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A manual for local government financial management in Zambia

Andrew Chitembo

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Making Cities Work



SINPA
CENTRE FOR IMPLEMENTATION
OF NATIONAL PLANS OF ACTION

A Manual for Local Government Financial Management in Zambia

Andrew Chitembo



SINPA

**‘Support to the Implementation of the National
Plan of Action (Zambia)’**

A Manual for Local Government Financial Management In Zambia

Andrew Chitembo

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Andrew Chitembo has been involved in Local Government Financial Management since 1972 when he joined Lusaka City Council as a Trainee Accountant. By 1979 he was Assistant City Treasurer for Lusaka City Council and between 1982 and 1988 was City Treasurer for Kitwe City Council. He retired in 1988 to form a consultancy company, *Bowanda*, which specialises in public finance matters and which continues, in collaboration with other organisations, like SINPA, to contribute towards the development of skills in public finance in Zambia. This manual is part of a series of such collaborations.

Mr Chitembo has the Zambia Diploma in Accountancy, 1977, in which he took the public accounting option (now no longer available), a certificate Urban Finance from the Economic Development Institute of the World Bank in Washington DC., 1982, and a Master of Social Science Degree in Development Finance from the University of Birmingham, UK, 1985.

About this Manual

Background

This manual, supported by the School of the Built Environment at Copperbelt University and the Institute for Housing and Urban Development Studies, The Netherlands, aims to bring together various aspects of Public Finance covered in the various workshops and seminars conducted by SINPA. It is intended that the Copperbelt University will use the manual as part of the requisite training material for accredited training in Public Finance, a branch of financial management now not seriously covered by local training institutions. This is important as current financial management training available in Zambia is commercial. The training therefore provides a bridge for professionals trained in commercial financial management into the public finance area.

As the manual is in modular form, some concepts may be covered, to different degree in more than one module. Module one is a must read for all persons identified as target groups.

The initial phases of the programme have been developed over the past three years in the context of SINPA Zambia, a Netherlands Government supported programme and in close cooperation of the Kitwe City Council which has been the focus of the SINPA Zambia programme. A number of pilot training courses have been undertaken with Kitwe City Council in the development of this programme.

Strategic Purpose

- ❑ Capacitating Zambian local government personnel and related professionals to engage in improved financial management of local governments.
- ❑ Provide comprehensive understanding of financial management in Zambian local governments.
- ❑ Provide key financial management analytic tools, techniques and procedures.
- ❑ Building a strategic core "financial management team" with skills for more effective general financial management and for undertaking financial improvement planning.

Target Groups

- Local government councillors (especially those involved in finance and general purpose committees)
- Town Clerks
- Finance Department Heads
- Staff of Finance Departments
- Heads and strategic personnel of Line Departments
- Professionals involved in consulting and advisory work for local governments
- Graduates who intend to pursue careers in local government financial management positions

General Focus

- Local government financial management
- Zambian focused but with components drawing on international practice.
- Current practice / procedures and alternative options (international case studies).
- In each chapter / module the application of the relevant Council Standing Orders will be covered.
- Analytic tools to assess the current situation and to identify key problem areas
- Practical tools and strategies for addressing key problem areas
- Targeted on key financial areas where problems and weaknesses are currently experienced in Zambian local governments

Acknowledgements

The preparation of this manual came at a time that Zambia was involved in the most competitive tri-level, not tripartite as the Zambian press likes to call it, elections, with eleven presidential candidates, several hundred parliamentary candidates for the one hundred and fifty constituencies and perhaps several thousand candidates for local government seats. I am grateful to SINPA for giving me the opportunity to do something that I had always wanted to do, write some reference material for Financial Management in Local Government and for extending the deadline for completion of this manual especially in view of the said tri-level elections.

I acknowledge the assistance of the unflappable Dr Malama, the SINPA National Co-ordinator, who always gives good advice and encouragement even under pressure, the internet ready M. Jansen in Rotterdam who always responded instantly to logistical issues that I raised and thus made the completion of this manual that much easier, my friends E. T. Chenda and S. S. Msichili, both previously City Treasurers and Town Clerks of towns in Zambia, for letting me have access to the immense store of knowledge they collectively have in their heads on local government finance and to my best friend and wife Lulu for bearing endless nights of a fretful husband chasing down some idea that has just occurred, always at two am, and for typing some of this manual and all the participants of all the seminars I have participated in regarding this subject who always seem to raise anew angle to an old problem, and all the people whose brains I picked, consciously and unconsciously. To all of you thank you very much.

Since I always believe that while I am alive, I can always better my best, especially with your assistance, I look forward to updating this manual. In this regard I look forward to and acknowledge before hand, comments from all you who may use this manual for whatever purpose.

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Monday, 04 February 2002

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1 Module 1: Introduction to the Local Government Financial System In Zambia

The underlying objective of financial management in Local Government is summarised in the statement that *'Effective financial management can help councillors transform the community into the place of their dreams'*¹.

The purpose of financial management is to optimise value for money. Indeed in the Kitwe City Council Strategic Plan² among the values of Kitwe City Council is one that states that 'we undertake to provide the most economic service and realise value for money at all times'. How can this be achieved? Some basic financial management skills and a lot of common sense together with a determination not to be intimidated by jargon can help towards the achievement of value for money and the realisation of the council's vision.

The components and processes of financial management in a local authority and the legal provisions that relate to them can be stated as follows:

Table 1: Legal Provisions for Financial Management.

<u>Process</u>	<u>Description</u>	<u>Legal Provision</u>
Budgeting	Determining the income and capital required to finance the activities planned by council by preparing a detailed budget.	Section 39 of the Local Government Act.
Safeguarding	Implement controls to ensure that income, capital and assets such as money and motor vehicles are safeguarded against improper use, loss or theft	Sections 41, 42, and 47 of the Local Government Act
Monitoring (Management Accounting)	Monitoring actual results and performance against the budget through management reports.	Section 43, Section 31(2) and Section 46 of the Local Government Act
Control	Take appropriate action when actual results differ from budget	Section 43 (2) of the Local Government Act
Accountability (Financial Accounting)	Preparing for all stakeholders' financial statements which are audited.	Section 43(3) of the Local Government Act

1.1 Historical Context and Applicability

The popular notion that local government is a creature of legislation and a child of central government is historically wrong.

Local government was born when individuals decided to live together in groups with an identifiable habitat. These humble habitats developed into today's cities.

Local Communities established their own local governments. It does not matter how scholars describe these community governments. The fact is that these were local governments.

When neighbouring local governments got tired of waging wars against each other, and after realising that collectively they could defend each other much more successfully by pooling resources they decided to establish a central government on the understanding that central government would perform selected functions e.g. defence and relations with other central governments, leaving other areas of government to continue being the domain of local government. This arrangement has been referred to as the **SOCIAL CONTRACT** between individuals and local governments on the one hand and central government on the other.

¹ Financial Management for Local Authorities: A handbook for Local Government Councillors. Most of the material for this paper comes from this handbook.

² A Strategy for Kitwe 1999 – 2003, IPA Ireland

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The notion therefore that local government has always been a creature of central government legislation or mere agents of central government is misleading.³

The term local governments in this manual will refer to City, Municipal and District Councils as established under the Local Government Act. The financial management principals discussed in the manual, however, apply to other local and national authorities as well institutions that provide services and utilities such as electricity, public housing, water and sanitation, all of which at sometime in the past in Zambia were provided by Councils.

1.2 International Context for Local Government Financial Management

Financial management in local government is practiced, world wide as a part of public finance, to achieve specific objectives; to provide the desired services in the most cost effective manner. Professional institutions such as the Chartered Institute of Public Finance Accountants(CIPFA) of the United Kingdom and related institutes in the commonwealth as well as the International City Management Association of the United States of America and the International; Federation of Accountants (IFAC) have set up standards in aspects of financial management in Local Government which create acceptable international standards. Various universities around the world have, in recognition of the complexities of managing local authorities set institutes of Local Government Studies at graduate as well as post graduate levels.

Other institutions, such as the Economic Development Institute of the World Bank (EDI) which produces the Urban Age a leading magazine on urban development, and the Institute for Housing and Urban Development Studies (IHS), under whose auspices this manual is produced, have Urban Finance courses and publications that create standards in the field of urban financial management.

The National Institute of Public Administration (NIPA) in Zambia, used to have a public finance option in their accounting diplomas but this was discontinued more than 20 years ago, the effect of which is now being felt as both the Central Government and Local Government have major shortages in persons which specific public finance training.

To contextualise the environment in which this is practiced it is necessary to have a common understanding of some of the terms used in this manual and generally used in the practice of public financial management worldwide. Some of these terms are attached as Table 7: Public Finance Terms and Descriptions on page 20 at the end of this module.

1.2.1 Financial Management

Management implies the taking of actions to optimise achievement of organisational goals relative to the resources used. The optimisation is therefore between resources used and benefits gained. The combinations can be:

- Given a limited value of resources obtain the maximum benefits (this is where the resources are the limiting factor) (e.g. in football, score the highest number of goals (benefit) within 90 minutes (limited resource)) or
- Given a fixed amount of benefits required, use the least resources (this is where the resource consumption or benefit to be earned is the limiting factor) (e.g. in tennis, get to 6 – love (zero) (i.e. end the game – fixed benefit) in the shortest time possible (least resource)).

Where the limiting factor is money, as is normally the case in local government, financial management is about creating **value for money** which implies ensuring that financial and other resources which have financial implications, such as manpower, materials and equipment are used in an economical, efficient and effective manner to achieve organisational goals. The following example can be used to illustrate the relation ship between effectiveness, efficiency and economy.

³ Lavu Mulimba in a paper presented to a Councillors Orientation Workshop for Lusaka City Council, 5th March 1999.

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Table 2: Effectiveness, Efficiency and Economy.

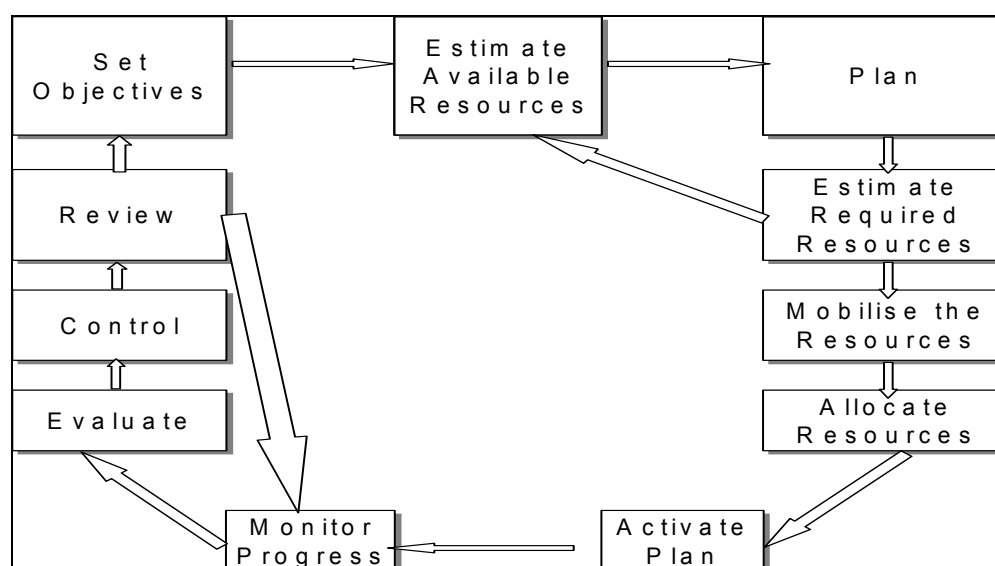
<u>Term</u>	<u>Definition</u>	<u>Example</u>
Effectiveness	The services that are being provided are having the desired impact on the community	A road rehabilitation programme has resulted in fewer broken ball joints and road accidents
Efficiency	Making the best use of limited resources to complete a task to a given level	All roads have been upgraded within the planned time.
Economy	Acquiring resources of a suitable quality and quantity at the lowest cost	The roads department was able to get a high discount on the cost of bitumen by buying in bulk.

In order to manage properly several factors must be in place among which:

- (1) Clear goals and objectives.
- (2) An assessment of available resources.
- (3) A plan for achieving the organisational objectives within given time and resource constraints with appropriate milestones.
- (4) A system of mobilising the required resources.
- (5) A system for deploying the resources.
- (6) A method for keeping track of progress during the currency of the plan.
- (7) A method for comparing actual progress against the plan.
- (8) A method for taking corrective action should this be necessary.
- (9) A method for reviewing the activities of the current and previous planning periods as an input into the next planning period.

A simplified diagram of the management planning cycle is presented below.

Figure 1: Management Planning Cycle.



1.2.2 Financial Management and Governance

The issue of governance has become topical these days especially, but not exclusively, with respect to public institutions (such as councils and governments) and the offices, processes, structures, officials and officers of these institutions. For a developing country like Zambia, issues of good governance, or lack thereof, have

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caused cooperating partners to take or not take specific actions, to release or withhold financial pledges all based on issues of governance.

A 1999 World Bank working paper concludes that ‘there is new empirical evidence that governance matters, in the sense that there is a strong causal relationship from good governance to better development outcomes such as higher per capita incomes, lower infant mortality and higher literacy’⁴. As councilors, in a properly constituted meeting, you are ‘the Council’. The issues development are of interest to council and therefore some understanding of what constitutes ‘good governance’ should be of interest to you

“Broadly speaking corporate governance generally refers to the processes by which organizations are directed, controlled, and held to account”⁵. “Governance is concerned with structures and processes for decision-making, accountability, control and behavior at the top of organizations”⁶.

All the topics in this manual are written within the context of ‘good governance’. This is taken as common crosscutting framework for all the topics covered.

1.2.3 Principles of Governance

The Report of the Committee on the Financial Aspects of Corporate Governance⁷ (the Cadbury report) defined corporate governance as “the system by which organizations are directed and controlled”. It identified the three fundamental principles of corporate governance as:

- ❑ **openness;**
- ❑ **integrity; and**
- ❑ **accountability.**

These principles are and their importance or function are described below:

1.2.3.1 Openness

Openness is required to ensure that stakeholders⁸ can have confidence in the decision-making processes and actions of public sector entities, in the management of their activities, and in the individuals within them. Being open through meaningful consultation with stakeholders and communication of full, accurate and clear information leads to effective and timely action and stands up to necessary scrutiny.

1.2.3.2 Integrity

Integrity comprises both straightforward dealing and completeness. It is based upon honesty and objectivity, and high standards of propriety and probity in the stewardship of public funds and resources, and management of an entity’s affairs. It is dependent on the effectiveness of the control framework and on the personal standards and professionalism of the individuals within the entity. It is reflected both in the entity’s *decision-making procedures and in the quality of its financial and performance reporting*.

⁴ Kaufman, D Kraay A and ZoidoLobaton, P, 1999, *Governance Matters*, Working Paper, The World Bank.

⁵ ANAO, Discussion Paper, *Corporate Governance in Commonwealth Authorities and Companies*, 1999.

⁶ International Federation of Accountants (IFAC), ***Governance in the Public Sector: A Governing Body Perspective: International Public Sector Study no 13, August 2001***. This and other studies may be downloaded from the website www.ifac.org

⁷ Cadbury Committee (U.K.). *Report of the Committee on the Financial Aspects of Corporate Governance*, December 1992

⁸ Stakeholders will include the body or individual(s) electing or appointing the governing body and having responsibility for appraising performance, elected representatives (Parliament), providers of resources (taxpayers, lenders, bondholders, and creditors), service providers and partners (employees, contractors, joint venture partners and other government entities), users of services (individuals and businesses who benefit from the services that the entity provides), interest groups, analysts and other statistics gatherers (policy analysts, economists, financial analysts, rating agencies), media and the wider community

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1.2.3.3 Accountability

Accountability is the process whereby public sector entities, and the individuals within them, are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure. In effect, accountability is the obligation to answer for a responsibility conferred.

1.2.4 Relevancy

These principles are relevant to public sector entities as they are to private sector entities. They apply equally to all public sector entities, irrespective of whether governing bodies are elected, as in the case of municipal councils in Zambia, or appointed, as in the case of University councils in Zambia, and whether or not they comprise a group of people or an individual. As however, public sector entities have to manage public resources which subject them to a different set of external constraints and influences; and are subject to forms of accountability to their various stakeholders which are different to those that a company in the private sector owes to its shareholders the definitions of these principles need to be adapted to reflect the key characteristics of public sector entities, which distinguish them from the private sector.

This has been done by the Committee on Standards in Public Life (the Nolan Committee (U.K.)), the first report of which was published in May 1995. The report (the Nolan report) identified and defined an additional four general principles of conduct that should underpin public life, and recommended that all public sector entities should draw up codes of conduct incorporating these principles. These "principles of public life" are:

- ☐ **selflessness;**
- ☐ **objectivity;**
- ☐ **honesty; and**
- ☐ **leadership;**

In addition to the three already identified above and reproduced below:

- ☐ **accountability;**
- ☐ **integrity**
- ☐ **openness;**

Each of these principles is defined in terms of the responsibilities of "holders of public office".

1.2.5 Tools for Governance

These fundamental principles, as they apply to local government internationally, can be actualised by using certain commonsense tools, techniques and standards. The key ones of these are briefly described below:

1.2.5.1 Standards of behaviour

These determine how the management of the organization exercises leadership in determining the values and standards of the organization, which define the culture of the organization and the behaviour of everyone within it. For councils this is reflected in provisions of the Local Government Act and the various subsidiary rules and regulations that are made pursuant to the provisions of that act such as the Standing Orders and Financial Regulations.

1.2.5.2 Organizational structures and processes

These refer to how the top management within organizations is appointed and organized, how its responsibilities are defined, and how it is held accountable to the stakeholders. In the context of Zambia's Local Government these are contained in the various rules and

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regulations that are made regarding the appointment of Chief Officers and their responsibilities.

1.2.5.3 Control

This refers to the network of various controls established by the top management of the organization to support it in achieving the entity's objectives, the effectiveness and efficiency of operations, the reliability of internal and external reporting, and compliance with applicable laws and regulations and internal policies. For councils this would be the process by which development ideas are adopted, implemented and monitored. This includes monthly reports both financial and activity reports, audits of various types and provisions for creating public awareness of the activities of council.

1.2.5.4 External reporting

This refers to how the top management of the organization demonstrates its financial accountability for the stewardship of public money and its performance in the use of resources. This relates to the preparation of annual reports which show the activities of council for the preceding year and includes audited accounts for that year.

The Local Government Act in Zambia provides for the appointment of external auditors by the Minister and provides that the audited accounts of council should be ready within six months of the end of the year to which they relate.

A checklist for good governance is attached as **Appendix 1: Good Governance Checklist**⁹ on page 23.

1.2.6 Public Finance

Governments, whether Federal, Central, Provincial, State or Local, provide services which society feels are better provided at societal level rather than at individual level. Thus Central or Federal Governments will usually provide Defence and Security services, establish and execute foreign and economic policies, while Local Governments will normally provide street lighting, water (in some cases) and storm water drainage, while individual members of the society will normally provide clothes and food among other services. There are of course overlaps in the categories for some goods and services such as, for instance shelter and education.

Generally, the Governments provide what economists call public goods and services. These are generally services whose consumption would be difficult to allocate to specific individuals. Street lighting is one such example. It would be difficult to charge an individual a fee for using streetlights. What would be the basis?

The goods and services, which are not public goods and services, are called private goods and services. These are goods and services which would be easy to allocate usage thereof. Haircuts, loaves of bread and items of clothing would be such goods or services.

While it is fairly easy to finance private goods and services, charge the user or buyer, public goods and services do not render themselves to such an easy solution. How these are financed has given rise to a branch of financial management called, not surprisingly, Public Finance.

The basic tenets of financing the provision of goods and services in Public Finance are fairly easy and straightforward. These being:

- a) For services that can be allocated to specific consumers, user charges and fees should be used to finance the services.
- b) For services for which allocation to specific consumers is not easily possible, that is public goods and services as defined above, the services should be financed by taxes.

In a 2-tier government system like ours, and indeed for 3 tier level governments as well such as the federal governments of Nigeria, America and Germany, different government services are provided by the

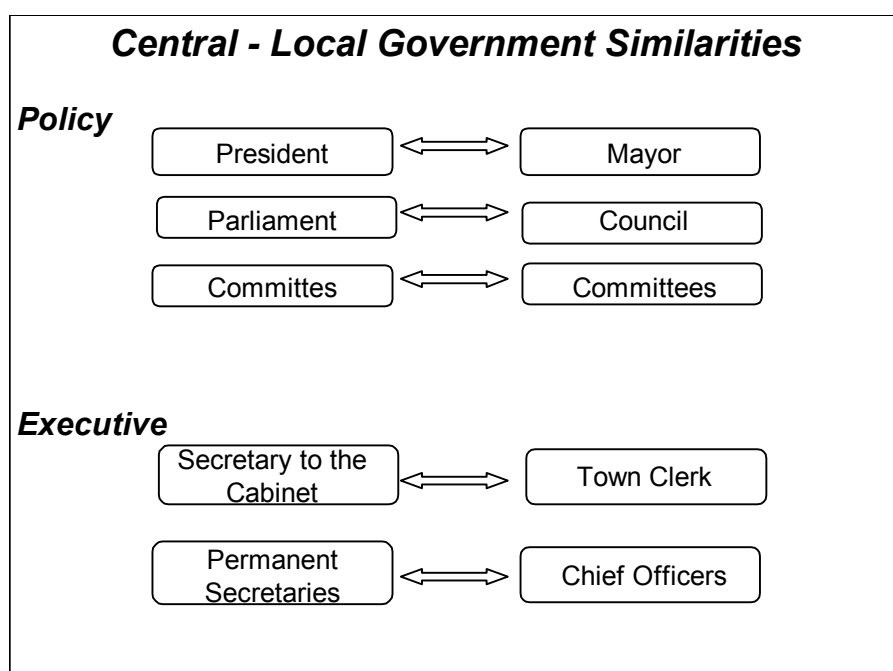
⁹ The Checklist is adapted from **Corporate Governance – A Framework for Public Service Bodies**, July 1995.

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different levels of government, to some extent on an arbitrary basis. These differ from country to country, within the country and in time.

In Zambia, for instance water is provided by local authorities, or utilities owned by local authorities, in the major urban areas while the same is provided by the Central Government in the rural areas. The process of decentralisation means that Local Government does some things now which were done by Central Government in the past. There are also activities previously conducted by local authorities in Zambia which are not so provided now, distribution of electricity is one such activity. As both levels of government are government and provide similar types of goods and services, mainly public goods and services, one would expect that their structures might show some similarities. The chart below shows this.

Chart 1: Central Local Government Similarities



As both Central and Local Government activities are financed, to a large extent, by taxes on the societies for which they exist, it follows logically that how these taxes are shared by the different levels of government should more or less reflect how the responsibilities are shared.

1.2.7 Local Government Objectives and Functions.

From the foregoing it is clear that goals and objectives are an essential starting point for any sort of management. What is it that the institution trying to achieve? The basic objective of councils is to provide a suitable environment within their jurisdictions to enable their residents enjoy healthy and economically productive lives. In order to do this, the second schedule to the Local Government Act, sets out 63 different functions that councils are authorised to carry out. Which of these functions are carried out depends on each council's priorities. These may change from time to time.

Traditionally councils were supposed to provide infrastructure, such as roads, serviced plots, streetlights and storm water drains, for instance, to enable enterprise and economic activities to take place. The economic status of most councils in Zambia, a mirror of the deteriorating national economy, is now such that even if the infrastructure is provided, there is no guarantee that 'investors' and / or 'entrepreneurs' will automatically appear. This has led to councils in Zambia, and abroad, to extend their activities beyond the traditional set-up to include Local Economic Development (LED), which includes business attraction, retention and development.

1.2.8 Who is a Financial Manager

Everybody is a financial manager. We all:

- Budget, what are we going to spend our money on when we get paid? Even if this is not written down, it is nevertheless a budget.

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- b) Safeguarding, I will not leave my shirt hanging on the line outside overnight or park my bicycle in Matuka Avenue (Kitwe's main street) without due security. This is safeguarding.
- c) Monitoring, this money was supposed to last the whole month, one week into the month how am I doing? At this rate I have overspent and therefore will run out of money before the end of the month.
- d) Control, In view of c) above do I
 - Remove bacon and eggs from my breakfast? (Expenditure reduction)
 - Work overtime to earn more? (Income enhancement)
- e) Accountability, I did not carry out either of the options in d) above I am therefore accountable for my family's starvation in the last week of the month.

The council's financial manager is therefore not the Director of Finance, whose responsibility is the preparation and keeping of accounting records and preparation of financial statements for decision-makers to consider. The Council's financial managers are therefore all the decision-makers, Councillors, the Town Clerk, Chief Officers, section heads etc as they all make decisions which have financial implications for the councils.

1.3 Legal Framework Local Government in Zambia

The legal framework which establishes local government in Zambia starts with the Constitution of Zambia, as amended in 1996. Article 109 provides that:

'There shall be such system of local government in Zambia as may be prescribed by an Act of Parliament.'

The system of local government shall be based on democratically elected councils on the basis of Universal adult suffrage.'

The Local Government Act, Cap 281 Chapter 215 of the Laws of Zambia provides for the establishment of Councils and Local Authorities in Zambia and, in conflict with the social contract and treats, for all intents and purposes, Councils and Local Authorities as departments of the Ministry of Local Government and Housing.

Other laws such as the Rating Act, the Personal Levy Act, Public Health Act, Country and Town Planning Act and others also create part of the legal framework within which Local Government operates. Additional rules and regulations formulated under the Act, such as the Financial Regulations and the Standing Orders complete the legal framework within which councils operate in Zambia.

1.4 How Local is Local Government?

Local Government should be about solving local issues of public interest, using local skills, local leadership and locally developed solutions. Local, should therefore not only mean the authority to act on and resolve developmental issues at the district level, but also at sub-district level as within one district, the developmental priorities could be very different. The institutions that have been developed in Zambia for this matter, the local authorities, do not, in most cases, have the authority to carry out their functions without Ministerial sanction on one hand or the sub-district structures required to address local issues within their areas of jurisdiction.

Local has therefore been taken out of Local Government in Zambia. A brief examination of the law and the sub-district structures highlight this matter.

1.4.1 Restrictions by the Local Government Act

An examination of the Local Government Act shows that Councils require Ministerial approval in a number of areas such as:

- **Section 39:** Estimates of revenue and expenditure of Councils shall and must be approved by the Minister;
- **Section 52:** The Minister approves conditions for Councils for each financial year.

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- **Section 67:** A Council shall not sell, let for a period of 14 years or more or otherwise dispose of any land or building except with the Minister's approval
- **Section 68:** Minister's approval is required for Councils to make grants or loans of money
- **Section 70:** A Council shall not impose any fees or charges in respect of owners rates and personal levy without the prior approval of the Minister
- **Section 71:** A Council may not without the approval of the Minister pay fees or allowances to Councillors.
- **Section 81:** The Minister's approval is required for Councils to make by-laws
- **Section 88:** The Minister has power to dissolve councils, suspend Councillors and appoint a Local Government Administrator to perform Council and Councillors' functions "whether by reason of the refusal, failure or inability of a Council adequately to discharge all or any of its functions the Minister considers it necessary or expedient in the interest of local administration"
- Other Acts on the utilisation of local natural resources within the boundaries of local authority areas such as the Wildlife Act, the Forests Act, Fisheries Act etc have removed the ownership of local natural resources which was once upon a time vested in local people through their Native Authorities, and vested the ownership and therefore the utilisation and disposal of these resources in central government hands such as the Director of Wildlife and Conservation of Forests.

As all the major decisions are made only with the Minister's approval, the current legal operating framework has taken the 'local' out of Local Government.

1.4.2 The Challenge of Community Involvement¹⁰

The involvement of the people in decision-making, particularly at the level of service provision, has been tried and is being improved upon in a number of districts, thanks to the input of such donors as GTZ (in Southern Province); UNDP in Eastern Province; and DFID in Northern Province. UNCHS (Habitat) also initiated similar improvements in Central Province (mainly Kabwe) in the involvement of sub-district structures in municipal decision-making. The Municipal Development Programme, a regional body covering Eastern and Southern African countries, also attempts to improve community involvement in the municipal governance.

Against the above background, community participation in municipal decision-making is crucial for improved governance of councils. The development of this form of partnership, that should involve the public and private sector; NGOs; community organisations; and ultimate beneficiaries, is essential not only in terms of their material inputs but, equally important, the use of their presence in councils to establish *actual* community needs and demands and alter these in the light of increased demand for the services as expressed by the beneficiaries themselves. The community members' direct involvement in services provision also bring in another yardstick of programme success, that of the relative ease of mobilising material support from the users (including the willingness to pay cost-recovering tariffs and rates) when the people see themselves as *owners and deciders* of the delivery system. Stakeholder involvement in management processes enhances project sustainability and provides the service agencies with the required information that is useful in meeting consumer demands.

Residents Development Committees are local level organs through which lower level input into municipal governance could be expressed. As the communications from these are not formally included in councils operations, there presently exists a serious gap in the communication processes between the council and the community represented by the councillor

Under the current decision-making arrangements in the average council, the users of the services delivered are not positioned in a position to have their demands absorbed into the planning processes. This is mainly because of two factors.

- First, users' participation in services planning, implementation and monitoring has been very marginal and, thus, opportunities for them to express their preferences are severely circumscribed.

¹⁰

This section is adapted from the MLGH: Action Plan for Financing Local Government In Zambia., March 2000

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Indeed, sub-district structures (such as residents development committees, NGOs, chiefs, etc.) have not been fully integrated in the decision-making systems of councils in Zambia.

- Second, the sub-economic rates and tariffs that councils ask for their services introduce a negative element *vis-à-vis* the determination of consumer preferences. This is because when prices reflect the actual cost of delivery, the magnitude of the consumers' demand would help service providers to know what should be supplied - as well as the consumers' willingness and capacity to pay for it. Hence, through the price mechanism, consumers' preferences could influence the suppliers' investment decisions. However, under the average council's conditions where prices have no relationship to the actual costs of delivery, this important source of information of consumer preferences, crucial though it is for informed decision-making, is foregone.

Under such conditions, councils' decisions are generally founded on the councillors' and chief officers' extrapolation of community needs gap instead of a product of a rational assessment of service demand and affordability. Even worse, the controlling role of central government has compromised initiative on the part of sub-national authorities to the extent that almost all their major decisions have to be approved by MLGH, thus, leaving little room for the inputs from sub-district structures.

Under the above scenario, the innovations that are noticeable in councils are often a function of central government decisions and rarely are they internally conceived and operationalised. The process of deciding developmental priorities from the centre can have undesired impact, as these developmental priorities may be different from the local developmental needs. The Twapia electrification case presented in the box below is only one of several recent developments that illustrate this point.

Twapia Electrification Case

Twapia is a low cost housing area in Ndola, one of Zambia's main cities. The government decided to provide electricity to the houses in Twapia. In carrying out this work a number of trees were cut down to provide access to the electricity cables.

The project was successfully completed to the jubilation of all concerned. The residents were given a grace period during which they did not have to pay for the electricity supply. At the end of this grace period, they were billed and a considerable number of them refused to pay or were unable to pay. Their position is generally that they were not consulted as 'other' people assumed that they knew what the residents of Twapia wanted, electricity.

The residents argue that given the amount of resources used in the electrification process, they may have chosen other developmental priorities, more suitable to them (this of course ignores the possibility that the resources may not have been available for 'other' purposes, but it is still a good argument).

The residents were immediately threatened with disconnection of electricity supply, which in most cases is a non-issue as the residents have lifestyles which are not entirely dependent on electricity. The residents immediately agreed to this on condition that the mango trees which were cut down in the electrification process and which provided a major economic and nutritional source be replaced fully-grown.

This discussion is current.

Legal framework for local government finance in Zambia

The Local Government Act provides a framework for practicing financial management in local government in Zambia. The basic components and processes of financial management in a local government and the legal provisions that relate to them are as shown in the table below:

Table 3: Legal Provisions for Financial Management

<u>Process</u>	<u>Description</u>	<u>Legal Provision</u>
Budgeting	Determining the income and capital required to finance the activities planned by council by preparing a detailed budget	Section 39 of the Local Government Act.

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<u>Process</u>	<u>Description</u>	<u>Legal Provision</u>
	preparing a detailed budget.	
Safeguarding	Implement controls to ensure that income, capital and assets such as money and motor vehicles are safeguarded against improper use, loss or theft	Sections 41, 42, and 47 of the Local Government Act
Monitoring (Management Accounting)	Monitoring actual results and performance against the budget through management reports.	Section 43, Section 31(2) and Section 46 of the Local Government Act
Control	Take appropriate action when actual results differ from budget	Section 43 (2) of the Local Government Act
Accountability (Financial Accounting)	Preparing for all stakeholders' financial statements which are audited.	Section 43(3) of the Local Government Act

1.5 Core competencies of Zambian local governments

Local governments are complex organisations with a diversity of goals, objectives and functions which in some cases may appear to conflict. Table 8: Activities and Functions at the end of this module show the diversity of activities and functions that Kitwe City Council used to undertake in the not too distant past.

This diversity of activities requires a multiplicity of core competencies to be available in such fields as:

- Public Administration.
- Law
- Engineering.(electrical, civil, mechanical, chemical etc)
- Public (preventive as well as curative) health.
- Town Planning
- Rating and valuation
- Surveying
- Social workers

In addition to these core competencies other supporting competencies are required such as:

- Information technology.
- Accountancy and bookkeeping.
- Billing and debt management.
- Legal support

Previously, Local Government used to train most of its specialists. However since the mid-seventies, when the local government service commission introduced the transferable service, most councils have reduced or even eliminated their training component as they could not guaranty that officers trained would remain at the councils that trained them as the Local Government Service commission could

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transfer such officers any time. The Local Government Service Commission did not provide for training being more involved with discipline, transfers and promotion of staff.

This situation, except for the abolition of the commission and the assumption of transfer responsibilities to the ministry, has remained materially the same for the 25 years between the mid seventies and the beginning of new millennium. In addition other decision by the central government have had a negative effect on the ability of councils to retain the required personnel with the necessary skills. Some of these are:

- By Presidential order, changes in the role of Mayors and the introduction of District Governors introduced new staff and new demands on council revenues, without attendant changes in funding to cover these additional overheads.
- The introduction of the transferable Local Government Service in the mid-seventies created a disincentive for councils to send their staff for training.
- By Ministerial order, changes in conditions of service (1987/88) stopped the transfer of staff amongst councils. Officers who had served more than 15 years were given an option for early retirement. As a result a number of well-qualified people opted to take early retirement.
- Again by Ministerial Order in 1992, further changes in conditions of service required that officers who had served more than 22 years should retire. Again a number of well-qualified people had to retire.

These activities have left Local Government with inadequate management capacities in areas that key to its operations.

1.6 Intergovernmental fiscal system in Zambia

In Zambia there are 2 levels of government, Local and Central, which between them provide the whole range of Public Services. While some of these services are provided directly by the governments, others are provided through government owned enterprises and to some extent through partnerships with the private sector.

Table 4: Service Delivery Responsibilities below gives an outline of the major services and the service providers:

Table 4: Service Delivery Responsibilities

Responsibilities	Central Government	State Enterprise	Local Government
Drainage			
Education			
Electricity			
Environment			
Fire Fighting			
Health			
Housing			
Land Development			
Markets			
Recreation Facilities			
Roads (District)			
Roads (National)			
Sewerage			

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Responsibilities	Central Government	State Enterprise	Local Government
Solid Waste			
Street Lighting			
Telephones			
Water supply			

The governments finance their activities from the same pool of funds, the public, through taxes, levies and user charges. The Central Government policy in Zambia is that Local Government should be self-financing. For this condition to be met, the sharing of responsibilities between the two levels of government should reflect the sharing of sources of income. The table below shows some of the income sources that accrue to each of the two levels of government with some assessment of their elasticity.

Table 5: Central – Local Revenue Comparisons

Central - Local Government Comparative Sources of Income				
	Central		Local	
	Source	Elasticity	Source	Elasticity
Taxes	Income Tax PAYE	90	Income Tax Personal Levy	45
	Property Transfer Tax	100	Property Tax Rates	65
	Value Added Tax	100		
	Company Tax	85		
	Fuel Levy	100		
	Custom Duty	100		
	Excise Duty	100		
Others	Fines	65	Fines	50
	Motor Vehicle Licences	65	Market Fees	50
	Donors	20	Grants	0
	Commercial Undertakings (ZIMCO)		Commercial Undertakings (Clothing Factory)	
	User fees	65		

Subjective inflation elasticity indicators

- 0 - 40 Does not respond to inflation at all
- 40 - 60 Requires outside overt action to increase yield in response to inflation (ie Statutory instrument etc)
- 60 - 80 Requires local overt action to increase yield in response to inflation (ie Council resolution)
- 80 - 100 Responds automatically to inflation

Thus central government has more sources of income that are inflation elastic as compared to local government. In so far as the sharing of responsibilities between the two levels of government in Zambia cannot be said to reflect the sharing of sources of income, some inter-governmental transfers are necessary to equalise the responsibilities undertaken by each level of government with the resources available to it.

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While local government has rates and personal levy, central government has Income Tax, Custom, VAT, Company Tax, property Transfer Tax, Excise duty to mention but a few. The transfers made therefore from Central Government to Local Government, called Government Grants, are not gratuitous payments, but a means of income redistribution by the Central Government.

This concept is recognised almost universally and some countries, Mexico for instance, has a constitutional provision for a percentage of Central Government income to be transferred to local government. Even there though, Central Governments are, in view of their current financial problems, considering reducing the constitutional provisions.¹¹ (See Urban Age, a World Bank publication, September 1995)

Indeed in a paper presented to the 46th Annual Conference of the Local Government Association of Zambia held at Siavonga on 12th August 1999 on 'Fiscal Decentralisation Strategy and Its Impact on the Finance and Functions of Councils' a senior Central Government officer¹² stated that:

"inter governmental grants – everywhere in the world, central government makes grants from its general revenues to local governments. The general belief in Zambia in the 1990s that Local Authorities could 'go it alone', with minimal support from Central Government has indeed been seen to be short sighted. " This position has been strongly reiterated in a government paper on financing local government in Zambia¹³. Among the recommendations of this report is that 'Parliament should ensure that the Republican Constitution is amended to make it mandatory for central government to fund local authorities.'¹⁴

Thus the current inter governmental fiscal transfer arrangements are untenable and have created financial problems for councils and undermined efforts of decentralisation as 'the most common solution to financing decentralisation has been to increase local government share in nationally collected taxes through automatic revenue sharing. This approach allows central governments to retain control of tax rates and tax administration, while ensuring local authorities a higher flow of revenue'¹⁵. In Zambia this is not the case. It seems illogical that while councils have to have ministerial approval for all of their key financial functions, the said minister has no financial obligation to councils.

The table below shows the extent of intergovernmental transfers in some selected countries.

Table 6: Percentage of Local Revenue from National Governments

	UK	Denmark	Sweden	Germany	US	Netherlands
Year	1981	1982		1981	1983	1981
%	60.3	55.5	25.5	39.5	54.9	84.7

Source: Local Government Association of Zambia.

1.7 Local government financial system requirements in Zambia

The term financial system in this regard is taken to mean financing, management and reporting of financial activities of Local Government. In order to carry out their functions correctly, Local Governments anywhere require financial systems that:

- Provide sufficient income for discharging Local Government responsibilities.
- Provide for adequate rules and regulations for the stewardship of public funds and other assets.
- Are sophisticated enough to track financial activities over the diverse range of functions over which Local Government has responsibility.
- Provide for public inspection and verification.

¹¹ Urban Age, a World Bank publication, September 1995

¹² The Permanent Secretary, Ministry of Finance

¹³ MLGH: Action Plan for Financing Local Government In Zambia., March 2000

¹⁴ Ibid page 26, paragraph 4.1 bullet 2.

¹⁵ George E. Peterson: The Urban Age: Urban Finance Issue, September 1995, page3.

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This manual is about the foregoing issues.

1.8 General financial position of local governments in Zambia

The financing of councils in Zambia has been adversely affected by various changes in central government policies. A report prepared by the Local Government Association of Zambia¹⁶ provides a detailed history of the evolution of local government finances from 1960.

The 1960 to 1972 period was one of the most successful for Zambian local governments. During this period, they received grants from national government based on a predetermined formula and were also responsible for electricity distribution.

The 1973 to 1980 period saw the withdrawal of housing unit grants and a gradual reduction of all other grants. Land was declared to have no value by the Government of the Republic of Zambia (GRZ) thereby undermining local governments' property rates tax. Electricity distribution was withdrawn from local governments.

1981 to 1990 saw the introduction of the Local Administration Act (1980) which decentralised the system of local government. Many functions performed by GRZ were assigned to local governments without corresponding resources. In addition to these unfunded mandates, local governments embarked on a number of loss-making commercial ventures.

From 1991, several measures have been introduced with detrimental effects on local government finances. These include:

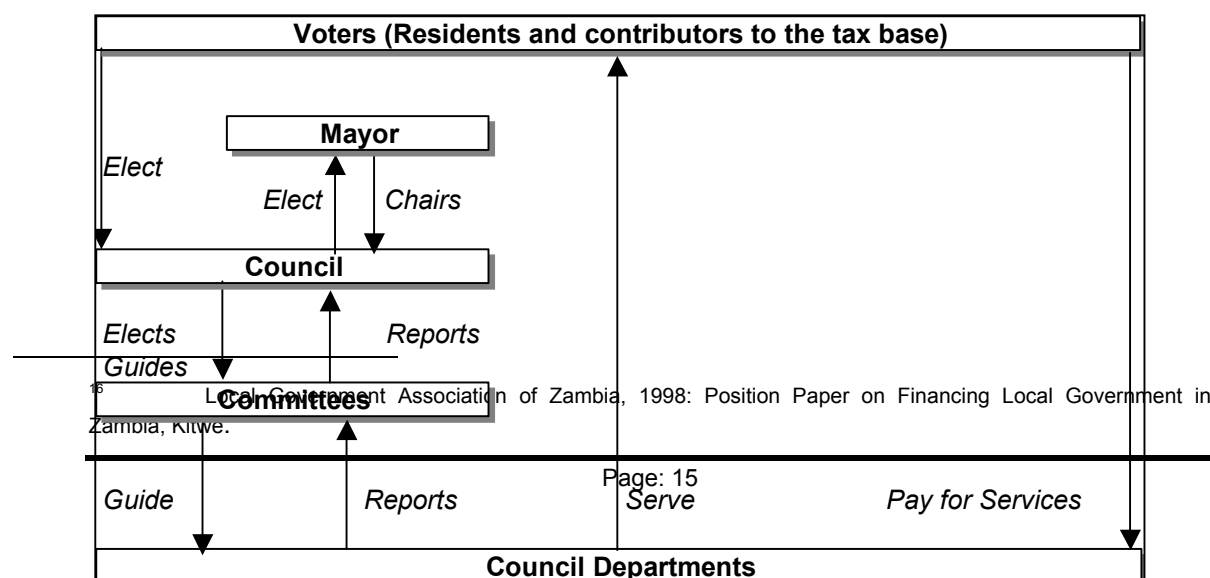
- The withdrawal of GRZ funding to local governments after the 1992 Budget Speech.
- The transfer of responsibilities for motor vehicle licensing from local governments to the Road Traffic Commission.
- A large increase in the number of properties exempted from property taxation by the new Rating Act of 1997.
- The sale of council-owned houses by GRZ to sitting tenants at below market values, reducing both the assets and rental incomes of councils.
- A GRZ instruction prohibiting the eviction of rent or payment defaulters from council houses.

The loss of income sources, increase in responsibilities and loss of key skills over the last thirty years or so has created a situation where the financial position of councils have deteriorated to the extent that they are unable to pay salaries and wages, let alone provide service.

1.9 Roles and responsibilities

Various institutions, people and organisations interact in order to create the necessary environment for councils to conduct their affairs. These institutions, people and organisations and their respective roles are outlined in the chart below and briefly described in the sections that follow.

Figure 2: The Structure of Local Government



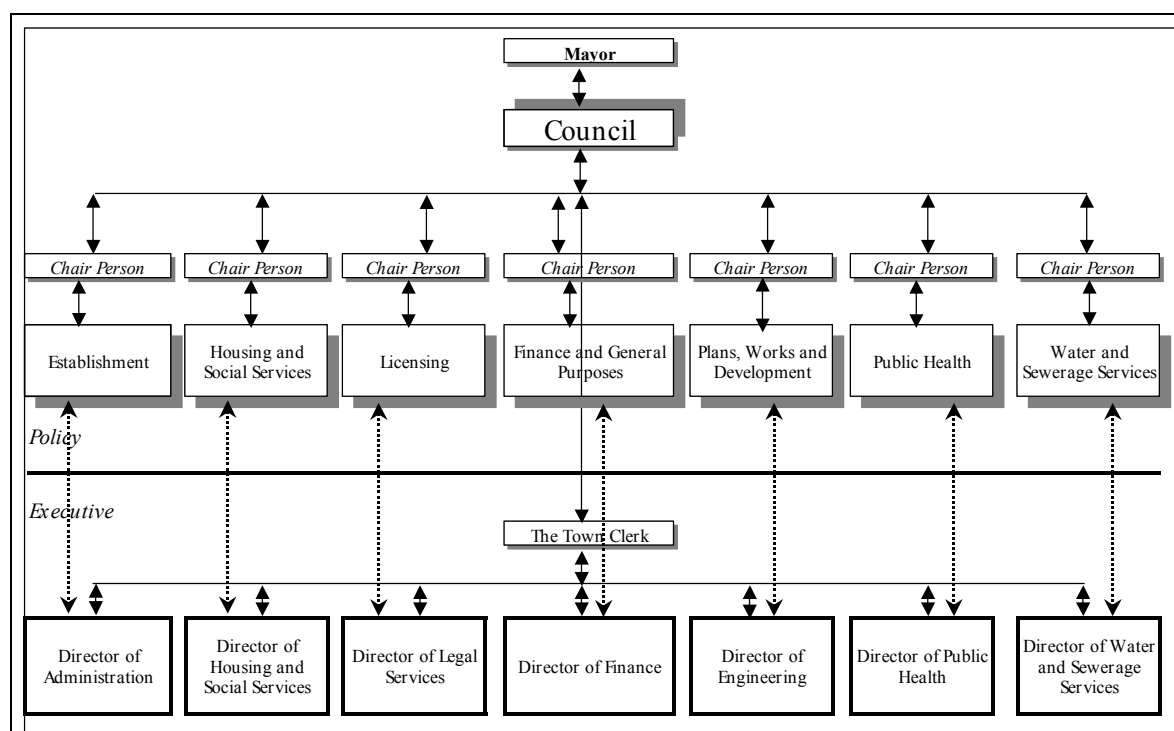
1.9.1 The Council Organisation Structure

In order to operate, the council has a policy making body, the Council and its committees and the executive side that is supposed to implement the Council's decisions.

Kitwe City Council, for example, has a policy making body, the Council. This is, currently, made up of twenty-five elected Councillors, and five members of Parliament representing the five constituencies of Kitwe. The Council is chaired by the Mayor, elected yearly to that office from among the Councillors for a maximum of two one-year terms. The Council has standing committees which process most of the Council's work.

On the executive side the Council's Chief Executive is the Town Clerk, who is supported by, now, six departmental heads, Directors. The Council's organisation chart is shown below.

Figure 3: KCC Organisation Structure



For a fuller discussion of the relationships between these different but complimentary wings of council, I reproduce below an extract from one of Zambia's leading experts on the subject, Dr. J B Sakala¹⁷.

Concern has always been expressed about the relationship between the Mayor and his/her Councillors on one hand and the Town Clerk and his fellow Chief Officers on the other hand.

If I were to address you on matters of constitutionalism, I would probably talk about separation of powers under this Section. But because I am addressing you about Councillors and their Councils, I have decided to caption my discourse in this area as Role Definition, or in old parlance division of labour. What is the role of the Mayor and his Councillors vis-à-vis the Town Clerk and his/her fellow officers of Council?

¹⁷

Dr J B Sakala SC., OGDS, Former Town Clerk and Former Mayor, Ndola City Council.

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Both the offices of Mayor and Town Clerk are ancient offices. The office of Mayor derives its roots from the German words of mord and dome which go as far back as the 1st Century AD. These two words literally meant a "judge of murderers." Then as time went by the words became "major dome" (Chief Steward) and the French turned it into maire which in English became Mayor.

The office of the Town Clerk is mentioned in the Bible. It is found in the Acts of the Apostles, Chapter 19 v. 35. The Town Clerk of the City of Ephesus went to quieten a riotous crowd and persuaded them to hold a statutory assembly, meaning a lawful assembly.

In Zambia the Mayor is an ordinary Councillor elected as such from his/her Ward. He is later elected as Mayor by his/her fellow Councillors at the first meeting of the Council after the local elections. He/she is elected annually. Section 25 of the Act empowers the Mayor to preside "at any meeting of the Council." In his absence the Deputy Mayor presides and in the absence of both the Mayor and Deputy Mayor, any Councillor may be elected to preside over that particular Council Meeting.

Apart from this legal provision the Mayor is engaged in ceremonial duties and his/her authority derives from the prestige and dignity of the office. He enjoys the right to advise and to caution other Councillors. He can consult and be consulted. He is, after all, the first citizen in his community.

A Council cannot function effectively and efficiently without full-time professional officers whose duty it is to ensure that Council's decisions are fully implemented. The relationship between Councillors and these professional officers should, therefore, be one of complimenting each other, not one of competition - Read the relevant Standing Order where the relationship is clearly defined as one of the partnership. Indeed, there is nothing to compete for since both parties should be aiming at providing efficient services and meaningful development. The Town Clerk is the principal officer, the Chief Executive whose duty it is to co-ordinate other Chief officers and through them he administratively superintends over the whole Council.

Understanding the foregoing relationships is important for officers and councillors as they have impact on what each office is or is not authorised to do.

1.9.2 Roles - Councillors

Councillors set policies in all the areas of council operations and perform a supervisory role to ensure the achievement of council objectives. Councillors, together in a meeting are the council, which is a body corporate capable of suing or being sued. The Council is therefore, contrary to general public perception, not the various buildings such as the Civic Centre, but the Councillors in meeting.

The Councillors role in the management of council finances cover all aspects of the management cycle as they must be involved in:

- a) Setting a vision for the council from which council objectives can be obtained
- b) Prioritising actions that need to be taken in achieving council goals.
- c) Setting appropriate policies for revenue collection
- d) Preparing the budget and ensuring that sufficient resources are raised and allocated for the carrying out of the prioritised actions.
- e) Ensuring that the resources available are expended as per the approved plan
- f) Ensuring that the appropriate financial reports as required by the law are prepared in the appropriate form and time.

In order to do all these things adequately the councillors need to have:

- a) The appropriate knowledge to know what information to ask for.

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- b) The appropriate information in the appropriate format and at the appropriate time and
- c) The necessary skills to interpret the significance of that information relative to council goals.

Councillors have political and administrative roles such as:¹⁸

- Being members of council and participating in policy formulation.
- Representing their community interests in council.
- Keeping the community informed of council operations.¹⁹
- Delivering on campaign promises.
- Establishing by-laws and regulations.
- Debating and approving annual budgets.
- Generally supervising the functions of council.

Sometimes the council can even be one person, an administrator, appointed by the minister when a council is dissolved.

1.9.3 Roles - Committees

The Council has many specialised functions. In order to develop the necessary competencies, the council divides itself into various committees which perform these specialised functions on behalf of the council.

The Council has the following Committees²⁰ which between them carry out all council functions:

- (i) **Establishment (ESTAB)**, this committee is responsible for the human resource planning and management for the Council.
- (ii) **Finance and General Purposes (F&GP)**, this committee is responsible for the Council's financial management and for any activity that may not fall into any particular committee.
- (iii) **Housing and Social Services (HSS)**, this committee is responsible for public housing, community services and social welfare.
- (iv) **Licensing (LIC)**, this committee deals with trade licences.
- (v) **Plans Works and Development (PWD)**, this committee deals with planning, infrastructure maintenance, capital works and development and allocation of land.
- (vi) **Public Health**, this committee deals with public health matters including health inspections and preventive health issues.
- (vii) **Water and Sewerage Services**, this committee dealt with the supply of water and sewerage services but this has now been handed over to the Nkana Water and Sewerage Company, a commercial utility company.

1.9.4 Roles - Officers

The role of officers in the councils is to provide their technical expertise in the identification of the problems that arise for their local communities and in the identification and implementation of solutions for those problems. They help council to develop appropriate policies, procedures and systems for achieving the above goals. They are the executive side of the councils, the implementers of council policies and decisions, which policies and decisions, they would have had a major input in determining.

¹⁸ IRI: Perspectives on Local Government: A handbook for Local Government Councillors.

¹⁹ P. C. Bowa: Campaign Manual 2001.

²⁰ From KCC Information Booklet 1997.

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In order to service the Council and its Committees in carrying out its functions, the council has various departments which specialise in different aspects of Council work. Some are service departments, i.e. their main functions are to service other departments so that those departments are able to provide services to the public. Others are mainly operating departments, i.e. their main role is to provide services to the public. Currently, for instance, Kitwe City Council has six departments, excluding the water and sewerage services, of which three are service departments and three are operating departments. The Council has the following departments²¹:

- (i) **Administration**, this department services the establishment committee. This is mainly a service department but it also provides some services to the public such as solemnising marriages.
- (ii) **Engineering Services**, this department services the Plans Works and Development Committee. This department is mainly operational, carrying out the various engineering works necessary for the development and maintenance of the city.
- (iii) **Finance**, this department services the Finance and General Purpose Committee. This is mainly a service department providing financial management and billing services to the council.
- (iv) **Housing and Social Services**, this department services the Housing and Social Services Committee. This is an operating department.
- (v) **Legal**, this department services the Licensing Committee. This is mainly a service department providing legal services to the council.
- (vi) **Public Health**, this department services the Public Health Committee. This is an operating department.

In this regard, the Mayor (and Council) are serviced by the Town Clerk.

While the departments service individual committees, the nature of council work is such that all departments can, and normally do, have something to report to any of the committees. Most departments have sub divisions under them called sections.

Each Department is headed by a Chief Officer, now called Director, who has various specialist and general workers under him or her. An idea of the diversity of councils activities and functions can be had from Table 8: Activities and Functions on page 21 which lists some of the functions that Kitwe City Council used to have.

1.9.5 Roles – The Public

The public role in the operations of council is basically to bring to the attention of council, through their elected officials and directly to its officers, the needs of the society which the council ought to address. The public also has the responsibility of ensuring that appropriately qualified councillors are elected to council, council operates within its legal framework and for inspecting council accounts when these are prepared.

The public also has the obligation to ensure that it pays, promptly, for services rendered by councils.

1.9.6 Roles – The Private sector

In order to complement the council, the private sector, as a business community, has the role of providing various private goods and services necessary for the existence of a self-sustained local economy. The private sector is also increasingly being requested to utilise its financial and management skills in creating partnerships for delivery of services that previously used to be only council responsibility.

²¹

From KCC Information Booklet 1997

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Table 7: Public Finance Terms and Descriptions

<u>Term</u>	<u>Description</u>
Accounting	The process of keeping track of money, both income (receivable and received) and expenditure (payable and paid).
Accumulated Surplus (Deficit)	The total financial surplus (deficit) accumulated since the local Authority began operations, usually recorded by fund.
Audit	Inspection of accounts and testing of internal control systems. Can be internal or external audit
Budget	Financial plan
Budget Rigidities	Pre-existing commitments that have budget implications.
Business Plan	Descriptive report of the councils objectives, how they are to be achieved through action plans that show target dates, resources required, people responsible and how success will be measured.
Capital Assets	Resources whose use exceed a year, such as vehicles, bridges and buildings
Capital Budget	Budget for capital assets
Capital Expenditure	Expenditure on capital assets
Cross-subsidisation	When one group of people (say Riverside Residents) pays more for the same service than another group.
Deficit	Loss. When expenditure exceeds income
External Audit	The compulsory audit of the annual financial statements by outside professionals appointed by the Minister. Section 52
Financial Management	Described elsewhere in this paper
Financial Statements	Final accounts for any particular year
Financial Year	The period for which the financial statements are drawn up. In Zambia's case the 12 months ending 31 st December of any year. Section 38
Fixed Asset	Same as capital asset
Fund	The accounting grouping of activities funded from the same source. The common ones are the General Rate Fund, the Water undertaking Fund and previously the Commercial Undertaking Fund and Low Cost Housing Fund.
Fungibility of money	The necessary quality that makes one specimen of money (say a K 10 000 note) indistinguishable from another. This creates the problem that money budgeted or lent for one purpose can be used for a totally diferent purpose.
Grant	Money transferred to council from Central Government
Incremental Budgeting	Making a budget by increasing what was provided or what was actually spent in the previous period.
Insolvent	Unable to pay suppliers or staff
Key performance factors	Statistics used to measure the performance of a department or service.
Loan redemption fund	A fund created by making annual contributions to repay a loan at some future date
Management Accounts	Monthly reports to councillors that compare budgeted income and expenditure against actual
Operating or Revenue Budget	The budget that deal with recurrent income or expenditure (as opposed to capital budget)
Programme Budgeting	This involves budgeting for activities grouped by objective rather than by department (organisation structure).
Property Tax	Taxes raised based on property value, rates.
Property Valuation	The value of property entered in the council's valuation roll

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<u>Term</u>	<u>Description</u>
Rate Poundage	The rate expressed as ngwee per Kwacha which is multiplied by the property value to calculate the property tax or rates payable
Rates Rebate	Discount of rates for special categories of property owners
Recharges	The costing practice of transferring expenditure initially incurred elsewhere, such as Civic Centre operating expenses, to the final users of the service, such as occupant departments of the Civic Centre on a prorata basis, depending, in this case, on floor area occupied.
Revenue Contributions to Capital Outlay (RCCO)	The financing of capital purchases from recurrent expenditure.
Strategic Plan	A declaration of the council's key objectives and the strategies for achieving them over a given time frame.
Surplus	Profit. The excess of income over expenditure
Tariff	The price of council service
Virement	A process for financing a specific budget item by using the unused budget provision of another.
Zero Based Budgeting	A system of drawing up a budget without reference to the previous budget. Each item in the Zero-based budget has to justify its inclusion by reference to council objectives and action lists.

Table 8: Activities and Functions

Codes			Description
1.	<u>02</u>		<u>Health</u>
2.	02	01	Health Administration
3.	02	06	Clinics Health Centres
4.	02	11	Disease Control
5.	02	16	Refuse Removal
6.	02	21	Public Latrines
7.	02	31	Pest Control
8.	02	39	Promotive Health
9.	02	40	Health Education
10.			<u>Housing And Social Services</u>
11.	02	41	Community Development Administration
12.	02	42	Social Centres
13.	02	43	Old Welfare Hall
14.	02	46	Sports Ground Low cost housing
15.	02	61	Domestic Science Training Centre
16.	02	64	Community Centres
17.	02	80	Libraries
18.	02	81	Zoo
19.	02	83	Park Open Space
20.	02	84	Cemeteries
21.	02	85	Coffins
22.	02	86	Grass Cutting
23.	02	87	Crematorium
24.	02	88	Shops
25.	02	89	Markets

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Codes			Description
26.	02	91	Sandulula Nursery
27.	02	92	Community Development Pre-School.
28.	02	94	Youth Vocational Training Centre
29.	03		Housing
30.	<u>03</u>	<u>18</u>	<u>Low Cost Housing Revenue</u>
31.	03	01	Lch Supp Management
32.	03	19	Site And Service
33.	03	20	Squatter upgrading
34.	03	25	Public Latrines
35.	03	26	Lch Repairs Fund
36.	04	88	Housing Retired Persons
37.	04	89	Housing Medium Density
38.	04	90	Staff Housing
39.	04	91	Cadet Hostel
40.	04	95	Site And Service
41.	05		<u>Plans Works And Development</u>
42.	05	01	Supervision Management
43.	05	07	Fire Services
44.	05	10	Bldg Maintenance
45.	05	14	Mechanical Services Department
46.	05	18	Roads And Drain.
47.	05	22	Street Lighting
48.	05	33	Misc. Properties
49.	05	35	Plant And Transport
50.	06	05	Electrical Maintenance.
51.	08		<u>Finance And General Purposes</u>
52.	08	01	Town Clerk
53.	08	02	Boma
54.	08	04	Legal Secretary
55.	08	05	General Expenses
56.	08	06	Printing Office
57.	08	07	Admin. Secretary's Dept.
58.	08	17	Council Police
59.	08	31	Civic Centre
60.	08	41	Financial Sec. Dept.
61.	08	45	Council Stores
62.	08	48	Grants In Aid
63.	08	59	General Income
64.	09		<u>Commercial</u>
65.	09	01	Liquor Undertaking
66.	09	02	Buchi Hotel
67.	09	03	Abattoir
68.	09	04	Bus Service
69.	09	08	Kitwe Ranch
70.			Other Key Information
71.			Rates
72.			Personal Levy
73.			Trading Licences
74.			Schools
75.			Public Places
76.			Plots

Appendix 1: Good Governance Checklist

Yes No

STANDARDS OF BEHAVIOUR

LEADERSHIP

1. Has the governing body taken steps to ensure that its members exercise leadership by conducting themselves in accordance with high standards of behaviour?

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CODE OF CONDUCT

2. Has the governing body adopted a formal code of conduct defining the standards of behaviour to which individual governing body members and all employees of the entity are required to subscribe?

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3 Does the governing body periodically review adherence to the code of conduct?

--	--

OBJECTIVITY, INTEGRITY, AND HONESTY

4. Has the governing body established appropriate mechanisms to ensure that members of the governing body and employees of public sector entities are not influenced by prejudice, bias or conflicts of interest?

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ORGANIZATIONAL STRUCTURES AND PROCESSES

STATUTORY ACCOUNTABILITY

5. Has the governing body established effective arrangements to ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice?

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ACCOUNTABILITY FOR PUBLIC MONEY

6. Has the governing body established appropriate arrangements to ensure that public funds and resources are:

- properly safeguarded?
- used economically, efficiently, effectively, appropriately, and with due propriety?
- used in accordance with the statutory or other authorities that govern their use?

COMMUNICATION WITH STAKEHOLDERS

7. Has the governing body established?:

- clear channels of communication with the stakeholders on the entity's mission, roles, objectives and performance?
- appropriate processes to ensure that such channels operate effectively in practice?

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	Yes	No
8. Has the governing body made an explicit commitment to openness and transparency in all the activities of the entity		
9. Does the governing body		
• report publicly the processes for making appointments to the governing body?		
• make publicly available the names of all governing body members, together with their relevant other interests?		
ROLES AND RESPONSIBILITIES		
10. Is there a clearly defined division of responsibilities at the head of the body to ensure a balance of power and responsibility?		
11. Does the governing body		
• meet regularly?		
• effectively lead and exercise control over the entity?		
• monitor the executive management?		
12. Do members of the governing body receive induction training on the first occasion of appointment to the governing body, and subsequently as necessary?		
13. Has the governing body established appropriate arrangements to ensure that it has access to all such relevant information, advice and resources as are necessary to enable it to carry out its role effectively?		
14. Has the governing body established a framework of strategic control (or scheme of delegated or reserved powers)?		
15. Does the governing body keep the framework of strategic control up-to-date?		
16. Does the framework of strategic control include a formal schedule of those matters specifically reserved for the collective decision of the governing body?		
17. Has the governing body established clearly documented and understood management processes for:		
• policy development, implementation and review?		
• decision-making, monitoring, control and reporting?		
18. Has the governing body established formal procedural and financial regulations to govern the conduct of its business?		
19. Where the body is responsible for making appointments to the governing body, has it established a formal process to ensure that such appointments are made		
• in accordance with specified criteria?		
• on the basis of merit and the individual's ability to carry out a defined role within the organization?		
20. Where the body is responsible for making appointments to the governing body, are such appointments dealt with by the governing body as a whole?		
21. Is the role of the Chairperson formally defined in writing, and does it include responsibility for providing effective leadership to the governing body and for the activities of the entity as a whole?		

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	Yes	No
22. Are non-executive governing body members:		
• independent of management?		
• free from any other relationships that may materially interfere with exercising an independent judgment on issues of strategy, performance, resources and standards of conduct?		
23. Where the governing body is responsible for making appointments of non-executives to the governing body, are the		
• appointments for a fixed term?		
• reappointments subject to a formal appraisal process?		
24. Does the Chief Executive have line responsibility for all aspects of executive management?		
25. Is the Chief Executive accountable to the governing body for the ultimate performance of the entity and implementation of the governing body's policies?		
26. Are the duties, terms of office, remuneration and the review thereof, of non-executive governing body members defined clearly		
27. Has the governing body made a senior executive responsible for ensuring that appropriate advice is given to it on all financial matters and for maintaining an effective system of internal and financial control?		
28. Has the governing body made a senior executive responsible for ensuring that governing body procedures are followed and that all applicable statutes and regulations, and other relevant statements of best practice are complied with?		
29. Has the governing body established a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual members of the governing body?		
30. Has the governing body established procedures to ensure that no member of the governing body is involved in determining his or her own remuneration?		
31. Does the annual report of the governing body contain a statement on the remuneration policy and details of the remuneration of the members of the governing body?		

CONTROL

RISK MANAGEMENT

32. Has the governing body taken steps to ensure that effective systems of risk management are established as part of the framework of internal control?		
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INTERNAL AUDIT

33. Has the governing body taken steps to ensure that an effective internal audit function is established as part of the framework of internal control?		
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AUDIT COMMITTEES

34. Has the governing body established an audit committee, comprising non-executive members, with responsibility for the independent review of the framework of control and of the external audit process?		
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	Yes	No
INTERNAL CONTROL		
35. Has the governing body taken steps to ensure that an effective framework of internal control		
• is established?		
• operates in practice?		
36. Does the governing body include in its annual report a statement on the effectiveness of the body's framework of internal control?		
BUDGETING AND FINANCIAL MANAGEMENT		
37. Has the governing body ensured procedures are in place to ensure effective and efficient budgeting and financial management?		
STAFF TRAINING		
39. Has the governing body established training programs to ensure that staff are competent to perform the task at hand?		
<u>EXTERNAL REPORTING</u>		
ANNUAL REPORTING		
39. Does the governing body publish on a timely basis an objective, balanced and understandable annual report?		
40. Does the annual report contain a statement explaining the responsibilities of the governing body?		
41. Does the governing body include in its annual report a statement confirming that it has complied with relevant standards or codes of corporate governance?		
42. Does the governing body ensure that financial statements comply with a recognized set of accounting standards?		
PERFORMANCE MEASURES		
43. Does the governing body institute and report relevant performance measures?		
EXTERNAL AUDIT		
44. Has the governing body taken steps to ensure that an objective and professional relationship is maintained with the external auditors?		

Questions for Module 1:

1. Why is financial management necessary?
2. In view of the lack of finances in local government is financial management still necessary?
3. Is it necessary to have more than one level of government? If so why so, if not why not?
4. What is the branch of financial management called Public Finance?
5. What services are provided by government and why?
6. Is it necessary to have intergovernmental fiscal transfers? If so why so and if not why not?
7. Under what conditions would intergovernmental fiscal transfers be unnecessary?
8. What is the current financial position of councils in Zambia and what can be done to improve the situation?
9. What are the major sources of income for your council?
10. How many people live in your council area?

2 Module 2: Role of Local Government Financial Management in Local Development

Councils have various objectives to achieve in order to justify their existence. These objectives and the functions that have to be carried out to achieve them require the use of resources that are currently beyond the reach of most councils. Effective financial management can optimise the application of these resources relative to the achievement of the council's operational and developmental goals. Within Zambia's context of diminishing resources and increasing demands for public services, effective financial management is increasingly a key component for delivery the required public services and goods.

Unlike commercial undertakings that must provide a profit as the bottom line, councils must provide a suitable environment for sustainable existence of the people and enterprises in their jurisdictions providing such diverse services as street lights, serviced plots and preventive health services to mention a few. These activities do not easily render themselves to a common bottom line for measuring their successful provision.

Financial management in councils must therefore be for the purpose of raising adequate funds, in the most cost effective manner, to carry out council activities, safekeeping these funds and applying them in the most efficient manner.

2.1 Strategic role of Local Government Financial Management

In order for councils to continue to justify their existence, they must continue to deliver cost effective goods and services. The diversity of these services is such that finance provides a common factor which can be used for benchmarking and standard setting.

Most councils these days have a strategic plan which highlights and prioritises the activities that the council must undertake to achieve their various objectives. These activities are normally programmed over a number of years and their expenditure patterns are profiled. In the implementation of these strategic plans ***the sourcing, application and accounting for the funds required at the right time***, i.e. financial management, plays a key role in the achievement of the strategic plan objectives.

Without the proper application of financial resources at the right time for the right activity, the probability of achieving strategic plan objectives is reduced. Sample action plans 1 and 16 from the Ndola Local Economic Development Plan, together with an implementation programme for the two activities and their financial profiles, which fit into the financial management strategy, are shown at the end of this module to illustrate the points made.

Clearly, without appropriate financial management, institutional goals would be unachievable. This is more true in institutions such as councils where the available financial resources are not sufficient to cover all the activities that need to be undertaken. Unfortunately this is not readily recognised as appropriate financial management systems take time and financial resources to design, implement and manage, the same financial resources required for service delivery.

2.2 Composition and functioning of local economies

Councils provide services in their area that ensure the creation of an environment suitable for sustainable local economic development. In order for the local economy to operate on a sustainable basis, various activities must be undertaken by various institutions and individuals. A summary of some of these activities and the institutions that provide them is shown in the table²² below.

²²

Adapted from Local Economic Development Strategy Ndola, Zambia, 2001.

Module 2: Role of Local Government Financial Management in Local Development.**Table 9: Responsibility for Development Functions - Kitwe**

Function	Responsibility	Comment
1. Local markets	KCC Market Advisory Committees	Dissatisfaction of stallholders with market conditions but KCC without funds
2. Industrial land	KCC leasehold agreements	Owners continue to pay rates even where property is vacant as the valuation roll has not been recently revised.
3. Business and other licences	KCC	Potential for streamlining the use of licenses.
4. Serviced plots	KCC	KCC lacks funds to continue
5. Water & sewerage	Nkana Water and Sewerage Company	New company has almost no resources for new investment/maintenance
6. Refuse collection	KCC/Private Sector	Pilot projects especially for the central business district to for private sector to undertake this service.
7. Roads and drainage	KCC for city roads; GRZ For national network PUSH for self-help	Main roads are in good condition after World Bank project. Access roads now high priority. PUSH pilot project in labour-intensive road construction completed.
8. Public transport	Private companies, UTTA	No funds for upgrading public transport facilities
9. Electricity	ZESCO	—
10. Telecoms	Zamtel, Telecel and Celtel	—
11. Airport	National Airports Authority	International flights using Ndola Airport
12. Public health	KCC	Focuses on environmental health issues
13. Individual health	Kitwe Central Hospital Health Management Board	All health services now under Kitwe Central Hospital and its satellite clinics
14. Education	Ministry of Education, Vocational Training Institutes, Private enterprises	Some complaints on quality of training institutes, do not keep up with technology but choice is wide.
15. Traffic Management	KCC, Zambia Police	—
16. Natural Environment	Environmental Council of Zambia, KCC	—
17. Land & Housing	KCC, Ministry of Lands	Only a small number of houses remain under KCC management. Since much housing was handed to sitting tenants who have not yet received title, KCC is unable to apply rate charges as yet. Maintenance of housing is suffering as many households cannot afford to do so.
18. Open space	KCC, Private companies	Maintenance poor except where private sector is involved at roundabouts, etc. Some designated open space converted to other uses.

Where in the past council's role was merely to provide infrastructure and to leave it to other economic actors to carry out their economic activities, now the council as the primary facilitator for creating conditions for economic sustenance must play a role in ensuring that these actors involved in Local Economic Development (LED) can operate efficiently. This is a change in function most councils have not embraced yet.

Module 2: Role of Local Government Financial Management in Local Development.

2.3 Socio economic and developmental role of local governments

Traditionally councils role in the socio-economic development of the area under their jurisdictions has been the provision of infrastructure for other economic players to operate their economic entities in. Recent developments in councils facilitating Local Economic Development (LED) now means that the councils roles have expanded as the provision of infrastructure will not necessarily lead to utilisation of those infrastructures by industry and commerce. Councils should now consider the use of their various resources and powers, such as idle land and buildings and procedural and regulatory functions in facilitating LED. In this regard the councils could play the roles indicated in the table below:

Table 10: Socio-economic roles of councils.

Role	Explanation
Coordinator	In order for the local economy to operate efficiently, the activities of several economic stakeholders in the local economy must be co-ordinated. . Council being the only body with jurisdiction over the whole town is uniquely placed to play the role of coordinator, ensuring that conditions are created for enabling the economic stakeholders to operate efficiently.
Facilitator	Council can facilitate development by streamlining the development process, for example, by reducing the time taken to approve development plans or for allocation of serviced land.
Stimulator	Council can act as a catalyst of economic development by, for example, creating a database of local investment opportunities for distribution to potential investors, by more aggressively attracting, retaining business enterprises, and assisting in the development efforts of these enterprises.
Entrepreneur	Council can facilitate economic development by entering into partnerships with the private sector or NGOs. For example, council has many workers who are without work. council can help such employees by forming small businesses and contributing premises or equipment, either as a shareholder or as part of a termination package.

2.4 Local Economic Development (LED) and Employment Creation

The provision of utilities and infrastructure is a key condition for local economic development. As these create the minimum conditions for enterprise to flourish. Without water, electricity, transport routes and roads, the cost of setting up new enterprises would be prohibitive

Among the leading factors of stimulus, which infrastructure development provide to the growth of the private sector are:

- **Employment of the labour-force** in the infrastructure development programmes thereby creating local employment opportunities.
- **Role of private vendors** in the construction and maintenance phases of the infrastructure programmes.
- **Creating the economic base** for new enterprise to be attracted, retained and for enterprise growth.

While these conditions are necessary for local economic development, they are no longer sufficient as other conditions must be created to attract and retain new enterprise. These may include tax incentives and more aggressive marketing of localities as destinations for business and industry.

2.5 Functioning of urban land markets

During the Second Republic, land was said to have no value. The real estate industry was therefore completely suppressed. In the open market liberalised systems of the Third Republic, serviced land has value. All land in the urban areas of Zambia is initially vested in the President. Local Government has the responsibility of servicing land, demarcating it and recommending to the commissioner of lands the

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allocation of this land to individual developers. There are currently no free hold leases being issued in Zambia.

There are currently three land delivery systems operating in urban areas. These are:

- Allocation of serviced land to individual developers by the Commissioner of Lands on the recommendation of Councils. This process results in the allocation of a 99-year lease. This land is fairly cheap but the allocation process is extremely long with waiting periods of two years being normal.
- Allocation of land directly by the council in areas declared as statutory housing areas. These are normally 14-year leases issued and renewable by council. These allocations are very slow as the process of declaring land as statutory housing land takes a long time and councils currently have no resources for servicing of such.
- Direct transactions from one developer to another. This is fast and periods of two weeks for processing of title a fairly common. The land transacted in this manner is more expensive than the other two as land is transacted on an open market basis. The number of properties falling in this category has increased considerably as a result of the sale of public houses by the government to sitting tenants.

The rural urban migration and natural urban population growth has created pressures on urban land resulting in spiralling prices. The situation is similar in other developing countries²³.

A recent development in Zambia has been the misuse and / or under utilisation of available infrastructure and land due to lack of adequate town planning capacity in the councils. Examples of these are:

- The allocation of parks and open spaces for industrial and residential developments without due consideration of zoning regulations and without due consultations with the residents. Kitwe's Freedom Park is now the site of an industrial warehouse, several of the open spaces in Lusaka's crescents are now residential plots etc. An interesting exception was in Livingstone where the local residents stopped the development of a shopping mall on park site of historical importance.
- The lack of knowledge and initiative on the utilisation of 'abandoned' properties such as factories and warehouses left by businesses that have relocated elsewhere. There are several of these in Ndola, including a now totally vandalised furniture factory.
- The allocation of a university to a forestry area that has taken (still pending) more than two years to date to degazetted when other property or areas may have been allocated with less legal encumbrances.

2.5.1 Local Government as an Employer

Previously Local Government used to provide all its services by direct labour. At that time Local Government used to be a major employer in all towns. Recent developments however would tend to point to Local Government being a regulator for the provision of services, than the provider. It is therefore expected that its role as an employer may decline but that it will contribute to employment creation by farming out some of the work it used to do to the private sector, the local community and NGOs.

2.6 Relationship Between Urban development and Local Government Revenues.

In order to carry out all the functions of local government, local government should not only have adequately qualified and experienced staff but also sufficient revenue sources to carry out their functions. In order for local economic development to be enhanced, certain conditions related to decentralisation must be fulfilled. The following extract from a government publication makes the points.²⁴

Decentralisation to lower levels of government is a complex phenomenon and includes issues of finance, administration, control, regulation, reporting and accountability - all comprising part of the mutual interrelationship. The complex system of intergovernmental relations includes

²³ See J.F.Linn: Cities in the developing world, especially chapter 5, Urban Housing: Land Services and Shelter.

²⁴ Ministry of Local Government and Housing Action Plan for Financing Local Government in Zambia. March 2000.

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considerations of governance - where 'good governance' implies a focus on accountability for performance and results, i.e. the provision of services to the citizens in an efficient, effective and responsive manner. The shift from jurisdictional concerns and compliance with procedures of the local authorities to "good governance", as epitomised in the Zambian case by the recent Good Governance Policy Document, marks a shift in approach that is of vital importance for the functioning of the public sector. Local and regional authorities in this way play a central role by having a close operational relationship with the citizens and should have an increasing influence on how democracy, efficiency and transparency develop in order to ensure the best possible interaction between the provision of public services and local needs and conditions.

In the light of the above, the basis for decentralising public tasks and financing consists of several components and assumptions of which the following are of major importance:

- *local self-government denotes the rights and abilities of local authorities, within the limits of law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interest of the local population;*
- *public responsibilities should preferably be exercised by the authorities, which are closest to the citizens;*
- *local authorities ought to be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers;*
- *at least a significant part of local authorities' own resources should be derived from local taxes and charges of which, within the limits of the statute, the local authorities should have the power to determine the rate levels.*

Specifically with respect to financial devolution, there are generally agreed international principles in this area. As the International Union of Local Authorities (IULA), of which Zambia is a member, declared during its 31st World Congress in Toronto in June, 1993:

- *Local authorities shall be entitled to adequate financial resources of their own, distinct from those of other levels of government and to dispose freely of such revenue within the framework of their powers.*
- *The allocation of resources of local authorities shall be in reasonable proportion to the tasks assumed by them. These resources shall be of a regular and recurring nature so as to permit uninterrupted public services and adequate and financial planning. Any transfer of new responsibilities shall be accompanied by an allocation of the financial resources required for their fulfilment.*
- *A reasonable proportion of financial resources of local authorities shall derive from local taxes, fees and charges of which they shall have the power to determine the rate.*
- *Taxes which local authorities shall be entitled to levy, or of which they received a guaranteed share, shall be of a sufficiently general, buoyant and flexible nature to enable them to keep pace with their responsibilities.*
- *The autonomy of financially weaker local authorities requires a system of financial equalisation.*
- *The right of local authorities to participate, in an appropriate manner, in framing the rules governing the general apportionment of redistributed resources shall be expressly recognised.*
- *The provision of block grants, which are not earmarked for the financing of specific projects or services, shall be promoted.*
- *The provision of grants shall not justify any undue intervention in the policies pursued by local authorities within their own jurisdiction.*

Provision of most public services to households and enterprises is generally believed to be most efficient when made by local government. Efficient decision must be based on good information, and it can be very difficult at the central level to secure the necessary information about local matters. Local government service provision also makes it easier to adjust the service level and quality to the expectations and needs of the citizens within a given area. Parallel to this development, the international community, especially donors, is increasingly demanding democratic progress and decentralisation by the recipients of aid. Crucial in the development of a democratic society is

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generally perceived to entail the establishment of local authorities with elected councils, functions to perform, and, equally as fundamental, financial backing.

2.7 Public-Private Partnerships.

The council is required to provide certain services by the law. It has always been assumed that these services will be provided by council direct labour. The law does not say so. In most countries (we shall examine examples from South Africa and Indonesia) the realisation seems to be that the primary aim of councils is to see that these services are provided not necessarily to provide them. Even in Zambia, the question of providing houses has been reduced, in most cases, to provision of sites and services and allowing the beneficiaries to build the houses themselves.

This ability to combine private capital and skills with the council's authority to provide services does not seem to have been exploited to the extent that it could be. Currently this approach is broken down into 2 (purely academic and presented here so that you can show off at the various forums where you might have some knowledge of this now popular subject – privatisation of urban services) categories as follows²⁵:

- a) **Private Sector Participation (PSP)**, which is said to refer to non-capital intensive infrastructure transaction in which the private entity provides a service under a contractual agreement with the council. There are two broad categories of PSP: service contract, (get Bowanda to write our 1998 accounts for us here in Kitwe) and operating contract (get Benoni Fire and Emergency Services (BFES). to run our fire brigade, in South Africa).
- b) **Public Private Partnership (PPP)**, more complex form of private involvement, whereby the private entity participates in the development, financing and construction with authorisation and support of the council. (Nusa Dua Water Supply system in Bali, Indonesia, were a private consortium has developed a water extraction and distribution system for hotels and residential users)

These can be further broken down into:

- a) **The "Build, Operate and Transfer" (BOT)**, concept, where the private entity builds, operates and receives revenue from a new facility through out a concessionary period. (Build the abattoir and operate it for 30 years, then transfer the asset to the council)
- b) **The 'divestiture' concept** where a council owned facility is sold to the private sector or where the private sector is allowed to compete by tender for works (construction or services) previously done by the council.
- c) **The leasing concept** where the private sector leases a facility from the council during a concessionary period and collects revenue. On expiry of the concessionary period, the installations are returned to council ownership.
- d) **The contract operations** concept where the council retains control of the enterprise and engages a contractor to provide specified management or other services for a fixed period. The contractor is paid directly for services rendered.

This is a wide and growing area of interest in financing council services. At some time, to some extent council has used these forms of service provision. What is required is the systematic exploitation of these concepts to maximise service delivery. For instance given that council has a high labour force of highly trained artisans which it cannot keep properly occupied, could these not be allowed, on separation, to form joint ventures with the council to provide their skills to council and other clients on contract? A question of killing two birds with one stone. The Benoni case is attached as an example of how far this has happened in one case in South Africa.

In implementing these interactions however, several key factors including cost-effectiveness, service efficiency, transparency, participation, continued council responsibility, a proper contractual relationship and monitoring process and a good working relationship between the council and the service delivery agent must be taken into account. Some of these issues are addressed in the attached article on contracting.

²⁵

Extracted from a paper presented to the IULA World Congress 1995: Decentralisation and the consequences for Local Authorities: Local Ways to Meet the Urban Challenge, The Case for Indonesia by P. Sidabutar.

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Sample Action Plan 1:

Action 1: Land use information system				
Objectives: To have up-to-date information on current land use trends To use the information to assist land use planning in Ndola District To create an information base that is accessible to all key authorities responsible for land use planning in the District To co-ordinate land use information to ease information dissemination				
Target Group: Authorities involved in land use planning Private sector interests Investment centre				
Location: Ndola City Council Planning Section, Engineering Services Department				
Description: Utilise the GIS system at NCC to establish a data base of information related to land use development in the district and to use the software to assist in land use planning. The action should be undertaken in collaboration with all the authorities involved in land use in the district, Ministry of Lands, District Agricultural Co-ordinator, Department of Agriculture, Department of Forestry, Department of Water Affairs and the Kafubu Water and Sewerage Company				
Activities	Time Period	Responsibility	Cost	Funding Source
Detailed land use survey based on Scott Wilson work	Complete by second quarter 2002	Outsource	K90,000,000	World Bank funded
Input of information into the GIS database		Planning Section, NCC, in collaboration	N/a	N/a
Development of land use maps			N/a	N/a
Identification of major pressures on the land			N/a	N/a
Development of possible scenarios in change of land use given the existing trends in pressure on the land	Ongoing	Planning Section, NCC, in collaboration, or outsource	N/a	N/a
Collection and collation of additional information		Planning Section, NCC,	K48,000,000	EU micro projects fund Department of Forestry's funders World Bank Environmental Fund – need to confirm fund names of these
Training in the use of software for NCC Planning Department, DACO, and DOF		Outsource	K30,000,000	NCC to fund/source funds
Champion: NCC Planning Section in Engineering Services Department			Total: K168,000,000	
Key Performance Indicators: Database developed Mapping produced and development scenarios run Training undertaken			Time/Cost Budget: K 90,000,000 K 39,000,000 K 39,000,000	
Linkages to Other Initiatives: Zambia Forestry Action Plan, Agricultural Policy – need to get official title, Department of Water Affairs plans, Strategy of Kafubu Water and Sewerage Company				

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Sample Action Plan 16:

Action 16: Facilitate Change Process within Council				
Objectives: To help Council manage the change process To provide coaching/mentoring to that will assist Council officials to adapt to their changing roles				
Target Group: NCC Senior Management				
Location: NCC				
Description: The LED Strategy requires new management skills. The establishment of a change management team provides support and mentoring to existing senior management in new tmanagement techniques and approaches to meet the changing needs of the council's development strategies.				
Activities	Time Period	Responsibility	Cost	Funding Source
Place Volunteer Executive as catalyst to change process	First quarter 2002	Town Clerk	N/a	USAID Volunteer Executive Service
Identify officials forming the core management committee		Executive Mentor	N/a	
Identify and appoint mentors for the management committee			N/a	
Identify skills requiring development and issues for resolution			N/a	
Design and implement change management programme			N/a	
Champion: Town Clerk	Total: n/a			
Key Performance Indicators: Appointment of Executive Mentor Implementation of activities in Strategic Plan and Local Economic Development Strategy				
Linkages to Other Initiatives:				

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Table X. Implementation Programme for Proposed Action Plans

	2002				2003				2004				2005				2006			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<u>Land Use Information System</u>																				
Detailed land use survey																				
Input of information into the GIS database																				
Development of land use maps																				
Identification of major pressures on the land																				
Development of possible scenarios in change of land use																				
Collection and collation of additional information																				
Training for NCC Planning Department, DACO, and DOF																				
<u>Facilitate Change Process within Council</u>																				
Place Volunteer Executive as catalyst to change process																				
Identify officials forming the core management committee																				
Identify and appoint mentors for the management committee																				
Identify skills requiring development and issues for resolution																				
Design and implement change management programme																				

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Table 7.1. Capital Cost Projections Associated with Proposed Action Plans

		Total	2002	2003	2004	2005
Action Plans to Alleviate Poverty						
Plan 1	Land Use Information System	168.00	90.00	39.00	39.00	-
Plan 16	Facilitate Change Management Process	-	-	-	-	-
		39.00	39.00	-	-	-
		-	-	-	-	-
	Total from Action Plans	38,979.10	9,311.30	9,154.50	11,406.00	9,107.30

Case Study of the Delegation of a Core Function: Benoni Fire and Emergency Services

After the Benoni town Council took a decision to contract out its fire and emergency services, some people feared that the local authority would gradually lose control of this important operation. But the man who runs the private company, which took over the services, believes that the Council is in a better position than ever to demand the very best.

Anyone who believes that a local authority ends up losing control of a service, which has been contracted out to the private sector, will find a firm opponent in Stephen Barber. "We have the most closely policed fire service in the country," says Barber, who heads the Benoni Fire and Emergency Services (BFES).

Five years ago, the BFES became the first privately operated company in South Africa to provide fire and emergency services on behalf of the local authority. The five-year contract, under which BFES has operated, Barber says, lays down tough performance standards. The contract also imposes financial penalties when these are not met. And the presence of three city councillors on the company's 12-strong board ensures that the local authority keeps the BFES under a watchful eye.

"The councillors on the board are involved in the day-to-day running of the service. They have a closer involvement than in the past and they have their finger much more on the pulse. No fire service is subjected to the levels of scrutiny that we are," Barber says. "Having operated as a public sector fire service and now like this, the BFES is subject to far greater monitoring. Before, we were treated like another municipal department."

The system the Benoni Town Council (BTC) implemented in April 1992 saw the local authority sell all its vehicles to the BFES. That generated R2, 4 Million for the council and further income came the council's way from the rental of property to the new company. The council started off holding a 30% shareholding in BFES, but that has now decreased to 5% in compliance with the law.

At the time of the take-overs, the BFES employed 178 people in its fire and emergency services. The new company took on every single worker, with no loss of benefits. The staff complement has now risen to 200. They own 20% of the company's shares and have a representative on the board.

"There were two unions involved, the emergency service trade union and the other was a traditional municipal union," Barber says. "We made an offer of employment directly to each individual, with retention of benefits, which they accepted. That negated any requirement for a direct negotiation with the union at the time."

"I think that by and the large trade union movements are not overly enthusiastic about contracting out. They associate this with job losses, but in fact the opposite is true. The more efficient your operation is the more jobs will be created. In my opinion, job security is greater in the private sector at the moment. There is a very real risk that certain local authority may find themselves in a financial position where they have to make some very tough decisions."

The financial position of the Benoni Council, at least, was significantly improved by the contracting out of the fire and emergency services. Conservative calculations predict the BTC will have saved more than R16 Million over the 5-year contract period.

That did not prevent the Benoni Council driving a hard bargain with the BFES when that contract came up for renewal at the end of last year. "We were put under a lot of pressure and the city council managed to negotiate for its self a very good fee structure," Barber says. Once again, He points, this proves that the local authority does not sacrifice power and influence by contracting out.

Over the past 5 years, though, the BFES has also flourished. The company's success has spawned 9 new companies in related fields, whose income streams flow into a new holding company called Fire and Emergency Services Holdings (FES).

The new operations include Emergency Services Vehicles (Pty) LTD, which supplies emergency vehicles and equipment, and Harwil Engineering, which manufactures and maintains fire engines and equipment. Group turnover has increased from R10.7 Million in 1992 to a predicted R50 Million in the group's current financial year.

As a result of that growth, the FES group has created more than 100 new posts as well as several temporary positions. And that has given a focus to one of the most important areas of the BFES's work -- training new emergency service workers from disadvantaged communities.

"At the time we took over the services from the council we did not have a single non-white fire fighter," Barber says. "Half of the fire fighters in our expanded service are now non-white. We have put several hundred young men through programs that have made them employable."

Barber estimates contract services to local authorities like Benoni account for no more than 30% of the company's revenue. The rest is generated by taking advantage of commercial opportunities, like a contract secured to provide paramedic services to the air force of the United Arab Emirates

Expand and contract

Financial managers can no longer afford to ignore the possibilities offered by application service providers. But you have to read the small print in the contract, warns John Warchus

The announcement by Microsoft, Cable and Wireless and Compaq that they will become application service providers (ASPs) indicates that the ASP model can no longer be ignored by the financial business community. The ASP model is essentially a relationship where an IT services company manages and delivers applications or computer systems to business users remotely via the internet. But companies considering the ASP model **should be careful - there are technical and commercial risks.**

As with any third-party service, it is important to focus on your key business requirements and to carry out site visits, client references and, usually, a competitive tendering process before concluding a contract. **The formal tendering process is important as it will help you to judge rival ASP bids objectively. As part of the evaluation process, negotiate an initial trial period or a pre-contract benchmarking exercise to establish technical performance levels.** Where you need to customise existing applications, ask the ASP to show project-management and development expertise.

As there is likely to be consolidation in the ASP sector, it is also important to check the ASP supplier's financial records. **The human factor should also not be ignored: if an ASP is selected on the basis of key personnel, check how service levels will be maintained if they leave; or negotiate a contract that can be terminated if key people depart.**

Ask whether the ASP model is correct for your business. The banking and finance sector, in particular, may not be suitable for the ASP model if success depends on bespoke or leading-edge software applications. Although ASP providers claim that they can customise standard software applications, the current state of the UK ASP market still seems to be based on the one-to-many basis, and bespoke software applications are the exception not the norm.

The recent High Court ruling in *DMA v Boon* is a reminder that a party may unwittingly enter into binding legal arrangements in the technology sector on the basis of verbal negotiations. When negotiating ASP supply contracts remember that English law holds that a binding contract exists once all the essential terms are agreed. It is therefore important to use a formula such as "subject to contract" until you are ready to commit contractually.

When reviewing the draft contract for a new technology supplier, check whether an entire agreement clause has been inserted. These may legally override important pre-contract agreements on which you based your choice of ASP. All important statements must be in the final contract.

The issue of limitation of liability is relevant to financial-sector ASP contracts because poor performance could lead to huge losses. The supplier will be keen to limit liability for both direct and indirect or consequential damages by an express clause. The validity and enforceability of limitation clauses in an ASP's standard terms is controlled by statute (The Unfair Contract Terms Act 1977 (UCTA)). In standard contracts, attempts to limit the supplier's liability for direct losses to sums significantly less than the value of the contract are likely to be held by a court to be unreasonable and invalid. But a correctly worded limitation clause would probably be able to exclude liability for indirect or consequential loss - and this sort of loss could be large. You must assess the type and size of loss that is likely to occur and consider the wording of any limitation clause.

There must be a formal service level agreement (SLA) specifying minimum performance levels. In particular, the following issues must be addressed:

- **the ASP should be responsible for any necessary customisation or software integration;**
- **the services offered by the ASP must be defined;**
- **services should also include minimum performance criteria and allow for the criteria to be revised if necessary;**
- **a change-control mechanism to maximise flexibility;**
- **limitation of liability;**
- **pricing and termination provisions.**

The SLA is a crucial part of the contractual documentation and sets out performance levels for key services. It is increasingly common for ASPs to promise network access up-time of at least 99 per cent - you must check the wording and any underlying assumptions on which these promises are based to ensure that they are commercially useful.

As well as ensuring guaranteed, measurable performance levels, you must insist on remedies for breaches. It is sensible to have a right to terminate the contract if there is a serious breach. The contract should specify where data will be held and provide for

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back-up if the system fails. If necessary, commission a security audit from a third party.

The contract should not overlook databases. It is often vital to retain ownership of data collated or produced by the ASP. The Data Protection Act 1998 governs personal data and, if an ASP is located outside the European Economic Area, users must show that the party processing the data will abide by rules equivalent to those in the EEA. The ASP must demonstrate that business data will be secure.

The contract must also allow for disputes and termination. **Users must be able to take applications in-house or transfer them with minimal disruption if the SLA is not met.** It is desirable for users to ensure that there is a contractual framework for the initial ASP provider to transfer services to another supplier or to the user, although the user should be prepared to pay for such co-operation.

FM

John Warchus is IT & e-commerce partner at Shadbolt & Co He will be presenting a free seminar at ASP Solutions, London, 25-26 April (www.asp-solutions-europe.com)

April 2001:

Financial Management **19**

Questions for Module 2.

1. What do councils do?
2. How do councils fund their activities?
3. What is financial management?
4. What role does financial management play in the provision of services in councils?
5. What role do councils have in fostering local economic development and why has this changed over time?
6. How much land does your council have? How much does it administer?
7. What are user charges?
8. Does the concept of full cost recovery apply to councils? Explain.
9. What are Public Private Partnerships? What examples are there from your council?
10. What issues should be considered when establishing Public Private Partnerships?

3 Module 3: Local Government Revenue Sources and Collection

Adequate local revenue sources are a major component for the successful operation of Local Government. With the removal of rental houses, rates are the major source of revenue for councils providing 58% of income for Kitwe City Council in 1999 and 42% for Ndola City Council in the year 2000. The second highest source, rents, provided 9% and 7% respectively. The International Union of Local Authorities (IULA) has the following to say on this matter²⁶.

- *Local authorities shall be entitled to adequate financial resources of their own, distinct from those of other levels of government and to dispose freely of such revenue within the framework of their powers.*
- *The allocation of resources of local authorities shall be in reasonable proportion to the tasks assumed by them. These resources shall be of a regular and recurring nature so as to permit uninterrupted public services and adequate financial planning. Any transfer of new responsibilities shall be accompanied by an allocation of the financial resources required for their fulfilment.*
- *A reasonable proportion of financial resources of local authorities shall derive from local taxes, fees and charges of which they shall have the power to determine the rate.*
- *Taxes which local authorities shall be entitled to levy, or of which they received a guaranteed share, shall be of a sufficiently general, buoyant and flexible nature to enable them to keep pace with their responsibilities.*
- *The autonomy of financially weaker local authorities requires a system of financial equalisation.*
- *The right of local authorities to participate, in an appropriate manner, in framing the rules governing the general apportionment of redistributed resources shall be expressly recognised.*
- *The provision of block grants, which are not earmarked for the financing of specific projects or services, shall be promoted.*
- *The provision of grants shall not justify any undue intervention in the policies pursued by local authorities within their own jurisdiction.*

An assessment of the current financing arrangements of Local Government would seem to indicate that the arrangements fall short of most of the standard criteria describe above.

3.1 Parameters for Local Government Revenues

There are generally accepted criteria for assessing revenue sources for financing public expenditure. The criteria used covering economic, legal and political issues, will normally takes into account adequacy, elasticity, equity, administrative capacity and political acceptability of each revenue source. A description of these is given in the following sections and will be used to assess the various sources of revenues that are currently assigned to Local Government in Zambia.

3.1.1 Adequacy

Issues of adequacy consider the yield of the revenue source. Rates as a revenue source are considered adequate but the new phenomenon in Zambia of a property owning class with no means of economic sustenance has introduced a major constraint to the yield that can be extracted from this source. Other taxes on the property owner makes the collection of this tax even more problematic²⁷.

Providing 40 to 60% of total revenues to councils indicates that this source has reasonable yield. The significance of this revenue source is illustrated by the fact that the next highest yielding source, both for

²⁶ International Union of Local Authorities (IULA), 31st World Congress in Toronto in June, 1993

²⁷ See Property Tax in Eastern and Southern Africa: Challenges and Lessons Learned by the Municipal development Programme.

Module 3: Local Government Revenue Sources and Collection.

Kitwe (see Table 13: Major Sources of Estimated Revenue to the General Rate Fund, 1999 below and Ndola (see Table 14: Ndola City Council Revenue – 2000.), house rent, contribute less than 20% of the total council revenue.

3.1.2 Elasticity

Elasticity refers to the ability of the revenue source to increase its yield relative to inflation or population growth without the need for adjustments to the revenue tariff structure. In this regard rates, the major source of income are not elastic as:

- A revaluation has to be done in order to bring new property on to the billing.
- The rate levy has to be adjusted in order to yield more from the same property. This is almost always a politically difficult issue.

While local government has the inelastic rates and personal levy as taxes, central government has allotted to itself Income Tax, Custom, VAT, Company Tax, property Transfer Tax, Excise duty to mention but a few. All of the government taxes have high elasticity.

3.1.3 Equity

Equity relates to the fair distribution of the tax burden on the taxpayers taking into account their capacity to pay the tax. A tax is said to be progressive if its tariff structure is such that taxpayers with higher ability to pay are levied a higher proportion (say 15%) of their earning than those with lower capacity to pay (say 10%). When the reverse is the case, the tax is said to be regressive. A progressive tax is generally to be preferred as it has a more equitable distribution of the tax burden. Table 11 below shows an example of a progressive tariff structure.

Table 11: Sample Progressive Tax Structure

			Payer a Earnings	Payer b Earnings
			300,000	750,000
Tariff Structure				
From	To	Rate	Payable a	Payable b
-	100,000	5%	5,000	5,000
100,001	200,000	7.50%	7,500	7,500
200,001	500,000	10%	10,000	30,000
Over	500,000	20%	-	50,000
Total Payable			22,500	92,500
Tax Burden			7%	12%
Total Yield			115,000	
Balance Disposable			277,500	657,500

In this example payer a whose earning is K 300 000 pays only 7% of total earnings and remains with K 277 500 for other subsistence expenses. Payer b who earns K 750 000 pays 12% and still remains with K 657 500.

The same tax payers on a regressive tax structure shows how the tax burden has shifted against payer a whose capacity to pay is much lower than payer b.

Table 12: Sample Regressive Tax Structure

			Payer a Earnings	Payer b Earnings
			300,000	750,000
Tariff Structure				
From	To	Rate		
-	100,000	20.0%	20,000	20,000
100,001	200,000	10.0%	10,000	10,000
200,001	500,000	7.5%	7,500	22,500
Over	500,000	10.0%	-	25,000
Total Payable			37,500	77,500
Tax Burden			12%	10%
Total Yield			115,000	
Balance Disposable			262,500	672,500

In this example payer a whose earning is K 300 000 pays 12% of total earnings and remains with only K 262 500 for other subsistence expenses. Payer b who earns K 750 000 pays 10% and still remains with K 672 500.

In Zambia there was a time when water and sewerage charges used to be highly regressive.

3.1.4 Administrative Capacity

This refers to the capacity of the institution to levy the tax, enforce collection and keep proper records of the billing, receipts and an accurate and up to date database of eligible taxpayers. This also refers to the actual cost of the administrative effort required relative to the tax yield.

3.1.5 Political Acceptability

A tax which satisfies all the foregoing criteria but is not politically acceptable will not be enforced. In Zambia, with increasing populations with no means of economic sustenance, the demand for services is increasing at a rate that is faster than the capacity of existing taxes to support. A poll or hut tax would be suitable in these circumstances but this is not currently politically acceptable as the independence struggle started with the burning of individual tax cards that were used for poll tax purposes by the colonial powers.

An effort by the Thatcher government in the UK in the 1980s did not fair well also on the political acceptability criteria.

3.2 Taxation Versus Fees and Charges

Taxes and user fees and charges finance the operations of Local government in Zambia. A basic tenet of public finance is that:

- (a) **User fees and charges** should be used in all cases where the beneficiary of the service and the amount of service received can be identified. Water charges, house rents, inspection fees are examples. Economic considerations should mean that user fees and charges should be levied on a full recovery basis. For various reasons, including administrative capacity and political acceptability this is not sometimes feasible.
- (b) **Taxes** should be used to finance those public goods and services for which the beneficiary and quantum used by the beneficiary cannot be easily identified. Streetlights, parks and open spaces and storm water drainage are cases in point

Module 3: Local Government Revenue Sources and Collection.**3.3 Main Sources of Recurrent Revenues**

In 1999, KCC budgeted for an estimated income of K 6.8 billion on its general rate fund from 34 different sources. Of these, the largest 9 sources contribute some 90% of revenue. Table 13 below shows the major sources of General Rate Fund income for Kitwe City Council for 1999.

Table 13: Major Sources of Estimated Revenue to the General Rate Fund, 1999

	<i>Revised 1998 Estimate</i>	<i>1999 Estimate</i>	<i>% of total Estimated</i>
Rates	1,356,645,000	3,985,246,000	58
House Rents	455,735,000	630,679,000	9
Market Levy	101,666,000	480,000,000	7
Shop Rents	11,021,000	332,150,000	5
License Fees	24,800,000	225,000,000	3
Personal Levy	278,000,000	200,000,000	3
Interest Receivable	216,000,000	140,000,000	2
Sundries	392,312,280	112,000,000	2
Lease of Council Properties	0	90,000,000	1
25 Other Sources	557,853,330	637,050,000	9
Total	3,394,032,610	6,832,125,000	100

Source: KCC Computer Section

Similar data from Ndola City Council for the year 2000 is shown below.

Table 14: Ndola City Council Revenue – 2000.

	2000	
Rates	2,255,607,552	42.5%
Miscellaneous	1,757,352,800	33.1%
House and Shop Rents	394,902,258	7.4%
Personal Levy	288,632,470	5.4%
Market fees	210,147,500	4.0%
GRZ	167,340,000	3.2%
Capital Receipts	139,371,059	2.6%
Trade Licences	93,061,500	1.8%
Water		
Total	5,306,415,139	

Source: Ndola Local Economic Development Strategy

With the loss of rental housing income and water income, the revenue base of councils has been considerably reduced.

3.4 Recurrent Revenue –Taxes

Councils have only two taxes, rates, a property tax and personal levy an income tax. This compares to the Central Government which has Pay As You Earn (PAYE), an income tax, corporate tax, value added tax, custom and excise duties, beer surtax etc. The council taxes are discussed below.

3.4.1 Rates (Property Tax)

This tax, levied under the Rating Act Cap 484, accounts for nearly 50% of all councils income. This is a tax on property based on value of the property but not, currently, on the land. This income is not fully utilised as most councils cannot afford the regular revaluation, every 5 years, or the supplementary

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valuation that ensure that all taxable property is captured. The Rating Act currently excludes the councils Chief Valuation Officer from conducting the revaluation assigning the function to the Government Valuation Department. The department has no capacity for this and, in one case, took more than 18 months to prepare a supplementary valuation for less than 20 properties.

The tax is not, unlike VAT or Sale Tax, inflation elastic as to change the rate levy; the council must sit and approve the same, which has to be approved by the Minister.

3.4.2 Flat Rate Tax

As the rates system has to have individual property valuation on which the rate levy is applied and as this processes is somewhat complex and lengthy, involving approval by the Rating Tribunal, a new property tax, called the flat rate tax, which is a simplified version as it groups properties into bands within which they all pay the same tax, has been introduced.

This tax is not equitable, as the tax paid is not specifically related to the value of the property. The yield of this tax is difficult to assess as in most councils this is lumped together with property tax.

3.4.3 Personal Levy (Income Tax)

This is a regressive tax on income charged twice a year. Like rates most councils do not have an up to date database of the taxpayers. This tax is even more inelastic as changes in the rates have to be passed through a statutory instrument. For some unknown reason, the tax has a maximum leviable amount of K 15 000 (currently approximately US \$ 4) per year. Thus a person who earns K 5 million per year will pay the same amount, K 15 000 or 0.30% as one who earns K 50 million whose tax burden will be 0.03%.

3.5 Recurrent Revenue - User Charges and Fees

Councils have various user charges and fees which they can levy on the recipients of service from the councils. These fees and charges are normally mandated under by laws made by councils within their jurisdictions and are meant to, at least, recover the cost of providing such service.. Some of these are discussed below.

3.5.1 Rents

Rents have always been a major source of income to councils. This is no longer the case with the sale of council houses. The owners of the properties that have now been sold off should start paying rates. This has not however happened in most cases title has not been passed to the new owners as most of the compounds in which these houses are built were on single plots. To levy rates, these ought now to be subdivided so that each house is on a specific plot.

In most localities, councils are major property owners. They therefore collect rent for properties other than only the low cost houses that have now been sold. Whether the rentals charged are economical or not is an aspect worth exploring by councils. The Ministry of Local Government and Housing in Lusaka occupies a Lusaka City Council property for which rent is expected to be paid.

3.5.2 Water Charges

Most councils in creating water tariffs use the concept of cross subsidy. The consumers in the so called high and medium cost areas are charged high rates while the low cost areas especially those with communal taps, pay minimal amounts. The economic efficiency of this arrangement has not really been assessed.

As the communal consumers are increasing at a faster rate than the so called high cost housing areas and as a high proportion of property owners in the high cost areas are property owners by virtue of being sold houses they occupied from their employers at sub-economic prices, property ownership is not necessarily indicative of the economic status of the property owner. The capacity of this group therefore to afford to pay the cross subsidies is increasingly non-existent.

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3.5.3 Fees and Levies

Health, building and fire inspection and compliance fees are some of the major inspection fees available to councils. Councils can however make bylaws to raise other incomes. Some fees and charges such as the octroi of India, are being introduced more and more by councils. These include fish, sand, charcoal, cattle etc levies depending on local activity.

A new innovation for all the councils has been the parking fees for the central business districts.

3.5.4 Commercial Ventures

These have not performed to expectation in most council. The reasons for this are numerous, including inappropriate personnel and under capitalisation. Most councils are now finding ways of privatising their commercial undertakings.

3.5.5 Market fees

Councils are mandated to administer markets and bus stations in their areas. Lusaka City Council has such facilities which are now for some reason administered for it by the Ministry of Local Government and housing. Other markets and bus stations are increasingly being leased out to private groups which are in most cases not paying the agreed lease charges.

3.5.6 Fines

Fines are normally not strictly speaking sources of income as their major role is to stop the payers from conducting the activity for which they are being fined rather than to encourage the activity and therefore raise more money. Street vending is one such activity which is fined.

3.6 Inter Governmental Transfers

In so far as the sharing of responsibilities between the two levels of government in Zambia cannot be said to reflect the sharing of sources of income, some inter-governmental transfers are necessary to equalise the responsibilities undertaken by each level of government with the resources available to it.

There are two aspects to the concept of sharing income between the different levels of governments. These are:

a) Revenue Source Sharing

This being the way the different sources of revenue are shared between the different levels of governments, in our case, who gets what taxes and

b) Revenue Sharing

This being of the revenues that are collected by one level of government, usually the higher level, how much should be passed to the other, usually lower, level government.

In Zambia the first was fixed once and for all in the distant past. If a new source is identified such as for instance, a mineral levy by say Kalulushi Council, this has to be approved by central government. Sometimes such a levy is rejected only to appear as a central government source in due course. Regarding the second item, current central government policy is to reduce these to zero.

In so far as the sharing of responsibilities between the two levels of government in Zambia cannot be said to reflect the sharing of sources of income, some inter-governmental transfers are necessary to equalise the responsibilities undertaken by each level of government with the resources available to it.

While local government has rates and personal levy, central government has Income Tax, Custom, VAT, Company Tax, property Transfer Tax, Excise duty to mention but a few. The transfer made therefore from Central Government to Local Government, called Government Grants, are not gratuitous payments, but a means of income redistribution by the Central Government²⁸ and a way for funding central government

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activities devolved to local government. Among such grants in the past were the police grant, the health grant, grant in lieu of rates etc all of which have now disappeared.

This concept is recognised almost universally and some countries, Mexico for instance, has a constitutional provision for a percentage of Central Government income to be transferred to local government. Even there though, Central Governments are, in view of their current financial problems, considering reducing the constitutional provisions.²⁹

Indeed in a paper presented to the 46th Annual Conference of the Local Government Association of Zambia held at Siavonga on 12th August 1999 on 'Fiscal Decentralisation Strategy and Its Impact on the Finance and Functions of Councils' a senior Central Government officer stated that:

"inter governmental grants – everywhere in the world, central government makes grants from its general revenues to local governments. The general belief in Zambia in the 1990s that Local Authorities could 'go it alone', with minimal support from Central Government has indeed been seen to be short sighted."

The government policy on this issue is currently not clear. A new form of intergovernmental transfers are the donations from the Presidential Discretionary Fund. As however the basis for these are unknown, as are the quantum and timing this source is currently unsatisfactory.

3.7 Capital Financing:

For the purpose of financing capital developments by councils, loans, capital receipts and revenue contributions to capital outlay are normally used.

3.7.1 Loans

Previously councils used to borrow money from local financial institutions including the once vibrant Local Authorities Superannuation Fund for capital developments. These were underwritten at that time by government loan sanctions which were to some extent guarantees for the repayment of the loans. These are no longer issued as, among other reasons, government's own capacity to service its loans is now not assured.

Councils are disallowed by law to borrow directly from foreign institutions. With the decline in the national economy, local borrowings have been reduced to expensive overdraft facilities for covering operating expenses.

The only capital loans currently available are those arranged by the Ministry, normally without participation of the councils.

3.7.2 Capital Receipts

One of the basic tenets of public finance is that funds received from the sale of a public asset must be used for the acquisition of other public assets. Neither the councils nor the Zambia Privatisation Agency seem to have applied this rule. Regarding the councils, the value at which they were directed to sell their houses, K 10 000 (approx US 2.5) were such that:

- (a) No major assets could be created by the use of the realised funds as these were too little and
- (b) The difficulties in the operating circumstances of the councils meant that most of these funds went into covering operating expenses, contrary to the concept of applying capital receipts for new capital acquisitions.

In the traditional council balance sheet there used to be a heading called 'Capital Discharged – Capital Receipts Unapplied' to show how much was received from sale of council assets and was available for purchase of other assets or called 'Capital Discharged – Capital Receipts Applied' to show the value of assets financed by the use of capital receipts. These are no longer there.

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See Urban Age, a World Bank publication, September 1995

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3.7.3 Revenue Contributions to Capital Outlay (RCCO)

Small capital acquisitions were in the past also funded by direct debit to the revenue (operating) account. This is the equivalent of the Profit and Loss Account in the commercial accounts. This source of capital funding is not readily available now as the revenue accounts of most councils operate at a loss.

3.7.4 Grants

Capital grants were used in the past to fund capital projects such as the development of new housing areas, cemeteries and so on. These have suffered the same fate as recurrent grants, i.e. they are erratic, ad-hoc and are impossible to quantify before hand.

3.7.5 Service Charges

Service charges, or plot premium or development charge were supposed to be recovery from developers for the cost of developing plots by councils. The demand for serviced land in Zambia increased so much that at one time councils were able to charge service charges before the land were serviced. The almost universal misuse of these funds in activities other than the service of land paid for has meant that this source has dried up unless the councils can service the land before collecting the service charges.

3.7.6 Internal Funds and Reserves

Sometimes charges are made to the revenue accounts to create internal funds and reserves for the acquisition of capital assets in the future. A common one used to be the 'Vehicle Replacement Fund (VRF)' whose purpose is implied in the name.

3.7.7 Municipal Bonds

Municipal Bonds have been provided for in the Local Government Act, but these have never been seriously utilised by councils in Zambia basically because:

- The necessary capital markets have not been developed and are now in the process of being developed as part of the Lusaka Stock Exchange.
- Central Government has itself, used bonds to finance its activities to the extent that there might be no capacity in the economy to accommodate municipal bonds and
- The financial management of councils, perceived as well as real, is not up to the required standard to enable investors to lend money to councils by way of bonds as most of them do not have audited accounts for considerable periods of time, contrary to the provisions of the law.

Bonds have however been used to finance local government capital developments in such countries as Italy, where Naples floated bonds on the New York Stock Exchange and the Philippines, where local residents subscribed small amounts for the construction of an intercity bus terminal.

3.7.8 Betterment Levies

This is a taxation device used to ensure that beneficiaries of a government financed project pay for part or all of the costs.

3.7.9 Municipal Banks or Municipal Credit Institutions.

Councils are said to lack resources. This is a relative statement. They lack resources relative to the responsibilities they have. In absolute terms their budgets are fairly substantial. In view of the specialised nature of their functions and their combined economic might, councils have in some countries created Municipal Banks or Municipal Credit Institutions to finance infrastructure development.

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3.8 Cost Effectiveness of Revenue Sources

The cost effectiveness of revenue sources refers to the cost of collecting such revenue relative to the yield from such revenue source. There are various sources of revenue that are available to local government but the yield of some of these, relative to the cost of administration makes the introduction of such revenue sources uneconomical.

Currently it is doubtful whether the tariff structure of personal levy, yielding less than 5% of total revenue for both Ndola and Kitwe City Councils, is cost effective as the overheads may quite possibly exceed the tax yield.

3.9 Tax Structures and Tariff Setting

In determining the tax structures and tariffs it is necessary to take into account the issues raised in section 3.1 Parameters for Local Government Revenues above. A more progressive structure is to be preferred as this takes into account the capacity to pay and reduces the tax burden per taxpayer and the necessary tax effort required to collect the revenue.

3.9.1 Yield

First and foremost the structure must be such that the tax is able to yield sufficient revenue to cover the cost of administering the tax as well as provide sufficient income for provision of public services.

3.9.2 Progressive / Regressive

A more progressive tax structure, where tax payers pay progressively more depending on their earning or usage of a service is to be preferred as it will normally yield more revenue for less tax effort. A regressive tax structure will normally require a much higher tax effort to collect the revenue.

3.9.3 Cross Subsidies

Tariff structure should take into account possibilities of cross subsidies to enable the tax payers with higher capacity to pay for services to partly subsidise those that do not have similar capacity. Tariff settings for water and sewerage undertaking services usually apply this principle.

3.10 Billing Systems

Billing systems must be efficient and accurate to ensure effective collection of revenue. In order for this to happen the system must have:

- (a) An accurate and up to date database of taxpayers. This will enable the tax administrators to ensure that all taxable entities are billed.
- (b) An efficient and accurate manner of calculating the amounts due from each taxpayer, using the appropriate tariff structure, as and when this is due. This will ensure that all taxable entities charged the correct amount at the correct time.
- (c) An accurate system of recording payments received from each taxpayer from time to time and adjusting the same against the amounts outstanding for each taxpayer.
- (d) A method of making periodic summaries of billing transactions and
- (e) A method of analysing debtors outstanding by age.

In these days of personal computers, the system must also be capable of producing all the foregoing reports on screen.

3.11 Improving Collection of Revenues

Revenue collections can be improved by:

- (a) Educating the taxpayers on the benefits of paying taxes
- (b) Increasing the revenue base by ensuring that all entities that are taxable are billed and taxed accordingly and that the database for the taxpayers is updated frequently.
- (c) Increasing the revenue base by ensuring that taxes are introduced that ensure that all economically active entities pay some tax.
- (d) Increasing the yield of the current taxes by collecting taxes from all taxable entities.
- (e) Developing debt collection protocols that outline the actions to be taken in case of default and applying these protocols appropriately.
- (f) Ensuring prompt billing for services.
- (g) Improving the tariff structures
- (h) Ensuring that control total adjustments such as write-offs, supplementary debits and so on, are made only with appropriate authorisation.
- (i) Bringing political and or social pressure to bear on the defaulters.
- (j) Establishing debt collection bench marks and applying them.

Some of these issues are dealt with in the next module.

Module 3: Local Government Revenue Sources and Collection.

Questions for Module 3

1. What are the major sources of revenue for your council?
2. What is your council's collection efficiency regarding each source?
3. What criteria would you use to assess the suitability of a revenue source?
4. What is the justification for taxes, if any?
5. How do taxes differ from fines? User charges? Levies?
6. What are revenue contributions to capital outlay?
7. What a municipal bonds and where have they been used and for what?
8. What does the term 'cost of collection' mean and how does this relate 'yield'?
9. What is a regressive tax? What are the examples of this in your council?
10. How can revenue yield be increased?

4 Module 4: Debt Management and Dealing with Non-Payment

In Zambia, collecting revenue from residents has always been problematic for several reasons. First and foremost, councils are considered as a benevolent government entities that are unlikely to enforce strict commercial principles in debt collection as even the charges they levy for services are below cost. This is clearly demonstrated in the case of New Kabwata in Lusaka, a council housing estate whose houses, better though they are, have always been rented out at less than 25% of the houses in the neighbouring Kabwata Estates, a National Housing Authority development, even though technically both are under the Ministry of Local Government and Housing. The local expression 'ni va boma' (it belongs to the state – therefore I do not have to be as accountable for it to quite the same extent as private property) applies to councils with a vengeance.

Whereas it is generally accepted that the majority of the urban poor live in the urban squatter settlements, the rentals in these areas have been, until recently that the council houses have been sold, lower than those pertaining in the council estates.

Secondly, the reluctance by elected officials to apply harsh sanctions on the electorate, especially in view of the short time between in elections, in Zambia three years, to collect overdue debt, a phenomenon that is well documented world wide, means that even where the officers are willing to collect debt, the elected officials may not be willing to sanction the required actions.

Among most local government practitioners this is seen as political interference. As however interference implies a transient incident and as elected officials are a fixed feature of local government, strategies for collection of debt have to be developed within the operating framework of councils, which I that councillors and their interests will always be there and have to be considered.

Thirdly, the deteriorating service levels of councils, have created a vicious public finance circle in which residents are unwilling to pay for mediocre services and councils are unable to improve services as they have no resources.

4.1 Relationship Between Payment and Service Delivery

Councils have to provide various services to their local residents. These services cost money to provide and this money must, in the main, come from the residents for whom the services are provided. The internationally accepted methods of funding these services are:

- (a) **User fees and charges** which should be used in all cases where the beneficiary of the service and the amount of service received can be identified. Water charges, house rents, inspection fees are examples. Economic considerations should mean that user fees and charges should be levied on a full recovery basis. For various reasons, including administrative capacity and political acceptability this is not sometimes feasible.
- (b) **Taxes** should be used to finance those public goods and services for which the beneficiary and quantum used by the beneficiary cannot be easily identified. Streetlights, parks and open spaces and storm water drainage are cases in point

Unless these are collected and efficiently used for the provision of the required services, these services are unlikely to continue to be provided.

4.2 Public Education

In the more liberalised economic set up in Zambia, the public are willing, even though sometimes unable, to pay for services. The growing incidence of private solid waste collectors who contract directly with property owners is a case in point. Public education is therefore not a major hindrance to revenue collection from the point of view that residents may not be aware that they have an obligation to pay for services, it is a hindrance in the sense that being so aware, they are not satisfied with the level of services that councils are providing.

A major contribution to this deterioration has been the change in councils expenditure patterns over the years from the time when Salaries and Wages used to constitute in the region of 25% to 35% of total expenditure, therefore leaving in the region of 75% to 65% for other inputs for service provision to now when 75% to 90% of expenditure is on Salaries and Wages therefore leaving inadequate resources for service provision. The residents, justifiably, are unwilling to finance the payment of salaries and wages to civic officials as an end in itself. The table below shows the trend for Kitwe City Council.

Module 4: Debt Management and Dealing with Non-Payment.

Table 15: KCC Expenditure Pattern by Category 1990 – 1995, 1998.

	1990	1991	1992	1993	1994	1995	1998
Employees	45	67	41	31	37	40	77
Establishment Premises	9	11	6	8	15	6	8
	4	5	13	19	18	7	5
<i>Total</i>	58	84	60	59	69	53	90

Source: KCC Finance Department Abstracts of Accounts.

The trend is not materially different in other councils.

4.3 Timely Billing

The need for timely billing for council services cannot be overemphasised, as this will contribute to improved revenue collection in several ways among which:

- Timely billing will enable the service recipients to more directly connect the service usage with the cost. For instance timely billing for water may cause the water consumer to adjust his consumption more quickly.
- Timely billing will mean that the time between service provision, and therefore cost to council, and revenue collection is reduced thus enabling the council to operate with lower working capital.
- Timely billing will enable the council monitor debt collection performance and take corrective action before the bills outstanding become unmanageably big.
- Delayed billing could also cause an increase in debtors to be written off as the incidence of bills sent to service recipients who have since relocated is increased.

In addition to timely billing, the accuracy of the billing contributes to improved revenue collection as it reduces disputes which can be a cause for non or delayed payments.

4.4 Techniques for Identifying and Monitoring Debtors

A key tool in identifying and monitoring debtors is an appropriate billing system. This creates a basis for monitoring individual debt performance and institutional collection efficiencies. Some of the more common techniques are described below:

- Debt Age Analysis. This is the grouping of debtors by age in order to apply different debt collection techniques to the different debtors. For instance a hotel may have a huge water bill representing one months consumption compared to a domestic consumer who may have a lower amount outstanding yet the consumption may represent a longer debtors period. A concentration on the actual amount outstanding, rather than the debt age analysis, may result, wrongly, in the hotel being disconnected and the domestic consumer being allowed to continue to accumulate bills.
- Collection Efficiency Analysis. This is the creation of benchmarks on collection efficiency and the comparison of actual performance to the benchmarks. This will ensure that major deviations from the benchmark performance are examined.
- Transaction Analysis. This is an analysis of period by period transactions such as monthly comparisons of total value of debtors carried forward in the previous month against those brought forward in the current month, bills raised, total number of debtors billed, total adjustments made, total receipts and computation of the arithmetical total debtors carried forward compared to the billing system total. It is amazing the number of times amounts carried forward at the end of one month are different from amount brought forward in the current month or the balance carried forward in the current month is different from the arithmetical amount (brought forward plus bills raised, plus or minus adjustments made, minus receipts should equal balance carried forward) for no apparent reason.
- Establishment of Debt Protocols. This is the determination beforehand of the actions to be taken under specific conditions. For instance at what point should warrants of distress be issued for unpaid rates? The application of these protocols should be monitored.

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4.5 Managing Politics in Debt Collection

In the sense that the councillors are elected, politics will always be part of the operating framework of councils. In the sense that officers are supposed to be professional not only in their technical areas of expertise but also in general management and as management aims to achieve organisational goals within given constraints whether financial or political, debt collection within this political environment has to be an achievable management objective.

The councillors objectives are to deliver on campaign promises in order to have a chance of being re-elected. The officers' role has to be to:

- (a) Show that the council's capacity to enable the councillor deliver on campaign promises lies in its ability to finance the implementation of those promises. That ability to deliver is a function of available financial resources.
- (b) Develop and agree with council, well articulated debt collection policies and protocols to enable officers implement them without recourse to councillors. This separates the councillor from direct involvement in debt collection.
- (c) Apply the collected revenue to the provision of services related to the councillors campaign promises.
- (d) Provide systems for managing exceptional circumstances such as temporary disability of the breadwinner in the consumer household.

4.6 Procedures for Debt Collection

The basic underlying debt collection tool is the availability of accurate data on all aspects of debts outstanding, i.e. an effective billing system for instance or a clear and accurate database of all payers and record of their transactions. Unless this is in place, all other debt collection efforts will not be effective.

Debt collection protocols set out the various procedure for collecting debt. Part of these procedures are provided from within the enabling acts such as the Rates Act and the Landlord and Tenant Act. Where these are not provided, the law provides for sanctions and procedures under the civil debt collection procedures. The main income sources and their debt collection procedures and sanctions are listed below:

- **Rates.** The Rating Act provides for issuance of a warrant of distress to defaulting ratepayers. The procedure requires a 14-day notice to the ratepayer before the warrant can be executed. The preliminary protocols must establish under what circumstances the notice has to be issued. While the warrants used to be executed on the property owner only in the past, currently this can be executed against the tenant instead.
- **Personal Levy.** The Personal Levy Act provide for penalties for non-compliance.
- **Rents.** The Land Lord and Tenant Act provides for procedures for debt collections of overdue rentals.
- **Inspection and Licence Fees.** Councils as regulating institutions have the power to close down establishments for no-compliance with council regulations. Failure to pay some of these fees can result in the closure of the enterprise or withdrawal of operating licences.
- **Water Bills.** Discontinuation of service is always a sanction in the provision of services.

Questions for Module 4

1. What is debt management?
2. Why is this an issue in councils?
3. How is debt monitored in your council?
4. What is the collection efficiency of the three major sources of income for your council?
5. What are debt collection protocols?
6. What role, if any, does public education have to play in debt management and how is your council dealing with the issue of public education?
7. How current is your council's customer database?
8. How much is owed to your council by various debtors? How many months billing does this represent?
9. What Provision is made for bad debts and how are these written off in your council?
10. What billing system does your council use and what reports does it generate.

5 Module 5: Local Government Budgeting

In algebra, the answer to the sum 1 tomato plus 3 tomatoes was 4 tomatoes. Unfortunately 4 tomatoes plus 2 onions plus 1 kg beef plus some cooking oil plus some water plus heat does not, according to algebra equal to beef stew. It equals 4 tomatoes plus 2 onions plus 1 kg beef plus some cooking oil plus some water plus heat.

If what was really needed was beef stew, then it becomes necessary to break the list of the ingredients by quantity and value, add up the values and come up with the total amount required. If this total is K 10,000, then the significance of this amount, is not K 10 000 per se but beef stew. The K 10 000 is not an end in itself but a means to an end, a short hand way of solving the algebraic sum in the paragraph above without having to list the ingredients again, a **budget**. Having created the budget (expenditure budget in this case) it is now possible to design the appropriate strategy to raise the required funds to implement the beef stew project. This forms the revenue part of the budget.

5.1.1 Why Budget?

Budgeting plays various important roles in all organisations what ever their purpose for existence. By quantifying and evaluating the monetary value of the desired activities the budget helps to:

- 1) Keep the institution solvent by ensuring that expenditure is covered by:
 - Existing reserves
 - Revenue which can be realistically expected
 - Loans which can be obtained and repaid
- 2) Establish priorities
- 3) Allocate resources among different competing activities and determine the levels and directions of work to be undertaken during the budgetary period.
- 4) Determine, so far as the law provides discretion, levels of taxes, fees and charges to be collected during the budgetary period
- 5) Provide legal authorisation for expenditure during the budgetary period
- 6) Provide comprehensive information on the financial position of the institution.
- 7) Provide a framework for control

The budget has three dimensions in the management of an organisation as follows:

- a) A policy-making role in choosing how to allocate resources between outputs in terms of services, infrastructure etc.
- b) A management role in allocating resources to particular agencies or departments to obtain the inputs (personnel, equipment, buildings etc.) required to achieve the outputs.
- c) A control role in giving the legal authority to personnel to collect and spend money, and in prescribing who can spend and how much on what.

5.1.2 Role of Councillors in the Budget Process

Approving and monitoring the council budget which provides funds to implement the council's objectives is one of the greatest responsibilities of councillors. This is because the budget will:

- a) **Demonstrate your vision** – by reflecting council's policies and objectives through the allocation of budgeted expenditure to the various departments and services within the council
- b) **Show how much it costs** – by specifying the total rates and charges which the residents will be required to pay to the council; and
- c) **Set it in motion** – by authorising heads of department to incur expenditure included in the budget.

It is therefore important that councillors carefully consider the budget and its implications before giving their approval.

Module 5: Local Government Budgeting.

There are several common sense techniques that can help councillors contribute positively to the impact of the budget on the lives of the residents. Some of these are:

- a) **Set council objectives** – What do you expect the council to achieve in the next 5 to 10 years (long term), and within that framework in the next 2 to 3 years (medium term) and within that in the next year or two (short term)?
- b) **Set priorities** – in view of the diverse and sometimes conflicting objectives of the council³⁰ and the limited resources available to councils, how are the objectives ranked? This ranking may change from time to time as circumstances change.
- c) **Set long term and medium term budget objectives** – in order to achieve a) b) and c) what resources are required to be allocated to what activities and when?
- d) **Set service and departmental performance indicators** – how do we measure success in the achievement of any of the above objectives?
- e) **Ask for the information in the appropriate format** – the budget is a technical document showing great amounts of detail (enough for every one including the experts to get lost in), do not be afraid to ask for the information in a summarised and more digestible manner.
- f) **Prepare current budget within the frameworks set up above-** a) to e) above create the parameters within which each year's budget can be made.

5.1.3 Factors to Consider When Budgeting in Local Government

There are several factors which should be considered in preparing and approving the budget. Among these are:

- a) **Review line items-** you should review the line items of the income and expenditure and question any amounts which do not appear reasonable or which differ significantly from the previous year for no apparent reason.
- b) **Surpluses and Deficits** – Councils are normally requested to prepare a balanced budget, i.e. to cut their coats according to their cloth. Find out what the budgeted surplus or deficit is.
- c) **The income, which needs to be raised** – Unlike most organisations which start their budgets with an estimation of their incomes, councils begin their budgets with how much it would cost to deliver the required services. When this is known, then the revenue which will be included in the budget is determined. This is known as expenditure-led budgeting. If councillors are reluctant or unable to increase estimated income to prevent a deficit, then estimated expenditure must be reduced.
- d) **Setting the rate levy** – The rate levy is set at such a level as to enable the council deliver the required services without a deficit. This done taking into account the following:
 - As council expenditure increases the rate levy increases
 - Property revaluation will affect the rate levy (normally downwards), without necessarily affecting the amount payable by the rate payer
 - Affordability
- e) **Impact on business organisations** – Rates and service charges can be a significant cost to business organisations. How do ours compare with neighbouring councils?
- f) **The extent of cross subsidisation** – Who is paying for what and at what rate? Is everybody paying at the same rate for the same service?
- g) **Collectability of revenue** – If income is billed can it be collected? This should take in account:
 - Ability to pay: can the residents afford to pay
 - Clear policy on non-payment: does the local authority have and implement a clear policy in respect of non-payment of charges?
- h) **Working capital requirements** – Rates are payable twice per year, how does the council

³⁰

Consider for instance the commercial objective of maximising profits in taverns, therefore reducing expenditure and increasing income, against the Health department's objective of keeping premises within the required standards. When these two clash, Health Inspectors close down dirty council taverns, which objectives overrides the other?

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survive in between?

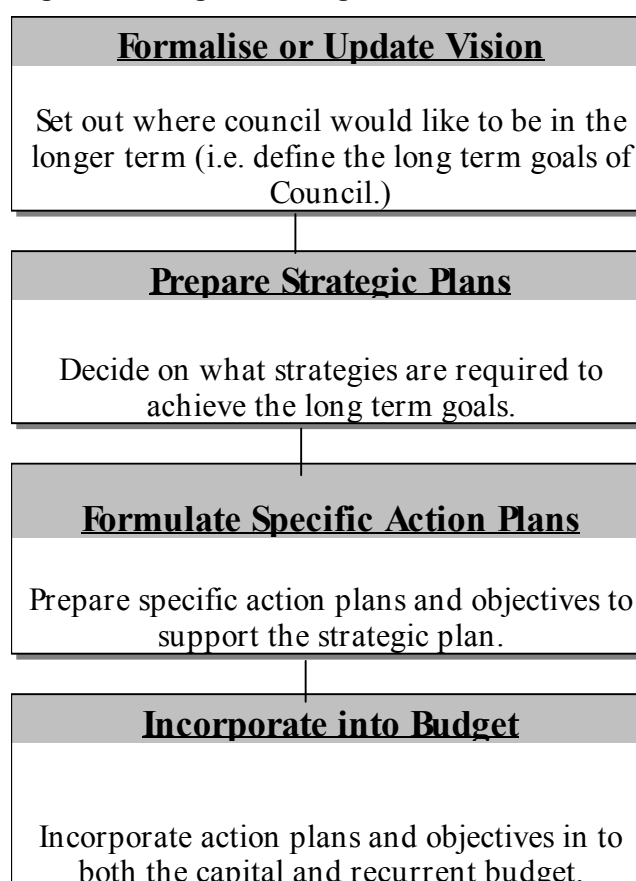
- i) **Comparison with inflation** – both for income and expenditure
- j) **Economic factors** – how will the budget result in the promotion of the council's economic policies (see the council's corporate goals in the strategic plan). Such factors as:
 - Investment incentives
 - Support for local business
- k) **Capital Budget** – has sufficient provision been made for acquisition of the necessary activities to be carried out. Have the recurrent aspects of the capital budget been included in the operating budget?

5.2 Strategic role of budgeting

While budgets are made up of numbers, their importance does not necessarily lie in the numbers but in the underlying activities that those numbers represent. ***A budget must therefore always start with a list of the activities that need to be undertaken.*** These activities need to be aligned to the council's over all vision in order to ensure that they contribute to the achievement of such vision. This links the budget to the strategic plan of councils.

The diagram below, Figure 4: Role of Budget in Strategic Planning, shows the linkages between vision, strategic planning, action plans and budgets.

Figure 4: Role of Budget in Strategic Planning



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5.2.1 Types of Budgets

Budgets are normally classified as recurrent or operating budgets and capital budgets. Recurrent budgets refer to the annual operating income and expenditure such as salaries and wages, building maintenance and so on. These are funded from recurrent income such as rates, personal levy, water charges and other fees and charges.

Capital budgets refer to the plans for acquisition or construction of additional fixed assets, called Capital Outlay in local government accounting language, for the council normally funded by way of grants, loans and revenue contributions to capital out lay (RCCO).

5.3 Linking Planning and Budgeting

As can be seen from the foregoing examples, planning is linked to budgeting as the planning process establishes the physical activities that have to be undertaken, how they will be undertaken, when they will be undertaken and sometimes by whom they will be undertaken. The resources to be used in undertaking such plans are identified and costed. This reduces the plan to a common base, cost.

The various costs are then added up and the plan is now called a budget. A budget is therefore sometimes referred to as a plan in monetary terms.

5.4 Concept of Value for Money (VFM) in Local Government

The term value for money implies the maximisation of organisational benefits in the utilisation of organisational resources, such as manpower, materials and equipment. This means that these resources are used in an economical, efficient and effective manner to achieve organisational objectives. The maximisation process is therefore between resources used and benefits gained. The combinations can be:

- Given a limited value of resources obtain the maximum benefits (this is where the resources are the limiting factor) (e.g. in football, score the highest number of goals (benefit) within 90 minutes (limited resource)) or
- Given a fixed amount of benefits required, use the least resources (this is where the resource consumption is the limiting factor) (e.g. in tennis, get to 6 love (end the game – fixed benefit) in the shortest time possible (least resource)).

The following example can be used to illustrate the relation ship between effectiveness, efficiency and economy.

Table 16: Effectiveness, Efficiency and Economy

<u>Term</u>	<u>Definition</u>	<u>Example</u>
Effectiveness	The services that are being provided are having the desired impact on the community	A road rehabilitation programme has resulted in fewer broken ball joints and road accidents
Efficiency	Making the best use of limited resources to complete a task to a given level	All roads have been upgraded within the planned time.
Economy	Acquiring resources of a suitable quality and quantity at the lowest cost	The roads department was able to get a high discount on the cost of bitumen by buying in bulk.

5.5 Approaches to budgeting

There are various methods of budgeting the common ones being incremental budgeting, Zero Based Budgeting and Activity Budgeting. There also single year and multi year budgets. Some aspects of these are described in the sections that follow.

Module 5: Local Government Budgeting.

5.5.1 Incremental budgeting

This is a method of budgeting in which the budget provision or actual expenditure and income, of a previous period is increased by a certain factor to arrive at the new budget. While this method of budgeting is what the councils currently use it has the limitation that it can only be appropriate if:

- (a) The initial basis of allocation of the expenses was a true reflection of the priorities of the organisation.
- (b) Those priorities have not changed since the previous budget period.
- (c) The service being provided by the expenditure is still justifiable.
- (d) The method used for the provision of the service is still cost effective and
- (e) The cost of inputs has changed at the same rate for all inputs for all departments.

In view of changing technologies, shifting population patterns, changing environmental concerns etc. it is highly unlikely that the above listed conditions could be true for any length of time. In any case what would happen if a new service were introduced?

5.5.2 Zero-based budgeting

Zero-based budgeting is a more scientific and complex method of budgeting. Expenditure incurred in previous years is ignored in preparing zero based budgets. Instead each item of expenditure is calculated as if the enterprise had just started operating.

The main advantages of zero based budgeting are that”

- (a) It may save money: Zero based budgeting should prevent uneconomic and inefficient expenditure in previous years being included in the budget,
- (b) It promotes creativity: Department heads have to consider different alternatives to achieve the departments objectives, The best alternative is included in the budget,
- (c) It encourages better use of funds: Department heads have to maintain detailed records on the various functions undertaken by their department, This information enables department heads to make informed decisions and therefore make better decisions.

The problems of this system when it comes to implementation are that:

- (a) Most government and government related agencies have major budget rigidities and prior commitments that starting from a Zero Base would be somewhat difficult.
- (b) It is time consuming and complex. Department heads may not have the necessary staff or experience to prepare zero based budgets

5.5.3 Steps in Implementing Zero Base Budgeting

As this method has certain appeal and might contribute to an improvement in the council's budgetary performance, some practical aspects of implementing Zero Base budgeting are outlined below..

In implementing Zero Base Budgeting the following steps are normally taken.

- a) Decide what kind of service is required (e.g. refuse collection)
- b) Set standard of provision for the service (e.g. twice weekly collection)
- c) Estimate the unit costs of the service at this standard (e.g. K 10 000 per ton of refuse collected)
- d) Estimate the quantity of service required to meet the standard (e.g. removal of 2 000 tons of refuse per day)
- e) Estimate the total expenditure needed to perform the service at the required standard as follows:

$$2\,000 \text{ (tons per day)} \times \text{K } 10\,000 \text{ (cost per ton)} \times 365 \text{ (days per year)}$$

In this system services that are no longer required would be eliminated at the first stage of the exercise.

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5.5.4 Activity-Based Budgeting

Activity based budgeting is the term used to describe budgeting based on agreed activities to be undertaken. The activities are identified, agreed and costed. The process of agreeing the activities refers to the evaluation of each activity relative to its contribution to the organisational objectives. It is expected that in the process activities that do not effectively contribute to the achievement of organisational goals would be disallowed.

5.5.5 Programme Budgeting

This budgeting system classifies expenditure by objective rather than by department. This has the advantage that expenditure relating to a particular activity, such as promotion of public health, for instance, can be grouped under one heading rather than being diffused under separate departments such as, in councils for instance, the Public Health Department, the Water and Sanitation Department, Refuse removal section and so on.

Table 17: Programme Budgeting

<u>Activities</u>	<u>Programmes</u>
Health Inspections, Clinics and Refuse removal	<p>Objective:</p> <p>To create a healthy and disease free environment by:</p> <p>Programme 1: Carrying out health inspections</p> <p>Programme 2: Maintaining Clinics</p> <p>Programme 3: Removing refuse from the city</p>

Instead of preparing a budget for the Health Department, budgets are prepared for each programme that supports the objective.

The advantage of this method is that it gives councillors a better understanding of how expenditure is allocated to the various objectives of the local authority. It is also easier to link the various programme objectives to council's policies.

The disadvantages of programme based budgeting are:

- That while the various programmes can be identified and budgeted for the actual budgeting could still be done on an incremental basis.
- The objective may be linked to multi-sectoral activities, for instance wouldn't the above objective also include provision of clean drinking water? How then would the budget be controlled across the departments?
- Some expenditure may contribute to more than one objective. Where would such expenditure be listed?

5.5.6 Multi-Year Budgeting

Multi year budgets can be used to create a long term planning framework with the current year being more detailed. This would ensure continuity and relevance of each year's budget to the long term goals of the organisation. This concept is used by the government which has a medium-term and long term planning framework.

Multi year budgets are also used as a tool for adjusting income and expenditure priorities over a period longer than one year as such change may not, due to budget rigidities, be possible in one year.

Assuming that the council has objectives that relate to service provision a long-term objective would be to re-orient the council budget to reflect this. If the current budget provision, is inappropriate as it applies 85% of income to salaries and wages and leaves only 2% for the supplies and services with which to provide the required services. This is the equivalent of having K 1 000 000 for painting a house and buying paint worth K 20 000 and then paying the painter K 840 000 to paint the house. How effective would the painting project be? These ratios are about right for most councils now.

If the ideal expenditure pattern is 25% for salaries and wages and another 25% for supplies and

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services, then given the phenomenon of budget rigidities³¹ it would be necessary to plan to realign the council's budget over a longer term than one year as such change can not occur within a year and to begin to implement such realignment immediately. A proposed planning framework and budget basis for such change would be as shown below.

Table 18: Planning Framework – Multi Year Budget

	1998 Base	Proposed Percentage of Income Year						
		1998	1999	2000	2001	2002	2003	2004
Total Income	2,898,305,937.00	100%	100%	100%	100%	100%	100%	100%
Expenditure								
Employees	- 2,426,398,794.00	83.7%	75.0%	65.0%	55.0%	45.0%	35.0%	25.0%
Premises	- 160,737,462.00	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Supplies	- 53,876,437.00	1.9%	2.0%	3.5%	5.0%	10.0%	15.0%	25.0%
Plant and Transport	- 95,962,373.00	3.3%	3.0%	5.0%	7.5%	10.0%	15.0%	20.0%
Establishment	- 252,574,930.00	8.7%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Miscellaneous	- 148,246,306.00	5.1%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Provision for Redundancy			5.0%	5.0%	5.0%	4.0%	3.0%	2.0%
Capital Contributions	- 5,000,000.00	0.2%	1.0%	2.0%	3.0%	4.0%	5.0%	7.5%
Total Expenditure	- 3,142,796,302.00	108.4%	100.0%	94.5%	89.5%	87.0%	87.0%	93.5%
Transfer to Reserves	- 244,490,365.00	-8.4%	0.0%	5.5%	10.5%	13.0%	13.0%	6.5%

A similar exercise can be done relative to departments. Are the departmental expenditure allocations in line with the council's vision?

Annually, the base year would be changed and an additional year added to the end of the framework to create a rolling plan / budget.

5.6 Budget Formats

As budgets are organisational plans in monetary form, their format must reflect the activities of the organisation. As a control tool, they must be in a format that facilitates comparison to the data captured and presented in the institution's accounting system.

From a financial management point of view councils are organised and summarised, at the highest level, called the grand summary, then by Fund, then by department and within the department by section. The preparation of the budgets starts with the preparation of individual section budgets which are grouped together by department then by fund and finally into the council grand summary. There are normally standard data collection forms for collecting the budget requests of the sections which are then incorporated into the departmental, then fund and finally the grand summary. A copy such form for the City of Daytona, Ohio, USA is shown as Figure 6: Sample Annual Budget Request Form, on page 67³².

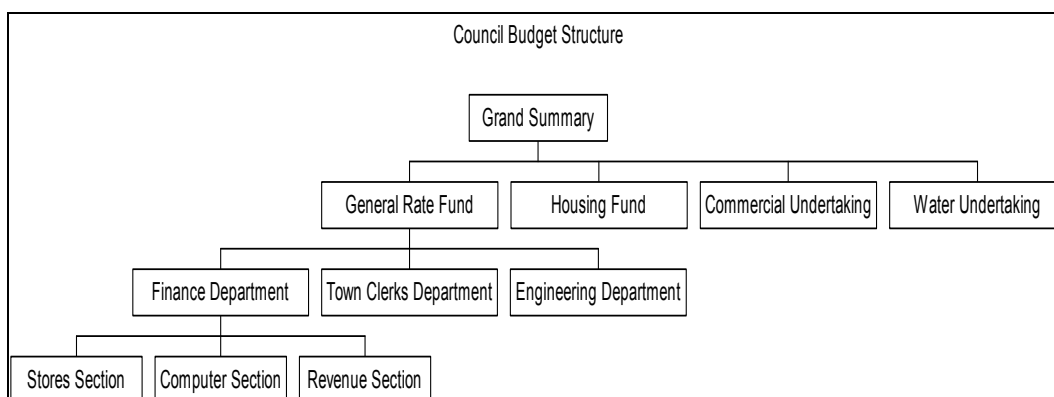
³¹ Pre-existing commitments that have budget implications such as debt charges and salaries and wages which are unlikely to change materially in the short term.

³² From the 'Budget Procedures Manual' by the Office of Management and Budget, City of Dayton, Ohio. Issued 6th January 1990.

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An abbreviated organisation structure, which is for financial management purposes, is shown in the chart below:

Chart 2: Council Budget Structure



Each of the funds would normally have various activities under it which are not shown in the above chart. An idea of these can be gotten from Table 8: Activities and Functions on page 21.

The normal local government budget format is represented in summary in the table below, summarised from Kitwe City Councils 1999 budget: The headings, Employees, Premises etc are standardised are internationally accepted within the commonwealth, despite recent efforts here to rearrange them in alphabetical order. See for instance the Kitwe City Council audited accounts for 1989, the latest to date.

Table 19: KCC 1999 Budget

	1998 Estimate	1998 Revised	1999 Estimate
Expenditure			
Employees	(3,006,943,000)	(2,784,666,086)	(3,294,332,500)
Premises	(356,558,000)	(191,635,564)	(316,992,500)
Supplies and Services	(1,461,605,000)	(696,778,550)	(1,293,588,750)
Plant and Machinery	(836,032,000)	(606,363,706)	(712,575,000)
Establishment	(432,110,000)	(370,741,292)	(412,652,500)
Miscellaneous	(200,200,000)	(200,040,705)	(282,323,250)
Capital Contributions	0	0	(1,002,500,000)
Total	(6,293,448,000)	(4,850,225,903)	(7,314,964,500)
Income	5,885,694,000	3,394,032,610	6,832,125,000
Surplus / (Deficit)	(407,754,000)	(1,456,193,293)	(482,839,500)

Source: SINPA Report: Widening the Resource Base of Kitwe City Council

If budgeting is the process of reducing an organisation's proposed activities for the budget year into financial terms, how sustainable is this budget in which the council's plans were:

- ☐ Initially to lose K 400 million in 1998
- ☐ Subsequently to lose K 1 456 million
- ☐ Initially to apply 51% of its income to pay salaries and wages.
- ☐ Subsequently, by mid 1998, to apply 82% of its income to pay salaries and wages.

Eventually from 1998 income and expenditure reports, 84% was applied towards salaries and wages, what was left for service provision? Some plan. This typical of all councils in Zambia.

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According to the standard format, there are standard sub headings below each of the main headings shown above. A list of these, as applied in the commonwealth, is shown in Table 20: Local Government Standard Accounting Headings on page 68. Each section, for instance the Revenue section in Chart 2: Council Budget Structure above, would prepare its budget in this format for consolidation with other sections.

5.7 Designing and Managing the Budgetary Process

The Local Government Act sets in motion the councils budget process. Section 38 of the Local Government Act requires councils to prepare their estimates and present the same to the Minister, at least 60 days before the commencement of the year to which the estimates relate. This is an essential aspect of the management of councils as unless provisions are made within the estimates, it would not be possible to undertake any activity. The process is normally as follows:

- The Ministry issues budget guidelines for each year for councils to follow.
- The Director of Finance interprets these guidelines and advises the other Chief Officers what their expenditure limits will be.
- The Chief Officers prepare detailed estimates of capital and recurrent income and expenditure. These are submitted to the Director of Finance.
- The Director of Finance consolidates the departmental budgets to arrive at the over all council budget.
- The Chief Officers meet to balance the budget.³³ This is done by finding the difference between the total council expenditure and income. If the expenditure is more than the income, as is usually the case, the expenditure is reduced or income increased by revising the various tariffs.
- Each committee's draft budget is submitted to the committee for approval and or modification.
- The draft budget of the Finance and General Purposes committee is normally submitted last as the committee considers its draft budget as well as the consolidated budget as approved / modified by the various committees.
- The draft budget as approved by the F and GP is finally submitted to the Council for approval.
- The Council approved budget is then sent together with a list of recommended revisions of fees and charges to the Minister for final approval.

Even though budgets are an essential financial management tool, budgeting in the public sector has become a ritual. 'What ever was provided last year, add 50% because the Ministry will cut off 25% of the increment so that we will remain with the 20% (and some change) we really wanted to begin with'.

Once the budget is approved by the Minister, the Council normally continues operating without much regard for the budgetary provisions, its major consideration being whether cash is available to spend. Under these circumstances, the budget is not the powerful management tool that it is intended to be as the figures are plugged in to the budget with no specific activities attached to them, just a relation to previous provisions.

There does not seem to be much input in the budgetary process from other stakeholders. A checklist³⁴ on Key factors in preparing the budget is attached Appendix 2: Budget Preparation Process – Key Factors as on 69.

³³ In order to 'balance' the budget, a policy / management decision has to be made whether the budget should aim for a surplus, break even or deficit. This decision is partly determined by the state of reserves available to the institution. Reserves are needed for:

- a) Providing a cushion against unexpected increases in expenditure or shortfalls in revenue
- b) Providing a working balance where expenditure tends to run ahead of revenue in time
- c) Accumulating resources for large future commitments such as renewal of plant.

Self-financing activities should as much as possible be budgeted as such. This may seem obvious but examples of parastatals and local government enterprises budgeting for losses would seem to indicate that this might not be so obvious after all.

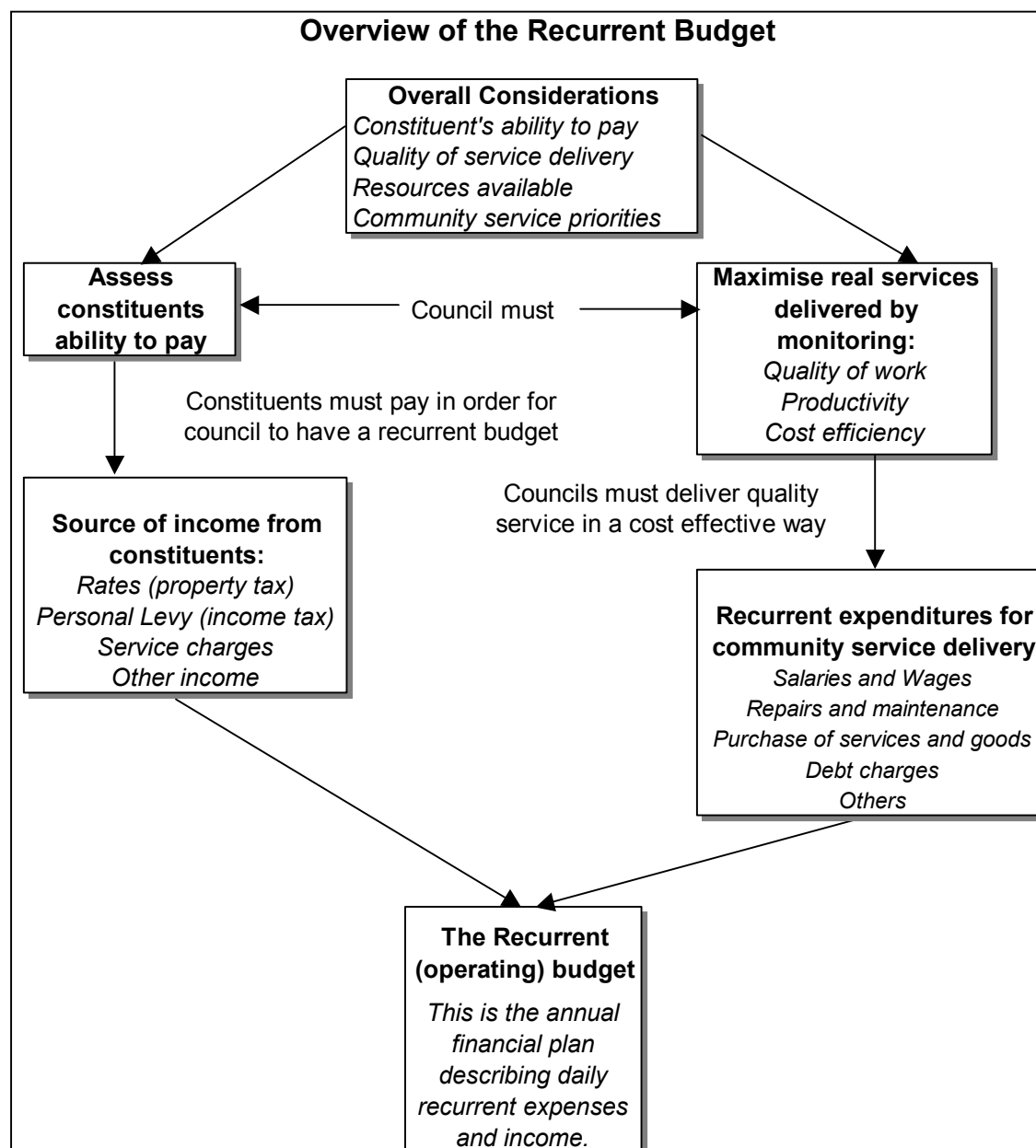
It is also possible to estimate a global income figure and allocate departmental budget ceilings within which each department should budget.

³⁴ Based on the UNDP The Draft Country Assessment on Accountability and Transparency Report, February 1997

5.8 Overview of Recurrent Budgeting

The figure below gives an overview of the recurrent budget process in graphical form.

Figure 5: Recurrent Budget Overview



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Figure 6: Sample Annual Budget Request Form



City of
Daytona, Ohio

Annual Budget Request Summary - 1990

Office of Management and Budget

Fund

Code:

Fund

Name:

Service Level

☐ Existing

Org.

Code:

Org.

Name:

☐ Reduction

☐ Expansion

OBJECT OF EXPENDITURE	1989 BUDGET	1990 REQUEST	% CHANGE	OMB ONLY
TOTAL PERSONNEL COSTS				
2200 Travel				
2301 Waste Disposal				
2302 Communications				
2303 Rents & Leases				
2304 Professional Services				
2305 Maintenance of Equipment				
2306 Maintenance of Facilities				
2307 Insurance & Bonding Service				
2308 Advertising				
2309 Printing & Reproduction				
2310 Election Expense				
2311 Miscellaneous				
2312 Property Taxes				
2313 Non-Departmental Transfers				
2314 Public Service Contracts				
2321 Electric & Power				
2322 Gas				
2323 Steam				
2324 Water				
2401 Supplies & Materials				
2402 Inventory				
2403 Gasoline & Diesel Fuel				
TOTAL CONTRACTS & MATERIALS				
2502 Furniture & Assets				
2506 Motorized Equipment				
TOTAL CAPITAL EQUIPMENT				
2601 Retirement of Debt • Bonds				
2602 Retirement of Debt • Notes				
2611 Interest • Bonds				
2612 Interest • Notes				
TOTAL DEBT SERVICE				
GRAND TOTAL BUDGET				

Submitted By:

Approved By:

Division Head

Date

Department Head

Date

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Table 20: Local Government Standard Accounting Headings

EMPLOYEES

- Salaries
- Wages
- Superannuation benefits
- Leave travel benefits
- Housing allowances
- Appointment and recruitment expenses
- Training expenses
- Leave commutation
- Passages and gratuities
- Other staff expenses

PREMISES

- Repairs and maintenance-buildings
- Repairs and maintenance-grounds
- Repairs and maintenance-furniture and fittings
- Electricity
- Water
- Cleaning materials
- Rates
- Rents
- Sanitation

SUPPLIES AND SERVICES

- Books and periodicals
- Materials
- Uniforms and protective clothing
- Equipment and tools
- General supplies

TRANSPORT AND PLANT

- Vehicle expenses
- Car and cycle allowances

ESTABLISHMENT EXPENSES

- Printing and stationery
- Postage
- Telephones
- Advertising
- Travelling, substance and conference expenses
- Insurance
- Recharges-departmental
- Recharges-central
- Recharges-debt management

MISCELLANEOUS EXPENSES

- Subscriptions
- Entertainment
- Legal
- Other expenses

DEBT CHARGES

- Debt redemption
- Interest

REVENUE CONTRIBUTIONS TO CAPITAL OUTLAY

INCOME

Module 5: Local Government Budgeting.

Appendix 2: Budget Preparation Process – Key Factors

Transparency	<ul style="list-style-type: none"> <input type="checkbox"/> the budget documents provide a clear link between objectives and expenditures', <input type="checkbox"/> all participants in the budget process are clear about their roles and responsibilities; <input type="checkbox"/> simple, well-documented procedures; <input type="checkbox"/> well-defined basis of budgeting e.g., incremental, zero-based etc.; and <input type="checkbox"/> departmental / entity targets and resources are allocated, clearly indicated and explained.
Management	<ul style="list-style-type: none"> <input type="checkbox"/> effective budgeting involves more than simply preparing annual budgets; <input type="checkbox"/> the management and monitoring of the budget are equally important, with an emphasis on results achieved.
Decentralization	<ul style="list-style-type: none"> <input type="checkbox"/> all decision making taking place at the centre is potentially inefficient and. may undermine the budget system .
Co-ordination and co-operation	<ul style="list-style-type: none"> <input type="checkbox"/> all those involved in the budget process are required to ensure links between recurrent and development budgets and the processes in the financial management system.
Integration	<ul style="list-style-type: none"> <input type="checkbox"/> of recurrent and development budgets: the recurrent costs arising from the development projects need to be built into recurrent expenditure planning and trade-offs between recurrent and development expenditure considered for sustainability.
Flexibility	<ul style="list-style-type: none"> <input type="checkbox"/> the system allows responses to changed circumstances: these responses are built into the system, so that implications of any changes are sufficiently analysed and still fit within the public sector entity's overall objectives and priorities.
Discipline	<ul style="list-style-type: none"> <input type="checkbox"/> although the system provides flexibility, there is also effective control over expenditures; <input type="checkbox"/> any changes to the budget are carefully analysed and justified; <input type="checkbox"/> only limited use of supplementary estimates; and <input type="checkbox"/> penalties for breach of rules and regulations.
Link to medium term framework (MTF)	<ul style="list-style-type: none"> <input type="checkbox"/> link between the resource framework of the MTF and the annual budget; and <input type="checkbox"/> link between the policies and priorities of the MTF and the budget allocations.

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Accountability and credibility	<input type="checkbox"/> governing body involvement', good links between the governing body and the Executive; <input type="checkbox"/> involvement of accountability of senior managers in all stages of the process; <input type="checkbox"/> if the Executive do not believe mat they will be held to their ceilings, or if they can easily by-pass normal procedures, the whole process of budgeting can be undermined; and <input type="checkbox"/> budgets are reliably close to actual outcome.
Comprehensive	<input type="checkbox"/> the budget process and documents need to include all revenues and expenses, including aid funds; as well as information on previous year's and current year's expenses.
Performance measurement	<input type="checkbox"/> measuring the impact of the budget through output performance measurements for recurrent and development expenses.

Module 5: Local Government Budgeting.

Questions for Module 5

1. Why is budgeting necessary?
2. What is the difference between forecasting, planning and budgeting?
3. What LEGAL provisions are there regarding the preparation of budgets in council.
4. How is the council's budget prepared
5. How and for what is the council's budget used?
6. What are the different types of budget and what circumstances are they used?
7. What is zero based budgeting?
8. Is it ever acceptable to budget for a deficit, if so when so, if not when not?
9. What factors affect the preparation of council budgets?
10. What is the function of the General Rate Fund

6 Module 6: Capital Budgeting and Investment Planning

Module 5: Local Government Budgeting, covered to some extent recurrent budgeting aspects of local government. Like any other organisation councils also budget for capital expenditure and investments. These expenditures may be defined expenditures whose benefits will accrue over several years. This may entail foregoing current benefits for future benefits. The basis for this must be that the present benefits foregone must generate sufficient benefits in the future to justify the current sacrifice. A maize seed planted is a good example, the consumption of one solitary maize corn now is foregone, all other things being equal, for a cob of maize in three months time which may have several hundreds of corn

6.1 The Capital Budget

The capital budget is therefore a well ordered summary of a council's expected capital spending for the budget year. Capital expenditure is expenditure on assets that:

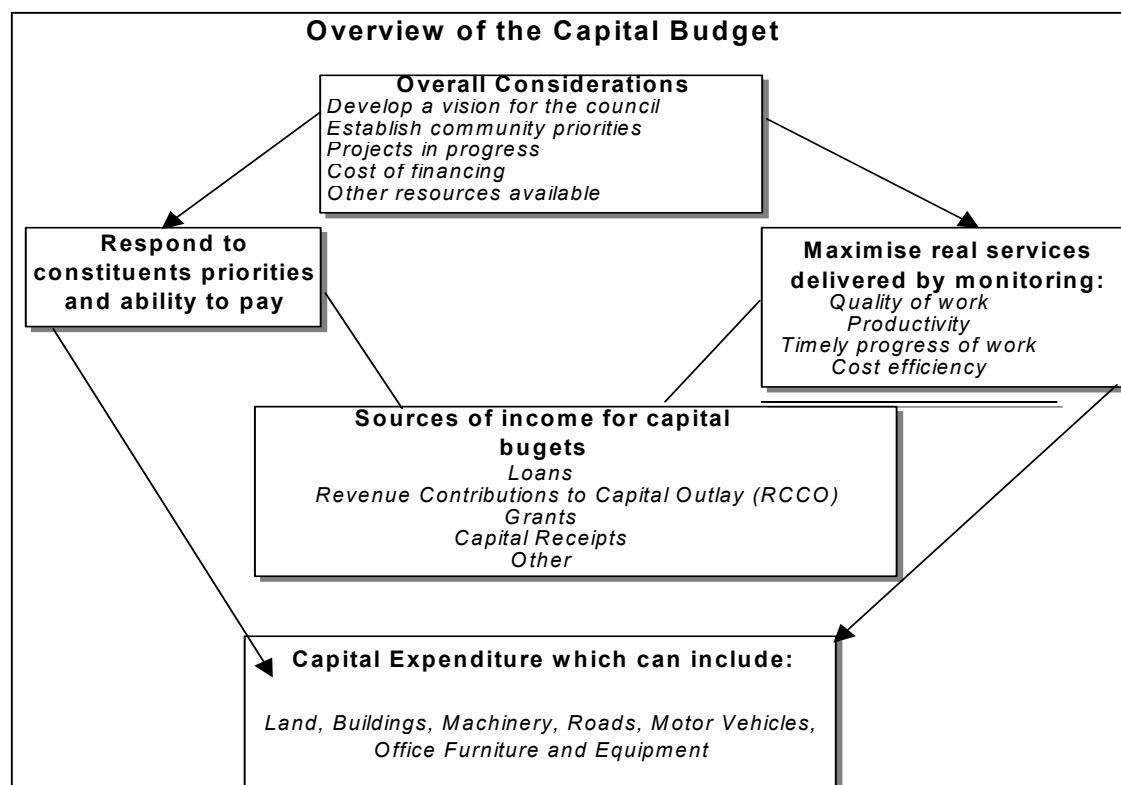
- ☐ Are related to the purchase of land, buildings, machinery and equipment.
- ☐ Give long term benefit to the council
- ☐ Include vehicles, office furniture and equipment, but excludes, sometimes by value, less expensive items that are regarded as expendable.

The capital budget will normally have:

- ☐ Provision for acquisition of durable items with a life span of more than one year.
- ☐ Provision for items that will result in capital expenditure.
- ☐ Long-term financial implications which will commit council to large future financial obligations.

An overview of the capital budget process is shown in the figure below:

Figure 7: Overview of the Capital Budget



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6.2 The Capital Programme

For proper planning, a council must have a multi-year capital programme. This is an important planning mechanism. The capital budget for a specific budget year, will normally be derived from the capital programme.

The capital programme provides a schedule of capital spending that a council envisages to incur as well as the sources of funding for that expenditure over a number of years usually 3 to 5 years. This is necessary as capital spending has long term financial implications for councils. A multi year approach enables the council to manage its finances and priorities according to a longer term plan based on key strategic objectives.

6.3 Evaluating Capital Projects

In commercial undertakings the process is fairly straightforward. Since these undertakings have the underlying objective of optimising financial returns to the investor, standard measures for planning capital investment relate to such planning techniques as:

- **The Accounting Rate of Return**, on average what profit does this investment make per year as a percentage of the initial investment?
- **Pay Back Period**, how long will it take for the investment to generate sufficient returns to cover the cost of investment.
- **Cost Benefit Analysis**, what is the relationship between total investment costs and total investment income over the whole lifespan of the investment?
- **Internal Rate of Return**, on average what return in present value terms does this investment make per year as a percentage of the investment?
- **Net Present Value**, by how much does the return from this investment exceed the cost in present value terms at a given hurdle rate?

In Local Government, by nature of its activities, most capital investment have no discernible associated income cash flow. How then are these evaluated, approved, budget for and monitored? This module discusses the issues of investment planning for social services.

6.4 Project Identification

Projects are brought to the attention of councils through '**promoters**' who may be councillors, officers, private individuals, private businessmen or NGOs. Officers normally carry out a preliminary 'rule of the thumb' evaluation and pass the projects on to the appropriate committees. The committees make recommendations to council for inclusion of such project.

Between project identification and implementation there are various activities that have to take place. During this process the '**professionals**' take up their role in evaluating the project costs and associated strategies and technologies for implementation. The projects need to be packaged for marketing to the last group of project intermediaries, the '**financiers**'³⁵.

Which projects are carried out from among the identified projects is normally a question of matching the each project to a particular group of financiers. In the process of packaging the project technical details are worked out according to the needs of the financier that is being targeted.

In our current situation where finance is the main limiting factor, projects are evaluated to suit the interests of the possible financier. The professionals should, however also, evaluate the project finance to assess its suitability for a given project. This is normally not carried out resulting in high, and sometimes unsustainable, debt charges.

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See Planning Development Projects: A Practical Guide to the Choice and Appraisal of Public Sector Investments – G.A Bridger and J T Winpenny ODA (now DFID) June 1983.

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6.5 Evaluation Techniques

There are so called traditional methods of project evaluation. These are **The Accounting Rate of Return, Pay Back Period and Cost Benefit Analysis**. These techniques all have the weakness that they measure costs and benefits in terms of cash value as if K 1 million received today is the same as K 1 million received in 6 months time. Most people offered K 1 million today or K 1 million in 6 months time would intuitively prefer to receive the money today.

This preference does not necessarily arise due to the reducing purchase power of the currency, inflation. Offered a bag of maize meal, our staple food currently in short supply, today or a bag of maize meal in 6 months time, most people would prefer the maize meal today. To account for this concept, the so called Discounted Cash Flow Techniques are used, these recognise that time has an effect on the value of money.

The subject of evaluation of capital projects is a topic covered in great detail by available literature. For further reading on the subject see the listed references in the footnote³⁶. In this manual we outline some basic concepts especially as they apply to public sector investments.

6.5.1 Compounding and Discounting – the Concepts

Given an opportunity to receive K 2 million today or K 200 million in 6 months time, most people would be willing to wait the 6 months to receive the K 200 million. Theoretically it should also be possible to arrive at a point where most people would be indifferent whether to receive the K 2 million today or K xx million in 6 months time. At that point it would be possible to say the **Present Value** of the K xx million in 6 months time is the same as K 2 million today or alternatively that the **Future Value** of K 2 million in 6 months time is the same as K xx million at that time..

Assuming that K xx is equal to say K 5 million, we can say that the **Compounding Factor** (the factor by which we multiply the **Present Value** to arrive at a **Future Value**) is 2.5 (ie 5/2). In the same way we can say the **Discount Factor** (the value by which we multiply the **Future Value** to arrive at the **Present Value**) is .4 (ie 2/5, or 1/the Compounding Factor).

When money is borrowed from commercial institutions the institutions charge an interest. Thus if K 1 is borrowed at 10% one has to pay K 1.1 at the end of 1 year or, K 1.21 or K 1.331 at the end of the second and third years respectively. Thus as far as the bank is concerned the future value of K 1 at 10% interest is K 1.1 at the end of year 1, K 1.21 at the end of year 2 and K 1.331 at the end of year 3 and so on. This is the same as saying the compounding factors at 10% rate of interest for years 1 to 3 are 1.1, 1.21 and 1.331 respectively.

Slightly modifying the above arguments it is possible to say at 10% rate of interest K 1.1 received at the end of one year is the same as K 1 today. The amount by which we have to discount the future value to find the present value, the discount factor is, in this case 1/1.1 or .909, this is the same as saying the discounting factor is 1/the compounding factor.

Using these factors, it is possible to compound or discount a stream of future income received at different times to a common present value therefore enabling us to compare values with a common denominator. Discounting and compounding factors at different rates of interest are available in most financial management textbooks. For purposes of exercises in this manual some tables are attached as Appendix 4: Compounding Factors on page 89 and Appendix 5: Discounting Factors

A paper on discounted cash flow techniques from which the examples given below were extracted is attached as Appendix 3: A Paper on Discounted Cash Flow Techniques. on page 85.³⁷

³⁶ For additional reading on evaluation of capital projects see:

- E J Mishan, Cost-Benefit Analysis, Allen & Unwin, 1971.
- I M D Little and J. A. Mirrless, Project Appraisal and Planning for Developing Countries, Heinman, 1974.
- UNIDO, Guidelines for Project Evaluation
- L. Squire and H van der Tak, Economic Analysis of Projects, John Hopkins, 1975.
- A. J. Merret and Allen Sykes, Capital Budgeting and Company Finance, first published by Longmans 1966.
- M G Wright, Using Discounted Cash Flow in Investment Appraisal, McGraw-Hill, 1990

³⁷ This paper was initially prepared and presented by A. Chitembo at a Project Formulation and Planning Workshop held at Wasawange Lodge, Livingstone in August 1998.

Module 6: Capital Budgeting and Investment Planning.**6.5.2 Evaluating Capital Projects**

Using the concepts outlined above the compounding factor or the discount factor could be applied to capital investment decisions to compare the present value of investment to a future stream of income by applying the appropriate factor for the appropriate year to bring the income streams to a common base. The examples below illustrate the point.

Two projects A and B both require K 1 000 000 to implement and produce incremental cash flows of K1.4 million and K 1.35 million respectively over 3 years. Project A with K 400 000 profit (K1.4 million minus K 1 million) is a better project than project B which has only K 350 000 profit, so it would seem. Their cash flows are shown in the table below.

Table 21: Project Evaluation – Cash Flows

Project	A	B
Required investment	<u>K 1 000 000</u>	<u>K 1 000 000</u>
Returns		
Year 1	K 300 000	K 600 000
Year 2	K 500 000	K 500 000
Year 3	<u>K 600 000</u>	<u>K 250 000</u>
Total income	<u>K 1 400 000</u>	<u>K 1 350 000</u>
Project profit	<u>K 400 000</u>	<u>K 350 000</u>

Since however the cash flows of the 2 projects are different it is necessary to bring them to a common factor. If we are advised that it is possible to borrow at 10% interest we should be able to discount the cash flows to a present value using the discount factors in Appendix 5: Discounting Factors as follows:

Table 22: Net Present Value

Year	Factor	Project A		Project B	
		Cash	Present Value	Cash	Present Value
Yr. 1	0.9091	K300,000	K272,727	K600,000	K545,455
Yr. 2	0.8264	K500,000	K413,223	K500,000	K413,223
Yr. 3	0.7513	K600,000	K450,789	K250,000	K187,829
Present Value of Income			K1,136,739		K1,146,506
Less Original Investment in Yr. 0			K1,000,000		K1,000,000
Net Present Value			K136,739		K146,506

Project A might not be so good after all. In order to use the NPV method a Criterion Rate of Return has to be established. This is normally the cost of money plus some element for profit. The basic decision rule is that any project with a positive NPV is acceptable, and, for purposes of ranking the higher the NPV the better the project.

The major shortcoming of this method is that no attempt is made to relate the NPV to the investment required to generate it. In the above example with similar investments this is not an issue but what if the K 136 739 NPV of project A was generated by an initial investment of K 750 000 as against the K 1 000 000 for project B, Would project B still be better?

This is resolved by using a Profitability Index. This index is based on comparison of the total present value of income with the initial investment and is calculated as follows:

$$\frac{\text{Present Value of cash inflows}}{\text{Amount of investment}} = \text{Profitability Index}$$

For the question posed above the calculation would be as shown in the table below:

Table 23: Profitability Index.

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	Project A	Project B
Present Value of Cash inflows	K886,739	K1,146,506
Amount invested	K750,000	K1,000,000
Net Present Value	K136,739	K146,506
Profitability Index	1.18	1.15

In this instance, under conditions of capital rationing, project A would be a better choice as it produces a higher return per Kwacha invested.

Some times we might not have a given interest rate to use to compare projects. In this situation it is still possible to use the DCF techniques to compare the projects. This is done by calculating for each project the rate of interest at which the **Net Present Value** of the project will equal to **Zero**. This point is called the **Internal Rate of Return**.

The method used is trail and error. It involves the changing of the rates of interest until a pair is found for which there is a positive and negative NPV respectively, both preferably as near zero as possible. By interpolating between the 2 values the IRR is calculated.

For project A , the calculation may be as follows:

Table 24: Internal Rate of Return (IRR)

	Factor @ 15%	Value @ 15%	Factor @ 18%	Value @ 18%
Yr 1	0.8621	K258,621	0.8475	K254,237
Yr 2	0.7432	K371,581	0.7182	K359,092
Yr 3	0.6407	K384,395	0.6086	K365,179
Present Value of Income		K1,014,597		K978,508
Less Original Investment in Yr. 0		K1,000,000		K1,000,000
Net Present Value		K14,597		-K21,492

We know by inspection that the IRR is between 15% and 18%. We can also hazard a guess that it may be closer to 15%, as there is only a difference of K 14 597 between that rate the required value of zero, compared to K 21 492 from 18%. Using this logic we interpolate as follows:

$$\text{IRR} = 15\% + (3 \times 14597 / 36089)$$

$$= 16.2134$$

Where 15% is one of the rates used
 3 is the difference between the 2 rates 15% & 18%
 14 597 is the NPV at 15%
 36 089 is the difference between the 2 NPVs

Using the techniques in public investment where the income stream may not be easily discernible is simply assuming that the benefit for the project is fixed and therefore evaluating the cost of different implementation strategies to find the least cost method. This is in line with the financial management objectives of *creating value for money* which implies ensuring that financial and other resources which have financial implications, such as manpower, materials and equipment are used in an economical, efficient and effective manner to achieve organisational goals as defined in module 1.

An exercise is attached as Appendix 6: DCF – An Exercise on 91 page to try out the concept. A proposed solution is attached as Appendix 16: Proposed Solution DCF Exercise on page 157 but this can be criticised.

6.5.3 Evaluating Project Finance

It is possible to use the discounted cash flow techniques to analyse project finance as well. The basic underlying principles are the same except the cash flows are switched with the positive one (income represented by the loan received) being the first and the negative ones (expenditure represented by

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loan repayments) coming in a stream later. Thus a loan of K 20 000 000 received today and repayable in 2 equal instalments plus interest at 10% would be represented by the following cash flow.

Table 25: Cash Flow – Loan Finance

	Loan	Repayment		Net cash
		Principal	Interest	
Yr. 0	20 000 000			20 000 000
Yr. 1		-10 000 000	-2 000 000	-12 000 000
Yr. 2		-10 000 000	-1 000 000	-11 000 000

Grant element

Suppose that commercial interest rates (the cost of money) were 12% as in our water reservoir example. Being able to borrow at 10% under these circumstances means that there is an element of grant in the loan. This is because it would be a cheaper loan than a commercial loan, which is the standard, would be. It is possible to calculate the grant element by evaluating the loan at the commercial basis and finding out the present value of the repayments. This is done as follows:

Table 26: Grant Element

	Net Cash	DF @ 12%	PV
Yr0	K20,000,000	1	K20,000,000
Yr1	-K12,000,000	0.8929	-K10,714,800
Yr2	-K11,000,000	0.7972	-K8,769,200
N P V			K516,000

The NPV of this loan of K 20 million payable in 2 years at 10 % interest is K .516 million. This means that it is the same as being given a grant of K .516 million. This because the present value of the repayments i.e. K 10 714 800+ K 8 769 200 is equal to only K 19 484 000 rather than the K 20 million borrowed. It is therefore possible to say such a loan had a grant element of K 516 000 or 2.58% (i.e. (516 000/20 000 000) X 100).

Effective rate of interest

In some loan agreements it is also possible that the nominal rate of interest, the rate of interest written in the loan agreement is completely different from the effective rate of interest (ERI). This can happen when conditions are attached to the loan that either increase the amounts to be repaid or reduce the amount to be received. Suppose the loan received above of K 20 million had the additional conditions that we were required to pay the lender a commitment fee of 10% of the loan and legal charges of 5% of the loan.

Then the value of the loan raised would be as follows:

Table 27: Nominal – Actual Loan Amount

Nominal loan amount		K 20 000 000
Less		
Commitment fee	K 2 000 000	
Legal charges	K 1 000 000	
Total	K 3 000 000	<u>K 3 000 000</u>
Actual value of loan received		K 17 000 000

An analysis of this loan at the commercial rate of interest now shows the following

Table 28: NPV of Loan

	Net Cash	DF @ 12%	PV
Yr0	K17,000,000	1	K17,000,000
Yr1	-K12,000,000	0.8929	-K10,714,800
Yr2	-K11,000,000	0.7972	-K8,769,200
N P V			-K2,484,000

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Despite therefore the nominal rate of interest being 10%, the loan's effective rate of interest is higher than 12% as the repayment stream at 12% in the sum of K 19.48 million is higher than the actual benefit received by way of the loan of K 17 million. As a class exercise we should calculate the effective rate of interest, i.e. the rate of discount at which the NPV of the loan will equal Zero.

The little conditions, usually in very small print in some innocent looking part of very complicated loan agreements, can have a major effect on the value of the loans we are negotiating. In the above case, the commitment and legal fees boost the ERI to more than 20%. Attached as Appendix 17: ERI Computation on page 159 is a suggested computation.

Cost of Tying

Sometimes projects are financed by aid which is tied. Suppose the twenty million Kwacha we have been discussing above was for the purchase of a pump for an irrigation system at an agricultural research institution. The open market price for such a pump is the, by now, famous K 20 million. A friendly country offers a pump for the job at only K 10 million. Good deal?

Suppose we also learn that both pumps will perform in exactly the same way and will be written off with no residual value at the end of year five. Which ever pump is chosen the money will be borrowed commercially, 12% interest. We learn, however, that the K 10 million pump has maintenance costs (because the spares have to be bought from the friendly country – of course) of 35% of the cost of the pump per year compared to 2.5% for the K 20 million. It also consumes K 5 million more per year in electricity charges (because it is not technologically a well made? Is that why it comes so cheap?) than the K 20 million pump. What is the NPV of the cost of operating the two pumps? Which one is cheaper?

A proposed solution is attached Appendix 18: Proposed Evaluation – Cost of Tying as on page 160. This shows that the NPV of the cost of the pump of the friendly country is more than 10 times higher than the open market cost!

Kabwe Municipal Council has a water works designed by a friendly country from a lake, good tourism potential as per the friendly country. Kabwe has underground water supply that could have been tapped, but this was not considered scenic enough. As this water works is down river from Kabwe and the water is collected from an open source this has meant that the cost of operating this water works has always been beyond the council's ability as:

- ☐ The water has to be pumped up to the town, therefore the cost of electricity is extremely high and
- ☐ As the water is from an open source, the amount of chemicals used to treat the water is much higher than would have been the case for underground water

Friendly?

An exercise is attached as Appendix 8: DCF – Analysis of Project Finance Exercise on page 93. The suggested solution is attached as Appendix 19: DCF – Analysis of Project Finance Proposed Solution on page 161.

6.6 Prioritising System for Expenditure

The quest for means of prioritising expenditure, whether recurrent or capital, is basically a quest for expending available financial resource in a way that will have the greatest impact on the achievement of an organisation's objectives. Commercial organisations have an easier task at prioritisation, as their underlying objective 'profit maximisation' despite various modifications is relatively easy to assess.

In practice and especially for capital projects, the issue of prioritisation is academic as after a project is approved, its implementation will be determined by the availability of a financier, internal or external, for the project. This will be greatly assisted by the officers' efforts and skills in packaging the project, through for instance, the preparation of targeted project proposals. The decision by the officers as to which project to package and target is a primary prioritisation system which has to depend on their knowledge of the available financial institutions and markets.

The matters to be considered in a system for prioritising expenditure must include:

- a) What are the available funds? If limitless funds are available then prioritisation is not an issue as everything could be done at the same time, even if by hiring in outside skills.

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- b) What options are being considered? If there is only one option, then prioritisation is not an issue as the choice is limited to the one.
- c) What ranking criteria is used? Cost? The lower the better, completion time? The shorter the period the better. Benefit coverage? The more beneficiaries the better.
- d) How much does each option cost? With available funds, how many projects can we cover?
- e) How soon will the benefits from the project begin to accrue? The sooner the better.

In times of limited resources, all the capital investments techniques discussed above can be used as means for ranking / prioritising projects. For instance projects with lower net present value of costs would normally be ranked higher.

A paper³⁸ on methods of prioritisation is attached as Appendix 9: A Paper on Expenditure Prioritisation on page 94.

6.7 Applying Value for Money in Capital Expenditure

The term value for money implies the maximisation of organisational benefits in the utilisation of organisational resources, such as manpower, materials and equipment. This means that these resources are used in an economical, efficient and effective manner to achieve organisational objectives. The maximisation process is therefore between resources used and benefits gained. The combinations can be:

- a) Given a limited value of resources obtain the maximum benefits (this is where the resources are the limiting factor) (e.g. in football, score the highest number of goals (benefit) within 90 minutes (limited resource)) or
- b) Given a fixed amount of benefits required, use the least resources (this is where the resource consumption is the limiting factor) (e.g. in tennis, get to 6 love (end the game – fixed benefit) in the shortest time possible (least resource)).

The concepts discussed in this manual all relate to the creation of systems and techniques for optimising value for money.

6.8 Relationship Between Capital and Recurrent Budgets

There are two major relationships between capital and recurrent budgets and expenditures. These are that:

- a) As the capital budget or expenditure relates to expenditure to be incurred now for benefits in the future, that expenditure now, may reduce the resources available for recurrent expenditure now.
- b) As capital budgets and expenditure creates assets that have to be maintained in the future, these expenditures always recurrent budget implications in the future.

In the current situation where councils are unable to cover their recurrent costs, capital costs have suffered as it is assumed these can wait while current expenditures, say salaries and wages, cannot. This has adverse long term implications on the sustainability of council operations. For instance the sale of council houses to sitting tenants should have created a capital fund for new capital assets. This has not happened as the proceeds were used for paying salaries and wages thereby foregoing the opportunity create for increased capital formation.

Ignoring the future recurrent cost implications for capital expenditure and budgets can create assets that cannot be maintained in the future and which therefore break down long before their useful lives. The dilapidated roads and council buildings are cases in point. The Kabwe Water Works case given above is another such example.

³⁸ This paper was initially prepared and presented by Mr A. Chitembo to a councillors' workshop conducted by SINPA-Z at the Copperbelt University, in November 1999.

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6.9 Format for Capital Budgets

Since expenditure capital projects will, in some cases, go beyond the financial year boundaries, the format will normally indicate this. Traditionally council capital budgets have been in the form given below:

Table 29: Capital Budget Format

Capital Code	Description	Funding	Total Project Cost	Expenditure to date	Budgeted this Year	Balance

Where:

- ❑ **Capital Code** will normally incorporate project type, fund, departmental and section codes.
- ❑ **Description** will be some text description of the project such as 'Riverside Extension Phase IV B Housing Estate'.
- ❑ **Funding** will state the source of funds to be used which could be for instance 'Revenue Contributions to Capital Outlay (RCCO)' or 'Vehicle Replacement Fund (VRF)' for internal funding or 'Local Authorities Superannuation Fund (LASF)', GRZ or 'Zambia National Commercial Bank (ZNCB)' for external funding.
- ❑ **Total Project Cost** will be the total costs of the project, which could spread over several years
- ❑ **Expenditure to Date**, will be the part of the total project cost that has already been incurred in previous years.
- ❑ **Budgeted this Year** will be the amount to be spent in the current year.
- ❑ **Balance** is the amount to be spent in succeeding years and should be Total Project Costs Less Expenditure to Date less Budgeted this Year.

6.10 Main sources of Capital Finance

The main sources of funding for capital projects are internal and external sources such as funds and reserves and loans and grants. These have been discussed in section 6.10 but are repeated because of the modular structure of the manual.

6.10.1 Loans

Previously councils used to borrow money from local financial institutions including the once vibrant Local Authorities Superannuation Fund for capital developments. These were underwritten at that time by government loan sanctions which were to some extent guarantees for the repayment of the loans. These are no longer issued as, among other reasons, government's own capacity to service its loans is now not assured.

Councils are disallowed by law to borrow directly from foreign institutions. With the decline in the national economy, local borrowings have been reduced to expensive overdraft facilities for covering operating expenses.

The only capital loans currently available are those arranged by the Ministry, normally without participation of the councils, with bilateral and multilateral agencies such as the various development banks, the World Bank and other government agencies.

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6.10.2 Capital Receipts

One of the basic tenets of public finance is that funds received from the sale a public asset must be used for the acquisition of other public assets. Neither the councils nor the Zambia Privatisation Agency seem to have applied this rule. Regarding the councils, the value at which they were directed to sell their houses, K 10 000 (approx US 2.5) were such that:

- (a) No major assets could be created by the use of the realised funds as these were too little and
- (b) The difficulties in the operating circumstances of the councils meant that most of these funds went into covering operating expenses, contrary to the concept of applying capital receipts for new capital acquisitions.

In the traditional council balance sheet there used to be a heading called 'Capital Discharged – Capital Receipts Unapplied' to show how much was received from sale of council assets and was available for purchase of other assets or called 'Capital Discharged – Capital Receipts Applied' to show the value of assets financed by the use of capital receipts. These are no longer there.

6.10.3 Revenue Contributions to Capital Outlay (RCCO)

Small capital acquisitions were in the past also funded by direct debit to the revenue (operating) account. This is the equivalent of debiting the Profit and Loss Account in the commercial accounts. This source of capital funding is not readily available now as the revenue accounts of most councils operate at a loss.

6.10.4 Grants

Capital grants were used in the past to fund capital projects such as the development of new housing areas, cemeteries and so on. These have suffered the same fate as recurrent grants, i.e. they are erratic, ad-hoc and are impossible to quantify before hand.

6.10.5 Service Charges

Service charges, or plot premium or development charge were supposed to be recovery from developers for the cost of developing plots by councils. The demand for serviced land in Zambia increased so much that at one time councils were able to charge service charges before the land were serviced. The almost universal misuse of these funds in activities other than the service of land paid for has meant that this source has dried up unless the councils can service the land before collecting the service charges.

6.10.6 Internal Funds and Reserves

Sometimes charges are made to the revenue accounts to create internal funds and reserves for the acquisition of capital assets in the future. A common one used to be the 'Vehicle Replacement Fund (VRF)' whose purpose is implied in the name.

6.11 Other Possible Sources

There are other possible sources of revenue that other councils around the world are tapping into to provide their services. Councils in Zambia have not seriously examined these yet. Some of these may be worth exploring and therefore briefly described in the following sections.

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6.11.1 Municipal Bonds

Municipal Bonds have been provided for in the Local Government Act, but these have never been seriously utilised by councils in Zambia basically because:

- The necessary capital markets have not been developed and are now in the process of being developed as part of the Lusaka Stock Exchange.
- Central Government has itself, used bonds to finance its activities to the extent that there might be no capacity in the economy to accommodate municipal bonds and
- The financial management of councils, perceived as well as real, is not up to the required standard to enable investors to lend money to councils by way of bonds as most of them do not have audited accounts for considerable periods of time, contrary to the provisions of the law.

Lusaka City Council has been toying with these for a while. Bonds are basically a way for the government to borrow from the private sector. The central government already issues bonds and treasury bills. In order to borrow however, the credibility aspect has to be addressed. The capacity of councils to manage their finances has to be improved to create sufficient confidence to the lenders.

The city of Naga in the Philippines in 1993 surprised itself by successfully issuing 'rainbow' bonds to finance the construction of a much-needed central bus terminus. This was done after a referendum asking Nagenos whether they would support such issue. Because of the local success of this matter, the USAID organised a team to support the bond issue in Naga.

Naples has been issuing bonds on the New York stock market for its infrastructure development. To do this it had to meet stringent financial management and reporting criteria.

6.11.2 Betterment Levies

This is a taxation device used to ensure that beneficiaries of a government financed project pay for part or all of the costs.

6.11.3 Piggy back taxes (or Surcharges)

These are taxes that utilise already existing tax collection mechanisms by one level of government to 'piggy back' taxes of another level of government. For instance if the central government collects a fuel levy of x Kwacha per litre of fuel sold, a piggy back tax would require that they collect x plus y and pass the additional y to councils. This concept has never been seriously explored before.

6.11.4 Municipal Banks or Municipal Credit Institutions.

Councils are said to lack resources. This is a relative statement. They lack resources relative to the responsibilities they have. In absolute terms their budgets are fairly substantial. In view of the specialised nature of their functions and their combined economic might, councils have in some countries created Municipal Banks or Municipal Credit Institutions to finance infrastructure development.

For any of the foregoing sources to be utilised, it will be necessary for councils to improve their financial management.

6.11.5 Leveraging

Leveraging means to use funds or resources the council already has to access more fund or resources. Funding agencies seem to like to buy in to ideas that already have some support, a question of 'putting your money where your mouth is'.

Leveraging is about using existing funds and resources to enter into partnerships with other funds and to create synergy.

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Kitwe's Riverside Extension – Stage IVB

As early as 1976, Kitwe City Council had developed, meaning demarcated, laid water and sewer lines and laid out tar roads, the area along the Kafue River called Riverside Extension. This was an area of more than 300 planned high cost houses.

By 1980, the development was still dormant as the council did not have sufficient internal funds to build the houses either for sale or for rent. By that time the Council had a new and dynamic Bank Manager, a newly appointed City Engineer and City Treasurer all of whom played tennis at the council built Kitwe Playing fields.

The Bank Manger was persuaded to take a drive to Riverside Extension and was amazed at the amount of investment lying idle. It was explained by the council officers that if this project was completed, the council's revenue base, for rates or rentals, would certainly increase and the bank would get credit for the project.

The bank funded the completion of 50 houses. The council asked for and was granted a two year grace period on loan repayments. The council built the 50 houses, sold them, built another fifty from the proceeds and sold these too, in effect creating a temporary revolving fund and further leveraging the invested funds. By 1983 333 houses were built and sold still stand today.

The partners in this development were, the Council, the Zambia National Commercial Bank Limited, for funds to build the fifty house and the Zambia National Building Society for providing the necessary mortgages to purchasers of the houses, the Government's Chief Valuation Officer for expediting the approval of the selling prices of the houses despite initial reservations.

6.12 Packaging the Project

A project proposal is a sales tool for the council's economic development plans. The councils that are most likely to get project funding for their communities are those that have the capacity to design effective projects, formulate excellent project proposals and know where and how to promote them. Project proposal should therefore be interesting and creative and should fit in the development priorities of the council and the funding parameters of the targeted funding institution, which can be the government, bilateral and multilateral agencies, the private sector and indeed the local residents.

Each funding agency has different proposal formats but these should normally contain the following information.

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Executive Summary

A one-page summary of the project and how much it will cost

This will define:

- | | |
|---|--|
| <input type="checkbox"/> Who the applicant or council is | <input type="checkbox"/> Who will benefit |
| <input type="checkbox"/> What the council intends to do | <input type="checkbox"/> When it will take place |
| <input type="checkbox"/> Why the council is planning to do it | <input type="checkbox"/> How much it will cost |

Explanation of the problems the project will address.

- ☐ Perhaps there is no road. It may not be sufficient just to say there is no road and the project will create a road. How many people will travel on that road? Why is this road more important than another road elsewhere?

Details of the Project

- ☐ Who has been consulted (stakeholders, the community, etc).
- ☐ Who are the council's partners in the project (the private sector? The community? NGOs?)
- ☐ What is the council's expertise in carrying out such projects? What is its track record?
- ☐ Who are the project's beneficiaries?

Implementation Plan

- ☐ What are the exact activities that need to be carried out?
- ☐ What are the technologies that will be used?
- ☐ What is the project's time scale?
- ☐ What are the projects milestones and how will these be monitored?

Budget

- ☐ How much will it cost and when? (an expenditure profile)
- ☐ What underlying assumptions have been made to arrive at the foregoing?

Appendix 3: A Paper on Discounted Cash Flow Techniques.

1 Traditional Methods of Project Analysis

The traditional methods of project analysis and evaluation such as the **pay back period**, **cost-benefit analysis** and **Accounting rate of return**, suffer from the shortcoming that there is an implicit assumption that money received today, tomorrow, next week or even next year has the same value. Intuitively we know that this is not so. In fact traditional wisdom captures this concept by such adages as 'a bird in hand is worth 2 in the bush' or (still talking about birds) the bemba one which says 'Akafumbe kantu kali pa bwali' (you can only count pheasant as relish when it on your plate).

Given an opportunity to receive K 2 million today or K 2 million in 6 weeks time, most people would prefer to have the money today. This response does not necessarily have to do with inflation as even given the opportunity to have a car today or the same car in 6 months time most people would still prefer the car today.

Given an opportunity to receive K 2 million today or K 200 million in 6 months time, most people would be willing to wait the 6 months to receive the K 200 million. Theoretically it should also be possible to arrive at a point where most people would be indifferent whether to receive the K 2 million today or K xx million in 6 months time. At that point it would be possible to say the **Present Value** of the K xx million in 6 months time is the same as K 2 million today or alternatively that the **Future Value** of K 2 million in 6 months time is the same as K xx million at that time..

Assuming that K xx is equal to say K 5 million, we can say that the **Compounding Factor** (the factor by which we multiply the **Present Value** to arrive at a **Future Value**) is 2.5 (ie 5/2). In the same way we can say the **Discount Factor** (the value by which we multiply the **Future Value** to arrive at the **Present Value**) is .4 (ie 2/5, or 1/the Compounding Factor).

2 Future value - Compounding

When money is borrowed from commercial institutions the institutions charge an interest. Thus if K 1 is borrowed at 10% one has to pay K 1.1 at the end of 1 year or, K 1.21 or K 1.331 at the end of the second and third years respectively. Thus as far as the bank is concerned the future value of K 1 at 10% interest is K 1.1 at the end of year 1, K 1.21 at the end of year 2 and K 1.331 at the end of year 3 and so on

This concept of compounding to find a future value is relatively well understood, even by the Kaloba (Shylock?) operators even though they do not quite use the same terminology. The amount by which we have to compound a present value to find a future value, the compounding factor for year one at 10% **Rate of Interest** is 1.1. What would the rate of interest be in the example in 1.1 above?

The mathematically minded will say that future values can be calculated for any period and at any rate of interest by:

$$\text{Future value} = \text{Present} \times (1+i)^n$$

Where i = interest rate

n = number of periods.

(This looks suspiciously like the formula I learnt long ago to pass my standard 6 exam!!)

3 Present value - Discounting

Slightly modifying the above arguments it is possible to say at 10% rate of interest K 1.1 received at the end of one year is the same as K 1 today. The amount by which we have to discount the future value to find the present value, the discount factor is, in this case 1/1.1 or .909, this is the same as saying 1/the compounding factor.

Using this factor, it is possible to discount a stream of future income received at different times to a common present value therefore enabling us to compare values with a common denominator.

As the interest rates go up the present value of future receipts go down as they are discounted at higher rates. For instance at 20% rate of interest, K 1.2 received (i.e. $1+(1 \times 20\%)$) at the end of one year is the

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same as K 1 today. The discount factor for this is 1/1.2 or 0.8333. If therefore the K 1.1 which was received earlier, and had a present value of K 1 at 10% interest, was received now at 20% interest, it would only be equal to 1.1 x .8333 or 0.9166.

4 A discounting exercise: Net Present Value (NPV)

Two projects are given below to illustrate the point.

Project	A	B
Required investment	K 1000 000	K 1000 000
Returns		
Year 1	K 300 000	K 600 000
Year 2	K 500 000	K 500 000
Year 3	K 600 000	K 250 000
Total income	K 1 400 000	K 1 350 000
Project profit	K 400 000	K 350 000

Project A with K 400 000 profit is a better project, so it would seem. Since however the cash flows of the 2 projects are different it is necessary to bring them to a common factor. If we are advised that it is possible to borrow at 10% interest we should be able to discount the cash flows to a present value using the discount factors in appendix 2 as follows

Year	Factor	Project A		Project B	
		Cash	Present Value	Cash	Present Value
Yr. 1	0.9091	K300,000	K272,727	K600,000	K545,455
Yr. 2	0.8264	K500,000	K413,223	K500,000	K413,223
Yr. 3	0.7513	K600,000	K450,789	K250,000	K187,829
Present Value of Income			K1,136,739		K1,146,506
Less Original Investment in Yr. 0			K1,000,000		K1,000,000
Net Present Value			K136,739		K146,506

Project A might not be so good after all. In order to use the NPV method a Criterion Rate of Return has to be established. This is normally the cost of money plus some element for profit. This is a whole subject on its own. The basic decision rule is that any project with a positive NPV was acceptable, and, for purposes of ranking the higher the NPV the better the project.

The major shortcoming of this is that the method is that no attempt is made to relate the NPV to the investment required to generate it. In the above example with similar investments this is not an issue but what if the K 136 739 NPV of project A was generated by an initial investment of K 750 000 as against the K 1 000 000 for project B, Would project B still be better?

This is resolved by using a Profitability Index. This index is based on comparison of the total present value of income with the initial investment and is calculated as follows:

$$\frac{\text{Present Value of cash inflows}}{\text{Amount of investment}} = \text{Profitability Index}$$

For the question posed above the calculation would be

	Project A	Project B
Present Value of Cash inflows	K886,739	K1,146,506
Amount invested	K750,000	K1,000,000
Net Present Value	K136,739	K146,506
Profitability Index	1.18	1.15

In this instance, under conditions of capital rationing, project A would be a better choice as it produces a higher return per Kwacha invested.

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6 A discounting exercise: Internal Rate of return (IRR)

Some times we might not have a given interest rate to use to compare projects. In this situation it is still possible to use the DCF techniques to compare the projects. This is done by calculating for each project the rate of interest at which the **Net Present Value** of the project will equal to **Zero**. This point is called the **Internal Rate of Return**.

The method used is trail and error. It involves the changing of the rates of interest until a pair is found for which there is a positive and negative NPV respectively, both preferably as near zero as possible. By interpolating between the 2 values the IRR is calculated.

For project A , the calculation may be as follows:

	Factor @ 15%	Value @ 15%	Factor @ 18%	Value @ 18%
Yr 1	0.8621	K258,621	0.8475	K254,237
Yr 2	0.7432	K371,581	0.7182	K359,092
Yr 3	0.6407	K384,395	0.6086	K365,179
Present Value of Income		K1,014,597		K978,508
Less Original Investment in Yr. 0		K1,000,000		K1,000,000
Net Present Value		K14,597		-K21,492

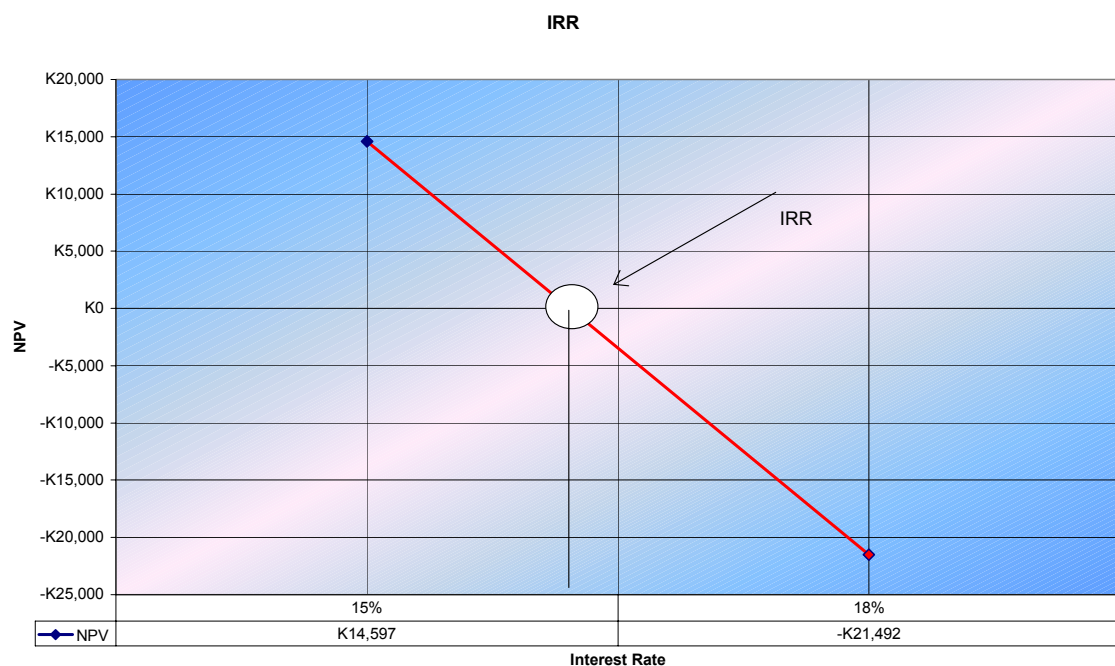
We know by inspection that the IRR is between 15% and 18%. We can also hazard a guess that it may be closer to 15%, as there is only a difference of K 14 597 between that rate the required value of zero, compared to K 21 492 from 18%. Using this logic we interpolate as follows:

$$\text{IRR} = 15\% + (3 \times 14597 / 36089)$$

$$= 16.2134$$

Where 15% is one of the rates used
 3 is the difference between the 2 rates 15% & 18%
 14 597 is the NPV at 15%
 36 089 is the difference between the 2 NPVs

For those of us who are like me and tolerate numbers just for survival, the IRR can be plotted as follows:



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In these days of computers it is even easier to calculate this value. Having set up in a spreadsheet program, Excel for instance (which was used to draw the graph above), the basic cashflow and the logic of calculating discount factors, a facility called Goal Seek can do the trick. Telling the computer to set the NPV to zero by changing the interest rate does this.

The result?

Year	Factor	Project A	
		Cash	Present Value
Yr. 1	0.8562	K300,000	K256,860
Yr. 2	0.7331	K500,000	K366,541
Yr. 3	0.6277	K600,000	K376,599
Present Value of Income			K1,000,000
Less Original Investment in Yr. 0			K1,000,000
Net Present Value			K0

Rate 16.79%

The computer answer is more accurate as the interpolation method assumes that the graph is a straight line. The graph is not a straight line because of the n in the formula in section 1.2 above (Future value = Present $\times (1+i)^n$). This is also the reason why the pair of interest rates must be as near zero as possible.

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Appendix 4: Compounding Factors

COMPOUNDING FACTORS										
YEAR	4%	5%	6%	7%	8%	9%	10%	12%	15%	16%
0	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
1	1.0400	1.0500	1.0600	1.0700	1.0800	1.0900	1.1000	1.1200	1.1500	1.1600
2	1.0816	1.1025	1.1236	1.1449	1.1664	1.1881	1.2100	1.2544	1.3225	1.3456
3	1.1249	1.1576	1.1910	1.2250	1.2597	1.2950	1.3310	1.4049	1.5209	1.5609
4	1.1699	1.2155	1.2625	1.3108	1.3605	1.4116	1.4641	1.5735	1.7490	1.8106
5	1.2167	1.2763	1.3382	1.4026	1.4693	1.5386	1.6105	1.7623	2.0114	2.1003
6	1.2653	1.3401	1.4185	1.5007	1.5869	1.6771	1.7716	1.9738	2.3131	2.4364
7	1.3159	1.4071	1.5036	1.6058	1.7138	1.8280	1.9487	2.2107	2.6600	2.8262
8	1.3686	1.4775	1.5938	1.7182	1.8509	1.9926	2.1436	2.4760	3.0590	3.2784
9	1.4233	1.5513	1.6895	1.8385	1.9990	2.1719	2.3579	2.7731	3.5179	3.8030
10	1.4802	1.6289	1.7908	1.9672	2.1589	2.3674	2.5937	3.1058	4.0456	4.4114
11	1.5395	1.7103	1.8983	2.1049	2.3316	2.5804	2.8531	3.4785	4.6524	5.1173
12	1.6010	1.7959	2.0122	2.2522	2.5182	2.8127	3.1384	3.8960	5.3503	5.9360
13	1.6651	1.8856	2.1329	2.4098	2.7196	3.0658	3.4523	4.3635	6.1528	6.8858
14	1.7317	1.9799	2.2609	2.5785	2.9372	3.3417	3.7975	4.8871	7.0757	7.9875
15	1.8009	2.0789	2.3966	2.7590	3.1722	3.6425	4.1772	5.4736	8.1371	9.2655
16	1.8730	2.1829	2.5404	2.9522	3.4259	3.9703	4.5950	6.1304	9.3576	10.748
17	1.9479	2.2920	2.6928	3.1588	3.7000	4.3276	5.0545	6.8660	10.761	12.468
18	2.0258	2.4066	2.8543	3.3799	3.9960	4.7171	5.5599	7.6900	12.375	14.463
19	2.1068	2.5270	3.0256	3.6165	4.3157	5.1417	6.1159	8.6128	14.232	16.777
20	2.1911	2.6533	3.2071	3.8697	4.6610	5.6044	6.7275	9.6463	16.367	19.461
21	2.2788	2.7860	3.3996	4.1406	5.0338	6.1088	7.4002	10.804	18.822	22.574

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Appendix 5: Discounting Factors

DISCOUNTING FACTORS										
YEAR	4%	5%	6%	7%	8%	9%	10%	12%	15%	16%
0	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
1	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.8929	0.8696	0.8621
2	0.9246	0.9070	0.8900	0.8734	0.8573	0.8417	0.8264	0.7972	0.7561	0.7432
3	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513	0.7118	0.6575	0.6407
4	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830	0.6355	0.5718	0.5523
5	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209	0.5674	0.4972	0.4761
6	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645	0.5066	0.4323	0.4104
7	0.7599	0.7107	0.6651	0.6227	0.5835	0.5470	0.5132	0.4523	0.3759	0.3538
8	0.7307	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665	0.4039	0.3269	0.3050
9	0.7026	0.6446	0.5919	0.5439	0.5002	0.4604	0.4241	0.3606	0.2843	0.2630
10	0.6756	0.6139	0.5584	0.5083	0.4632	0.4224	0.3855	0.3220	0.2472	0.2267
11	0.6496	0.5847	0.5268	0.4751	0.4289	0.3875	0.3505	0.2875	0.2149	0.1954
12	0.6246	0.5568	0.4970	0.4440	0.3971	0.3555	0.3186	0.2567	0.1869	0.1685
13	0.6006	0.5303	0.4688	0.4150	0.3677	0.3262	0.2897	0.2292	0.1625	0.1452
14	0.5775	0.5051	0.4423	0.3878	0.3405	0.2992	0.2633	0.2046	0.1413	0.1252
15	0.5553	0.4810	0.4173	0.3624	0.3152	0.2745	0.2394	0.1827	0.1229	0.1079
16	0.5339	0.4581	0.3936	0.3387	0.2919	0.2519	0.2176	0.1631	0.1069	0.0930
17	0.5134	0.4363	0.3714	0.3166	0.2703	0.2311	0.1978	0.1456	0.0929	0.0802
18	0.4936	0.4155	0.3503	0.2959	0.2502	0.2120	0.1799	0.1300	0.0808	0.0691
19	0.4746	0.3957	0.3305	0.2765	0.2317	0.1945	0.1635	0.1161	0.0703	0.0596
20	0.4564	0.3769	0.3118	0.2584	0.2145	0.1784	0.1486	0.1037	0.0611	0.0514
21	0.4388	0.3589	0.2942	0.2415	0.1987	0.1637	0.1351	0.0926	0.0531	0.0443

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Appendix 6: DCF – An Exercise

1 The Alternatives

The water demand of a city is 90 million gallons per day (m.g.d) and is increasing at a rate of 6% per annum compounded. The present capacity of its system is approximately 100 m.g.d, and the city has a consultant conduct a study of its available water resources.

A number of alternatives have been considered, and the one that has been selected is storage scheme involving the construction of a dam across a major river. One aspect of this scheme is that the dam can be built at a low elevation in the initial stage and subsequently be heightened according the demand. The staged construction of the dam would, however, involve additional costs which will not occur if the dam is built to its full height in the first instance. It will take no more than one year to build either one stage of the dam or all of it.

The consultant recommends the immediate construction of the full scheme in view of the rapidly increasing demand. He estimates that, even with the implementation of this scheme, the capacity of the total system will fall short of the demand in less than 10 years. The city councillors, however, favour the staged scheme because of what they term "the more efficient use of money". There is also the added uncertainty of whether demand will continue to increase at the current rate. The Council feels that the rate of increase of 4% per annum would be more likely in the long term.

Estimated costs of the scheme for both single stage and two-stage construction and the reliable yields for the latter are given below:

SCHEME	CONSTRUCTION	RELIABLE YIELD AFTER
	COSTS (K 000s)	CONSTRUCTION(M.G.D)
Single stage Construction	10,500	60
Stage 1	8,700	40
Stage 2	4,300	60

2 The problem

1. You are the City Engineer and have been asked to appraise the proposals. Show how you would determine whether the single stage or the two-stage construction is the better proposal, assuming money is available at an interest rate of 12%
2. At what discount rate will the other alternative become more attractive?
3. Re-asses your evaluation assuming demand increases at 4% per annum.

To simplify your calculations, assume that:

- (a) the costs of any construction stage are incurred at the end of the construction period; and
- (b) the capacity of the system must at all times be equal to or greater than the demand.

The discount factors are attached as Appendix 5: Discounting Factors above and Work sheets, which you may or may not, find useful, are attached Appendix 7: Exercise Work Sheet below.

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Appendix 7: Exercise Work Sheet

TIME VALUE FOR MONEY: RESEVIOR CONSTRUCTION STAGING										
	DEMAND	ONE STAGE		TWO STAGE		DEMAND	ONE STAGE		TWO STAGE	
	MGD @ 6%					MGD @ 4%				
Year 0	90.00					90.00				
Year 1	95.40					93.60				
Year 2	101.12					97.34				
Year 3	107.19					101.24				
Year 4	113.62					105.29				
Year 5	120.44					109.50				
Year 6	127.67					113.88				
Year 7	135.33					118.43				
Year 8	143.45					123.17				
Year 9	152.05					128.10				
Year 10	161.18					133.22				
Year 11	170.85					138.55				
Year 12	181.10					144.09				
Year 13	191.96					149.86				
Year 14	203.48					155.85				
Year 15	215.69					162.08				
NOTES										
(A) At completion of stage 1, the total system yield will be 100+40 mgd										
(B) At the completion of stage 2, the total yeild wil be 100+60 mgd										

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Appendix 8: DCF – Analysis of Project Finance Exercise

ANALYSIS OF PROJECT FINANCE AN EXERCISE

1 The Problem

Having decided that the single stage construction of the water reservoir is the most cost effective you as the Director of Finance together with the Director of Engineering have approached the Zambia National Commercial Bank to borrow the required K 10.5 million. As indicated in the problem the money is available from the bank at the prevailing commercial rate of 12%. The repayment conditions are that the money should be repaid in 5 equal annual instalments plus interest on the amount outstanding at the end of the preceding year.

You submit your proposal to the Finance committee with the recommendation that the project should go ahead with the funding of the bank. You are then advised that there is actually a free water works being offered by a sister city with the same capacity while some multi-lateral development bank is offering funding at 16%. As the Town Clerk and the Mayor have just returned from the sister city and the development bank head quarters, which happen to be in the same country abroad, you are asked to re-evaluate your proposal especially in view of the free water works and the multi-lateral development bank offer.

You are directed to report to a sub committee in 2 days time.

2 The Alternatives.

You collect all the documents from the Town Clerk and examine the alternatives and find as follows:

(a) Multi - Lateral

The development bank is lending money at 16% interest. However for water projects they are also giving a 2 year grace period on both interest and principal with the balance to be repaid in 5 equal annual instalments plus interest on the balance outstanding at the end of the previous year.

(b) The Sister City

The sister city is indeed offering a free water works. Their experts will install it at no cost to the council. The city engineer however advises you that as the water works will be placed at different place, a place of probable tourist interest to the sister city (sounds like Kabwe?), the water will have to be pumped up to the town, rather than fed by gravity as is for the current design.

Further more as the water will be taken from a major river, which is more polluted than the proposed smaller river for your project, the cost of water treatment chemicals will be higher. In his view he estimates that these 2 elements will mean an additional expenditure on electricity and water treatment chemicals of K 100 000 and K 175 000 per year respectively.

Further more the Engineer establishes that while the plant will provide the same amount of water, its cost in its country of origin is K 15 000 000 and that its maintenance costs were higher than the proposed equipment selected by the Engineer. Similar equipment in other councils cost 10% of their capital cost more than the proposed plant. The maintenance has to be paid in forex and it is estimated that the cost of the forex will increase by 25% per year.

Your 2 days are up. What is your report to the sub committee.

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Appendix 9: A Paper on Expenditure Prioritisation

How to prioritise

The council (defined as all councillors together) is required on the same day and at the same time to:

- ☐ Approve plans for new buildings
- ☐ Attend the twinning ceremony celebrations of a neighbouring council
- ☐ Participate in a financial management workshop for councillors at the Copperbelt University
- ☐ Attend a cultural ceremony outside the Copperbelt

Which of these activities does the council attend to? How does the council prioritise its actions?

In order to determine the priority (or lack thereof) of an activity, it is necessary to evaluate how that activity contributes to the council's objectives. It is therefore necessary at all times to keep the council's objectives in mind as decisions are made for council. The method of prioritisation should take into account:

- ☐ How much each activity will contribute towards the achievement of council objectives relative to
- ☐ How much that activity will cost.

Commercial organisations have an easier task at prioritisation as their underlying objective 'profit maximisation' despite various modifications is relatively easy to assess. Councils on the other hand have many, sometimes conflicting objectives.

Occasionally council objectives will conflict with personal objectives. Which objectives will override in this case? This paper aims to provide a simple framework for evaluating the priorities of actions so that when decisions are taken which do not optimise achievement of council objectives, this is done from a position of knowledge not ignorantly or, as we say in Kitwe, 'muchinampomfu'.

In this regard the development and continuous re-evaluation of the relevancy of a strategic plan is a key function. This should provide the means for establishing the priority and provide from time to time the current list of priorities. This however is just the first step, implementing the plan is the more difficult part.

A critical review of the Kitwe City Council's strategic plan may provide some insights of these priorities are or ought to be.

Council Mission

The council's mission establishes the purpose for its existence. The Kitwe City Council mission is *'To improve the quality of life of the people of Kitwe through the development of a sound economic environment and the provision of quality social services and infrastructure'*. How many of us are aware of this mission? How have we individually and collectively contributed to the mission? According to tenets of strategic management every action we undertake must contribute towards this mission. How does this workshop contribute towards the above mission?

Council Objectives

While the mission of the council will not normally change materially over time, its objectives, the importance (priority) of these objectives among themselves and the means (strategies) for achieving them may change from time to time. The council's current objectives are said to be:

Facilitate and encourage the economic development of the city in a sustainable manner

- ☐ How does this contribute to the mission?
- ☐ What are the current economic indicators, levels of investment and development projects which form the baseline for the plan?
- ☐ What is the current level of development of the informal sector and by what means will a fully developed informal sector be determined?
- ☐ How 'disorganised' is the current control of land distribution?

Make the council more responsive and effective in meeting the needs and aspirations of the stakeholders

- ☐ How does this contribute to the mission?
- ☐ Who are stakeholders and what are their areas of interest in council activities?
- ☐ What is the current (baseline) state of responsiveness and effectiveness?
- ☐ What criteria will be used to measure responsiveness
- ☐ What criteria will be used to measure effectiveness?
- ☐ What is the current (baseline) state of council service and level of complaints?

Ensure quality representation by attracting individuals of good standing to vie for the office of councillor

- ☐ How does this contribute to the mission?
- ☐ How is 'people of good standing' measured and how does this relate to 'minimum qualification'?
- ☐ What is the current status?

Enhance the council's revenue base

- ☐ How does this contribute to the mission?
- ☐ What is the current yield?
- ☐ What is the current collection efficiency?
- ☐ How efficiently are existing revenue sources tapped and
- ☐ How efficiently are current resources utilised, could better financial management have been an objective too somewhere?

Provide quality drinking water

- ☐ How does this contribute to the mission?
- ☐ What is the present unsatisfactory quality?
- ☐ What is the current wastage/ coverage?

Rehabilitate the entire road network in Kitwe

- ☐ How does this contribute to the mission?

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- ☐ How many kilometres of road?
- ☐ What conditions are the roads currently in?
- ☐ What happens after rehabilitation?
- ☐ Acquire plan? What of outsourcing?

Maintain good sanitary and environmental conditions in Kitwe

- ☐ How does this contribute to the mission?
- ☐ What is current status?

Provide for and improve social housing

- ☐ How does this contribute to the mission?
- ☐ Baseline data?, What is the present condition of housing?

Develop council's manpower resource to its full potential through the implementation of modern human resource management and training

- ☐ How does this contribute to the mission?
- ☐ What services could be outsourced?

Priority Action List

A priority action list should provide a guide as to which actions will create the maximum impact on the achievement of the council's objectives. Given sufficient resources in terms of manpower, equipment and finance, all actions on such a list would be undertaken simultaneously. As however the council operates within considerable resource constraints, even the actions that are all equally important, may have to be sequenced in some manner. The sequencing must take into account available resources and the council must make those resources available otherwise the whole exercise of preparing a strategic plan will be rendered somewhat useless.

For each activity alternative ways of carrying the activity out must be examined and costed. The method that is most cost effective and efficient should be chosen. Councillors may want to ask for instance, 'If improving our billing will cost K 50 million, what method is being proposed and what were the alternative methods explored? TINA, coined apparently under Prime Minister Thatcher to mean 'There Is No Alternative' should not be an acceptable situation.

Creating an action priority list and the ranking of the different actions is a subjective exercise given the various objectives. Since however the prioritisation has to operate within the limitations of available finances, an action list must take into account the cost of implementation as well. A simple way of doing this is shown in the annex 1 to this paper. Annex 2 shows the same list rearranged in sequence order.

From the action list, an action plan showing a timeline, costs and major milestones for each action, (a Gantt chart) would provide a framework for monitoring and evaluation. An example of this is shown in annex c.

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Annex 1: Priority List

Activity	Ranking 1 – 10 (1 highest)	Cost in K million	Duration	Priority Index (Ranking x Cost)
Facilitate and encourage the economic development	2	50	5 years	100
Make the council more responsive and effective	3	45	5years	135
Ensure quality representation	5	15	5	450
Enhance the council's revenue base	1	75	1	75
Provide quality drinking water	1	85	5	85
Rehabilitate the entire road network	2	100		200
Maintain good sanitary and environmental	3	200	5	600
Provide for and improve social housing	4	200	5	800
Develop council's manpower	5	100	5	500

Annex 2: Sequenced Priority List

Activity	Ranking 1 – 10 (1 highest)	Cost in K million	Duration	Priority Index (Ranking x Cost)
Enhance the council's revenue base	1	75	1	75
Provide quality drinking water	1	85	5	85
Facilitate and encourage the economic development	2	50	5 years	100
Make the council more responsive and effective	3	45	5years	135
Rehabilitate the entire road network	2	100		200
Ensure quality representation	5	15	5	450
Develop council's manpower	5	100	5	500
Maintain good sanitary and environmental	3	200	5	600
Provide for and improve social housing	4	200	5	800

Module 6: Capital Budgeting and Investment Planning.

Annex 3: Action Plan 1999 - 2003

Activity	Cost in K million	Duration Years	1999		2000		2001		2002		2003		Total
			1	2	1	2	1	2	1	2	1	2	
Half Year>>			1	2	1	2	1	2	1	2	1	2	
Enhance the council's revenue base	75	1		37	38								75
Provide quality drinking water	85	5		10	10	10	15	15	10	10	5		85
Facilitate and encourage the economic development	50	5		10	10	10	10	10					50
Make the council more responsive and effective	45	5		15	15	15							45
Rehabilitate the entire road network	100			10	10	10	15	15	15	15	10		100
Ensure quality representation	15	5				5	5	5					15
Develop council's manpower	100	5				15	20	20	15	10	10	10	100
Maintain good sanitary and environmental	200	5				10	15	25	28	35	37	50	200
Provide for and improve social housing	200	5				10	10	15	37	45	38	45	200
Contingency	100				25		25		25		25		100
870													
Total	970	36	0	82	108	85	115	105	130	115	125	105	970

Module 6: Capital Budgeting and Investment Planning.

Questions for Module 6

1. What is capital budgeting and how different is it from the current budgeting?
2. What is the difference between capital expenditure, capital budgeting and capital programme?
3. What does the term 'effective rate of interest' mean and how different is it from nominal rate of interest?
4. What is the last major capital project that was implemented by your council and how was this funded?
5. How can the discounted cash flow techniques be used for project evaluation in councils when most council capital projects have no projected income stream?
6. What is the cost of time? Is there an example from your council?
7. How are projects identified, evaluated and implemented in your council?
8. Explain the concept of discounting? How is this related to compounding?
9. What is the relationship, if any, between capital and recurrent budgets?
10. Why is it necessary to analyse capital finance in addition to financial analysis of capital projects?

7 Module 7: Local Government Accounting Systems

Section 43(3) requires council accounts to be prepared and presented to council within 6 months of the end of the year to which they relate. According to the law therefore, the accounts for 2001 should be ready for council by 1st July this 2002.

7.1 Accounting Systems

Accounting systems of all types aim to achieve the same objective, to capture organisational financial information and present in such a way as to enable managers make financial decisions from a sound basis. As however, the organisations for which these system exist differ as to purpose, structure and legal framework, the underlying accounting systems even though based on the same underlying accounting concepts, differ.

The major branches are:

- ❑ **Commercial Accounting Systems**, these are the most common on which most of the current training such as ACCA, CIMA and their derivatives, NATECH etc are focussed.
- ❑ **Non Profit Making Accounting Systems**, also nominally covered in the commercial accounting training as for instance, club accounts etc.
- ❑ **Public Finance Accounting Systems**, for such institutions as local and central government. These systems are not covered to the same extent in current training in Zambia as they used to be. Could this be the reason why public finance is in such disarray? Such professional bodies as the Chartered Institute of Public Finance Accountants (CIPFA) in the United Kingdom provide training of this specialisation. This manual is part of the effort to improve Public Finance training in Zambia.

7.2 Strategic Role of Accounting

Accounting, whether management accounting, primarily aimed at providing information to managers on the day to day execution of their functions, or financial accounting, primarily aimed at reporting to outside stakeholders such as the tax office, the public, the shareholders etc, is all about collecting financial data in an organisation, interpreting and presenting it in a manner that is useful to the user of the information.

Accounting and the information that it generates is a key component of organisational Management Information Systems (MIS). As finance presents a key common medium to which the varied activities of an organisation can be reduced to, accounting provides a major strategic tool for ensuring that the varied organisational activities are producing the desired results.

This is even more crucial in Public Finance as the diversity of objectives is much higher than most commercial undertakings have.

7.3 Cash, Accrual and Mixed Accounting Systems in Local Governments

Cash Accounting Systems are used in the smaller, mainly rural district councils. This is a simplified accounting system in which the accounting system captures only those aspects of the organisation financial activities which have either been paid for or recognises income only at the point that payment is made.

The advantage of this system is that it is extremely basic and therefore relatively easy to maintain. Its major disadvantage is that as an accounting system, it does not cover all the organisations financial information. Information such as commitments, creditors and debtors is not collected and yet these could have major implications on the financial state of an organisation.

The Accrual Accounting System attempts to overcome these shortcomings by recognising non cash transactions as having financial implications. This means that income is recognised at the point a sale is made or a bill is raised rather than at the point at which cash is received.

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Expenditure is recognised at the point the service is received not at the point payment is made. This system has the advantage of collecting and recording a fuller set of financial data for the organisation. Its major disadvantage is that it can be quite complicated and cumbersome to maintain. For any medium to large size enterprise however, this disadvantage is well worth overcoming as the advantage of having accurate information regarding accrued income and expenditure far outweighs the additional efforts involved in maintaining the system.

The Mixed Accounting System is a hybrid of the previous two, which aims to combine some of the advantages of each of the two by recognising the major accruals for accounting purposes. As most hybrids, the system also combines the disadvantages of both systems.

7.4 Accounting Systems in Local Governments

Accounting systems in Local Government have, in addition and complimentary to the roles defined above, the basic role of:

- (a) Determining the cost of providing the individual services that councils offer.
- (b) Determining the source of funding for such services and
- (c) Providing information regarding the financial position of the council at any particular time.

As a result of this, the structure of council accounts normally starts with expenditure, then income. The resulting surplus or deficit of each service is then transferred to the departmental summary the net of which is transferred to the grand summary.

In presenting the accounts, it is traditional to begin with the summarised level, the grand summary and to provide the underlying details should this be necessary. The following table shows the said format.

Table 30: Local Government Accounts

	1998	1999 Budget	1999
Expenditure			
Employees	(3,006,943,000)	(2,784,666,086)	(3,294,332,500)
Premises	(356,558,000)	(191,635,564)	(316,992,500)
Supplies and Services	(1,461,605,000)	(696,778,550)	(1,293,588,750)
Plant and Machinery	(836,032,000)	(606,363,706)	(712,575,000)
Establishment	(432,110,000)	(370,741,292)	(412,652,500)
Miscellaneous	(200,200,000)	(200,040,705)	(282,323,250)
Capital Contributions	0	0	(1,002,500,000)
Total Expenditure	(6,293,448,000)	(4,850,225,903)	(7,314,964,500)
Income			
Rates	2,942,847,000	2,036,419,566	2,732,850,000
Personal Levy	980,949,000	509,104,892	910,950,000
Other Income	1,961,898,000	848,508,153	3,188,325,000
Total Income	5,885,694,000	3,394,032,610	6,832,125,000
Surplus / (Deficit)	(407,754,000)	(1,456,193,293)	(482,839,500)

A sample set of accounts for a fictitious water undertaking (without the previous year's and budget data) which would be a sub set of the council accounts which would have other subsets such as the General Rate Fund, the Commercial Undertaking Fund and the Low Cost Housing Fund, is attached as Appendix 10: Sample Water Undertaking Accounts on page 103.

Module 7: Local Government Accounting.**7.5 Differences Between Accounting in Commercial and Public Sector Entities**

The basic accounting principles are the same for commercial and public entities, the concepts of double entry bookkeeping, the concept that the balance sheet must balance, the concept that the surplus or deficit on the operating account must be transferred annually to the appropriate balance sheet account, all these are the same.

The differences arise because the entities are different, set up to achieve quite different objectives and therefore their accounting systems must emphasise different aspects of their operation according to their different objectives. The table below shows some of these differences in approach.

Table 31: Commercial and Public Accounting Differences

Item	Commercial Undertaking	Public Service Entity
Objective	To make profits	To provide service
Operating Statement	Profit and Loss Account	Revenue Account
Operating Statement Format	Turnover less Cost of Turnover less Operating Expenses equals Profit or loss	Recurrent Expenditure less Recurrent Income equals surplus or deficit.
Fixed Assets in Balance Sheet	Fixed Assets Booked at Cost less Depreciation to show probable replacement value.	Capital Outlay Booked at cost since there is no intention to sale. Other Long Term Outlay, booked at cost even if they might be subsequently sold.

In order to highlight the differences, a typical set of circumstances together with the appropriate accounting treatment in commerce and in the public service is given as Appendix 11: Commercial and Public Accounting Systems. on page 110.

7.6 Production of Financial Statements in Local Governments

As an integral part of an institutions management information system, financial statements play a key role providing information to management for the purpose of enabling management make appropriate decisions in ensuring the achievement of organisational goals. Basically there are two sets of financial statements that are required to be produced for the smooth running of councils. These are:

- (a) **Management Accounts.** These are statements which are produced monthly, or even daily in these days of powerful personal computers, which give the managers cumulative year to date data for control purposes. On accounting systems that are on line, the frequency can even be higher, every second if necessary, by request, as is the case for mobile phones balance requests or for most banks account enquiries. A paper previously presented to councillors, that highlights the legal provisions and the management requirements for these reports for control purposes is attached as Appendix 12: A Paper on Expenditure Control on page 111.
- (b) **Annual Accounts.** These are statutory records, sometimes called **final accounts**, which are expected by law to be produced annually within a specified period from the end of the year to which they relate. This is normally within 6 months of the end of the year. These statements are normally aimed at outside stakeholders such as the ratepayers, the central government and so on.

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Both management and annual accounts have a time factor within which they should be produced in order to be of any use. With the use of personal computer this should not be a major issue. Most major councils are however several years, in some cases up to 10 years in arrears in the production of annual accounts. This is a very unsatisfactory state of affairs.

Like other services considered for outsourcing, councils may wish to examine the cost and benefits in outsourcing this service.

7.7 Auditing for Local Government

Auditing first started in the ancient Greek City Governments, Local Government, where the Mayor and the Town Clerk would stand at the City Hall stairs and read a statement of the city's income and expenditure to the city residents. These residents would 'audit' (same root word as auditory – to do with hearing) or hear the report and accept it or reject it. This provision still exists to some extent in our laws, Section 55 provides for public inspection of the audited accounts before the auditor can finalise the audit.

The first auditors were therefore local government auditors.

7.7.1 Types of Audit

Auditing, as in the case of production of financial statements is done at various levels and is of various types. The most common of these are:

- (a) **Internal Auditing:** This is the auditing that is carried on in-house as and when activities happen. This is aimed at ensuring that the activities being carried out comply with all appropriate rules and regulations. Internal Audit specifically aims at ensuring that council obtains value for money in all its transactions.
- (b) **External Audit.** This is normally carried out by outside experts who express an opinion on the accuracy of the information contained in the annual accounts for the outside stakeholders. Section 52 provides for the audit of the Councils accounts. Section 55 provides for public inspection of the audited accounts. This provision is currently little known. In view, however of the increasing literacy of the Zambian public, it is doubtful whether this provision will remain a secret for long.
- (c) **Special Audits.** These are also external audits but conducted to examine a specific set of circumstances which may appear to be irregular. This is normally instituted by the Minister.

Auditing, of what ever type, aims at giving quality assurance to the various stakeholders and managers to ensure them that the activities being undertaken comply with all the necessary rules and regulations and are supported in the appropriate budget.

A paper on audit techniques and the legal provisions for auditing is attached as Appendix 13: A Paper on Auditing and Audit Techniques. on page 118.

Appendix 10: Sample Water Undertaking Accounts

Kasampa Water and Sewerage Department

Grand Summary of Revenue Accounts

for the Period 1st January to 31st December 2000.

EXPENDITURE

EMPLOYEES	403,150,917.02
PREMISES	1,769,098,878.76
SUPPLIES AND SERVICES	579,474,682.41
TRANSPORT AND PLANT	67,152,509.73
ESTABLISHMENT	102,067,901.80
MISCELLANEOUS	21,778,751.74
	2,942,723,641.46

REVENUE

WATER SALES	-4,269,130,346.15
	-4,269,130,346.15

Net Transferred to Balance Sheet: Water Revenue Account
-1,326,406,704.69

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Summarised Revenue Accounts

	Water Works	Administration	Water Distribution	Sewers	Trunk Sewers
EMPLOYEES	52,460,340	115,068,151	73,575,604	50,481,128	10,952,529
PREMISES	1,765,287,319	3,811,560	-	-	-
SUPPLIES AND SERVICES	487,761,379	15,809,445	58,366,806	1,451,524	-
TRANSPORT AND PLANT	2,431,000	29,188,925	24,672,975	4,266,945	4,460,133
ESTABLISHMENT	25,553,520	53,925,921	114,447	51,024	-
MISCELLANEOUS	-	-	-	-	-
Total Expenditure	2,333,493,558	217,804,002	156,729,832	56,250,621	15,412,662
INCOME	-	-	(3,106,487,904)	(43,602,136)	(18,672,042)
Net	2,333,493,558	217,804,002	(2,949,758,073)	12,648,485	(3,259,381)

	Sewerage Disposal Works	Accounts	Electrical	Grand Total
EMPLOYEES	35,544,296	58,271,027	6,797,844	403,150,917
PREMISES	-	-	-	1,769,098,879
SUPPLIES AND SERVICES	7,977,737	7,987,240	120,551	579,474,682
TRANSPORT AND PLANT	932,118	1,200,414	-	67,152,510
ESTABLISHMENT	26,895	18,702,677	3,693,418	102,067,902
MISCELLANEOUS	-	21,778,752	-	21,778,752
Total Expenditure	44,481,046	107,940,109	10,611,812	2,942,723,641
INCOME	(1,100,022,080)	(346,184)	-	(4,269,130,346)
Net	(1,055,541,034)	107,593,926	10,611,812	(1,326,406,705)

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Summarised Balance Sheet as at 31st December 2000.

	<u>Notes</u>	
LONG TERM LIABILITIES	1	-23,825,035,040.00
CURRENT LIABILITIES	2	-7,460,070,709.09
MISCELLANEOUS	3	-1,913,543,952.74
CAPITAL DISCHARGED		-38,280,026.38
REVENUE ACCOUNTS	4	-23,950,424,355.54
Total LIABILITIES & SURPLUSES		<u>-57,187,354,083.76</u>
CAPITAL OUTLAY	5	38,025,958,339.72
OTHER LONG TERM OUTLAY	6	38,280,026.39
SUNDRY DEBTORS	7	19,135,439,427.38
CASH CONTROL	9	-12,323,709.73
Total Assets and Liabilities		<u>57,187,354,083.76</u>
Grand Total		0.00

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Balance Sheet as at 31st December 2000.

LONG TERM LIABILITIES

969701	Long term liabilities	-23,825,035,040.00
Total	LONG TERM LIABILITIES	-23,825,035,040.00

CURRENT LIABILITIES

586102	Contractors' Liabilities	-4,247,154,999.72
610161	Sundry Creditors	-3,212,915,709.37
Total	CURRENT LIABILITIES	-7,460,070,709.09

MISCELLANEOUS

597992	Bad Debts Provision	-1,913,543,952.74
Total	MISCELLANEOUS	-1,913,543,952.74

CAPITAL DISCHARGED

969706	Capital Discharged RCCO	-38,280,026.38
Total	CAPITAL DISCHARGED	-38,280,026.38

REVENUE ACCOUNTS

959710	Revaluation Reserve	-9,942,795,951.87
959792	Water undertaking revenue	-14,007,628,403.67
Total	REVENUE ACCOUNTS	-23,950,424,355.54

Total LIABILITIES & SURPLUS -57,187,354,083.76

CAPITAL OUTLAY

969710	Capital Outlay	38,025,958,339.72
Total	CAPITAL OUTLAY	38,025,958,339.72

OTHER LONG TERM OUTLAY

969711	Other Capital Outlay	38,280,026.39
Total	OTHER LONG TERM OUTLAY	38,280,026.39

SUNDRY DEBTORS

636701	Debtors	19,135,439,427.38
Total	SUNDRY DEBTORS	19,135,439,427.38

CASH CONTROL

649200	Cash Control –Saver	1,641,652.23
649201	Cash Control -Main Account	2,077,496.82
649202	Cash Control - Salary	-11,256,146.73
649204	Cash Control - Chemical	-4,786,712.05
Total	CASH CONTROL	-12,323,709.73

Total ASSETS & DEFICITS 57,187,354,083.76

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Each balance sheet line would have supporting notes similar to the following:

3. Sundry Creditors

Zesco	(2,806,999,999.00)
Zamtel	(7,500,000.00)
LASF	(161,566,734.00)
Phillips Electrical	(19,116,425.00)
Tap Water Eng.	(19,392,255.66)
Unity Garments	(7,978,483.83)
Dunlop	(14,745,952.00)
Tap Buildings	(11,038,196.00)
Stator Electrical	(6,275,405.00)
Catic	(23,694,565.00)
Insurance Brokers	(25,189,590.88)
Ashish Enterprises	(24,916,420.00)
MHG Housing	(15,750,000.00)
M H R Eng	(9,000,000.00)
Chemicals Eng	(30,180,163.00)
Kasampa Hardware	(23,775,145.00)
MCRI	(5,796,375.00)
<u>Total Sundry Creditors</u>	<u>(3,212,915,709.37)</u>

4. Capital Discharged RCCO

Date	Item	Value
02/09/97	Laptop Computers	13,626,360.00
01/03/97	Mukwa Benches	2,200,000.00
15/01/98	UPS Mini-Computer	3,500,000.00
18/02/98	Data Fax Modem	880,000.00
04/09/98	Personal Computer	3,986,000.00
09/09/98	Compaq Presario P.C.	5,000,000.00
22/12/98	Meccer UPS 425VA	1,650,000.00
22/12/98	APC UPS 400VA	1,650,000.00
16/04/99	Desks	1,017,872.34
16/04/99	Mobile Pedestals	779,574.46
16/04/99	Chairs	936,170.22
16/04/99	Visitor Chairs	468,085.10
16/04/99	Boxfile Cabinet	963,404.26
17/12/99	Supply & Fit Carpet	1,622,560.00
		38,280,026.38

Module 7: Local Government Accounting.

Revenue Accounts

for the Period 1st January to 31st December 2000.

Water Works

EXPENDITURE

EMPLOYEES

070101	Salaries	9,285,332.36
070102	Wages	41,201,007.45
070109	Other Expenses	1,974,000.00
	TOTAL: EMPLOYEES	52,460,339.81

PREMISES

070113	Electricity	1,765,287,318.76
	TOTAL: PREMISES	1,765,287,318.76

SUPPLIES AND SERVICES

070121	Purchase Equip. & Tools	20,933,150.13
070122	Purchase of Lab Equipment	2,389,626.13
070123	General Supply	5,575,589.46
070124	Water Treatment Chemicals	380,723,636.46
070125	Purchase of Water	75,245,873.68
070126	Electrical Maintenance	2,642,769.44
070129	Uniforms	250,734.06
	TOTAL: SUPPLIES AND SERVICES	487,761,379.34

TRANSPORT AND PLANT

070134	Fuel	2,431,000.00
	TOTAL: TRANSPORT AND PLANT	2,431,000.00

ESTABLISHMENT

070141	Printing, Stationary & Advertisements	71,529.31
070143	Subsistence Allowance	292,400.00
070144	Insurance	25,189,590.88
	TOTAL: ESTABLISHMENT	25,553,520.19
	Total: EXPENDITURE	2,333,493,558.10

Net: Water Works transferred to Water Fund 2,333,493,558.10

- (a) Since there was no income for this section, total expenditure is the net amount transferred to the water-undertaking fund.
- (b) Each section, as shown in the Summarised Revenue Accounts, would normally have a supporting detailed revenue account in the same format as this.

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Appendix 11: Commercial and Public Accounting Systems.

The organisation is a solid waste management entity.

1. The organisation starts with a loan of K 100 million repayable in 10 equal annual instalments of principal plus interest at 10% of principal outstanding at the beginning of each year.
2. It buys a garbage, or solid waste as this now called, truck for K 50 million. This truck will last 5 years and an office building at K 50 million. The building will last 20 years.
3. The organisation pays its debt charges as they fall due.
4. The organisation collects garbage, and bills its clients K 110 million in year 1 and K 175 million in year 2.
5. The organisation collects K90 million and K 180 million from its clients in years 1 and 2 respectively.
6. The organisation pays salaries of K 12 million in year 1 and K 17 million in year 2.
7. The organisation buys fuel of K 5 million in year 1 and K 6 million in year 2.
8. The organisation pays rates of K 3 million each year against bills of K 4 million per year.
9. The organisation sells the garbage truck at K 110 million at the end of year 2 and pays off its remaining loan

Prepare the opening Balance, the operating Statements and Balance Sheets for the years 1 and 2.

A proposed solution, please criticise, is given as Appendix 20: Proposed Solution – Accounting Exercise on page 162.

Module 7: Local Government Accounting.

Appendix 12: A Paper on Expenditure Control

1.

What is control?

When we say that Kalusha Bwalya has good ball control or that the Flying Sheikh Satwant Singh lost control of his vehicle what do we mean? Is control possible without collection of current data and / or without a plan?

If control is defined as the action we take in order to bring actual performance into line with plan then in order to control there must be:

- a) A plan – to indicate what we want achieved.
- b) A method of collecting information regarding current activities – monitor
- c) A means of comparing a) and b) – evaluate
- d) A means of taking action to bring a) and b) in line if necessary – control

While for purposes of discussion and analysis these headings are separated, in practice they happen sometimes simultaneously in all the actions we take. By recognising the elements involved it is possible that we might improve to some extent our ability to manage.

How does this fit into the Kalusha and Satwant examples above or indeed into expenditure control, the subject of this paper? The chart below might help.

	<u>Kalusha</u>	<u>Satwant</u>	<u>Expenditure Control</u>
<u>Plan</u>	Get the ball from members of the other team, get past their defenders and slot the ball into their goal	Drive fast enough to be first, keep the car on the marked route on the road and do not over turn	Spend the money that you need to spend to achieve corporate goals within the provisions of the budget
<u>Monitor</u>	At all times where is the ball? It is with me: In our penalty area In the centre circle In their penalty area	At all times where is the car? Approaching a right hand corner going straight On a straight piece of road with the wheels pointed left On the wrong road but doing fine	At all times how much have we spent? We are half way in the budget period and We have spent 90% of the money We have spent half the money We have not spent any money at all
<u>Evaluate</u>	Where is the ball supposed to be? In their net.	Where is the car supposed to be? On the right road heading the right way.	How much are we supposed to have spent? 35%.
<u>Control</u>	Clear the ball out of our penalty area quick. Long high ball Get it into their penalty area. Flat ball to the winger Get past the defender and slot the ball into their net.	Turn the car right quick Straighten out the wheels quick Get back on the right road before the umpires see you.	What caused the variance? Change plan or stop expenditure Reduce rate of expenditure Why have we not spent any money at all?

It takes more than a vision and a well-prepared budget to be an effective council. These are the essential guidelines, the plans of action. Without action however, the council will not deliver the goods.

2.

Monitoring, Evaluation and Control

Traditionally the Finance and General Purposes Committee used to receive a document called 'Order on the Treasurer'. This document lists all payments made in a particular period, normally a month. The Chairman of the committee examines this list, sometimes even before the meeting and signs the document with much ceremony in the meeting to signify that the expenditure listed for that month has been approved. Theoretically it should be possible for the Chairman to refuse to sign but whether this has ever happened anywhere is doubtful.

That, for all practical purposes is the extent of expenditure control as practised by councillors in most council in Zambia. Is it necessary and sufficient? Let us go back to basics:

Monitoring A method of collecting information regarding current activities some data has been collected regarding current activities. It becomes information only when presented in a useable manner. This would be information for instance if during planning a monthly cashflow projection was made showing total expenditure for that month.

Evaluation: A means of comparing a) the plan and b) information collected under monitoring. How is it possible to compare total listed expenditure for say September against budget when one is a summary of expenditure analysed by expenditure type and the other is a list of all expenses for the month? Try comparing the attached tables on appendix 1, Kasempa City Council 1997 Budget (figures from the accounts of a real council for 1997) and appendix 2 Kasempa City Council Order on the Treasurer for September 1997 (expenditure data for only 1st September 1997 for the same council).

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Control: A means of taking action to bring a) the plan and b) information collected under monitoring in line if necessary. How can a) and b) be aligned if they are not in the same format?

While therefore the Councillors are responsible for³⁹:

- a) Budgeting (section 39(1))
- b) Monitoring, Evaluation and Control (Section 39(2) and (4))
- c) Preparing Management accounts for b) above (Section 43(1) and (2) and
- d) Preparing Financial (or final) accounts above (Section 43(3))

The information they currently receive is inappropriate for carrying out activity b adequately. The rest of this paper discusses what information the councillors should ask for in order to fulfil their obligations adequately.

3. Variance Reporting – Are we spending according to plan?

Variance reporting is the comparison of actual income and expenditure against budgeted income and expenditure. It is a financial report which should be prepared in the same format as the budget. appendix 3 shows a sample.

4. Chief Officers Reports – Is council achieving its objectives

Variance reports do not tell the whole story. It may not be possible to tell whether the:

- council has rendered the required level of service or
- resources have been used economically, efficiently and effectively

Chief officers need to report along the following lines:

What their department <i>should have done</i> during the review period.
What the department <i>has actually done</i> during the review period
Reasons <i>why</i> the department did not do what it should have done in accordance with the budget.

There should be an explanation of the variances even when these are positive.

5. Report on Outstanding Debtors

A debtors report showing age analysis by service should be presented. In respect of debt management, targets should be set for the average acceptable debt levels relative to bills sent out.

6. Taking Corrective Action – Control

From the information gathered above, it should be possible to determine if there is non-adherence to the budget. If the information is not enough, additional information should be asked for.

Once sufficient information has been obtained the appropriate action can be taken which may include some of the following:

▪ Amend the Budget

It may be that some assumptions in the budget may have been incorrect. In this case the budget could be amended through supplementary estimates (section 39(2)) or by a process called expenditure virement. This is a process whereby the unused budget of a specific item of expenditure is used to finance a different line item of expenditure. When you set aside money for buying clothes and you end up using for school fees you had overlooked, you are practising expenditure virement.

This maybe necessary because:

• Financing Unbudgeted Expenditure

Council may decide to approve expenditure during the year which was not included in the budget. If for example fuel expenses are lower than budgeted because the extra vehicles which should have been bought were not, council may decide to spend the money on hire of refuse trucks from the private sector to achieve its initial objective.

• Financing Over Expenditure

A break out of cholera, not foreseen at the time of preparing the budget, may require expenditures in certain budget items of a much higher magnitude than budgeted.

• Financing New Council Objectives

Due to changing circumstances, the council may change its objectives during the year. A flood for instance may require council to carry out some activities it did not initially plan and introduce new objectives.

▪ Vary Expenditure Patterns

It may also be possible to put brakes on some expenditure.

▪ Address non-performance

When for no apparent reason, a Chief Officer, is unable perform to the expected service level, then the council should address the matter with the Chief Officer. Credit should also be given Chief Officers who have delivered the required level of service within budget.

7. Timing

Getting management reports and final accounts long after they were due overcomes the purpose for which they were intended. The Chief Officers should therefore ensure that these are ready on time.

It is important that councillors receive these reports in advance so that they have enough time to review the reports before the meetings.

8. Financial Reporting

Councillors are accountable to their community, not only to meet their expectations in respect of the provision of services, but also to ensure that the income and capital raised have been used in the best interests of the stakeholders. The final accounts are the means by which the councillors can do this. These accounts should, Section 43(3), be presented to

³⁹

Councillors are responsible because when the Law says 'The Council shall cause' it means councillors sitting as a Council:

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council within 6 months of end of the year to which they relate.

These accounts should be audited, Sections 52 to 60 and council is and the auditor is required to report to council Section 53(c) and (d). The auditor will normally have matters to raise to which the council should respond. The auditor will then issue one of his or her opinion on the accounts which can be:

- a) Unqualified opinion, which means that the accounts are alright as far as the auditor could ascertain; or
- b) Qualified opinion, which means that the auditor believes that the accounts may not be an accurate picture of the council's financial transactions for some particular reasons which will be stated in the report; or
- c) No opinion or disclaimer, this means that auditor could not express an opinion as there were not sufficient records for an opinion to be formed.

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Appendix 1: Sample Budget

<u>Kasempa City Council 1997 Budget</u>	
Employees	6,810,133,691.92
Premises	3,855,303,535.01
Supplies & Services	2,081,630,412.21
Transport & Plant	316,777,875.62
Establishment	797,212,950.31
Miscellaneous	320,280,690.99
Debt Charges	0.00
RCCO	291,657,549.75
Total Expenditure	14,181,339,156.06

Appendix 2: Sample Order on the Treasurer

Kasempa City Council Order on the Treasurer September 1997

<i>Cheque No.</i>	<i>Date</i>	<i>Payee</i>	<i>Amount</i>
602750	01/09/97	MR. SIMON TAFUNA	295,000.00
602751	01/09/97	MR. G. K. MUKELEBAI	1,875,000.00
602752	01/09/97	MR. LAWRENCE MULENGA	50,000.00
602753	01/09/97	MR. MICHEAL K. CHINYIMBA	1,102,200.00
602755	01/09/97	MR. MWELWA BRENDA	34,010.46
602756	01/09/97	MRS. BRENDA GONDWE	34,010.46
602757	01/09/97	MR. WINSTON MUTEPUKA	34,010.46
602758	01/09/97	MR. MOSES KAYOLUNGU	34,010.46
602759	01/09/97	MR. M. KUMWENDA	340,010.46
602760	01/09/97	MS. NELE BANDA	34,010.46
602761	01/09/97	MR. JOHN MULENGA	34,010.46
602762	01/09/97	MRS. R. CHONDWA	34,010.46
602763	01/09/97	MRS. T. MWAMBA	34,010.46
602764	01/09/97	ZAMBIA--CONGO BAR	34,010.46
602765	01/09/97	SALIMO STORES	34,010.46
602766	01/09/97	MUKANDENDWA DEALERS	34,010.46
602767	01/09/97	MABUMBA BAR	34,010.46
602768	01/09/97	MR. M. MULENGA	987,500.00
602769	01/09/97	MS. CATHERINE DAKA	198,000.00
602770	01/09/97	MR. R. NYIRONGO	1,396,000.00
602771	01/09/97	MR. A. J. SOKO	260,000.00
602772	01/09/97	MS. D. BANDA	350,000.00
602773	01/09/97	MR. CLEVER MUNGOLO	60,000.00
602754	01/09/97	MR. O. MACHITA	34,010.46
602775	01/09/97	MR. NASILELE SITALI	61,665.09

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<i>Cheque No.</i>	<i>Date</i>	<i>Payee</i>	<i>Amount</i>
602776	01/09/97	MR. J. C. NGOSA	12,719.48
602777	01/09/97	MR. C. MALAMA	60,000.00
602778	01/09/97	MR. WILLIAM KABWE	100,000.00
602779	01/09/97	MR. B. MWALE	100,000.00
602780	01/09/97	MR. E. SINYIZA	40,733.46
602780	01/09/97	MR. E. MUSONDA	1,192,479.88
602780	01/09/97	UNDEVELOPED	1,205,007.28
602781	01/09/97	MR. PAISON MULENGA	100,000.00
602782	01/09/97	MR. H. CHUTAMBO	78,000.00
602783	01/09/97	MR. S. J. CHILUFYA	134,631.00
602784	01/09/97	MR. F. SIKATAYI	271,399.00
602785	01/09/97	MR. J. CHOLA	112,465.72
602786	01/09/97	MS. MARIANA MUZAZA	178,446.16
602787	01/09/97	MR. A. MWALE	37,500.00
602788	01/09/97	MR. A. MWILA	30,693.87
602789	01/09/97	MR. SIMON KAPEYA	150,290.54
602790	01/09/97	MRS. LUDIYA MUTAKA	55,830.16
602792	01/09/97	MR. CHOLA CHEWE	149,301.74
602793	01/09/97	MS. J. BULWANI	147,009.87
602794	01/09/97	MR. J. MWANZA	62,359.61
602795	01/09/97	UNDEVELOPED	163,746.16
602798	01/09/97	MR. C. BWALYA	23,300.00
602799	01/09/97	MS. CHARITY MUTANUKA	115,709.88
602800	01/09/97	MS. FANELY MWANZA	54,102.22
602801	01/09/97	MS. M. CHANSA	145,329.19
602802	01/09/97	MS. E. KABATI	115,141.91
602803	01/09/97	MR. C. BWEMBWA	117,650.19
602804	01/09/97	MS. GRACE CHISANGA	105,612.72
602805	01/09/97	MRS. R. KAMANGA	117,025.07
602806	01/09/97	MR. PETER PILASHI	121,548.13
602807	01/09/97	MRS. M. NAMPOSYA	100,000.00
330653	01/09/97	MS. M. N'GANDU	2,700,000.00
330654	01/09/97	MR. S. SOKO	374,400.00
330655	01/09/97	MS. A. MUTALE	2,000,049.84
602774	01/09/97	MR. LOZI SOKO	45,000.00
602791	01/09/97	MR. JOHN MULENGA	181,775.02
602798	01/09/97	MR. SICHUBA	134,046.16
602815	01/09/97	MRS. MATILDAH BWALYA	300,165.15
602830	01/09/97	MR. L. JERE	500,000.00
602832	01/09/97	MRS. MARY CHILAMBO	500,000.00
602816	01/09/97	MR. PETER MASHEKE	379,002.39
602858	01/09/97	MS. A. MULAMATA	440,701.57

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<i>Cheque No.</i>	<i>Date</i>	<i>Payee</i>	<i>Amount</i>
		Total	20,370,684.90

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Appendix 3: Sample Variance Report

Annual Budget	Sep-97 year to date			Roads Department Variance Report for the Month of September 1997	Month of September 1997		
	Actual	Budget	Variance		Actual	Budget	Variance
				<u>Expenditure</u>			
666,390,134	597,552,300	499,792,600	- 97,759,700	Employees	62,000,521	55,532,511	- 6,468,010
219,098,444	52,720,036	164,323,833	111,603,797	Premises	973,258	18,258,204	17,284,946
293,201,202	312,200,000	219,900,902	- 92,299,098	Supplies & Services	-	24,433,434	24,433,434
3,062,533	2,750,365	2,296,900	- 453,465	Transport & Plant	300,253	255,211	- 45,042
50,646,343	37,984,758	37,984,758	- 0	Establishment	4,220,529	4,220,529	- 0
9,311,310	5,000,000	6,983,483	1,983,483	Miscellaneous	75,321	775,943	700,622
685,377,000	342,688,500	514,032,750	171,344,250	Debt Charges	-	57,114,750	57,114,750
1,070,405	-	802,804	802,804	RCCO	-	89,200	89,200
1,928,157,373	1,350,895,959	1,446,118,030	95,222,071	Total Expenditure	67,569,882	160,679,781	93,109,899
				<u>Income</u>			
		-		Transfers from NRB	0	112,283,147	112,283,147
1,347,397,761	1,400,000,000	1,010,548,321	- 389,451,679				
		-	-				
1,347,397,761	1,400,000,000	1,010,548,321	- 389,451,679		-	112,283,147	112,283,147

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Appendix 13: A Paper on Auditing and Audit Techniques

Introduction

Audit techniques are a compilation of various common sense skills and ideas now grandiosely called techniques. Internal Audit is a basic tool of financial management. A brief discussion of financial management within the context of local authorities, will, hopefully, create the context within which internal audit is practiced and therefore give an indication of the application and applicability of these audit techniques.

Effective Financial Management

'Effective financial management can help councillors **and officers**, transform the community into the place of their dreams'⁴⁰

The basic purpose of financial management is to optimise value for money. Indeed in the Kitwe City Council Strategic Plan⁴¹ among the values of Kitwe City Council is one that states that 'we undertake to provide the most economic service and realise value for money at all times'. How can this be achieved? Some basic financial management skills and a lot of common sense together with a determination not to be intimidated by jargon can help towards the achievement of value for money and the realisation of the council's vision. How can you as an auditor contribute to this?

The basic components and processes of financial management in a local authority can be stated as follows:

<u>Process</u>	<u>Description</u>	<u>Legal Provision</u>
Budgeting	Determining the income and capital required to finance the activities planned by council by preparing a detailed budget.	Section 39 of the Local Government Act.
Safeguarding	Implement controls to ensure that income, capital and assets such as money and motor vehicles are safeguarded against improper use, loss or theft	Sections 41, 42, and 47 of the Act
Monitoring (Management Accounting)	Monitoring actual results and performance against the budget through management reports.	Section 43, Section 31(2) and Section 46 of Act
Control	Take appropriate action when actual results differ from budget	Section 43 (2) of the Act
Accountability (Financial Accounting)	Preparing for all stakeholders' financial statements which are audited.	Section 43(3) of the Act

(Financial) management implies the taking of actions to optimise achievement of organisational goals relative to the resources (money) used. The optimisation is therefore between resources used and benefits gained. The combinations can be:

- c) Given a limited value of resources obtain the maximum benefits (this is where the resources are the limiting factor) (e.g. in football, score the highest number of goals (benefit) within 90 minutes (limited resource)) or
- d) Given a fixed amount of benefits required, use the least resources (this is where the resource consumption is the limiting factor) (e.g. in tennis, get to 6 love (end the game – fixed benefit) in the shortest time possible (least resource)).

This is about creating **value for money** which implies ensuring that resources, such as manpower, materials, money and equipment are used in an economical, efficient and effective manner. The following example can be used to illustrate the relation ship between effectiveness, efficiency and economy.

<u>Term</u>	<u>Definition</u>	<u>Example</u>
Effectiveness	The services that are being provided are having the desired impact on the community	A road rehabilitation programme has resulted in fewer broken ball joints and road accidents
Efficiency	Making the best use of limited resources to complete a task to a given level	All roads have been upgraded within the planned time.

40 Financial Management for Local Authorities: A handbook for Local Government Councillors.

The bold is my addition.

41 A Strategy for Kitwe 1999 – 2003, IPA Ireland

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Economy	Acquiring resources of a suitable quality and quantity at the lowest cost	The roads department was able to get a high discount on the cost of bitumen by buying in bulk.
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Internal audit has to contribute to all this continuously by evaluating the systems and ensuring that:

- a) All procedures are followed and
- b) The organizational objectives are achieved in an economical, efficient and effective manner

In achieving this some common techniques are used. Some of these are discussed below:

The Techniques

Some of the common techniques are

- **Vouching**, the process of ensuring that each transaction has all the necessary supporting documentation and satisfies all the required rules and regulations. This is normally a pre-audit function, that is, it is carried out before the transaction is finalised.
- **Sampling**, the process of picking several transactions at random and checking to see whether they were properly vouched and whether they fit within the required operational parameters. This is normally a post-audit check to ensure that the systems are working.
- **Profiling / Trending**, this is a technique which past profiles or trends as a basis for comparing current activities. If, for instance, half the estimated annual personal levy income is received by July, the technique can be used to identify problems if the current trend shows only 40% say received by July. An example and a case study of profiling are attached.
- **Benchmarking** is the process of getting inter-organisational standards as a basis for comparing institutional efficiency. If Ndola and Lusaka City Councils spend K xx million to pave one kilometre of road, why is Kitwe spending K xx+yy (or indeed K xx – yy) million?
- **Physical Verification**, if K xx million was spent on paving one kilometre of road and this was properly vouched, it fits the trend and benchmarks but was the road actually paved? Was it actually a kilometre? Was it paved to the correct standard? Could it have been paved for less / could more than 1kilometre have been paved for the same amount?
- **Random / Spot Checks**, this is physical verification of book values on a random basis. The bin card says there are 200 packets of cement at stores, are these actually there?
- **Beyond the books**, what activities are taking place that seem illogical from information available on the books?

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Example

A number of revenues and expenditures are not evenly spread however. In this case a technique called **profiling** is used. It may be that the expenditure has seasonal fluctuations. For instance a total expenditure budget for road maintenance (of Kasempa City Council) may be K 2 billion. Its profile may be as follows:

Kasempa City council													
Road Maintenance Approved Budget 1999 (K million)													
	Total	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Expenditure	2,000	90	90	120	150	200	225	240	250	250	175	120	90
Cumilative	2,000	90	180	300	450	650	875	1,115	1,365	1,615	1,790	1,910	2,000
Percentage	100%	5%	9%	15%	23%	33%	44%	56%	68%	81%	90%	96%	100%

The Engineers among us may argue with the above profile, but it makes the point. No work during the rain season, we just pay salaries and wages for people waiting to work in the dry season.

If the actual expenditure to may is as follows:

Kasempa City council													
Road Maintenance Actual Expenditure to May 1999 (K million)													
	Total	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Expenditure	939	90	99	150	250	350							
Cumilative	939	90	189	339	589	939	939	939	939	939	939	939	939
Percentage	100%	5%	9%	17%	29%	47%	47%	47%	47%	47%	47%	47%	47%

A variance analysis may be prepared as follows:

Variance Analysis						
		Jan	Feb	Mar	Apr	May
K million		-	(9)	(39)	(139)	(289)
Percentage		0.0%	-0.5%	-2.0%	-7.0%	-14.5%

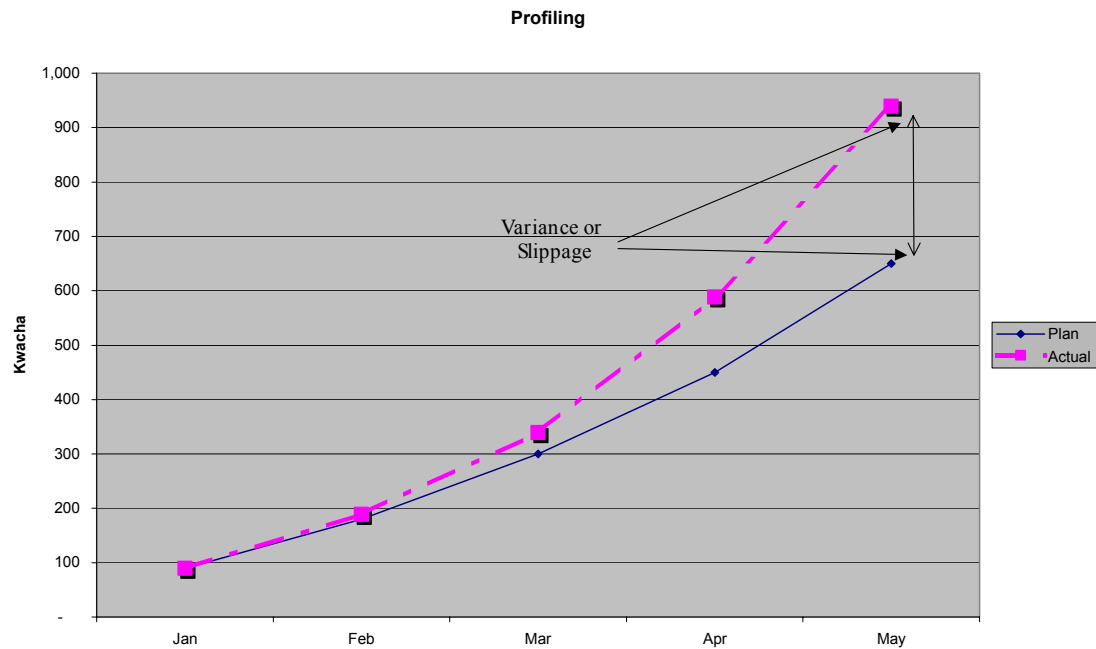
Regular use of profiles and variance reports should indicate the items of revenue which are likely to have serious shortfalls or items of expenditure which are likely to overshoot the budgetary provision. When such variances occur immediate effort should be made to determine the cause of the variance. These variances could be because:

- The underlying assumptions made in the budget were wrong
- Changes in the environment have had an adverse effect on the budget (e.g. because of flooding in the previous rain season).
- Fraudulent purchases not going to the required activity.

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The above list is by no means exhaustive. Whatever the case may be, reports should be made to the spending officers to advise them of the adverse (or even positive) variances and their probable causes for their action.

The same information can be shown as follows:



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Financial Performance, Evaluation & Control - a Case Study of Profiling

The following is the 1998 approved budget for Katete City Council:

Katete City Council			
Approved Budget K million			
RECURRENT REVENUES	K	RECURRENT EXPENDITURE	K
Property tax	40	General Administration	11
Development Levy	50	Financial Administration	3
Entertainment Tax	12	Education	42
Licence Fees	12	Public Health	26
Rentals and Charges	13	Solid Waste Management	12
Interest	2	Roads and Lighting	27
Education Grants	16	Fire	3
Miscellaneous	3	Libraries	1
		Recreation	4
		Social Welfare & Miscellaneous	2
Total	148	Total	131
CAPITAL REVENUES		CAPITAL EXPENDITURES	
Loans	8	Education	10
Grants	5	Public Health	3
Sales of Capital Assets	1	Solid-Waste Management	2
		Roads and Lighting	14
		Fire	1
		Recreation	1
		Administration	1
Total	14	Total	32

Using the information in appendix A and B, work out a monthly profile of projected recurrent revenue and expenditure during 1990, under each head. (NB For illustrative exercise purposes, this is a simplified version of a profiling procedure which would normally be applied by item).

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APPENDIX A

The monthly profile of actual revenue collections in millions of shilling in 1997 was:

	Property tax	Development Levy	Entertainment Tax	Licence Fees	Rents and Charges
January	1	3.8	1	3.8	0.9
February	7	5	0.7	4	1
March	4	4.7	0.9	1.2	0.8
April	2	3.6	1.1	0.3	0.8
May	2	3.5	1	0.2	0.7
June	1	3.5	1.2	0.1	0.9
July	7	3.8	1	0.1	0.8
August	4	4.8	0.6	0.2	0.7
September	2	3.8	1.7	0.1	0.7
October	2	3.9	0.6	0.2	0.8
November	1	4	0.6	0.2	0.9
December	2	3.8	1.4	0.6	1
Total	35	48.2	11.8	11	10

All rates of taxes, fees and charges are set for a calendar/budget year.

Property tax is payable in two instalments, due to in January and July. Demand notices are normally issued in January, however.

Development levy: Wage earners pay monthly by deduction from salaries/wages. The self-employed are required to pay in biannual instalments due in January and July.

Entertainment taxes are paid as part of the admission charges to cinemas, theatres, etc.

Licence fees (for trading, etc) are payable annually in January or at the commencement of a new licensed activity.

Rents and charges cover rents for corporation shops, market stalls, staff houses, etc, paid monthly, together with fees for commercial refuse collection, plus admission to sports centres and use of abattoirs, collected on a daily basis.

Interest is received twice yearly on long-term investment and quarterly on bank deposit accounts.

Education grants (recurrent) are payable in equal monthly instalments.

Miscellaneous income is, by definition, unpredictable.

The breakdown of recurrent expenditure estimates for 19980 in K million is as follows:

	Personnel Costs	Debt Services	Other Charges	Total
General Administration	5.6	1.1	4.3	11.0
Financial Administration	1.1	0.0	0.9	2.0
Education	31.0	0.9	10.1	42.0
Public Health	12.7	2.0	11.3	26.0
Solid Waste management	4.0	0.0	8.0	12.0
Roads and lighting	8.8	2.0	16.2	27.0
Fire	1.6	0.0	1.4	3.0
Libraries	0.6	0.0	0.4	1.0
Recreation	1.4	1.2	1.4	4.0
Social Welfare	0.7	0.0	1.3	2.0
	67.5	7.2	55.3	130.0

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Notes

(1) Personnel costs provide for increments payable with effect from 1 January, and a rise in salaries and wages averaging 4 per cent with effect from 1 July.

(2) Loan charges are payable in two instalments on 1 June and 1 December.

(3) Insurance premia on corporation vehicles and buildings are renewable on 1 October. Provision is included in "other charges" as follows:

	<u>(Millions of Kwacha)</u>
General Administration	0.5 (all buildings)
Public health	0.2
Solid-waste management	0.5
Roads and lighting	0.2
Fire	0.1
Total	1.3

(4) Roads and lighting "other charges" included K 2.5 million payable to ZESCO for street lighting in quarterly bills in March, June and September and December.

Module 7: Local Government Accounting Systems.

Questions for Module 7

1. In what respect is local government accounting different from commercial accounting and why?
2. How is the concept of depreciation dealt with in local government accounting?
3. What does the term alienation refer to in local government accounting?
4. What are the legal provisions for maintaining accounting records and preparing financial statements?
5. What are the latest financial accounts available in your council? What are the latest management accounts available in your council?
6. What are revenue contributions to capital outlay and in what financial statements do they appear?
7. What is the link between long term liabilities, capital discharged and capital outlay in council accounts?
8. What are the differences between cash and accrual based accounting system? What system is used in you council?
9. What budgetary control statements are used in your council? How up to-date are these? How accurate are these?
10. What legal provisions are there for auditing council's financial accounts?

8 Module 8: Local Government Procurement

The Council collects money from the public to provide public goods and services. In order to provide the public goods and services, the council would (normally) also procure vast amounts of goods and services such as stationery, bitumen, electrical fittings, medicines, consultancy, motor vehicle spares etc. While some of the goods and services, such as labour and electricity are either pre-negotiated or supplied by a monopoly, most are not.

In line with concepts of value for money, optimising the value obtained for the money used, and transparency, a popular word with co-operating partners (new word for donor), procedures are normally put in place for standardising the processes of procuring the goods and services. Normally these procedures would have limits, with different levels of authority to procure given to different offices and groups.

A major purpose for elaborating these procedures is to protect public resources and public officers in the pursuance of their functions by establishing the necessary framework for conducting the activity of purchasing goods and services for the councils. These procedures (sometimes red tape) can in some cases marginalize small, medium and micro enterprises (SMME). As these are normally the major employers in council area and create more employment per unit of investment, efforts to ensure SMME friendly procurement procedures are likely, everything else being equal, to have a positive economic impact. These may include:

- ☐ Unbundling large contracts.
- ☐ Putting the tender notices in media that is accessible by the SMMEs.
- ☐ Simplifying the tender documents, the current World Bank standard request for proposals may have as many as two hundred pages of rules, conditions, dos and don'ts and are rather intimidating even to the learned.
- ☐ Providing assistance in filling in the tender documents.
- ☐ Having an office for dealing with SMMEs.

A major audit function is to ensure that these rules are followed. Most of these rules are contained in the standing orders and financial regulations. For an auditor to oversee the implementation of the rules, the auditor must surely be conversant with the rules.

8.1 Procurement and Cost Control

Councils used to have centralised purchasing section headed by a Chief Supplies Officer, normally a professional of the Institute of Purchasing and Supplies. This section used to ensure that councils purchases were always made at optimal prices. They would normally maintain a list of suppliers of different goods and services from whom they would purchase goods on the best terms available on the market.

Currently, even though the supply of goods and services has improved in the country, the adverse financial status of councils makes it difficult for them to purchase goods in bulk or to receive any particular concessions from suppliers. Most central stores are currently empty and might be put to better use if they were leased out.

While therefore procurement procedures are put in place to optimise value for money, the councils are now so financially weak that they are unable to take advantage of these procedures for cost control purposes.

8.2 Procurement procedures

A council will normally be designated by the Zambia National Tender Board as a Tender Authority of some category. These categories were defined as follows:

Module 8: Local Government Procurement.

Table 32: Tender Authority Limits

<u>Class</u>	<u>Upper Limit</u>
A	K 130 million
B	K 350 million
C	K 600 million

Within the a council, such as Lusaka City Council, the following limits are could be set.

Table 33: Internal Approval Limits

<u>Authority</u>	<u>Upper Limit</u>
Chief Officers	K 5 million
Town Clerk	K 5 million
Tender Committee	K 130 million

The Tender Committee, for Lusaka City Council, is made up of all the Chief Officers and representatives from The Christian Council of Zambia and the Zambia National Tender Board.

The actual stages are as follows:

- I. The user section raises a requisition.
- II. The appropriate departmental authority approves or disapproves normally subject to budgetary and / or liquidity considerations.
- III. The Supplies section processes the requisition and
 - a) For requisitions of less than K 5 million finds a supplier or
 - b) For requisitions of more than K 5 million but less than K 130 million goes to council for approval. On getting the approval then
 - Advertises or circulates letters for restricted bids,
 - Receives bids
 - Evaluates the bids
 - Submits report and recommendations to the Tender Committee.
 - c) For requisitions of more than K 130 million goes to council for approval. On council approval then submits details to the Zambia National Tender Board for processing.
- IV. An order is raised or supplier is awarded the contract.
- V. Goods / services are received
- VI. Payment is made

The comparative activities for the different levels of cost are shown in the table below:

Module 8: Local Government Procurement.**Table 34 Activities at different cost levels**

	Less Than K 5 m	< K 5 m but > K 130 m	< K 130 m
User Section raises purchase requisition			
Supplies section call for quotations			
Item goes to Finance Committee			
Item goes to Council			
Advert for open tender or selective bidding			
Council provides tender document			
ZNTB provides tender document			
Tenders opened			
Tenders Evaluated			
Post bid negotiations if necessary			
Tender awarded			
Contract signed			
Order made			
Goods / services received			
Goods received note prepared			
Payment made			

8.3 Strategic Role of Procurement

Despite their weakened financial position, councils still expend a large amount of money in their localities which can have a major economic impact within the local economy. In most cases, the councils rank among the major economic players within the local economies by expenditure.

Proper procurement procedures will ensure that procurements are made in such a way that council optimises its chances of achieving its strategic goals within available resources while at the same time creating synergies within the local economy. This may include the development of strategic alliances between the council and various local suppliers to increase the multiplier effect of expenditure in the local economy.

Module 8: Local Government Procurement.

Questions for Module 8

1. Why is it important to have well articulated procurement procedures?
2. In what document are the procurement procedures of your council articulated and how well is this document circulated?
3. What are the expenditure limits for procurement of goods and services applicable to the different institutional levels?
4. Why and how can councils assist small, medium and micro enterprises in participating in the provision of goods and services procured by council?
5. What is the biggest procurement made by you council in last twelve months?
6. What are the advantages of bulk buying
7. In what way can the council contribute toward local economic development while implementing the necessary purchasing procedures?
8. Purchasing procedure produce unnecessary red tape, Discuss.
9. What is the concept of value for money? How can this concept relate to procurement?
10. What is the council's biggest recurrent expenditure item and how is this procured.

Module 9: Local Government Borrowing.

9 Module 9: Local Government Borrowing

Councils are allowed to borrow, with some restrictions and with the permission of the Minister for various purposes including recurrent and capital budget funding. Councils are however not allowed to borrow from foreign institutions unless this is done through the Ministry. Councils are also not allowed to overdraw their accounts without Ministerial approval.

The current weak financial status of most councils make this source of funding rather problematic as the various lending institutions are reluctant to take the risk.

Councils are also allowed to lend or give grants for certain purposes. This is now academic as most of the councils have no capacity to lend. In these cases council would lend or give grants to leverage work being done by other local economic actors. The once beautiful but now dilapidated Kitwe Playing Fields was such a project.

9.1 Parameters And Legal Framework For Local Government Borrowing In Zambia

Councils construct long-term assets that are essential to local economic development. These include roads, houses, bridges, water, sewer and electricity reticulation systems. All of these have life spans in excess of twenty years some as much as forty years. According to the tenets of public finance, borrowing for construction of these assets must be for a period similar to the lifespan of the asset so that the revenue account for each year bears only the debt charges, principal and interest, for that year. This avoids what is called 'lumpy' expenditure where one year's revenue accounts bear the full cost of an asset with a forty-year lifespan.

Most of these assets have an economic return but do not have a financial return. Since however, the debt redemption has to be made in financial terms, care has to be taken that the economic growth of the council's area and therefore its tax base will be sufficient to yield revenues sufficient to cover the debt charges.

9.2 Short Term Borrowing

Councils borrow short term, mostly to cover their operating expenses as most of their major income, rates for instance, which are billed twice a year, are lumpy while their expenditure, salaries and wages are fairly evenly spread through out the year. Because of this mismatch in the cash flow between the income and the expenditure, short term borrowing, especially current account overdrafts have become a regular feature in financing council operations.

A major form of borrowing is informal by way of unpaid statutory contributions, unpaid salaries and wages, in some cases in excess of 12 months arrears, unpaid suppliers for utilities and services and so on. An indication of the magnitude of this 'borrowing' is given below for a major council, whose receipts were K5.3 billion for the year 2000, which had the following net current asset position.

Table 35: Net Current Asset Position

	As of 31st December 2000	As of 31st August 2001
Current Assets	4,236,540,721	4,822,845,120
Current Liabilities	5,167,892,850	6,564,204,598
Net Current Assets	-931,352,129	-1,741,359,478

Source: Ndola Local Economic Development Strategy.

The council had therefore 'borrowed' the equivalent of nearly one year's cash receipts as at December 2000 and the situation had not improved by December 2001.

9.3 Medium And Long Term Borrowing

Medium and long-term borrowing is usually for the acquisition of capital assets. This is currently non-existent as any such borrowing is now done by the central government for councils without their

Module 9: Local Government Borrowing.

participation either in choosing the source and terms of financing or in choosing the project to be financed.

This creates major problems regarding sustainability and ability to repay the loans as given a choice, the councils and their communities, who have to eventually bear some part of the cost of maintaining the assets and perhaps even repaying the loan, may have chosen a different project according to local priorities.

9.4 Capital Finance Instruments

The capital markets in Zambia are just now being developed. The Lusaka Stock Exchange and its governing Securities Commission have listing conditions seem to be aimed at large commercial undertakings rather than service organisations such as councils. Debt discounting is just starting with only one inter-market discount house which specialises in existing instruments such as government bonds.

Currently the Zambian government has borrowed considerable amounts through issue of Government Bonds and Treasury Bills. While these seem to have a positive real rate of interest, the governments massive use of this and its continued practice of 'rolling over' these borrowings in such a small economy as Zambia, makes it difficult to assess whether there is room for more borrowers in the market.

There are various issues that councils will need to address before they can be expected to mobilise resources through the issue of capital finance instruments, apart from the government's overuse of the same. Some of these issues are:

- ❑ There is currently a general public perception that the financial management of councils is below the expected standard and therefore councils would have to really market themselves and improve their financial management capacity to clear this perception and create opportunities to access funds in this way. A good start might be to bring their audited accounts up to date.
- ❑ As councils will have to pay positive real interest, inflation is currently at nearly 20%, and as most council income is inflation in elastic, the capacity of the councils to pay off their indebtedness might be somewhat suspect. This might be mitigated against by borrowing for specific projects which have the capacity to repay the loan, rather than on depending on the general rate fund, which might not have the capacity.

9.5 Securities And Liability Considerations

Councils have major assets, even after being directed to sell their houses that they can pledge as security for borrowing. However as there are no national benchmarks for liquidity ratios (the relationship between short-term borrowing and current assets) or fixed assets to debt ratios, each council and each lending institution has to determine on a case by case basis, the suitability of any particular loan application.

A major tool for making an informed assessment of these issues, the balance sheet, is in many cases more than 10 years in arrears. This makes it almost impossible for any interested party to make an informed decision.

Questions for Module 9

1. Why would councils need to borrow?
2. What are the debt charges reflected in the latest accounts of your council?
3. What are short-term loans mainly used for?
4. What is your council's current overdraft if any?
5. Why are councils unlikely to raise funds on the Lusaka Stock Exchange?
6. What are municipal bonds? Who issues them?
7. What are Treasury Bills? Government Bonds? Promissory Notes?
8. Why would negative perceptions of financial management inhibit lenders from lending to councils? What can be done to improve the situation?
9. What would be an acceptable current asset to current liabilities ratio for councils? What is the ratio for your council?
10. The law allows the public to inspect council accounts at given times. Have you or any body you know taken advantage of this provision? If not why not? If so where and when?

10 Module 10: Financial Management and the Public

Councils have, at any given time, various activities in which they are involved of public interest. Most of these, except for refuse collection and water supply both of which are in terrible state, the public is blissfully unaware of. Councils collect resources from the public to whom they are supposed to provide service, the councils are therefore morally and in some cases legally obliged to keep the public aware of its operations and to keep track of public opinion.

Public participation assumes public awareness of the right to participate and public awareness of topical issues. Both of these are, in the Zambian context, non-existent as in some cases, even senior council officials are unaware of key strategic issues as they affect councils⁴². In most council there are no management information systems that be used by the officials, let alone the public, to access information regarding council activities.

The councils ability to disseminate information regarding its their activities is therefore compromised by their inability to collect information regarding their activities.

10.1 Public Participation in Planning and Budgeting

There is no specific legal provision for direct public participation in financial planning and budgeting even though theoretically, the items that are planned for and which are included in the budget are supposed to have, in some way, have come from the public.

The budgeting process should begin with an identification of the activities to be carried out during the budget year as agreed by all the stakeholders. This requires the application of communication systems that are not in place. Kitwe, for instance, has allowed a change of zoning and allocated part of Freedom Park to be turned into some sort of industrial warehouse. As an exercise, it would be interesting to find out what the residents input into this project would have been. What were the alternative sites offered?

In Livingstone a similar development for a shopping mall in a historic park was successfully stopped by the residents, there must have been some way of communicating with the residents there. How did the residents communicate?

Most councils planning has been haphazard if at al. Most councils have no inventory of the resources they have. As an exercise find it would be interesting to find out how easily the following information can be obtained from any council:

- ☐ How many streetlights are in the in its jurisdiction?
- ☐ How many kilometres of road and in what state is the council responsible for?
- ☐ How many fires were put out in the last twelve months?
- ☐ How many buildings, vehicles does the council have?
- ☐ How many employees does the council have? Segregated by sex? By department?
- ☐ What is the number and value of rateable property in the council area?
- ☐ How many markets, stadia, community centres does the council have?
- ☐ What is the water undertaking plant capacity compared to demand?
- ☐ What is the number of people who reside in the council area and what skills do they have?
- ☐ How many guest houses are in the council area?

All of the foregoing and much more, are the basic building blocks for planning. If this information is not readily available, then what is use for planning? What other key information is required for planning but is not available?

The budget is supposed to be the plan in financial terms. If the plans are, where they are any, based on incomplete or non-existent data, then how useful could the budget be? Currently therefore council budgets are mere exercises in increamentalism rather than the useful financial management tool that they can be.

⁴²

See for instance Kabwe Municipal Council Strategic Plan 2001 – 2005, which describes the lack of communication of basic information such as council minutes etc, even among the Chief Officers and their supporting staff.

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It would be interesting to find out from any council in Zambia, regarding any budget period:

- ☐ How many tons of refuse were budgeted to be collected in the budget period?
- ☐ How many kilometres of roads were budgeted to be repaired?
- ☐ How many markets were budgeted to be built or maintained?
- ☐ How much water was budgeted to be produced by the water undertaking?
- ☐ What was the budgeted income and what was the actual income for the previous budget year?

The public are unable to participate directly and fully in the councils planning and budgeting process. They are not even indirectly able to participate as their elected representatives, the councillors, are usually presented with a mass of numbers that have no direct relationship to actual work which must be approved immediately as 'The Minister needs this information (for some unclear purpose) urgently therefore there is no time to discuss the details' This is surprising as the Act stipulates that the budget should be submitted to the Minister at least sixty days from the beginning of the year to which they relate. So on January 1, year x, it is already clear that in ten months time, by November 1 year x, the budget for year x+1 should be ready. Why then is this rushed every year?

The budgeting process is no longer an exercise in what would be done the following year and how much it would cost. The exercise is now used to establish how much public resources can be leveraged out of the residents for a purpose which appears, more and more, to be to pay the salaries and wages of council 'workers'.

The exclusion of the public from the planning and budgeting process deprives the council of the opportunity to become aware of changed public priorities and a chance for council to explain its activities thereby obtaining the public's approval and increased willingness to pay for council services.

10.2 Financial Transparency Practices

The councils all have Standing Orders and Financial Regulations which set out the required procedures for committing councils to expenditures and for safeguarding council income. These include:

- ☐ Obtaining council and Ministerial approval for the budget.
- ☐ Advertising in the national media for purchases in excess of a given amount,
- ☐ Obtaining specific council approval for certain levels of expenditures
- ☐ Preparing, what used to be called '**the Order on the Treasurer (OT)**', a listing of all payments made in any given month.
- ☐ Preparing monthly income and expenditure statements which show year to date figures compared against the budget.
- ☐ In the past, councils used to paint their motor vehicles in specific colours to enable all stake holders identify them easily.
- ☐ Obtaining an external audit for council accounts.
- ☐ Submitting to public scrutiny, the council accounts before the auditors certify them.

All the foregoing add up to practices that should increase transparency in the way council business is conducted. That most of these have fallen out of use is regrettable and should be the focus of assistance to councils.

10.3 Public Accountability

Councils are public institutions created to serve the public within the communities in which they have jurisdiction. They raise money, mostly, from their residents to provide the services for which they exist. The councils have an obligation to account for the public resources that they obtain and use in conducting their business. Part of this is legally enforceable, such as the requirement to submit the accounts to public scrutiny before finalising the audit.

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Part of this obligation is moral arising from the need to keep the taxpayers informed of the use to which their money has been put. This is partly served indirectly through, councillors, by the various transparency arrangements described in the section above.

The question of accountability also relates to the accountability of the public to the council. Having obliged councils to provide certain specific public services the public is obliged to pay for these services. The issue of accountability is complicated these days, as there seems to be no consensus between the councils and their residents as to which services must be provided and at what cost. This makes it difficult for the council to explain what it is doing and for the residents to pay for services that are not clear. A major financial implication of this is the increasing unwillingness to pay for 'a non existent'.

10.4 Role of councillors

The role of Councillors regarding financial management and the public is primarily to be the public's eyes in council activities. As elected officials they represent their constituents and articulate their constituents' views and priorities on all matters including financial management.

The Councillors' role in the management of council finances covers all aspects of the management cycle as they must be involved in:

- a) Setting a vision for the council from which council objectives can be obtained
- b) Prioritising actions that need to be taken in achieving council goals.
- c) Setting appropriate policies for revenue collection
- d) Preparing the budget and ensuring that sufficient resources are raised and allocated for the carrying out of the prioritised actions.
- e) Ensuring that the resources available are expended as per the approved plan
- f) Ensuring that the appropriate financial reports as required by the law are prepared in the appropriate form and time.

In order to do all these things adequately the councillors need to have:

- a) The appropriate knowledge to know what information to ask for.
- b) The appropriate information in the appropriate format and at the appropriate time and
- c) The necessary skills to interpret the significance of that information relative to council goals.

Councillors have political and administrative roles with financial and public participation roles such as:⁴³

- Being members of council and participating in policy formulation.
- Representing their community interests in council.
- Keeping the community informed of council operations.⁴⁴
- Delivering on campaign promises.
- Debating and approving annual budgets.
- Generally supervising the functions of council.

⁴³ IRI: Perspectives on Local Government: A handbook for Local Government Councillors.

⁴⁴ P. C. Bowa: Campaign Manual 2001.

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10.5 Role of officers

The role of officers in the councils is to provide their technical expertise in the identification of the problems that arise for their local communities and in the identification and implementation of solutions for those problems. They help council to develop appropriate policies, procedures and systems for achieving the above goals. They are the executive side of the councils, the implementers of council policies and decisions, which policies and decisions, they would have had a major input in determining.

As the council's experts, they are best placed to disseminate the various issues related to council activities as they perform, for council, the day to day supervisory role on all council activities.

10.6 Media relations

Most councils now have a Public Relations Officer whose primary function is to keep the public aware of council plans, activities, problems and proposed solutions. In view of the diversity of council functions, this office is supposed to be the centre collecting and collating point for information regarding the council and its activities. In most councils, it is this officer or the Town clerk who present council views on various matters. This office is also supposed to be the key contact point for visitors, tourists and possible investors. In order to operate efficiently this office is supposed to have information on all aspects of the operations of the council and the facilities available within each council's jurisdiction⁴⁵.

The inability of most councils' to collect internal and external information relating to their environment has meant that this office has been reduced to dissemination of information that is aimed at damage control when things go wrong rather than the collection, collation and dissemination of all the information indicated above.

The role of the Public Relations Officer, especially his contact with the media, cannot be properly executed if the current lack of information continues to be the norm.

10.7 Consumer Relations

Consumers of council services are diverse. Councils in Zambia have no specific procedures for identifying their different consumer groups, identifying their needs and listening to their needs and articulating council actions and objectives.

Among the different consumer groups are:

- ☐ Residents of the council areas in different localities
- ☐ The business community including the small medium and micro enterprises (SMMEs).
- ☐ Service clubs
- ☐ Non-Governmental Organisations.
- ☐ Tourists.
- ☐ Business travellers.

All of these have different needs and require attention from councils. None of the councils currently has a system for collecting information regarding their consumers.

10.8 Communication and Information Management

Communication from the council to the public would assume that the council has information to communicate and a systematic means for communicating this information. Most councils do not have a current management information system. For instance the audited accounts, a small but essential part of any organisation's management information system, is more than ten years in arrears. What information can be communicated from such a system?

⁴⁵

I would still like to know to whom do I go to find out how many guesthouses are in Kitwe? Does anybody know?

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Most councils do not have current inventory of the assets and other resources that they have or if they do, the use to which they put these resources and assets. Most councils do not have an inventory of tasks and activities to be carried out in any particular period. The choice of such tasks and activities, their implementation schedule and the actual progress made in the implementation and completion of such tasks and activities would form a key component of the required communication between the council and its residents. The absence of such information creates a major hindrance for communication resulting in officials relying unnecessarily on the dodge that 'this information is confidential'

If communication from the council to the residents is problematic then, communication from the residents to council is even more problematic as most councils do not have a systematic method of listening to the residents. A means of assisting communications in the past used to be the status of the town clerk being an ex-official member of all the clubs in town and of councils, paying for club membership for selected senior officers. This system has fallen away, and where it has not, the town clerk and his officers do not feel obliged to attend meetings and functions and service organisations.

Arising from this, there is a major perception gap between what the council thinks it is **doing** and what the residents know the council is **not** doing. One of the initial surveys conducted by SINPA at the beginning of the project, highlighted this perception gap for Kitwe. A classic case is of a council that keeps sending water bills to residents who have had no water supply for a considerable period.

A paper on communications for councillors slightly adapted⁴⁶ is attached as Appendix 14: Communication: a Two Way Flow on 138 page and should be of interest to all who use this manual.

10.9 Summary

The lack of institutionalised systems for collecting, collating and disseminating information regarding the council's internal and external environment creates a situation where councils have difficulties in tapping into the skills and resources available within their localities, in some case, even skills and resources internal to the councils.

This also creates a perception gap between what the council is doing and what its various stakeholders want the council to do. This has an adverse effect on the stakeholders willingness to pay for unrequited services which are primarily, so it seems, aimed at creating salaries and wages for the council employees. This creates a vicious circle. The services deteriorate because the residents are increasingly reluctant to pay for them and the residents are reluctant to pay for increasingly deteriorating services.

Public involvement in the operations of councils and more institutionalised systems for involving the residents in their councils activities would seem to be a major tool for addressing, to some extent, this reluctance by residents to pay for services they do not receive.

⁴⁶

Adapted from 'Perspectives on Local Government: A Handbook for Local Government Councillors' by the International Republican Institute and the Institute for Social and Economic Research, University of Durban – Westville.

Appendix 14: Communication: a Two Way Flow

COMMUNICATION: A TWO-WAY FLOW

Communication between you and your constituents should be a two-way process. You need to get your views across to them, but at the same time you also need to find out from them what their needs and views are.

INTRODUCTION

This section deals with the need for councillors to be well informed in order to make quality decisions. They need to gather information from as wide a range of sources as possible. They also need to communicate with their constituents about what they have been doing or are planning to do, and (the reasons for their actions and plans.

COMMUNICATION OUTWARDS TO YOUR CONSTITUENCY

There are many ways of communicating with your constituents. None are perfect and it is better to use a range of tools rather than to rely on a single one. Different levels of education among your constituents and aspects such as illiteracy and different languages also mean that the use of only one medium could exclude many constituents. In addition, the particular information you wish to communicate may well affect the medium you should choose.

For example, if you wish to communicate a particular view on the role of health workers in a local authority, you should try and choose the best medium to achieve this goal. The best medium would be the one that reaches most of the people that you want to get your message to, in languages they understand best and in a format that is accessible to them.

It is important to realise that the message you and your party communicate needs to be **consistent**. Inconsistent and conflicting messages will confuse your constituency. Not everybody reads the newspaper carefully or listens to the radio every day. If you want your message to "sink in", you need to communicate it regularly through a wide variety of media. It should be encapsulated in a few sentences rather than long paragraphs.

CHOOSING YOUR MEDIUM

Newspapers

Newspapers are an important medium but they are read by those who can read and who can afford to buy them. Your **choice** of newspaper is also important. Which newspapers do your constituents read? It is easier to get coverage in a local (township or suburban) newspaper than it is to get coverage in a regional or national newspaper. For a local councillor, the local paper is more important.

Radio

Radio is an extremely important medium in Zambia. It reaches a very wide audience, including those who cannot read. The deregulation of radio and introduction of local and regional radio stations means that there will be more local radio stations that will get licences to broadcast. It will increase the chances of local councillors getting access to medium.

Speaking engagements

At times it may be appropriate to arrange **public meetings** this may be easier if several councillors

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arrange a meeting together. At times it may be your **party** that arranges the meeting. Public meetings should be well advertised to give all constituents who wish to do opportunity to attend.

You should also look for opportunities to address meetings by **other organisations**. Sometimes they may invite you. In other instances, you might be able to arrange an invitation by speaking to the right person. You will probably find that there **institutions** or **clubs** that are genuinely interested to hear you speak on your role as a councillor

Pamphlets and newsletters

Pamphlets and newsletters that deal with specific issues can be useful in communicating your views. One advantage is that you can set out your views exactly the way you want. Disadvantages include the cost of printing and distribution.

Other media

Those listed above are some examples of media through which to communicate outward to your constituents. There are others. Some may be more appropriate for you and your community. The best solution is to be creative and innovative, to try various media and to learn by trial and error.

GATHERING DATA OR INFORMATION FROM YOUR CONSTITUENTS

Communication between you and your constituents should be a **two-way** process. You need to get your views across to them, but at the same time you also need to find out from them what their needs and views are. In a democratic government, public policies, political party platforms, and campaigns are built upon the needs of the voters. The party or person who can best identify and communicate those needs and expectations can use that foundation to guide their campaigns and inform their policy decisions once they are elected.

There are many ways of gathering data from you constituency. Some are more accurate and "scientific" than others, but all have value.

Ways in which data can be gathered

Unsolicited feedback

This is feedback that you did not ask for or specifically request from people. You will get this whether you want it or not. People that you know or do not know will telephone you or write to you to express their views. Others will stop you on the street. Still others will write to the newspapers.

Such people are highly motivated, as shown by their actions. You need to take their views into account, but you should not allow your behaviour to be dominated by them. Those who feel strongly are the people who contact you. They may be a small minority. The vast "silent majority" may have a different opinion, but will not feel strongly enough to bother to tell you.

How important is unsolicited feedback?

In order to make a point, some councillors will claim that they have received an enormous number of phone calls or letters on *particular issue*. *Those people who expressed their views* may represent the tip of the iceberg -there could perhaps be widespread dissatisfaction among your constituents that you need to address

On the other hand, they **may** be a tiny minority with unrepresentative views. It is up to you to decide. In order to check you need additional sources of data.

Solicited feedback

You can gain feedback by asking for it. For example, ask your friend to contact you when they, or people they hear talking about issue have strong positive or negative feelings about what you, or the council as a whole, have been doing and saying.

Councillors can gain feedback by spending time in the community speaking with constituents at local restaurants; church functions school events, ntembas and shops.

You can take this further by leaving a business card with others that you come into contact with and urging them to feel free to contact you and express their views on issues that concern or please them you

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might even have a slogan on your business card such as "The councillor who is keen to hear from you" or "The councillor who is prepared to help people", or some similar message.

Group meetings

A useful additional source of data is meeting with groups invite you to talk to them or to attend their meetings. You should answer questions at the close of your speech. These groups include:

- ☐ Community and development forums
- ☐ Community-based organisations
- ☐ Interest groups or
- ☐ Business groups.

You can also approach such groups, encouraging them to| By interacting with them you may get a better picture of constituency (Opinion than you will get from unsolicited comments. But even then, you need to recognise that you are dealing with motivated individuals who represent specific interest groups.

Public opinion research

Types of public opinion research

Public opinion research is one means of identifying and understanding the needs and expectations of your community. Public opinion research can be broadly classified as either quantitative or qualitative in nature. An example of quantitative research is a scientific public opinion survey administered to a random sample of people in a given community. A focus group (an organised discussion among about 12 people) is a more qualitative means to obtain feedback from voters.

Public opinion research (which is also known as public opinion polling) in the formal sense is usually done in the form of an accurately and scientifically designed survey. It is an important tool by which decision-makers and elected representatives communicate with people. It is also an instrument to monitor changes in voter needs and expectations.

Quantitative: survey research

Quantitative research comprises a predetermined set of questions that are asked, usually to a random, representative sample of people. Quantitative research studies can be conducted by telephone, mail or in person. They are generally expensive, but the results can be very useful in getting a sense of what a randomly selected group of people think or feel about certain issues.

Survey research is a scientific way of gathering information. It is signed so that the questions are asked to a group of people representative of the whole group whose views are being sought, for example registered voters or the general public. The "sample" (those people selected to be interviewed) is organised according to various factors: age, gender, race, geography housing type, for example.

These numbers are often based on national population numbers to make sure that they are representative. A local survey sample would be drawn up based on local population statistics. However professional polling is expensive and may not be possible for smaller

Qualitative: focus groups

Qualitative research relies more on abstract opinion and value judgements. Because of the nature of this type of research, it can be more difficult to structure in an objective way than quantitative studies.

Focus groups generally bring together about ten or twelve carefully selected people to be studied. A moderator conducts the focus group by initiating and leading the discussion keeping the discussion on track", and acting as a referee. In politics, focus groups have been used to assess voters' perceptions of candidates, test potential messages and learn about whether voters are satisfied with progress since an election.

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The organiser for example the Council or political party usually pays focus group members, to meet for a period of two to four hours. Food is usually served and a relaxed atmosphere is established.

During this session, the moderator asks a series of questions that are discussed by the group. The proceedings are usually taped then transcribed and analysed by an expert who can inform the Council of the results. Usually focus groups are organised by selecting people with something in common, such as young employed men grade 12 level women, trade union members, unemployed rural older men, etc. Careful selection of questions to be discussed and the identification of a neutral moderator are essential for this type of public opinion research.

Why is public opinion research useful?

The information gathered from public opinion research is invaluable for assisting elected representatives to govern effectively, a measure public reactions and response to decisions that have been implemented, as well as ideas yet to be proposed. Leaders can test the reaction to an idea before it is officially proposed research is critical to understanding the groups of support or oppose a particular measure or policy through this understanding you as a councillor can know better how| to people who support you or live in your ward.

Public opinion research can help you make proper make proper decisions during your time in elected office To this extent, public opinion polls should assist in some of the following areas:

- ☐ Helping you allocate resources: time, money and people
- ☐ Assessing the political environment, including the mood of the voters
- ☐ Determining what issues the voters care most about
- ☐ Assessing the images voters have of you. the council, or your party
- ☐ Agenda setting: for example, all Local Economic Development priorities cannot be delivered at once. What are the priorities of people who live in your community?
- ☐ Performance monitoring: for example, do people believe you are delivering on your campaign promises? What are they worried about?
- ☐ Message testing/fine-tuning: for example, is the message your council is intending to communicate the message that is actually being received by the community? If not, how can this be corrected or the message fine-tuned?

When should you test the public's opinion?

There is no formula or schedule which will tell you when to do this. Public opinion research is often very expensive. Councils should look to universities or research institutions for assistance if they want to do a survey, because sometimes these groups have access to funding sources. A more affordable way for your council to conduct public opinion research may be to organise focus groups. Regular surveys have the advantage of allowing you to test changes in public opinion over time and to gain valuable insight into such changes (positive or negative) and why they are occurring.

Own surveys

You can also conduct public opinion surveys of your own. If you don't know how to go about it, get some advice from a university, institutions such as the ZARD, the Economic Association of Zambia, and so on or a private sector public opinion polling company. The basic principle is to interview a representative sample of people on what they think about a particular issue. A successful survey should meet the following requirements:

- ☐ the sample of people must be carefully chosen to ensure that it is representative;
- ☐ the questionnaire (list of questions) must be well-structured:
- ☐ the interview must be conducted objectively and appropriately and
- ☐ results must be analysed properly.

If you plan to take your own research seriously and really learn it, it is essential that you choose your

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sample as scientifically] possible. This is not too difficult if you are strict with yourself.

Example of a possible survey

Let us look at an example of a survey you could conduct on your own. In this case we assume that you are a councillor in Kitwe Riverside Extension (which is on the Kafue River and next to unplanned settlement whose name will remain secrete). Businessmen are asking you to spend millions of Kwacha on policing the riverside. They say that business and therefore employment opportunities are adversely affected because crime is frightening people. So you decide to conduct survey yourself.

The most important thing is to make sure that the sample of people you interview is **representative**: in terms of gender, race, age (if possible) income group. It should be representative of people live in Kitwe and of visitors to Riverside. It should be representative of people who are on the riverside. It should also be representative of people living in the suburbs and the townships nearby.

If you get your sample right and interview objectively (don't try and tell people the answers you want), you will learn a lot about what the majority of people think.

QUESTIONS TO TEST YOUR UNDERSTANDING

1. What do we mean by outward communication?
2. Give examples of outward communication media.
3. Name some areas of policy where you think you and your party may want to form alliances to cooperate with other parties in order to serve the community better.
4. What do we mean by unsolicited feedback? Is it usually representative of public opinion generally?
5. What is meant by a scientific public opinion survey?
6. Why are regular public opinion surveys valuable?
7. Draw up a short questionnaire that you might use to conduct survey of your own.

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Questions for Module 10

1. Why should the public be interested in the financial management of councils?
2. How does the community in your council keep abreast of what council is doing? How does the community influence what council is doing?
3. How many guesthouses or nursery schools operate in your town? What has council done to assist them?
4. What is your council's relationship with and attitude towards small, medium and micro enterprises (SMMEs)? Why should the council care about them?
5. Does your council advertise tenders? When was the last one advertised and for what?
6. What is the councillor's role in the financial management of councils?
7. Why should the council be concerned about media relations? Who is your council's Public Relations person?
8. How does your council find out what issues are a priority for its residents?
9. What information management systems does a council require? What does your council have? Does anybody know how many vehicle your council has?
10. What does the council do?

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Financial improvement planning has to do with the development and implementation of strategies for improving the financial positions of councils. This is basically made up of the following components:

- ☐ Revenue improvement measures
- ☐ Cost reduction strategies
- ☐ Using financial management.

This module discusses these issues and suggests what activities may need to be undertaken to implement these strategies.

11.1 Revenue Improvement Strategies and Techniques

There are various ways of increasing the council revenue. Some of these are:

- ☐ Growing the local economy.
- ☐ Developing new sources of income.
- ☐ Maximising the yield of existing sources of income.

Aspects of these are described below.

11.1.1 Increasing Revenue - Growing the Local Economy^{47,48,49&50}

Traditionally with low inflation rates and reasonable development rates, the rate levy was very rarely increased by much as the increase in the number of rateable properties was able to provide additional income to councils without the need for a revised rate levy. Currently this is not the case. With unemployment rates increasing, the number of residents constituting the tax base on which the services for the increased city population must be based, is decreasing. What can council do to increase this tax base?

Local Economic Development (LED), is the income side of the private sector participation. The expenditure side, cost reduction strategies are, discussed in the next section . The underlying concept is that increased economic activities increase the revenue base of the council. This concept essentially covers the following interrelated aspects:

11.1.1.1 Business Attraction, expansion and retention

One of the most productive ways of creating jobs and stimulating the local economy is to attract new business or to expand the already existing businesses. Some of the key activities which may contribute to this would be to:

- Improve infrastructure and service enhance economic and employment opportunities
- Conduct an assessment of the community strengths
- Promote the city in an effort to recruit new business
- Facilitate licensing, zoning and other administrative and regulatory requirements
- Offer rate rebates and other incentives and
- Keep local business informed of council activities.

⁴⁷ Financial Management for Local Authorities: A handbook for Local Government Councillors

⁴⁸ Financial Management for Local Government : a User Friendly Guide

⁴⁹ Taking the lead: A community resource kit of Local Economic Development

⁵⁰ The Councillor's Role in Local Economic Development: A handbook for Local Government

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11.1.1.2 Assisting small, medium and micro enterprises

Small businesses have the potential to create a high number of employment especially with the demise of the large parastatals that used to dominate the economy. Assisting small businesses grow could have a positive impact on the revenue base of the council. Some of the key activities which may contribute to this would be to:

- Review local tendering procedures to make it easier for local firms to be competitive
- Establish public facilities for small businesses to start up
- Provide brokerage services for creating linkages between small scale and large businesses
- Provide public facilities for community organisations conducting skills training and
- Create business service centres

All the large businesses of today started as small-scale businesses. Supporting small scale industries to grow therefore creates long term benefits as well.

A Local Story.

11.1.1.3 Marketing the city

Tourism can provide additional employment in a city. The new shopping complex at the Kitwe Zoo, with Freedom Park and the central position of Kitwe on the Copperbelt can provide attractive tourist products if appropriately marketed. The fact that Luanshya is the birthplace of a world renowned author, Wilbur Smith, can promote the towns tourism potential. Some of the key activities which may contribute to this would be to

- Create a tourism development committee
- Assess the tourism facilities of the community and research the types of tourists that may most likely visit the city
- Develop a marketing strategy for the city
- Embark on a beautification and revitalisation projects

11.1.1.4 Plugging the gaps

Keeping local money in the local economy is one way to increase the vitality of the local economic base. Some of the key activities which may contribute to this would be to

- Conduct an assessment of the spending patterns of the local residents
- Initiate a campaign to encourage community members to shop locally
- Reform tendering procedures to facilitate access for local firms to council tenders and
- Encourage local traders to organise periodic markets corresponding to local event such as miners' pay-day.

11.1.2 Additional Sources of Revenue

There are other possible sources of income that other councils around the world are tapping into to provide their services. Councils in Zambia have not seriously examined these yet but some may be worth exploring.

- a) Municipal Bonds
- b) Betterment Levies
- c) Piggy back taxes

For some of these sources to be tapped however, it will be necessary for councils to improve their financial management. This, improvement of the council's financial management is the purpose of this

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workshop.

11.1.3 Increasing Yield From Existing Sources

Councils have various sources of revenue. Their collection efficiency, in some cases, of less than 30% would seem to indicate that they may be

- ☐ Billing for non-existent services.
- ☐ Billing non-existent clients
- ☐ Operating with no adequate debt collection protocols.
- ☐ Just inefficient in debt collection.

To increase yield from existing revenue sources it would be necessary to improve the billing system. Billing systems must be efficient and accurate to ensure effective collection of revenue. In order for this to happen the system must have:

- ☐ An accurate and up to date database of taxpayers. This will enable the tax administrators to ensure that all taxable entities are billed.
- ☐ An efficient and accurate manner of calculating the amounts due from each taxpayer, using the appropriate tariff structure, as and when this is due. This will ensure that all taxable entities charged the correct amount at the correct time.
- ☐ An accurate system of recording payments received from each taxpayer from time to time and adjusting the same against the amounts outstanding for each taxpayer.
- ☐ A method of making periodic summaries of billing transactions and
- ☐ A method of analysing debtors outstanding by age.

In these days of personal computers, the system must also be capable of producing all the foregoing reports on screen. The activities that may need to be undertaken to achieve this would include:

- (a) Educating the taxpayers on the benefits of paying taxes
- (b) Increasing the revenue base by ensuring that all entities that are taxable are billed and taxed accordingly and that the database for the taxpayers is updated frequently.
- (c) Increasing the revenue base by ensuring that taxes are introduced that ensure that all economically active entities pay some tax.
- (d) Improving the tariff structures
- (e) Increasing the yield of the current taxes by collecting taxes from all taxable entities.
- (f) Developing debt collection protocols that outline the actions to be taken in case of default and applying these protocols appropriately.
- (g) Ensuring prompt billing for services.
- (h) Ensuring that control total adjustments such as write-offs, supplementary debits and so on, are made only with appropriate authorisation.
- (i) Bringing political and or social pressure to bear on the defaulters.
- (j) Establishing debt collection benchmarks and applying them.

11.2 Cost reduction Strategies and Techniques

Traditionally each council has selected which functions to carry out and which ones not to. This has been due to the different circumstances; geographical, economic, political etc of each council at different times. For instance function number 24¹, which I assume we all know but see endnote just in case, was carried out by most of the major councils in the past. This is no longer the case. While this withdrawal would point to other possibilities, as the service is still provided, the withdrawal has always been under duress.

Traditionally therefore councils have always directly provided the services that they provide. This has meant having many employees who are artisans' and professionals in various different fields. Indeed almost in all professions in the country, among the highest ranking will be products from local government: law, engineering, accounting, administration, architecture and valuation to mention a few.

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When council resources have begun to diminish relative to the services councils have had to render, councils' responses have been inadequate as:

- a) The primary claim on council resources has been salaries and wages to these artisans 84% in the case of Kitwe for 1998, and a reduction in the materials with which these artisans are supposed to work, 4%.
- b) Councils have attempted to carry out all the functions that they have always carried out
- c) Councils have not attempted to prioritise the functions that they carry out and
- d) Despite changing technologies and economies, councils have attempted to use the same methods to carry out their functions.

Councils have therefore spread too little resources over too many functions in less than the most effective manner. Given the K 400 million per month used by Kitwe City Council on average for 1998, couldn't better results have been possible? How else can council provide the services? How can council contribute to an increased revenue base? These issues covered under:

- a) Working with the Private sector, for reducing expenditure and
 - b) Growing the local economy, for increasing the revenue base
- are the subjects of this penultimate paper. It is hoped that the combined effect of:
- a) the value for money measures discussed in the earlier papers
 - b) decreasing expenditure and
 - c) increasing the revenue base

Will provide, in the medium to long term benefits in the way council utilises its available resources to provide the optimum level of service.

11.2.1 Decreasing Expenditure - Working with the private sector

The council is required to provide certain services by the law. It has always been assumed that these services will be provided by council direct labour. The law does not say so. In most countries (we shall examine examples from South Africa and Indonesia) the realisation seems to be that the primary aim of councils is to see that these services are provided not necessarily to provide them. Even in Zambia, the question of providing houses has been reduced, in most cases, to provision of sites and services and allowing the beneficiaries to build the houses themselves.

This ability to combine private capital and skills with the council's authority to provide services does not seem to have been exploited to the extent that it could be. Currently this approach is broken down into 2 (purely academic and presented here so that you can show off at the various forums where you might have shown some knowledge of this now popular subject – privatisation of urban services) categories as follows⁵¹:

- c) **Private Sector Participation (PSP)**, which is said to refer to non-capital intensive infrastructure transaction in which the private entity provides a service under a contractual agreement with the council. There are two broad categories of PSP: service contract, (get Bowanda to write our 1998 accounts for us here in Kitwe) and operating contract (get Benoni Fire and Emergency Services (BFES). to run our fire brigade, in South Africa).
- d) **Public Private Partnership (PPP)**, more complex form of private involvement, whereby the private entity participates in the development, financing and construction with authorisation and support of the council. (Nusa Dua Water Supply system in Bali, Indonesia, where a private consortium has developed a water extraction and distribution system for hotels and residential users)

These can be further broken down into:

- e) **The "Build, Operate and Transfer" (BOT)**, concept, where the private entity builds, operates and receives revenue from a new facility through out a concessionary period. (Build the abattoir and operate it for 30 years, then transfer the asset to the council)
- f) **The 'divestiture' concept** where a council owned facility is sold to the private sector or where

⁵¹

Extracted from a paper presented to the IULA World Congress 1995: Decentralisation and the consequences for Local Authorities: Local Ways to Meet the Urban Challenge, The Case for Indonesia by P. Sidabutar.

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the private sector is allowed to compete by tender for works (construction or services) previously done by the council.

- g) **The leasing concept** where the private sector leases a facility from the council during a concessionary period and collects revenue. On expiry of the concessionary period, the installations are returned to council ownership.
- h) **The contract operations** concept where the council retains control of the enterprise and engages a contractor to provide specified management or other services for a fixed period. The contractor is paid directly for services rendered.

This is a wide and growing area of interest in financing council services. At some time, to some extent councils have used these forms of service provision. What is required is the systematic exploitation of these concepts to maximise service delivery. For instance given that council has a high labour force of highly trained artisans which it cannot keep properly occupied, could these not be allowed, on separation, to form joint ventures with the council to provide their skills to council and other clients on contract? A question of killing two birds with one stone. The Benoni case is attached as an example of how far this has happened in one case in South Africa.

In implementing these interactions however, several key factors including cost-effectiveness, service efficiency, transparency, participation, continued council responsibility, a proper contractual relationship and monitoring process and a good working relationship between the council and the service delivery agent must be taken into account.

11.3 Using Financial Management as a Strategic Tool

Strategic management has to do with the mobilisation and utilisation of available resources to achieve organisational goals taking into account the organisation's

- ☐ Strengths.
- ☐ Weaknesses
- ☐ Opportunities and
- ☐ Threats

In this regard, financial resources and their use, that is financial management, form a key component of the strengths of an organisation. As defined in module 1, the underlying objective of financial management in Local Government is summarised in the statement that '*Effective financial management can help councillors transform the community into the place of their dreams*'⁵².

The purpose of financial management is optimise value for money. Indeed in the Kitwe City Council Strategic Plan⁵³ among the values of Kitwe City Council is one that states that 'we undertake to provide the most economic service and realise value for money at all times'. How can this be achieved? Some basic financial management skills and a lot of common sense together with a determination not to be intimidated by jargon can help towards the achievement of value for money and the realisation of the council's vision.

Anything that can help in realising an organisation's vision, could be considered a strategic tool. Financial management is one such tool.

⁵² Financial Management for Local Authorities: A handbook for Local Government Councillors. Most of the material for this paper comes from this handbook.

⁵³ A Strategy for Kitwe 1999 – 2003, IPA Ireland

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Appendix 15: Strategic Management in Councils

1. WHAT IS STRATEGIC MANAGEMENT

1.1 WHY CHANGE?

Councils in Zambia have mostly been managed in the same way since their inception despite radically changing operation environments. In the recent past the country has seen unprecedented changes in inflation and interest rates, both at one time reaching beyond 100% per year. The economic environment has changed from a capitalist model under colonial government to a socialist model under one party and now back to a capitalist model under a multi - party system.

In an effort to keep employee emoluments somewhat in line with the changes in inflation and interest rates, Councils have, probably without realising it, shifted more of their available resources to payment of salaries and wages to the detriment of service provision. In the past this may not have mattered much. Now however the public who support the budgets of the councils are more aware of their rights and therefore more vocal. It may not be too far fetched to say that in the near future some of them may begin to exercise their legal right to inspect council accounts when these accounts are audited and advertised for inspection.

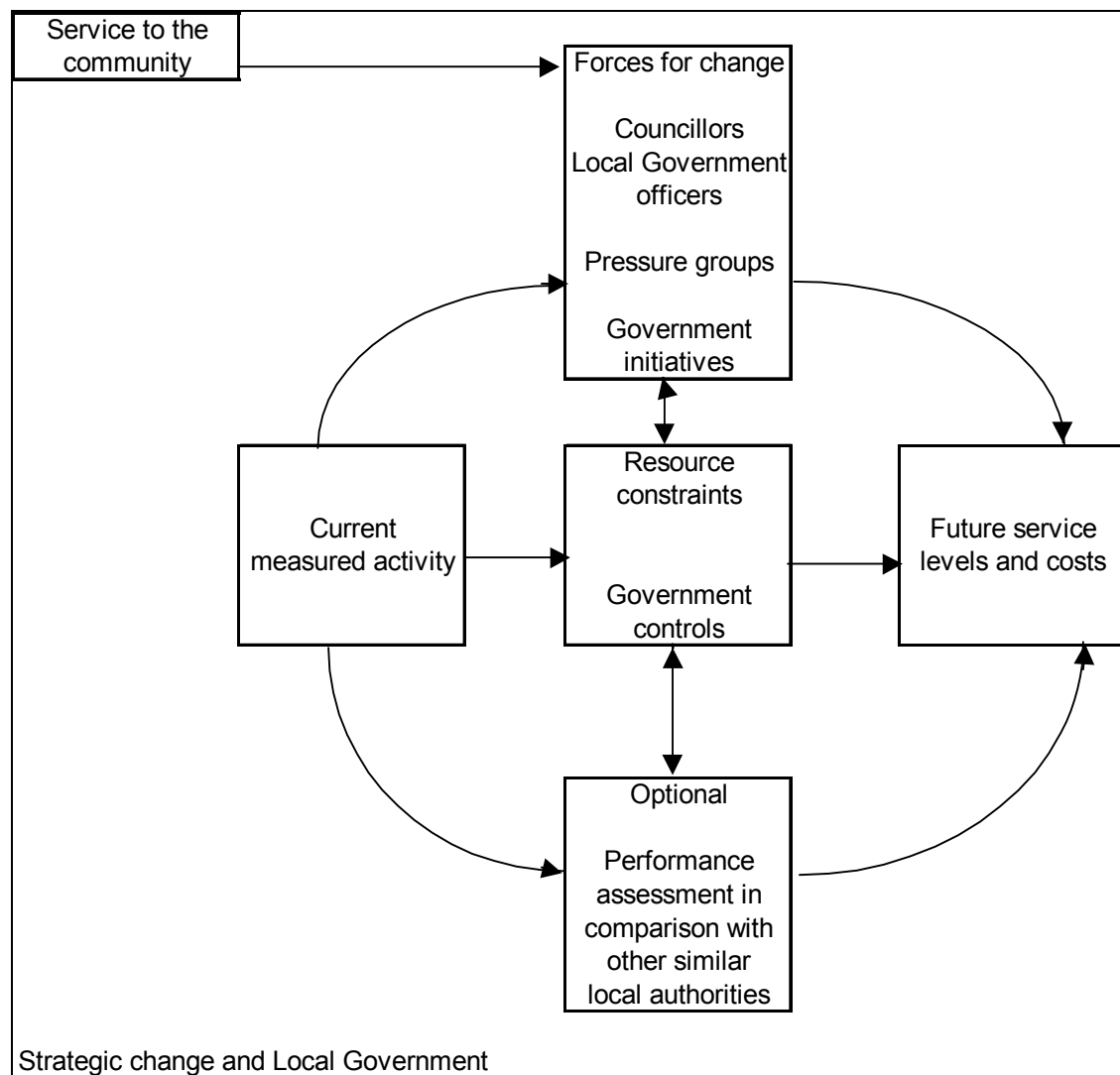
There has also been changes in the technology available to the extent that the way councils have always provided their services may no longer necessarily still be the best way. The improvements in information technology are but one example of the technological changes which may enable councils process available information more efficiently than has traditionally been the case. The new competitive operating environment has also brought additional pressures for change. NODA Investment Ltd, with its technologically advanced vacuum tanker service, is an example of both the technological aspect and the competitive aspect of the need for change.

As strategic management is about continuously scanning the internal and external environment and the mobilisation of available resources to maximise the chances of achieving organisational objectives, the changes outlined above and summarised below in the external operating environment would seem to make the case for changes in the style of management in councils:

- (a) Political changes
- (b) Economic changes
- (c) Technological changes
- (d) Social changes

There are also forces for change inherent within the structures of councils themselves. Figure 1 below shows some of the forces for change that affect councils.

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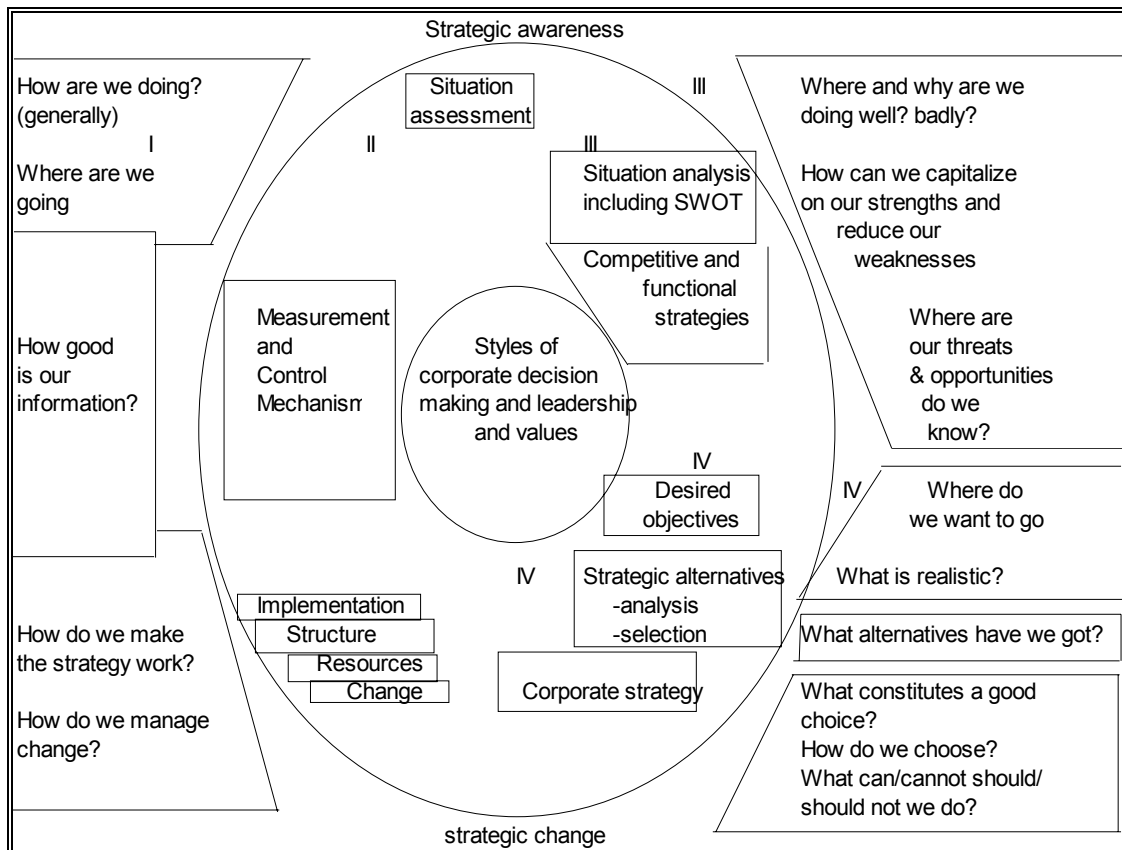


1.2 THE FIVE TASKS OF STRATEGIC MANAGEMENT

- Developing the concept of the business and forming a vision of where the organisation needs to be headed i.e. infusing the organisation with a sense of purpose, providing the long term direction and establishing a mission.
- Translating the mission into specific long range and short range performance objectives, referred to as Management by Objectives (M.B.O)
- Crafting a strategy to achieve the targeted performance.
- Implementing and executing the chosen strategy efficiently and effectively.
- Evaluating performance, reviewing the situation and initiating correctives adjustments in mission objectives, strategy or implementation in light of actual experience, changing conditions, new ideas and new opportunities.

The diagram below outlines the various components of strategic management.

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1.3 CHARACTERISTICS OF A GOOD MISSION STATEMENT

There are some characteristics that are common to good mission statements. Some of these are.

- ☐ Effective mission statements should be **inspiring** i.e. call for the best in one way or another.
- ☐ Provide a sense of **direction** for all and source of challenge to all.
- ☐ Mission provides a **rationale** for organisation to move in a new direction
- ☐ Effective communication of mission **changes employees attitudes**, thinking and behaviour.
- ☐ Mission statement should be **simple, use concise terminology** that speaks clearly and loudly to all concerned and leaves no doubt about the future course being charted.
- ☐ It should be often repeated over and over in a challenging, convincing fashion to turn heads in the intended direction.

In summary, a well conceived, well said mission statement has a real managerial value as:.

- (a) It crystallises top management's own view about the firms long term direction and make up.
- (b) It helps keep the direction related actions of lower level managers on the right path.
- (c) It communicates an organisation purpose and identity that can inspire employees and provide enduring challenge in their work.
- (d) It helps managers avoid either visionless or rudderless management.
- (e). It helps an organisation prepare for the future

1.4 SETTING OBJECTIVES

Objectives convert the mission and vision into something to shoot for and achieve. They should be challenging and achievable. Objectives guard against complacency, internal confusion over what to accomplish and mediocre organisational performance. They may be long term or short term objectives. Short term objectives direct managers to consider what they can do now to boost the organisation performance while long term objectives spell out what needs to be achieved in the long term to satisfy the organisations mission and vision. Objective setting ideally is something all managers do

All organisations and institutions need concrete, measurable performance that specify what they will do to

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assist in meeting overall objectives. These objectives can be broken down into specific targets for each organisational unit. This makes lower level managers accountable for achieving objectives in their area of responsibility. A results oriented climate enables the entire organisation to work towards a common goal..

Good objectives should be:

- ☐ Attainable/achievable
- ☐ Challenging and motivating
- ☐ Have a time dimension
- ☐ Measurable/quantifiable
- ☐ Consistent
- ☐ Suitable
- ☐ Understandable
- ☐ Flexible
- ☐ Acceptable.

1.5 WHY OBJECTIVES

Objectives are necessary as they:

- (a) Help define the organisation in its environment, justify its existence and legitimises itself in the eyes of Government, customer and society.
- (b) Help co-ordinate decisions between decision makers and employees.
- (c) Provide standards for assessing organisational performance.
- (d) Are more tangible targets than mission in terms of output.

1.6 STRATEGIES

Strategies provide guidelines for how to achieve objectives and how to pursue the organisation's mission. They describe the mechanics of how the objectives will be achieved; they create a game plan. Absence of a strategy, makes strategic actions and decisions inconsistent

Strategies help in focusing the organisation's efforts. They spell out the tasks of managers and officers at different levels of the organisation

2 ENVIRONMENTAL ANALYSIS

2.1 EXTERNAL FACTORS THAT AFFECT STRATEGY

Factors that affect strategies that organisations form, may also be called driving forces or drivers of changes.

Environmental factors that affect strategies of council

(a) Socio-economic factors

- State of the economy now and future
- Is it in depression, recession recovery or prosperity?
- Inflationary trends
- Climate condition Vis-a-vis public health
- Social factors involving values and attitudes of people.

(b) Population factors

- Population of the city/town or country. Is it increasing or reducing?
- Demographics

(c). Government sector

Government legislation affects operations of local government such as:

- ☐ Delegated duties
- ☐ Funding decisions
- ☐ Designation of markets

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- ☐ Taxation of businesses in city
- ☐ Government policy changes by area and with time do affect councils, differently

What is the impact of these factors on your strategy?

2.2 KEY SUCCESS FACTORS (KSF)

Key success factors (**KSF**) refer to the issues that require to be addressed in order for the organisation to be successful. These are the issues that contribute directly to making progress relative to organisational objectives. These define what one needs to do to be successful in the business

KSF highlight specific outcomes / actions crucial to success of the organisation and define competencies and capabilities that have a bearing on effectiveness. Identification of KSF is ideally a top priority of strategic consideration management should identify and know what is important for effectiveness

KSF are cornerstones for building an organisation's strategy. They vary from industry to industry over time within the same industry. **What are the KSF in your business?** Let us try and discuss some of these.

KSF may be based on

- ☐ Organisational capability
- ☐ Image
- ☐ Low cost
- ☐ Marketing related
- ☐ Skills related
- ☐ Distribution related

For instance the KSF of tooth paste/detergents manufacturers, considering that their ingredients may be exactly the same, may constitute creative advertising.

For the manager, it is imperative that he / she knows what he / she needs to know to be successful

2.3 SELF ANALYSIS

Self analysis helps the organisation understand what makes it tick. Note that what happens today is not permanent and forever true. The attributes that make an organisation tick today may not necessarily be correct for the future or even tomorrow. The secret of success is to be ready for opportunity when it comes. A motivational speaker (**Les Brown** - Video tape available), says '**It is better to be ready for an opportunity that never comes, than to have an opportunity for which one is not ready**'.

The purpose of self analysis is to evaluate the strategic organisation situation in the industry and competitive environment. This analysis revolves around 5 questions

1. How well is the present strategy working?
2. What are organisation's SWOTS?
3. Is the organisation competitive on cost?
4. How strong is the organisation's competitive position?
5. What strategic issues does the organisation face?

2.5 S W O T ANALYSIS

SWOT is an acronym for **S**trength **W**eaknesses **O**pportunities and **T**hreats. SWOT involves the analysis and sizing up a firm's **internal** strengths and weaknesses and its **external** opportunities and threats. It is an easy to use tool to get a quick overview of an organisation's strategic position. It is grounded on the principal that strategy should produce a fit between an organisation's internal capabilities and its external situation.

IDENTIFY STRENGTHS AND WEAKNESSES

Strength-What the organisation is good at doing

- Important capability
- Skill, a competence, particular original resource/competitive asset or something the organisation has done that puts it in a position of market advantage e.g. better product, stronger name recognition better customer services, superior technology.

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Weakness

- Something that an organisation lacks or does poorly
- Condition that puts an organisation at a disadvantage

Strengths and weaknesses identified should be evaluated and ranked. Impact of various strengths and weaknesses on strategy vary. Some weaknesses can be fatal, while others are tolerable.

When formulating strategy, strengths are cornerstones of strategy and basis on which to build a competitive strategy. Strategy should be grounded on an organisation's best skills and market strengths. If an organisation has no competence or skills and wishes to build an attractive strategy, it should build the required capabilities. A good strategy should aim at correcting weaknesses that make the strategy vulnerable or disqualify the organisation from pursuing an attractive opportunity.

IDENTIFY OPPORTUNITIES AND THREATS

OPPORTUNITIES

Opportunities are favourable situations which arise external to the organisation. Market opportunity is a big factor in shaping an organisation's strategy. Not every organisation in the industry can pursue each opportunity. Some organisations may be better situated than others which may be hopelessly positioned out of contention.

Prevailing and emerging industry opportunities that are most relevant to a particular organisation, are those in which an organisation has a competitive advantage or those that offer important avenues for growth.

THREATS

Threats are unfavourable situations that arise in the external environment that create problems to the organisations well being. These may stem from:

- (a) The emergence of cheaper and / or more efficient technologies
- (b) The introduction of new or better products by rivals
- (c) The entry of low cost foreign competition to organisation's market stronghold
- (d) New regulations that are more burdensome to the organisation
- (e) Rise in interest rates
- (f) Unfavourable foreign exchange shifts.

Identifying opportunities and threats is important because these affect the attractiveness of an organisation's situation and affect the competitive strategy formation.

Strategy must

- (a) Be aimed at pursuing opportunities best suited to the organisations capability
- (b) Provide a defence against external threats

SWOT analysis should be done so that conclusions can be made about the organisations situation and their implications. Pertinent questions to consider on the practical value of **SWOT** listings.

- (a) Does the organisation have any internal strengths or a distinctive competence, is there potential for turning one of its strengths into a distinctive competence.
- (b) Do organisation weaknesses make it competitively vulnerable and/or do they disqualify the organisation from pursuing certain opportunities? Which weaknesses should strategy aim to correct?
- (c) Which opportunities does the organisation have the skills and resources to pursue with a real chance of success.
- (d) What threats should management be worried most about and what strategic moves does management need to consider in formulating a good defence.

NB Opportunity without the means to capture it is an illusion. Organisation's strengths and weaknesses make it better suited to pursue some opportunities and not others. An objective appraisal of what the organisation can do is necessary to guide strategy.

SWOT analysis should be highly focused i.e. it should not be too holistic/global - meaningless

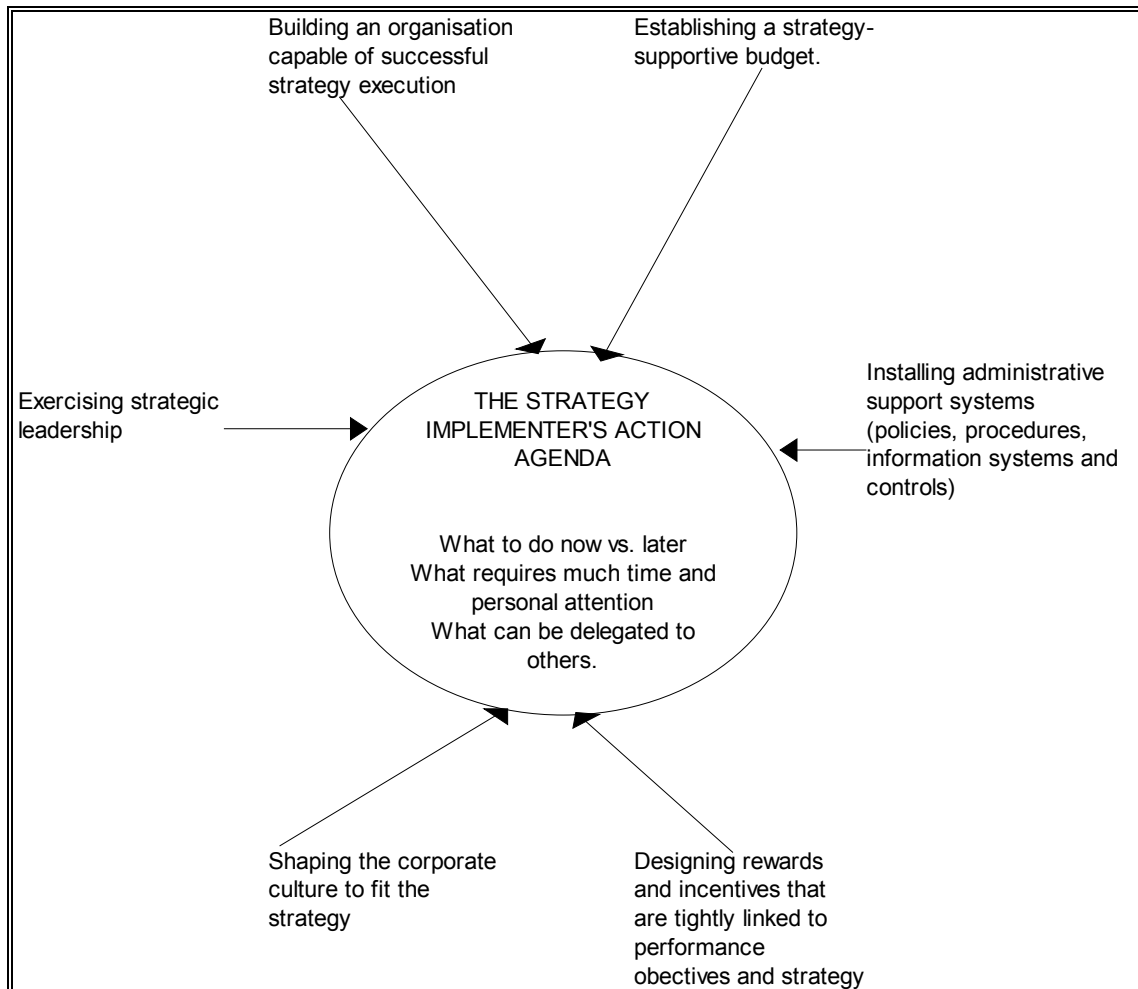
3: STRATEGY IMPLEMENTATION.

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3.1 NEED FOR IMPLEMENTATION

Conceiving bold new strategies is not enough. The strategic vision of the organisation should be translated into concrete steps that get things done. Strategic implementation poses the tougher, more time consuming management challenge. Developing a strategy action plan is the easy bit, making things happen is the tricky part but is also the purpose for the whole exercise. Strategic implementation entails converting the strategic plan into action and getting the result.

The key tasks involved in strategy implementation are as in the figure below:



The process is demanding because of:

- (a) The wide range of managerial activities that have to be attended to, such as the many ways managers can proceed in tackling each activity.
- (a) The skill it takes to get a variety of initiatives launched and moving.
- (b) The resistance to change that is in the organisations.
- (c) Strategy implementation situation in each strategy different and therefore has to be implemented differently to fit the organisation situation.

The goal of strategy implementation is to unite the total organisation behind strategy accomplishment and to fit the organisation's conduct of its operations to the requirements for successful strategy execution. The motivational challenge is to build such determined commitments up and down the ranks that an enthusiastic organisation wide crusade emerges to carry out the strategy and achieve performance goals.

4 MARKETING IN LOCAL GOVERNMENT

4.1 MARKET WHAT?

Marketing in local government may be dismissed as a no go area. The avoidance of marketing in councils and other non-profit making organisations affects the effectiveness of these bodies

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Marketing operates at two levels:

(a). Internal

Internal marketing is required to market new programmes and strategies councils may develop. The purpose of internal marketing in local governments is to create awareness in and gain support from the personnel who will be responsible for carrying out the various aspects strategy implementation. Without this support, implementation will not be possible.

In order to highlight the marketing concept, it is necessary to define the marketing situation according to the 4 Ps of marketing which current marketing literature defines as **Product**, **Price**, **Place** and **Promotion**. In respect to the councils internal marketing these may be defined as:

- ☐ The **PRODUCT** being sold is the idea, strategy or programmes necessary to achieve the set goals.
- ☐ The **PRICE** to be paid is the benefits that may accrue to some employee and costs in form of loss of employment, rank or pay.
- ☐ The **PLACE** is the channel used to sell the idea to employees. This can be in the form of meetings, short courses etc.
- ☐ **PROMOTION** is the communication of the idea to the employees that may articulate the benefits of the strategy to the employees and the organisation. The medium of such communication may be memos, newsletters, circulars and sometimes newspapers.

In this internal marketing efforts, the target audience must be clearly identified.

The primary audience are those key personnel whose support would assure the implementation of the strategy. The secondary audience involves all the employees of the organisation who would assure successful implementation of the strategy

(b). External

External marketing is important in communicating to the community what the council is doing to meet their needs and wants. When all employees know what they are supposed to do, in meeting local community needs (because of internal marketing) they would become agents of the council in communicating what the council is doing and they would also be in a better position to satisfy the needs of the community in a most cost effective manner.

Councils, despite their claimed lack of resources, still do a lot of beneficial work for the community which, due to lack of marketing remains largely unnoticed by the community. It is likely that increased public awareness of these activities of councils could contribute towards a reduction in the desire by the public not to pay for council services. It is hoped that the increased use of public relations officers by councils is a recognition of this factor. With adequate internal marketing, each council employee and councillor becomes a public relations officer in their interaction with the public.

5 COUNCIL SWOT ANALYSIS

During a previous seminar, a brief SWOT analysis of councils was conducted among which the following strengths, weaknesses, opportunities and threats were identified. During this seminar, we will attempt to come up with our own SWOT analysis. We will then compare and contrast with our findings at another seminar.

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Appendix 16: Proposed Solution DCF Exercise

1. The reliable yield of the existing system is 100 m.g.d from the demand given in work sheet 1 for an increase rate of 6% p.a., the demand exceeds 100 m.g.d. in year 2. It then follows that the system capacity will have to be increased in year 1. For the two-stage construction alternative the total expenditure of K 10,500,000 should therefore be incurred in year 1. For the two-stage construction alternative the cost of stage 1 of K 8,700,000 appears in year 1. After the implementation of stage 1, the system will have a capacity of 140 m.g.d and this capacity will again be exceeded by the demand in year 8. The expenditure for stage 2 construction of K 4,300,000 is therefore incurred in year 7. The net present worth (total present value) of the cash flows for the two alternatives at a discount rate of 12% are calculated in work sheet 2(a) and are given below;

	Net Present Worth
One stage construction alternative	K 9,377,00
Two stage construction alternative	K 9,713,000

The one stage construction alternative is less expensive.

2. Continuing the calculations on work sheet 2(a) using discount rates of 14% and 16% results in a reversal of cost ranking at a discount rate of 16%. At this discount rate the two-stage construction alternative becomes less expensive.
3. The second half of work sheet 1 shows the expenditure cash flows for the two alternatives staged for construction to meet a demand that increases at 4% p.a. The net present worth for these two alternatives are calculated in work sheet 2(b). At a discount rate of 12%, the two stage construction alternative is recommended. The cross over point (i.e. the discount rate at which the other alternative becomes less costly) is slightly above 10%

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	TIME VALUE FOR MONEY: RESEVIOR CONSTRUCTION STAGING									
	DEMAND	ONE STAGE		TWO STAGE		DEMAND	ONE STAGE		TWO STAGE	
	MGD @ 6%	YIELD	INVEST.	YEILD	INVEST.	MGD @ 4%	YIELD	INVEST.	YEILD	INVEST.
Year 0	90.00	100		100		90.00	100		100	
Year 1	95.40	100	10500	100	8700	93.60	100		100	
Year 2	101.12	160		140		97.34	100	10500	100	8700
Year 3	107.19	160		140		101.24	160		140	
Year 4	113.62	160		140		105.29	160		140	
Year 5	120.44	160		140		109.50	160		140	
Year 6	127.67	160		140		113.88	160		140	
Year 7	135.33	160		140	4300	118.43	160		140	
Year 8	143.45	160		160		123.17	160		140	
Year 9	152.05	160		160		128.10	160		140	
Year 10	161.18	160		160		133.22	160		140	
Year 11	170.85					138.55	160		140	4300
Year 12	181.10					144.09	160		160	
Year 13	191.96					149.86	160		160	
Year 14	203.48					155.85	160		160	
Year 15	215.69					162.08				
NOTES										
(A) At completion of stage 1, the total system yield will be 100+40 mgd										
(B) At the completion of stage 2, the total yeild wil be 100+60 mgd										

Appendices.

The present value of the project costs is as follows

ANALYSIS OF PROJECT COSTS @ 6% DEMAND GROWTH					
		ONE STAGE		TWO STAGE	
	DF @ 12%	CASH	PV	CASH	PV
Year 1	0.8929	10,500	9,375.00	8,700	7,767.86
Year 7	0.4523			4,300	1,945.10
	N P V		9,375.00		9,712.96
ANALYSIS OF PROJECT COSTS @ 4% DEMAND GROWTH					
		ONE STAGE		TWO STAGE	
	DF @ 12%	CASH	PV	CASH	PV
Year 2	0.7972	10,500	8,370.54	8,700	6,935.59
Year 11	0.2875			4,300	1,236.15
	N P V		8,370.54		8,171.73

Appendix 17: ERI Computation

By definition the Effective Rate of Interest is the rate of discount at which the NPV of the loan is equal to 0. This is similar to the Internal Rate of Return. This loan of 10% interest actually has an ERI of 26% as shown in the calculation below.

	Net Cash	DF	PV
Yr0	K17,000,000	1	K17,000,000
Yr1	-K12,000,000	0.7937	-K9,524,603
Yr2	-K11,000,000	0.6796	-K7,475,397
	ERI	25.99%	K0

Appendices.**Appendix 18: Proposed Evaluation – Cost of Tying**

As the pumps will provide similar benefits (K 20 million worth on the open market), the evaluation has to do with the comparative costs of operating the pumps. This will include loan charges, maintenance and electricity charges.

The cash flows of the 2 projects is shown in the table below.

Open Market				
	Total	Loan	Maintenance	Electricity
Yr 1	K12,900,000	K12,400,000	K500,000	
Yr 2	K11,700,000	K11,200,000	K500,000	
Yr 3	K500,000		K500,000	
Yr 4	K500,000		K500,000	
Yr 5	K500,000		K500,000	
	<u>K26,100,000</u>			

Friendly Country				
	Total	Loan	Maintenance	Electricity
Yr 1	K14,700,000	K6,200,000	K3,500,000	K5,000,000
Yr 2	K14,100,000	K5,600,000	K3,500,000	K5,000,000
Yr 3	K8,500,000		K3,500,000	K5,000,000
Yr 4	K8,500,000		K3,500,000	K5,000,000
Yr 5	K8,500,000		K3,500,000	K5,000,000
	<u>K54,300,000</u>			

Applying the DCF factors would provide the following present value and net present values of the costs of operating the pumps.

DF @	12%	Open Market		Friendly Country	
		Cash	PV	Cash	PV
Yr 1	0.8929	K12,900,000	K11,517,857	K14,700,000	K13,125,000
Yr 2	0.7972	K11,700,000	K9,327,168	K14,100,000	K11,240,434
Yr 3	0.7118	K500,000	K355,890	K8,500,000	K6,050,132
Yr 4	0.6355	K500,000	K317,759	K8,500,000	K5,401,904
Yr 5	0.5674	K500,000	K283,713	K8,500,000	K4,823,128
Present Value			K21,802,388		K40,640,598
Less initial benefit			K20,000,000		K20,000,000
NPV			<u>K1,802,388</u>		<u>K20,640,598</u>

So the friendly country option is not so friendly after all.

Appendices.**Appendix 19: DCF – Analysis of Project Finance Proposed Solution**

ANALYSIS OF ZNCB LOAN						
		BAL	INTEREST	NET CASH	DF @12%	PV
YR 0	K10,500,000	K10,500,000	K0	K10,500,000	1.0000	K10,500,000
YR 1	-K2,100,000	K8,400,000	-K1,260,000	-K3,360,000	0.8929	-K3,000,000
YR 2	-K2,100,000	K6,300,000	-K1,008,000	-K3,108,000	0.7972	-K2,477,679
YR 3	-K2,100,000	K4,200,000	-K756,000	-K2,856,000	0.7118	-K2,032,844
YR 4	-K2,100,000	K2,100,000	-K504,000	-K2,604,000	0.6355	-K1,654,889
YR 5	-K2,100,000	K0	-K252,000	-K2,352,000	0.5674	-K1,334,588
YR 6						
YR 7					NPV	K0

As the loan is at 12% without any additional conditions, it is expected that the present value of this loan arrangement should be 0, as the evaluation is done at a discount rate of 12%.

ANALYSIS OF 16% LOAN WITH GRACE PERIOD						
		BAL	INTEREST	NET CASH	DF @12%	PV
YR 0	K10,500,000			K10,500,000	1.0000	K10,500,000
YR 1	K0	K10,500,000	K0	K0	0.8929	K0
YR 2	K0	K10,500,000	K0	K0	0.7972	K0
YR 3	-K2,100,000	K8,400,000	-K1,680,000	-K3,780,000	0.7118	-K2,690,529
YR 4	-K2,100,000	K6,300,000	-K1,344,000	-K3,444,000	0.6355	-K2,188,724
YR 5	-K2,100,000	K4,200,000	-K1,008,000	-K3,108,000	0.5674	-K1,763,563
YR 6	-K2,100,000	K2,100,000	-K672,000	-K2,772,000	0.5066	-K1,404,381
YR 7	-K2,100,000	K0	-K336,000	-K2,436,000	0.4523	-K1,101,923
YR 8						
					NPV	K1,350,880

Due to the grace period over which there is no interest payable, the present value of this loan is positive as the present value of the stream of payments is less than the money initially borrowed. Despite the nominal interest of 16%, the actual effective rate of interest of this loan is less than 12%. The implications of this loan is that there is a grant element of K 1 350 879.58.

ANALYSIS OF FREE WATER WORKS						
	COST	MAINT	CHEMIC. + ELECTR	NET CASH	DF @12%	PV
YR 0	K10,500,000			K10,500,000	1.0000	K10,500,000
YR 1	K0	-K1,500,000	-K275,000	-K1,775,000	0.8929	-K1,584,821
YR 2		-K1,875,000	-K275,000	-K2,150,000	0.7972	-K1,713,967
YR 3		-K2,343,750	-K275,000	-K2,618,750	0.7118	-K1,863,975
YR 4		-K2,929,688	-K275,000	-K3,204,688	0.6355	-K2,036,637
YR 5		-K3,662,109	-K275,000	-K3,937,109	0.5674	-K2,234,022
YR 6		-K4,577,637	-K275,000	-K4,852,637	0.5066	-K2,458,497
YR 7		-K5,722,046	-K275,000	-K5,997,046	0.4523	-K2,712,759
YR 8		-K7,152,557	-K275,000	-K7,427,557	0.4039	-K2,999,866
					NPV	-K7,104,543

The benefit of this grant is at K 10.5 million the same as the other 2 as the water works will provide the same amount of water. However the increased chemical and electricity charges and the increase maintenance charges, which increase at 25% per year makes this option extremely expensive. The implications are the same as throwing away K 7 104 542.86, the negative net present value.

Appendices.

Appendix 20: Proposed Solution – Accounting Exercise

Year 0: Opening Balance Sheets			
Commercial		Local Government	
Fixed Assets	0	Long Term Loans	100
Total Fixed Assets	0	Current Liabilities	0
Current Assets			
Cash	100	Total Liabilities and Surpluses	<u>100</u>
Less Current Liabilities	0	Capital Outlay	0
Net Current Assets	100	Other Long Term Outlay	0
Total Assets	<u>100</u>	Current Assets	
Financed By:		Cash	100
Long Term Loan	<u>100</u>	Total Assets and Deficits	<u>100</u>
	<u>100</u>		

Operating Statements

Commercial – Profit and Loss Account			Local Government – Revenue Account		
	Year 1	Year 2		Year 1	Year 2
Turnover	110	175	Expenses		
Less Operating Expenses			Employees	12	17
Depreciation - Building	2.5	2.5	Premises	4	4
Depreciation - Truck	10	10	Supplies and Services		
Fuel	5	6	Transport and Plant	5	6
Interest	10	9	Establishment		
Rates	4	4	Miscellaneous		
Salaries	12	17	Debt Charges - Redemption	10	10
			Debt Charges - Interest	10	9
Total Operating Expenses	43.5	48.5		41	46
Profit Before Tax	66.5	126.5	Income	110	175
			Transferred to balance Sheet	69	129

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Balance Sheets					
Commercial			Local Government		
	Year 1	Year 2		Year 1	Year 2
Fixed Assets	87.5	45	Long Term Loans	90	
Total Fixed Assets	87.5		Current Liabilities	1	2
Current Assets			Capital Discharged - Capital Receipts		30
Cash	50	215	Capital Discharged Loans Redeemed	10	50
Debtors	20	15	Revenue Reserve	69	198
	70	230	Total Liabilities and Surpluses	170	280
Less Current Liabilities					
Rates	1	2			
Net Current Assets	69	228			
Total Assets	156.5	273	Capital Outlay	100	50
Financed By:			Other Long Term Outlay	0	
Long Term Loan	90		Current Assets		
Reserves	66.5	193	Cash	50	215
Capital Gain		80	Debtors	20	15
	156.5	273			
		0	Total Assets and Deficits	170	280
					0
			Note that:		
			Capital Receipts		110
			less Capital Receipts applied to debt redemption		80
					30

ⁱ Function 24 is To brew beer