

# THE NEED FOR A COMPREHENSIVE LAND AND IMPROVEMENTS POLICY FOR LOCAL AUTHORITIES IN ZIMBABWE

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## **Abstract**

*Financial challenges have become a permanent feature of local governments in Zimbabwe. However, the local authorities are in a unique position to improve their financial position as asset owners of vast land and improvements because they have the opportunity to make the most of their real estate assets for the long-term. The purpose of this research paper is to proffer the need for a land and improvements policy that will guide the administration of municipal owned real estate in Zimbabwe with the aim of maximising the public asset as a financial resource. Through studying related official documents and articles, the paper puts forward the argument for improving the financial position of local authorities through utilising their real estate asset holdings. The discussion takes place within the context of current revenue sources of municipalities, how they contribute to the finances of local authorities and how such contribution affects service delivery. This article provides positive contributions and theoretical basis for further research in this area.*

## **Keywords**

*Real estate; land and improvements; revenue sources; finance; local authority; service delivery, financial challenges*

## **1. INTRODUCTION**

Local authorities in Zimbabwe continue to face perennial financial challenges with revenue collections being low resulting in them struggling to fulfil their service delivery function to their residents. In light of addressing these financial challenges, there is need to critique the financial models used by local authorities that seem to have become outdated, a topic that is unpopular. Traditional sources of revenue for local authorities are no longer viable to sustain the activities of the public institutions. With this in mind, there is need to explore other income sources to supplement these traditional sources of revenue.

## **1. PURPOSE**

The aim of this research paper is to make academic contributions to the body of knowledge on policy making in urban local authorities with regards to exploring strategies that can improve the utilization of council land and improvements as one of the municipalities' revenue sources that funds the service delivery functions.

## **2. THE ROLE OF FINANCE IN SERVICE DELIVERY**

Finance is a paramount branch for local authorities. Its activities have a bearing on every other function of the municipalities including service delivery. The success or failure of local governments depends on the availability of financial resources as well as on how these financial resources are utilised (European Commission, 2018; Adedeji, 1969). Murana (2016) asserts this by highlighting that finance is the most critical aspect that is needed by local authorities to provide the socio-economic services, the reason for which they are established. With this in mind, finance is the pillar of local governance as the funding helps to implement the policies and ideas of the local authorities (Huang and Xia, 2014; Lupala, 2015).

Local authorities in Zimbabwe are facing challenges in fulfilling their service delivery function, especially in key areas such as water, sanitation, health, housing and infrastructure development (Makwara, 2000). Such challenges emanate from the limited financial resources that local governments have. Pycroft (1996) asserts this by pointing out that the lack of financial resources in local governments make service delivery problematic. However, other issues such as the high rates of corruption, high staff turnovers, gross abuse of council assets, incompetent and redundant staff also contribute to these problems experienced by local authorities (Ahwoi, 2010). With this in mind, the overall quality of services provided by local authorities in Zimbabwe has diminished due to the macroeconomic situation that has continued to deteriorate (Zimbabwe Institute, 2005).

The dependency of service delivery offered by local authorities on finance cannot be overemphasized. Sarig (2015) supports this assertion by highlighting that despite local authorities being non-profit institutions, their dependence on financing limits their ability to provide social services. The challenges in acquiring, allocating and managing financial resources will have ripple effects that will spill over to the other activities of the local authority (Huang and Xia, 2014). With this said, local authorities need to explore ways that will help to improve their financial positions so that service delivery is improved and the citizens' expectations are fulfilled (European Commission, 2018).

## **4. REVENUE SOURCES IN LOCAL AUTHORITIES**

The Urban Councils Act Chapter 29:15 state the main sources of revenue that are available to the urban local authorities in Zimbabwe include levying of property tax rates, levying of tariffs or fees for services rendered, loans or grants from the Central Government, and loans from the open market financial institutions after seeking approval from the Minister of Local Government, Publics Works and National Housing to fund infrastructural projects such as sewer and water reticulation systems. Craythorne (2006) put these revenue sources into two categories which are internal revenue and external revenue. Internal revenue includes the property taxes, various licenses and levies. External revenue comprise government grants and loans.

Part XVII and Part XIX of the Urban Councils Act Chapter 29:15 provides for the valuation and assessment of properties within the jurisdiction of an urban local authority for rating purposes. Property tax rates are an important component of revenue generation, as evidenced by the percentage contribution they make towards the local authorities' income. McCluskey *et al* (2013) go on to add that due to the immobility of the tax base, this revenue source is predictable, hence easy to budget for. However, income from property tax rates is under immense pressure as a revenue source to fund local authorities and as such has been facing increased critique (Kelly, 2000; McCluskey *et al*, 2013; Ali *et al*, 2017).

Other sources of revenue are summarised as follows from the Urban Councils Act Chapter (29:15). According to Section 218, local authorities are allowed to levy user charges to its

residents for services rendered, with the aim of cost recovery which contribute to the income of the local authorities. Provided that local authorities engage and consult citizens together with getting an approval from the Minister of Local Government, Public Works and National Housing, they can borrow funds for capital expenditure with the aim of improving service delivery (Section 290). Section 223 allows for local authorities to enter into partnership agreements with the state, other local governments or private players provided that such ventures help to improve service delivery. Local governments have the option to invest in various interest earning instruments from registered financial institutions if the income is in surplus (Section 302). Local authorities can set up and operate income generating projects of their choice to supplement other revenue sources (Section 221). The Urban Councils Act has not been clear on the issue of the Central government providing grants to the local authorities, however Section 301(3) of the Constitution of Zimbabwe Amendment (no 20) Act 2013 in Section 301 state that the Central government should provide not less than 5% of national revenues raised in any financial year to the provincial and local councils. Such funds from the central government will definitely improve the local authorities' liquidity position once they start being implemented (Mabika, 2015).

As it stands, the revenue sources available to the local municipalities which have been discussed are failing to meet the financial requirements of the local authorities for them to meet their service delivery functions (Mabika, 2015). With this in mind, the local governments are being pressured into compromising service delivery by finding alternative ways to provide it at lower costs (Mabika, 2015). The dependence of local authorities on these traditional revenue sources and finance models is limiting their ability to provide social services due to limited funds (Sarig, 2015). Therefore, there is need for local authorities to find and explore innovative financial solutions to supplement the traditional revenue sources.

## **5. INCREASING SELF-FINANCING OPTIONS THROUGH REAL ESTATE**

The Government of Zimbabwe has been stressing the importance of local governments having the need to increase the capacity of their revenue sources (Mabika, 2015). By improving their financial positions, the local authorities' self-reliance is enhanced (Bird, 2011; Kelly, 2000; European Commission, 2018). This self-reliance is a pre-condition for successful service delivery as discussed earlier. The inability of local governments to provide service delivery and fulfil the expectations of the residents has a direct effect on the people's wellbeing since local governments are at the grass root level of administration (Agagu, 1997).

One of the ways local authorities can explore to improve their revenue inflows is to optimise their land assets to improve their financial positions. This approach could go a long way in supplementing the traditional revenue sources of local authorities such as levying property taxes. Thompson (1992) supports this assertion by pointing out that local governments should seek alternative ways in which they can increase their revenue inflows, besides raising property taxes. Property taxes are increasingly becoming less effective towards contributing to the revenue inflows of local authorities. This is so despite the policy initiatives that have been implemented to try and encourage payments which include incentives such as offering percentage discounts to rate payers to so that they can reduce their arrears (Ali *et al*, 2017; Kelly, 2013). The decline of income through property taxes is attributable to deterioration of faith by the residents on the utilization of the revenues as well as the transparency of the taxation system (Kelly, 2013). In addition to the prior mentioned, the property taxation system is dependent on the wealth of its residents. A local authority with a homogeneous population that is economically disadvantaged has the need to explore and use alternative revenue sources so that they can provide services (Stein, 1990).

Harvey (1992) defines real estate as land and all resources embodied on land which includes the structures. Harvey (1992) goes on to add that real estate has some characteristics as an investment asset. These characteristics allow for the land and improvements to be tradable within a market. The real estate market can be defined as the arrangement by which buyers and sellers of virgin land, agricultural estates, industrial buildings, office shops and houses are brought together to determine a price at which a particular property can be exchanged (Harvey, 1992). Basically, it is a platform on which real estate assets and services can be traded (Jaffe and Sirmans, 1995). The interaction of demand and supply within this market is where the value of the land and improvements is derived from. Property investors and financiers are interested in these activities that occur in the real estate market as they influence the strategies that can be implemented by them with the aim of leveraging on the risks and maximizing on the returns. As holders of a huge portfolio of land and its improvements, most of which is located in prime areas, municipalities should formulate strategies and policies that help to maximize on such activities in the real estate market.

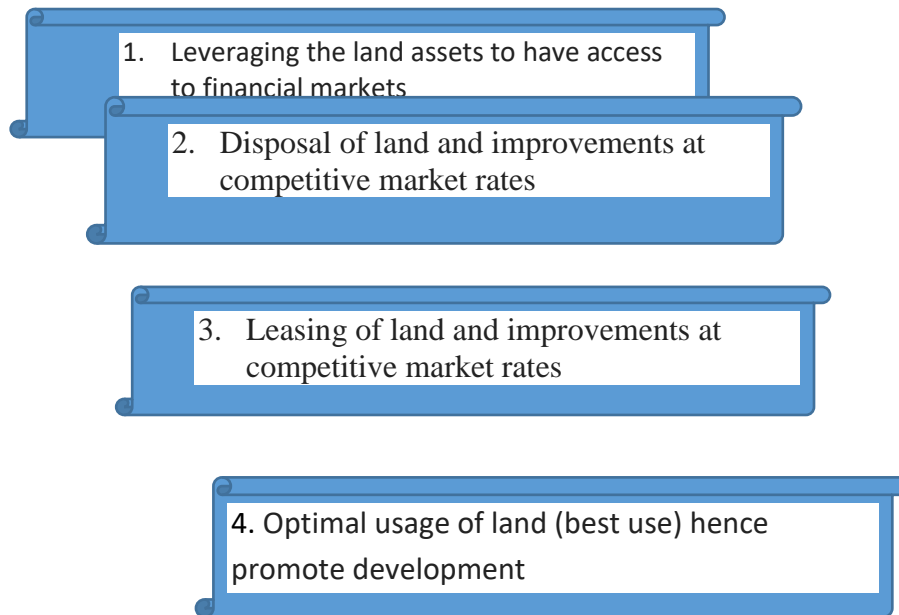
There has been a notable flow of global capital into real estate as property has become more appealing to investors because of its returns that are less volatile as compared to those of other investments (RICS Modus Journal, 2016). The investable commercial real estate portfolio only, has an estimated worth of USD 7 trillion dollars globally (Clacy-Jones and Teuben 2014). In light of this, real estate offers local governments the opportunity to improve their financial positions by aptly leasing, selling and leveraging their land assets. The financial system in Zimbabwe is fairly stable and developed (Centre of Affordable Housing in Africa, 2015), though it is rigid and some of its financial products are becoming outdated. There is need for innovation in the financial sector to develop financial structures or models that allow for local governments to leverage their land assets and have access to a greater pool of financial resources to get funding for their operations. A notable number of organisations use this aspect of leveraging to increase their revenue inflows (Li, 2015). However, this has to be managed prudently to avoid the organisations getting into a debt crisis with unmanageable debt which will make the organisations' operations unsustainable (Li, 2015).

## **6. RECOMMENDATIONS**

There is need for municipalities to have a policy and strategies that are dedicated to managing and optimising the land assets of local authorities. Without such, the local authorities' land assets are exposed to abuse and exploitation, and will continue to be underutilised as most of them are leased out and sold below market rates, a trend which has been apparent. The suggested policy and strategies will allow local authorities to have operating procedures and increased autonomy to efficiently and effectively respond to the market, hence maximising on real estate as a revenue source. This will also promote transparency and accountability when it comes to the council's land and improvements. One of the biggest benefits that local authorities will have by having a municipality land and improvements policy is the ability to leverage their land assets, having bonds that will be used to invest in more infrastructure as needed.

The land and improvements policy will allow the strategies shown in Figure 1. to be implemented.

**Figure 1: Strategies that can be implemented effectively with a land and improvements policy**



**Source: Authors' Creation**

The strategies shown in Figure 1. will result in revenue increase hence sustainable development.

## **7. CONCLUSION**

Local authorities in Zimbabwe must be more ready than ever to explore alternative sources of revenue from the traditional income streams. These alternative sources include looking at ways to optimise the land and improvements asset portfolios of local governments so as to increase the revenue inflows and improve their financial positions. In this field, there exists opportunities for further research to supplement the theoretical literature.

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