

**National University of
Science and Technology**
Think in Other Terms



FACULTY OF COMMERCE

DEPARTMENT OF FINANCE

MASTER OF SCIENCE IN FISCAL STUDIES

FINAL EXAMINATION – DECEMBER 2014

**FISCAL DECENTRALISATION & LOCAL GOVERNMENT FINANCIAL
MANAGEMENT [CFS5103]**

TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer any **FOUR (4)** questions.
2. Read questions carefully and address all parts of the question.
3. Questions may be written in any order, but must be legibly numbered.
4. Write eligibly.

ADDITIONAL INFORMATION FOR CANDIDATES

1. The paper contains SIX (6) questions.
2. This paper consists of 5 printed pages
3. Marks for each question are shown in parentheses brackets () and square brackets [] at the end of each part of the question and full question respectively.
4. All questions carry **equal marks** [25 marks].

QUESTION ONE

- a) Explain the local government structure in Zimbabwe. **(5 marks)**
- b) Based on experiences and examples from Zimbabwe, what are the main challenges faced by local governments in Zimbabwe and to what extent are they directly linked to the local government structure you have identified in (a) above. **(6 marks, 4 marks)**
- c) The roles of local government in Zimbabwe are covered under the Urban Councils Act [Chapter 29:15] and the Rural District Councils Act [Chapter 29:13]. Given the contents of these two Acts as pertains to the role of local government:
- i. What is the role of urban local governments or authorities? **(3 marks)**
 - ii. What is the link between these roles in (i) above and the general theoretical function of government in an economy? **(7 marks)**

QUESTION TWO

- a) Explain the five main components of a capital budgeting process. **(15 marks)**
- b) You are provided with the following information regarding the state of three main service delivery support infrastructure for your city.

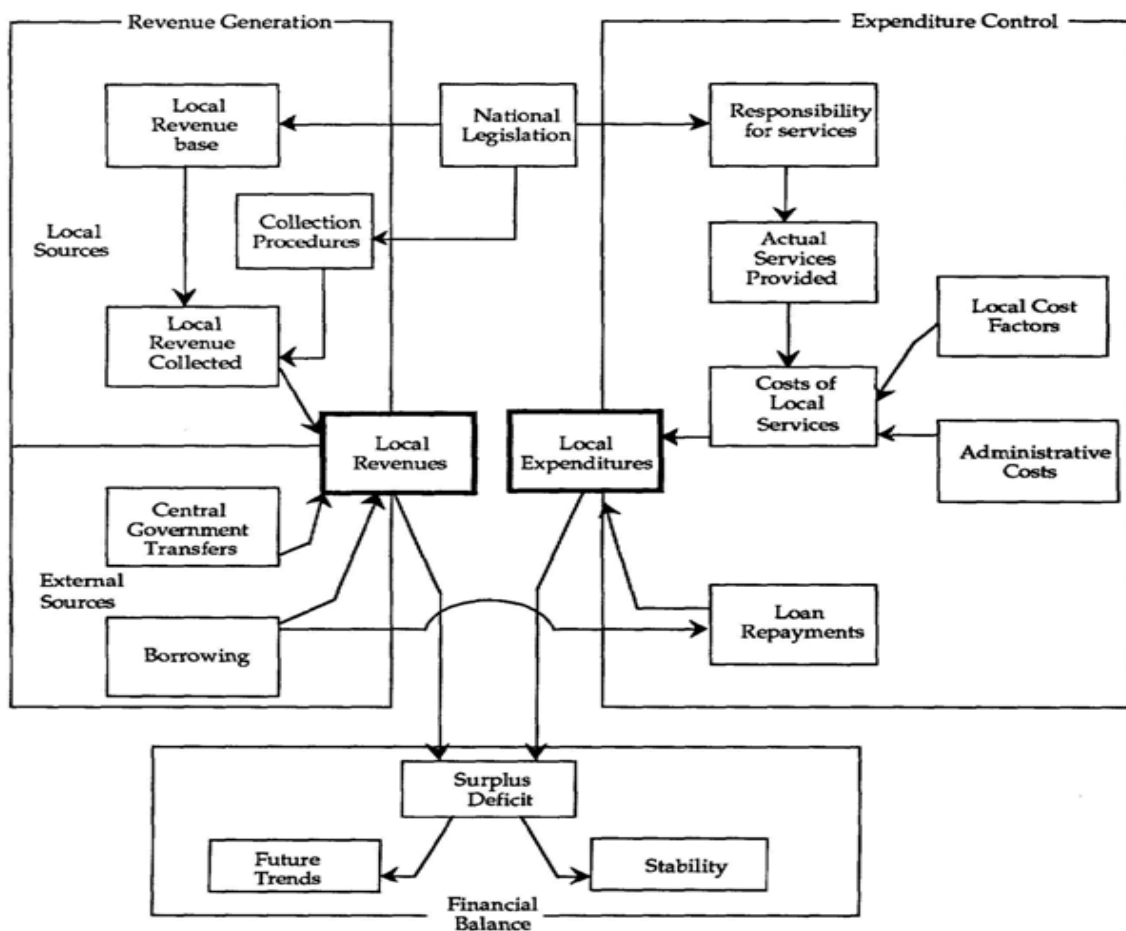
Facility	Built	Condition	Coverage	Life span	Replacement Cost (US\$)
Fire Station	1980	Fair	85%	50 years	2.7 million
Water Plant	1956	Poor	45%	65 years	9.8 million
Sewer System	1972	fair	75%	65 years	5.6 million

Based on the information above, explain how you would prioritise the replacement of the infrastructure for your local government and explain a feasible financing option that is the most appropriate for your capital budget? **(3 marks, 7 marks)**

QUESTION THREE

- Discuss the case for the decentralisation of financial management of local government. **(10 marks)**
- Table 1 below shows the financial structure of a local government. Discuss the sources and uses of local government funds as shown on Table 1 and conceptualise these in the context of fiscal decentralisation. **(15 marks)**

Table 1: Local Government Financial Structure



Source: Smoke, 2001

QUESTION FOUR

- a) Explain the following forms of grants used by local governments and cite relevant examples applicable to Zimbabwe.
- i. General purpose grants. **(2 marks)**
 - ii. Block grants. **(2 marks)**
- b) Discuss any four key functions of grants in local government financial management? **(12 marks)**
- c) Fiscal decentralisation has been seen as critical to efficient service delivery in local governments worldwide. This realisation has resulted in several governments decentralising most of their local government activities. However, notwithstanding the general shift in power worldwide, most central governments still want to have overall control over local government borrowing. Is the central government's intervention justified this case? Discuss. **(11 marks)**

QUESTION FIVE

You are the Revenue Promotion Director of local governments in the Ministry of Local Government and Urban Development in Zimbabwe. Local governments are often criticised for failure to collect adequate revenues from their core revenue centres. You are of the view that there is need to rethink the approach to revenue collection in terms of both the procedures and strategy. You are planning to introduce a number of revenue enhancement strategies for local governments. This plan is summarised in two thematic areas in your proposal to the Ministry as follows.

- a) Explain any five revenue enhancement strategies that can be adopted to improve local governments' revenue capacity. **(15 marks)**
- b) Identify and explain the prerequisite policy changes necessary to authenticate the regulatory power upon which local governments can legally implement the proposed strategies in (a) above. **(10 marks)**

QUESTION SIX

- a) Giving examples, discuss any five financial ratios that are important to evaluate the financial position and financial capacity of a local government.
(15 marks)
- b) Explain issues that managers must always take into account when using financial ratios in decision making.
(10 marks)

END OF EXAMINATION PAPER