



**FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
MSc IN FISCAL STUDIES
STAGE I FINAL EXAMINATION – MAY 2012
FISCAL DECENTRALISATION AND LOCAL GOVERNMENT FINANCIAL
MANAGEMENT [CFS 5103]
TIME ALLOWED: 3 HOURS**

INSTRUCTIONS TO CANDIDATES:

1. Answer any **FOUR (4)** questions.
2. Write legibly.

INFORMATION FOR CANDIDATES

The businesses in this question paper are intended to be fictitious

Start each solution / answer on a new page in your answer book.

The paper contains SIX (6) questions.

All questions carry equal marks [25 marks]

This paper consists of 4 printed pages.

QUESTION ONE

The local government of Phatu Municipality aims to raise adequate user-fee revenue from its expenditure assignments mainly; water supply, refuse or garbage removal, education provision and, safety and protection security. However, as much as enough revenue has to be raised, the municipality also faces the dilemma that it has to satisfy its mandate to provide public services to at least every citizen. Based on this case:

- a) Discuss in detail how Phatu Municipality may attain both government functions of allocation and income redistribution. **(15 marks)**
- b) Identify and explain any one service that may create either a positive or negative externality. **(5 Marks)**
- c) Provide a detailed argument for municipality to use the service identified in (ii) above as a basis to seek supporting grants from a higher level of government. **(5 Marks)**

TOTAL [25 MARKS]

QUESTION TWO

The decentralization of fiscal powers to Sub-National Government (SNGs) levels has a significant impact on the manner local governments spend, mobilize resources, make requests for or receive inter-governmental transfers and implement appropriate national regulatory framework for sub-national borrowing. In connection with this statement:

- a) Briefly explain each of the four pillars of fiscal decentralisation. **(8 marks)**
- b) Justify the rationale for adopting expenditure assignment as the “first building block” in the fiscal decentralisation process. **(1 marks)**
- c) Discuss any four principles that guide the government in the designing of sub-national expenditure assignments. **(16 Marks)**

TOTAL [25 MARKS]

QUESTION THREE

- a) Giving practical examples, explain administrative and political controls imposed on local governments in terms of limiting revenue and expenditure powers by a central or higher level of government. **(8 Marks)**
- b) Identify main groups of financial controls for local governments and elaborate on their relevance in operations of local governments. **(5 Marks)**
- c) Discuss two types of internal controls imposed on local governments and clearly show how they achieve the objectives of financial management control. **(12 Marks)**

TOTAL [25 MARKS]

QUESTION FOUR

a) In the context of financial analysis for local governments, explain its three main components:

- i. Financial position (3 marks)
- ii. Financial conditions (3 marks)
- iii. Fiscal capacity (3 marks)

b) Vhembe Municipality has a population estimated to be 650,000 in 2010 and its audited financial statements reflect the following financial position.

Vhembe Municipality Balance Sheet as at 31st December 2010

	2010 (\$ '000)	2009 (\$ '000)
<u>ASSETS</u>		
<u>FIXED ASSETS</u>		
Property, Plant and Equipment	25,110	18,540
<u>CURRENT ASSETS</u>		
Trade debtors	59,234	56,432
Cash and Cash equivalent	36,456	29,535
Stock	10,000	5,000
TOTAL ASSETS	<u>130,800</u>	<u>109,507</u>
<u>LIABILITIES</u>		
Accumulated Funds & Reserves		
Accumulated funds	34,716	28,540
<u>LONGTERM LIABILITIES</u>		
Debt	36,740	27,439
<u>CURRENT LIABILITIES</u>		
Trade creditors & Other Payables	45,555	35,675
Provisions	13,789	17,853
TOTAL LIABILITIES	<u>130,800</u>	<u>109,507</u>

REQUIRED:

Using any four financial ratios, conduct financial analysis and comment on the financial health of the local municipality in 2010 compared to that of 2009. (16 marks)

TOTAL [25 MARKS]

QUESTION FIVE

- a) “The growth of a city is a function of the practicality of its local government’s Capital Investment Plans (CIP)”. Critically analyze this statement by elaborating on key stages in the implementation of capital investment projects and financial management. **(15 marks)**
- b) Assume that a credit service for capital municipal borrowing is available in Zimbabwe. Under this context, if a municipal government which is empowered to borrow from local market sources plans to implement a water dam construction project funded through a long-term municipality bond:
- i. What requirements, do you think are to be fulfilled by this municipality so as to secure the required funding? **(4 marks)**
 - ii. Which sources of the municipal revenue can be considered as potential sources of income for bond servicing? **(2 marks)**
 - iii. What constraints do you foresee in each of the revenue sources identified under (ii) above? **(2 marks)**
 - iv. In order to lower the cost of borrowing, what strategies can be used to enhance the municipal’s creditworthiness? **(2 marks)**

TOTAL [25 MARKS]

QUESTION SIX

The revenues and expenditures capacity have not improved for most local governments in Zimbabwe (both urban and rural) due to inefficiency and ineffectiveness in both managerial and technical capacity.

- a) Discuss five problems associated with either managerial and/or technical capacity at local government level affecting local revenue performance. **(10 marks)**
- b) Discuss five possibilities for revenue enhancement strategies that may be adopted by local governments in Zimbabwe as a way of improving their local capacity. **(15 marks)**

TOTAL [25 MARKS]

END OF EXAMINATION PAPER