by Immigration Officers at Kazungula, Shangombo and Chanida Border Posts. In this regard, they strongly urged the Government to embark on a countrywide rehabilitation of immigration and police offices and residences countrywide as a matter of urgency.

Further, your previous Committee, noting the recent Government decision with regard to payment of rentals for the Drug Enforcement Commission, Police and Immigration Officers, called upon the Government to pay realistic housing allowances to Government workers before they could discontinue paying rentals for them; otherwise, a decision such as this one merely served to de-motivate the officers and would, needless to say, negatively affect the levels of revenues collected, as well as encourage corrupt practices among officers.

It was stated in the Action-Taken Report that the Government was in the process of scaling up the Chirundu border post model to other controls where all Government officers at border posts would share common services and conditions of service. Immigration officers would be able to benefit from the infrastructure for office and residential accommodation.

The Government had put construction and rehabilitation of houses and offices for the Drug Enforcement Commission, Police and Immigration Officers as one of the priority areas. The Government had a programme of building and rehabilitating police infrastructure under the Fifth National Development Plan. Although construction had not yet begun in the border posts, a new Police Station had since been built in Lukulu. All the works had been done except for plumbing fittings. Once plumbing works were done, the building would be ready for use. Rehabilitation of staff houses and offices was taking place at Katima Mulilo, Lusuntha and Kazungula Border Posts.

Regarding payment of house rentals for officers under the security wings, it was stated that the decision to stop paying for officers in rented houses was reversed in 2008. Since then, the Police Service, Immigration Department and the Drug Enforcement Commission had been paying rentals for their officers.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee wish to be availed a master plan for the construction of office and residential accommodation in all border areas, including the time frame and status of implementation of the plan.

(II) Foreign Tour

Arising from their foreign tour to Mauritius, your previous Committee made the following observations and recommendations.

42. **(a)** ***Programme-Based Budgeting*** **-** Your previous Committee urged the Government to strengthen and deepen implementation of the programme based budgeting approach and to decentralise it to the local government level. This approach should be closely linked to specific benchmarks which would result in improved performance by the ministries and departments.

In response, the Action-Taken Report stated that the Government affirmed that it was working towards strengthening and deepening the implementation of the programme based budgeting approach. The Government was also working towards decentralising the programme based budgeting approach to the local government level.

The Ministry of Finance and National Planning was in the process of developing a budgeting manual to guide local authorities in programme based budgeting. The Ministry of Local Government and Housing, in conjunction with the Ministry of Finance and National Planning, had engaged a consultant to expedite the process. The manual was expected to be ready by end of the first quarter of 2009.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee note the submission and request an update on progress made towards development of the budgeting manual to guide local authorities in programme based budgeting.

43. **(b)** ***Public Private Partnerships*** – Your previous Committee strongly urged the Government to scale up implementation of Public Private Partnerships as a way of developing infrastructure, particularly, in the rural areas.

In response, it was stated in the Action Taken report that the Government had scaled up the implementation of Public Private Partnerships. The Government launched the Public-Private Partnership Policy on 27th November, 2008. The Public-Private Partnership Policy, approved by Cabinet, was a product of country-wide consultations involving stakeholders from all sectors of society.

The objectives of the Public-Private Partnership Policy were:-

(a) To provide efficient use of resources in infrastructure development and management, as well as in the delivery of services;

(b) To provide infrastructure and services in accordance with international standards;

(c) To promote Public-Private Partnership sustainable development of socio-economic infrastructure and services;

(d) To obtain value for money from investment in infrastructure and services;

(e) To promote effective and efficient delivery of public infrastructure and related services;

(f) To promote innovation in the development of infrastructure and services;

(g) To enhance confidence between the public and private sectors for development of infrastructure and service provision through continuous public-private sector consultation and dialogue;

(h) To create employment opportunities for Zambians; and

(i) To administer the implementation of Public-Private Partnership infrastructure projects through the establishment of a Public-Private Partnership Unit as an independent statutory body.

Some of the benefits of the Public-Private Partnership were:-

- Accelerated implementation of infrastructure projects;
- Efficient services to the public;
- Opportunities for business by local entrepreneurs;
- Access to infrastructure and services by the public; and
- Positive impact on social and economic welfare.

The Public-Private Partnership Policy outlined the guiding principles for undertaking Public-Private Partnership projects such as:

- Feasibility;
- Affordability;
- Bankability of projects for financiers and developers;
- Value for money;
- Appropriate risk allocation;
- Economic and social benefits;
- Citizens empowerment;
- Decentralisation; and
- Corporate social responsibility.

The Public-Private Partnership Policy provided guidance on the consideration for unsolicited bids, as potential Public-Private Partnership projects would not always be known and tendered to the public for submission of bids. Public-Private Partnership projects could be initiated by the private sector where no bids have been requested. Proposals from potential developers or investors would be considered as unsolicited bids in line with relevant regulations.

In 2009, the Government would create a Public-Private Partnership unit in the Ministry of Finance and National Planning to oversee the implementation of the Policy. The Government would also submit, for Parliament's consideration, a Bill providing for the legislation of Public-Private Partnerships.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee wish to be availed progress on the establishment of the Public-Private Partnership unit and initiation of the relevant legislation.

CONSIDERATION OF THE ACTION-TAKEN REPORT ON THE REPORT OF THE COMMITTEE ON ESTIMATES FOR THE FIRST SESSION OF THE TENTH NATIONAL ASSEMBLY APPOINTED ON 8TH NOVEMBER, 2006

44**.** **(a)** ***Land Survey Department:*** Your previous Committee noted that the problem of delayed banking was still prevalent among revenue collectors due to lack of support from Government, particularly, with regard to logistical issues such as transport. They called for immediate action to resolve this issue. They further wished to be informed as to whether the Global Positioning System (GPS) machines had since been budgeted for and when they were expected to be procured for all provinces in order to ease the operational problems of the Survey Department and enable it compete favourably with private surveyors. They also called for vigilance on the part of the Office of the Surveyor General in order for the office to realise its revenue generation potential.

It was reported in the Action-Taken Report that a provision had been made in the 2009 Ministry of Lands budget for purchasing four Global Positioning Systems (GPS). The appointment of staff to fill the vacancies in the Office of the Surveyor General would address the Committee's call for vigilance on the part of the Office in order for the Office to realise its revenue generation potential.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee wish to be availed a progress report on the procurement of the four Global Positioning System machines.

CONSIDERATION OF THE ACTION-TAKEN REPORT ON THE REPORT OF THE COMMITTEE ON ESTIMATES FOR THE YEAR 2006

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45**.** ***Budgeting Manuals*** **-** Your previous Committee wished to be informed whether the manuals to guide district councils in the area of budgeting had since been completed.

In response, your Committee learnt that the Government, through the Treasury, was still in the process of developing a budgeting manual to guide local authorities. The Ministry of Local Government and Housing in conjunction with the Ministry of Finance and National Planning had engaged a consultant to expedite the process. The manual was expected to be ready by end of the first quarter, 2009.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee note the submission and resolve to seek a progress report on the conclusion of the budgeting manual for the local authorities.

SCRUTINY OF THE BUDGET FOR THE YEAR 2006 FOR THE MINISTRY OF WORKS AND SUPPLY; MINISTRY OF COMMUNITY DEVELOPMENT AND SOCIAL SERVICES; AND MINISTRY OF COMMUNICATIONS AND TRANSPORT

46**.** ***Domestic Debt -*** Your previous Committee wished to be informed as to whether the indebtedness of the Government to suppliers of various goods and services had since been liquidated and, if not, the time frame for clearing of this indebtedness. It was stated in the Action Taken Report that in 2004, the Government committed itself to liquidate all outstanding arrears to various suppliers of goods and services by taking over the outstanding debts of Ministries, Provinces and other Spending Agencies from 2002 and the years before that.

Your Committee were informed that the programme was supposed to end in 2008, but due to unplanned expenditures arising from the sudden death and funeral of the Republican President, the subsequent Presidential election, the rising international petroleum prices and declining international copper prices, this was not achieved.

The Government had, therefore, extended the programme to 2009 and, funds permitting, the debt for 2002 and the years before would be cleared.

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS

Your Committee note the submission and request a progress report on the liquidation of arrears to local suppliers.

CONCLUSION

47. In conclusion, Sir, your Committee wish to thank you for the guidance rendered to them throughout their deliberations. They are indebted to all the witnesses who made both oral and written submissions to them. They also wish to place on record their sincere gratitude to all the officers in the various institutions that were visited by your Committee for their cooperation which enabled your Committee to effectively carry out their duties. Finally, your Committee wish to place on record their gratitude for the unfailing assistance and advice rendered to them by the Office of the Clerk of the National Assembly during the Session.

B Imenda, MP — August, 2009

CHAIRPERSON — **LUSAKA**