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# Applied financial improvement planning in local governments

*The case of Kitwe City Council, Zambia*

By Rolf Dauskardt

**IHS**   
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IHS Rotterdam September 2000





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## Summary

The trend toward decentralisation continues, albeit unevenly, in most developing countries. Increasing decentralisation places considerable pressure on local government to manage a wider range of functions and services and to manage larger budgets, while continuing urbanisation increases both geographic and demographic service areas of local governments. In this context, sound financial management by local governments is becoming increasingly important. It is likely that the need to undertake financial improvement planning in local governments will grow both for those local governments wishing to generally improve or 'fine-tune' their financial performance, and especially for those local governments facing more serious financial difficulties.

Several approaches have been developed for undertaking financial improvement planning in local governments. The importance of these approaches here concerns especially the framework that is used both to undertake the financial analysis and importantly, to structure the package of improvement measures. One objective of this report is to highlight the importance of further developing this framework given that a strong relationship exists to the nature and content of the improvement measures recommended for introduction.

This report examines the application of financial improvement planning techniques in a local government facing a challenging financial situation within a decentralisation framework characterised by several policy and fiscal deficiencies. In many respects, this example is representative of the difficulties faced by numerous local governments in developing countries that are undertaking decentralisation. The report covers the development of an appropriate framework for applied financial improvement planning in local government, the results of the framework and financial analysis as applied in the case of the city of Kitwe in Zambia, and the structuring of a recommendation package of financial improvement measures. Implications regarding the role of financial improvement planning in local governments within a decentralisation policy framework are elaborated. In addition, observations regarding financial improvement planning techniques and the design of the financial improvement planning process in local governments are made.

The use of financial improvement planning techniques in local government may be expected to increase as the process of decentralisation continues. The success of a county's decentralisation policy will also depend to a considerable extent on the ability of local governments to implement more sound financial management practices within a management environment that is growing in scale and complexity. Further

development of financial improvement planning techniques for application in local government and the development of technical capacity and systems to support them should therefore be seen as a key ingredient of any country's decentralisation programme.



## Introduction: Decentralisation and Local Financial Management

The international trend toward the decentralisation of functions and responsibilities to local governments continues in most developing countries, “grudging at times, more forthcoming at others” (World Bank, 2000, p. 45). To be effective, decentralised functions and responsibilities should be matched by adequate financial resources at local level to undertake them. Broadly, this requires both increased fiscal decentralisation (changing the forms and amounts of national or regional fiscal resources that are transferred to local governments) and an increase in the generation and management of own revenues by local governments.

Fiscal decentralisation poses interesting technical challenges to national and regional governments – “a difficult trade-off between maintaining central flexibility to carry out macroeconomic and equalization objectives, on the one hand, and improving the delivery of services in urban areas, on the other” (Bahl and Linn, 1992, p. 470). The emerging trend is summarised by Peterson’s (1995, 3) observation that “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”. To this technical challenge, however, should be added the compounding effect of national political factors, which may often de facto run counter to the direction of fiscal decentralisation. The meshing of these technical challenges and political considerations frequently leads to mixed policies and results for decentralisation.

Of particular concern in this report is the tremendous pressure that is placed by decentralisation in general on local governments to undertake sound local financial management (see Wegelin, 1995 for a review of the institutional implications). This is exacerbated by continuing urban growth. In short, local governments are faced by both an increase in the number of their service functions and responsibilities, and a growing population to provide these services to. In this context, the ‘central question’ for effective local public finance of “... how to capture the benefits of urbanisation in order to increase the supply of services” (Bahl and Linn, 1992, p. 1) becomes a particularly important challenge. If a local government in addition is faced by a contradictory policy environment as outlined above and poor performance or a decline in its local economy, limiting the potential for own revenues, the situation becomes even more concerning.

In this context, financial improvement planning in local governments is particularly important. Financial improvement planning is most effective when it forms part of a

wider programme of financial management reform and development. Many local governments, however, arrive at financial improvement planning more reactively, in some instances in the context of crisis stabilisation. Here, financial improvement planning has two potential benefits, namely i. to remedy an immediate financial failure in a local government (the *crisis*), and ii. to place the local government generally on a more stable financial footing providing space for more rational long-term financial management (the *stabilisation*).

Various approaches to financial improvement planning in local government have been developed. Of particular significance for practitioners is the framework that is adopted for the financial analysis and particularly for structuring the package of recommended improvement measures. It is in this framework that the general approach that is to be followed with regard to revenue-side factors, expenditure-side issues, the effectiveness of financial systems and other aspects are established. The framework set out some years ago by McMaster (1991) remains of particular use. His approach has been extended, however, in the subsequent applications of financial improvement planning in local governments. The work reported here illustrates further development of this framework.

Financial improvement planning techniques were applied as part of a general support programme to local governments in Zambia through the SINPA (Support to the Implementation of National Plans of Action) programme. SINPA, a Netherlands Government supported programme operating in Zambia, Bolivia and Bangladesh, aims to build sustainable local capacity for the effective management of urban development, with the initial focus on selected pilot cities in each of the countries. The particular city involved in the Zambian case, Kitwe, is located on the copperbelt, which has experienced a substantial decline in its regional economy. The effect has been to substantially erode the local economies and financial bases of the cities and towns along the copperbelt, including Kitwe. In addition, the decentralisation process in Zambia has witnessed several controversial policy decisions that have had a negative impact on the financial viability of all Zambian local governments. In Zambia, SINPA is assisting to build a partnership of support between the School of Built Environment at the Copperbelt University located in Kitwe, and the Kitwe City Council (KCC).

Not surprisingly, during a strategy exercise the KCC identified 'enhancement of the Council's revenue base' as its highest objective (KCC, 1998). A team of international and domestic professionals has been working with KCC councillors and officials on this issue since early 1999. This report is based on these efforts (Ndeke, Chitembo and Dauskardt, 1999) and provides several observations concerning the relevance

and application of financial improvement planning techniques in local governments experiencing severe financial difficulties.

The first section of the report covers how the basic framework for financial improvement planning was adapted and extended for application in Kitwe. In the second section, the results of the financial analysis of the KCC are summarised. In the third section, the package of reform measures is outlined. Several observations and recommendations resulting from the work regarding the application of financial improvement planning are made in the third section, before the final conclusion.

## Developing the Financial Improvement Planning Framework

A framework for financial improvement planning and a toolbox of techniques are set out usefully in McMaster's *Urban Financial Management: A Training Manual* (1991) which draws together significant work supported by The World Bank and United Nations Centre for Human Settlements in this area. A more thorough general examination of local government revenue, and to a lesser extent expenditure issues is found in Bahl and Linn's (1992) *Urban Public Finance in Developing Countries*. Regarding financial improvement planning, McMaster's framework is appealingly logical, suggesting a threefold strategic focus on:

- 1) Improved revenue mobilisation.
- 2) Greater expenditure planning.
- 3) Increasing private (including community) participation in the provision of urban services.

The analytic framework has been further developed in subsequent applications of financial improvement planning. One useful example is the framework used in the Asian Development Bank's support programme for municipalities in Karnataka State in India (ADB, 1998). This framework covers:

- 1) Accounting Reform
- 2) Revenue Improvement Planning
- 3) Operation and Maintenance Planning
- 4) Asset Management Planning
- 5) Debt Management

In a conventional situation, a financial analysis framework – which establishes and projects the relationships between revenue generation, expenditure and the resulting financial balance – can be developed and used to inform actions in each of the three strategic focus areas. The financial analysis framework is fed with revenue and expenditure data over several years for the local government concerned, estimates of population size and inflation rates, additional relevant information that may be available and comparative information on other local governments in the country. While this data is considered fairly basic and should be available for most financial improvement planning instances, this is not always the case.

During the initial phases of the work in Zambia, the financial improvement planning framework was both extended and focused to suite specific circumstances and data availability. An investigation of the potential for public private partnerships in the various core functions of the KCC was undertaken as a separate exercise. This was conducted in close co-ordination with the work on the council's financial situation (with obvious overlaps), but allowed the financial work to focus more intensively on identifying more basic and immediate financial actions that could be undertaken to stabilise the KCC's financial situation. The financial improvement planning work followed a strategic approach built around four pillars, namely:

- 1) Improving basic financial management systems and practices.
- 2) Increasing revenue.
- 3) Reducing expenditure.
- 4) Building internal financial management capacity to undertake reforms.

Notable first is that it was considered important to focus specifically on improving several basic financial management systems and practices. This was considered to be required to promote corrections in the underlying financial management system on the base of which various further revenue and expenditure improvement actions could be undertaken. Second, and specifically with the implementation and longer-term sustainability of the financial remedies in mind, there was a need to focus on building the financial management capacity of both councillors and officers located in specific strategic areas of the KCC. Providing capacity building support in strategic areas has proven to be a significant strategic intervention to support financial improvement.

There were several further considerations that informed the financial improvement planning framework that was adopted. As is outlined later, a number of adaptations and improvisations were required to the financial improvement planning techniques used to overcome problems with obtaining reliable basic information and the lack of

effective information systems (electronic or otherwise) within the KCC. This is especially interesting, as it is probably representative of the experiences of professionals working in many similar cities in developing countries. If for professionals this is a source of both great challenge and frustration, for the practitioners in local governments themselves it must present a constant obstacle to their effectiveness.

A major concern from the start of the programme was to ensure that at least a core of the recommendations for financial improvement would be adopted by the KCC. The approach adopted was to focus on developing a fairly comprehensive strategy and programme of financial improvements, but then to focus increasingly around a more limited number of key actions which were more likely to be undertaken by the KCC in the short term. The selection of key action areas was done through strategy discussions within the team and through discussions with KCC councillors and officials, thereby increasing the likelihood of their application.

A final consideration relates to the intrinsically sensitive nature of work on financial improvement. Focusing on financial matters takes one fairly rapidly to the heart of any organisation. As such, numerous professional and political sensitivities are encountered. The positive attitude that had been established among KCC councillors and senior officers toward the SINPA programme was important in overcoming these problems. The systematic work to embed the programme within the local government by especially the local counterparts and the local project leader since the start of the programme has been critical for ensuring that the financial improvement planning recommendations have been considered and in many cases are being applied. Also important was to undertake the work with frequent and close interaction with KCC senior officers.

## Applying the Financial Improvement Framework: Results from Kitwe City Council, Zambia

An initial financial analysis was conducted of the KCC early in 1999. The results of the financial analysis are summarised below, beginning with the policy context for local government finances in Zambia and moving into a summary of the particular situation in Kitwe.

### Policy Context -- Decentralisation Decisions and Local Government Finances in Zambia

The World Bank (2000, p. 46) recently included Zambia among several countries where decentralisation has not resulted in the centre relinquishing much control. Currently, the sharing of functions between central and local government in the

country is not clearly defined, is poorly co-ordinated and fragmented (Saasa et al., 1999). Responsibilities are shared between central and local government in a number of areas, including areas of general administration, health, housing, community and economic services. Central government plays a proportionally greater role in education and health while local governments has greater responsibility for community and economic services.

A number of policy decisions by the Government of the Republic of Zambia (GRZ), several in the period of a decentralisation programme, have adversely affected local government finances in Zambia. Reports prepared by the Local Government Association of Zambia (1997, 1998) review the evolution of local government finances in the country since 1960 (see also Saasa et al, 1999 for a recent review of local government finances in Zambia). 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. During this period, GRZ as part of an overarching socialist policy declared all land in the country as having no value. This single act fundamentally undermined the property tax system that was a vital component of local government's own revenues. The full consequences of this act can be seen in international comparison against the emphasis given in other developing countries to property tax reform as a basis for local government financial viability (see Rosengard, 1998). The function of electricity distribution was also withdrawn from local governments.

The 1981 to 1990 period 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, however, without the corresponding transfer of fiscal resources. In addition to these unfunded mandates, local governments themselves embarked on a number of loss-making commercial ventures.

From 1991, several further measures have been introduced by GRZ which have had detrimental effects on the local government financial system. These include:

- The withdrawal of all GRZ grant-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 Rating Act of 1997.
- A GRZ instruction prohibiting the eviction of rent or payment defaulters from local government owned houses.
- The forced sale of local government -owned houses by GRZ decree to sitting tenants at below market values, reducing both the assets and rental incomes that these represented to local governments.

These measures have dramatically cut into local governments' own-revenue bases and have had a catastrophic impact on their financial viability. In addition to the economic and social damage caused by undermining the effective delivery of municipal services, consequences may also be expected on overall taxation levels (certainly one response of KCC has been to double local taxation rates). Such policy decisions constitute a list of ill-advised actions if effective decentralisation is really sought and raise questions about the political commitment and technical capacity around decentralisation in the country. Nevertheless, this is the policy context within which KCC functions.

### Financial Position and Financial Management in KCC

The city of Kitwe has experienced deteriorating conditions in the local economy caused by the poor performance of the national economy and the slow process of privatisation of the copperbelt mines, resulting in major impacts for local, principally upstream, industries. Along with the impact of the various GRZ decisions outlined above, the financial position of the KCC has been strongly affected by the decline of the local economy. This decline has resulted from the high dependence of the local economy on copper mining, an industry that has seen a decline in international demand, and locally, a major restructuring of the industry (privatisation).

KCC prepares an incremental budget covering its January to December financial year. Budget variances are high. Overall, budgeted figures are usually around 25% over actuals, while budgeted revenues are as high as 50% higher than actual revenues collected. The budget floats somewhat above financial reality and is of questionable use for financial management. While most conventional financial management and accounting systems are present in KCC (KCC, 199?), in reality the local government is managed primarily on a cash basis, with daily cashbook management and chasing funds to meet monthly salary payments predominating.

Establishing the precise financial situation of KCC is a difficult exercise. In 1999 when the financial analysis was undertaken, the most recent audited figures for KCC were for 1988 (KCC, 1999a), while unaudited accounts were available up to 1995 (KCC, 1990-1995). Financial actuals were not readily available. Figures used for the analysis were assembled through frequent interactions with the finance and computer departments. In 1998, receipts and payments data for the KCC's five main funds (see Table 1) indicated an overall deficit of K386 million (US\$ 76,000). However, these figures include approximately K1.2 billion (US\$ 235,000) from the sale of council houses and a (US\$75,000) surplus on the water and sewage fund. The sale of housing assets represent a once-off income and the water and sewage department is in the process of being separated into a stand-alone utility company under a World Bank assistance programme. Much of the proceeds from the sale of housing assets were reportedly used to cover recurrent expenditures. Excluding exceptional receipts from the sale of assets and the water function that is soon to be corporatised, the KCC deficit was estimated to be approximately K1.9 billion (US\$ 373,000), or 37%.

**Table 1: Receipts and Payments on KCC Main Funds, 1998 (K '000)**

	Expected to Remain with KCC			Expected to be Sold / Corporatised				Grand Total
	General Rate Fund	Low Cost Housing	Sub-Total	Taverns	Water and Sewage	Sale of Houses	Sub-Total	
Receipts	1,533,400	470,300	2,003,700	1,350,900	2,417,600	1,198,000	4,966,500	6,970,200
Payments	(3,005,200)	0	(3,005,200)	(1,413,300)	(2,036,400)	(900,800)	(4,350,500)	(7,355,700)
Surplus / (Deficit)	(1,471,800)	470,300	(1,001,500)	(62,400)	381,200	297,200	616,000	(385,500)

Source: KCC Finance Department (1999b)

High inflation had allowed KCC to clear various outstanding debts, however, when the analysis was undertaken KCC had overdraft facilities of around K234 million (US\$ 46,000) being serviced at an interest rate of 55% which were being used for 'rolling borrowing'. KCC also has African Development Bank and World Bank loans for restructuring and rehabilitation of the water and sewage services. Servicing on these loans will commence in several years time.

#### Revenue Trends

Trends in KCC's revenues were examined over recent years (KCC, 1995-1999). Special purpose and discretionary grants from GRZ are no longer received by KCC. In 1999, KCC budgeted for an estimated income of K 6.8 billion on its general rate fund from 34 sources. The nine largest sources contribute some 90% of revenue, with property rates contributing almost 60% of revenues (see Table 2). Note also from Table 2 the considerable differences between budgeted revenue for 1999 and revised



estimates for 1998 which are closer to the amounts actually collected, illustrating the extent of inflation of the budget.

**Table 2: Major Sources of Estimated Revenue to the General Rate Fund, 1999 (K '000)**

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

Source: KCC Finance Department (1999)

There are several notable weaknesses to the property tax system in Kitwe. Until the 1998 supplementary roll, property valuations covered buildings only as land had been considered to have 'no value' since the 1975 GRZ decree to this effect. Importantly, the new Rating Act of 1997 now provides for the valuation of both land and buildings. The Rating Act provides for an inordinately wide range of exemptions of property types from property taxation. Furthermore, a number of exemptions from the valuation roll were identified that do not conform to legislation. Of the K 23.8 billion (US\$ 4.6 million) of exemptions from property taxes, representing some 9% of the total valuation roll, K 1.2 billion (US\$ 235,000) or 5% of properties were questionable exemptions. In general, there appeared to be weaknesses in the integrity of the valuation roll. The ability to maintain the valuation roll is likely to have reduced further as only two staff members, of whom one has experience in valuation, now staff the valuation section. Only 26% of eligible property taxes are actually collected. The low collection of property taxes is part of a wider problem of revenue collection in the local government discussed later. Finally, connections and the transfer of information between the engineering and planning departments and the valuation section where the main valuation roll is maintained no longer operate.

In 1998, property rates were 0.5% p.a. for residential and 1.5% p.a. for commercial and industrial properties. In 1999, KCC increased all property taxes by 100% to 1% and 3% respectively in the face of an anticipated deficit of K3.3 billion (US\$ 650,000) for the year. Given the large number of exemptions and the poor collection rate, it is not certain that the increased property rates will lead to a real increase in revenues. A

trend is likely of the local government attempting to collect an increasingly higher rate of taxes from a shrinking proportion of potential taxpayers with a possible net decline in revenues.

Performance on several of the other main revenue contributors in Kitwe was also found to be problematic. This was exacerbated by the use of a centralised and outdated computer system, with all data entry undertaken by a data entry staff pool and limited potential for crosschecking by responsible divisions and departments. Rental charged in housing owned by the local government was well below market rates (as little as K10, 000 or US\$ 4 per month) and a GRZ decree had prohibited the eviction of housing rental or purchase defaulters. Similarly, daily premiums at the public markets were low and it was unclear what portion of revenues collected from the market actually found its way to the KCC's accounts. Prior to 1999, rentals charged to taxi and bus operators for use of the bus stations in Kitwe had not been adjusted for many years.

Of the main revenue sources of KCC, the personal levy had possibly the highest collection rate at around 50%. The personal levy is a tax on employees, set by the GRZ and collected from employers by KCC. However, the personal levy has a maximum annual cap of K15, 000 (under US\$ 3), again set by GRZ. In addition, the base of the personal levy has been eroded due to retrenchments from the copper mines and the decline of employment in related industries in Kitwe.

KCC also operated a number of 'commercial' activities, primarily taverns involved in the sale of beer and traditional beer, but also a hotel and various guesthouses. While these commercial activities generated K1.3 billion (US\$ 260,000) of revenues in 1998, they were nevertheless demonstrated to have systematically run deficits (see Table 3). There was interesting opposition initially from some parts of KCC to the recommendations that these commercial undertakings should be disposed of by the KCC as rapidly as possible. Counter-proposals included possible borrowing to refurbish taverns and increase the scale of commercial activities. Fortunately, KCC has now embarked on a process to lease out or sell taverns and other commercial undertakings.

**Table 3: Income and Expenditure of KCC Commercial Undertakings, 1990-1995, 1998 (K '000)**

	1990	1991	1992	1993	1994*	1995	1998
Income	37,375	70,269	184,725	520,374	594,214	858,620	1,350,900
Expenditure	(49,185)	(72,499)	(211,242)	(609,826)	(406,859)	(931,176)	(1,413,300)
<i>Surplus / (Deficit)</i>	(11,809)	(2,230)	(26,516)	(89,451)	187,355	(72,555)	(62,400)

\* Possible anomaly due to record errors or disposal of commercial venture/s.

Source: KCC Finance Department, Abstracts of Accounts (1999)

The remainder of the 34 revenue contributors were minor or ad hoc sources. Several were collected by line departments and again it was unclear what proportion of revenues collected were reflected in the KCC accounts. It is likely that the cost of collection is greater than the revenues generated from many of the smaller revenue sources.

Arrears on all revenue sources in the general rate fund were considerable, at around K 4.6 billion (over US\$ 900,000) by the end of 1998 (see Table 4). The outstanding arrears are almost three times larger than the revenue actually collected from these sources in 1998. There are reports of undue interference from within and outside the KCC in the treatment of arrears. Arrears on the water and sewage accounts stand at K 13.9 billion (US\$ 2.7 million).

**Table 4: Arrears on the Main Revenue Sources of the General Rate Fund, 1998 (K million)**

	Arrears
Rates	2,022
House Rents (Selfpayers)	1,761
Standing Charges	394
House Rents (General)	371
Personal Levy	81
Total	4,631

Source: KCC Finance Department (1999)

The low collection rates and high arrears levels of the KCC are the result of a number of factors. The reduction in visible services provided by the local government has resulted in growing reluctance among the public to pay, made worse by the lack of consistent and effective action by the local government against defaulters. Poor integrity in revenue databases and weaknesses in oversight and checking procedures for maintenance of these databases also limits the effectiveness of the local revenue net. Political interference has underlain many of the problems being experienced.

## Expenditure Trends

KCC is responsible for the provision of a range of services, including social services, housing, refuse collection, road maintenance, water and sewage and public health. As part of the support programme, specific work was undertaken to assist KCC to identify and focus on conducting solely its core functions. While revenues had been falling in KCC, little contraction of expenditure had taken place. The effect was to see administration and salary expenditure occupying a rapidly increasing proportion of overall expenditure (see Table 5). By 1998, the salary bill was 92% of revenue collected in that year.

**Table 5: Proportional Expenditure by Standard Category, 1990-1995, 1998 (%)**

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

Source: KCC Finance Department Abstracts of Accounts.

Not surprisingly, apart from the purchase of several KCC vehicles, there has not been significant capital expenditure by KCC in recent years. The falling real revenue collection and growing salary costs as a proportion of expenditure will continue to squeeze capital spending. 'Off-budget' capital expenditure occurs in the water and sewage section under the ADB and World Bank loans.

Left unchecked, the increase in salaries as a proportion of income places KCC in a 'Catch-22' situation. Increasing amounts of income are used to pay salaries and to meet conditions of service agreements (KCC 199c, 1999d) leaving increasingly less money for capital works and visible service delivery activities. This affects performance in the local economy and the overall ability of KCC to collect revenues (with increasing default levels). Moreover, KCC becomes trapped in a situation where it does not have sufficient funds, and possibly political commitment, to meet retrenchment expenses. A possible way of breaking the cycle is to develop a reserve fund for retrenchments, potentially sourced through proceeds from the disposal of commercial undertakings and from introducing various savings measures.

## Financial Management Capacity

A final consideration concerned what human resource capacity existed within KCC to remedy the situation. The general qualifications of finance department staff involved in financial management activities in the KCC were assessed. While general qualification levels were moderate and certainly not weak, staff turnover was high and staff was

rotated frequently between the main finance sections (this is done partly as a control measure). Most striking was that while there appeared to be several skilled and capable staff in financial positions, most were demotivated by the overall problems experienced in the system and from frequent interference in financial management matters. Most councillors had little or no training or experience in municipal financial management, including those on the strategically important Finance and General Purpose Committee of the council.

Assessing the financial management capacity of the KCC was important to inform both the nature of financial improvement measures that were to be proposed, and to structure capacity support interventions consistent with proposed financial improvement measures.

#### Review

A number of conclusions were made regarding the financial position of KCC, notably:

- Transparency and accountability in the financial management of the local government was inadequate, seen most strongly in the absence of both recent audited and unaudited accounts..
- The termination of GRZ transfers has fundamentally undermined the viability of the local government. This is consistent with international trends suggesting that it is unlikely for a local government system to function without effective fiscal transfers from the national government.
- The poor conditions in the local economy are further undermining financial viability, particularly affecting the overall ability of residents to pay for services and directly reflecting on employee based taxation.
- The KCC already had a large range of revenue sources (some 34), including taxes, levies and user fees. In most instances, these charges had not been adjusted to keep pace with inflation and were well below economic levels.
- The basic integrity of several of the taxation and user fee databases, underlying the billing systems, was in question.
- Collection performance on all revenue sources was very low. Arrears were high. There was reportedly fairly frequent interference in the collection of revenues and action against arrears and defaulters.
- 'Commercial' undertakings were loss-makers and had systematically run deficits.

The basic observation was that KCC was not effectively taxing its current revenue base. In this context, introduction of new taxes, levies or charges would lack credibility and would be unlikely to bring in more revenue than they would cost to administer. Raising taxation, levies or charges alone (as had been done in 1999) was likely to lead to fewer people being taxed increasing higher amounts. Overall, this would be likely to reduce and not increase the revenue accruing to KCC. In general, without a return of GRZ fiscal transfers and an improvement in the local economy, the basic viability of the local government would seriously be in question, irrespective of what remedial measures are introduced.

On the expenditure side, KCC had not been reducing expenditures, and especially its salary bill, to reflect the decrease in revenues. The result was that salaries, at the cost of capital expenditure and visible service delivery consumed a growing proportion of expenditure. Without significant downsizing, this expenditure pattern would be expected to continue. Considerable expenditure is also made on non-core activities. Most of these are run at a loss, contributing further to the overall deficit position of KCC.

In general, however, the generally weak financial position of KCC is probably the dominant impression. It is questionable to what extent the KCC will be able to effect viability without resumption of national and external support and a dramatic improvement to local economic conditions. To this extent, the proposed financial improvement measures take on more of the nature of crisis management with the hope that there will be improvements to the general environment for KCC in coming years.

## Recommended Package of Financial Improvement Measures

The financial improvement measures required for a local government facing a situation such as in Kitwe go further than introducing modest technical improvements or refocusing any existing strategic direction. Instead, the measures required are of a more fundamental nature, and need to be seen as part of introducing a substantive strategic focus to the local government's financial management activities.

In the case of KCC, the strategic logic of the proposed financial improvement measures was to introduce selected changes to financial management practices and systems to provide a more effective management base for further measures to increase revenues and reduce expenditures. Substantively, the essence of the proposed revenue and expenditure measures were a dual focus on increasing revenue collection from the existing revenue base while simultaneously reducing

expenditures in several areas to create room financially for further financial and organisational reforms. A programme of capacity support was designed to dovetail with the introduction of the various improvement measures, thereby assisting to build a strategic core of trained financial management personnel potentially driving financial change.

The financial improvement measures were therefore structured into the four main areas of the financial improvement planning framework that was developed as follows:

- 1) Measures to improve general financial management practices and to establish a credible information base for strategic financial management.
- 2) Measures to increase revenue collection.
- 3) Measures to reduce expenditure.
- 4) Measures to build general financial management capacity within KCC to undertake financial improvement measures and to embark on a more strategic approach to financial management.

The package of recommended financial improvement planning measures made to the KCC followed a *focus area* and *action steps* format. Key focus areas were identified in each of the four strategic financial improvement planning areas. In the case of each key focus area identified, a programme of practical actions (action steps) was developed. The detailed financial improvement recommendations made to KCC (Ndeke, Chitembo and Dauskardt, 1999) will not be repeated here. Rather, the focus will be on the strategic basis and thrust underlying the recommended financial improvement planning package.

### Improving Financial Management Systems

One of the most significant difficulties faced by KCC in addressing its financial situation was the lack of credible information and information systems on which to base financial management. Without accurate and readily available financial information, it is difficult for councillors to exert their oversight responsibilities on council activities and spending, and for KCC's senior officers to realistically plan and manage their activities. This was seen both in the difficulties experienced by the team in assembling an accurate picture of the financial situation of the council, and in the substantial budget variances and the generally unrealistic nature of the budget. In particular, many years of incremental budgeting and a preference to focus on speculated revenues rather than on real revenue collection, had reduced the value of the KCC budget as a financial management tool. Similarly, effective internal control over the use of funds

was needed to ensure that spending takes place responsibly and within approved budgets. It is critical for these basic systems of financial planning, management and control to operate effectively. The essence of the financial improvement planning recommendations relating to financial management systems were threefold, namely:

- 1) *Rehabilitation of the budget as a financial management tool* – a more accurate and realistic budget would be fundamental to better financial management within the KCC, serving to inform financial management decisions and to track reform progress and general financial performance over time. The programme of basic action steps focused first on bringing the budget process timing and format in line with the existing standing orders. Second, a zero-based budget exercise was recommended for the following financial year to bring the budget more in line with reality and to establish a budget baseline for further financial management. Finally, simple three-year projections were recommended to introduce strategic direction into budget thinking.
- 2) *Strengthening of financial control systems* – while several expenditure control systems were in place in KCC, several strengthening actions were designed. The purpose of these measures was to enhance visible expenditure control in several key areas. The action programme included elevation of the internal audit function and changes to reporting relationships, a fast-track process for outstanding audit years and an emphasis on completing accounts for the most recent financial year, and several changes in procurement system arrangements.
- 3) *Modernisation of financial information systems* – the third strategic focus area was of great importance for building more effective financial management. Many of the local government's difficulties with financial management related to the lack of readily accessible and reliable financial information. The centralised and dated computer system resulted in significant integrity problems in recording financial information and great difficulties in obtaining reliable structured financial outputs. Most of the problems would be readily resolved through the introduction of an integrated financial information system and related technology. However, given the poor financial situation of the local government, based on internal funds alone this would be an impossibility. The essence of the action programme therefore related to determining the system needs of the local government and obtaining external support for obtaining and operationalising an integrated financial management system.

Strategically, this component of the financial improvement planning was designed to establish a more realistic baseline and basic budgetary system for financial management. Upstream, this would be strengthened through modernisation of the



information system and improvements to the entry of financial information into the system. Downstream, it would be strengthened by more visible systems and actions around expenditure control. This component is fairly fundamental to the introduction of a more strategic orientation to financial management. While many subsequent financial improvement planning measures dealing with revenue improvement and expenditure reduction are possible to undertake irrespective of the financial management framework, they become of real value when incorporated into a more systematic and strategically oriented approach financial management.

## Increasing Revenues

At the time of the financial analysis in 1999, Kitwe faced a difficult situation with regard to its revenue position. In essence, the KCC's main options were to increase revenues by expanding the revenue base (i.e. by taxing more people and companies or by introducing new forms of taxes), or improving collection from the existing revenue base (i.e. by making sure that everyone who is supposed to pay taxes does so). As noted previously, with 34 taxes, levies and charges used already and with the local economy declining, there is little realistic potential for introducing new taxes. Many of the existing smaller sources of revenue may in fact cost more to collect than the money they bring in. The financial analysis indicated, however, that there are many people who are not paying the taxes they are meant to and that KCC is collecting a relatively small portion of what it should be from existing tax payers. The fundamental strategy for revenue improvement was therefore to focus on improving the collection of revenues in the major revenue source area (e.g. property rates, personal levies, standing charges).

The financial improvement planning recommendations relating to revenue generation therefore covered the following:

- 1) *Creating an institutional focus for revenue improvement* – creating an overall strategic focus in revenue activities can be difficult when various components of revenue (database maintenance, billing systems, collection, legal processing of defaulters, etc.) are spread across several divisions and departments. It was recommended that a revenue improvement task team be established, supported by representatives from relevant revenue divisions to build co-ordination across revenue functions, to introduce strategic direction and to streamline and ensure rapid support for revenue improvement measures to be introduced. The revenue task team would report also to the relevant financial sub-committee of the council, to establish a closer relationship between the responsibilities of the appointed councillors and the revenue position of the council. The revenue improvement

team would act as a driving force and support centre for other revenue improvement measures to be introduced.

- 2) *Streamlining existing revenue sources* – it is probable that many of the smaller revenue sources cost more to collect than the value of the revenues that they bring in. A systematic cost of collection versus revenues collected analysis of the 34 revenue sources was recommended to encourage the local government to focus on major sources of revenue and to terminate marginal sources. This will allow the local government to focus its human and financial resources on those revenue sources that have potential to make a real impact on the financial position. Termination of several minor revenue sources could also have positive impacts for public perceptions of the local government.
- 3) *Restoring integrity to the main revenue databases* – a number of measures were encouraged to improve the integrity of the databases on which the main property and employee taxation and fees systems of the local government are based. This included particular attention to the property taxation system and the integrity of the property valuation roll. Measures included improved crosschecking and the use of alternative information sources to establish tax liability.
- 4) *Strengthening debtor management* – the financial analysis had indicated that the arrears and outstanding debtors' situation of the local government was poor. This situation had worsened due to the lack of perceived and effective action against defaulters. Introduction of a more rational and systematic protocol for arrears and defaulters to be co-ordinated across several divisions by the revenue team was recommended. Clear and systematic action against defaulters was required to restore credibility to the taxation systems.
- 5) *Revision of taxation levels and charges* – further increases to taxation levels were not recommended given the poor economic conditions prevailing in the area. However, fees charged for the rental of various council properties were below market and had not been increased for several years. Increases to market rates and the use of annual inflation indexing were recommended. Water tariffs were being raised closer to cost recovery levels as part of the corporatisation of the water and sewage department.
- 6) *Disposal of non-core functions and assets* – the disposal of non-core functions and assets, especially the various commercial ventures of the local government, were recommended to provide additional one-off revenues. This should form part of overall improved system of asset management.

The strategic focus of the revenue recommendations therefore related primarily to improving the collection of revenues from the existing revenue base of the local government. A final consideration related to the increasing gap that had grown in Kitwe between the collection of revenue and the visible delivery of quality infrastructure and services by the local government. This situation led to increasing reticence and resentment of the public to pay taxes and charges due to the local government. A recent review of international lessons in property tax reform strongly emphasises the importance of media campaigns and the management of public perceptions when changing taxation systems (Rosengard, 1998). Revenue potential and visible delivery is very closely linked. Timing proposals were made to sequence the revenue improvement to coincide with a major road resurfacing programme being undertaken with support from the World Bank. This programme offered a strategic opportunity for the local government to begin to re-establish integrity with the public and to motivate revenue collection alongside the visible delivery of services.

### Reducing Expenditure

In the context of reducing revenues, the need to manage and reduce expenditure becomes critical. As noted previously, the increasing proportion of expenditure being taken up by salaries was systematically squeezing KCC, leading to a decline in visible delivery of services and hence greater difficulties in collecting further revenues. At the same time, the local government lacked available funds to finance the level of downsizing which would be required. So trapped, the expenditure reduction recommendations focused primarily on cutting expenditure in 'soft' areas to create more financial room for more fundamental expenditure reduction actions.

The measures to address expenditure involved:

- 1) *Improved cash flow and debt management* – the use of overdraft facilities as a 'rolling' borrowing mechanism at a high interest rate was resulting in significant additional expenses. It was recommended to renegotiate the current overdraft into a loan and introduce stricter controls on the use of overdraft facilities.
- 2) *Disposal of non-core functions and commercial ventures* – the financial analysis had indicated that considerable expenditure was being made on non-core functions and particularly the loss-making commercial ventures. Disposal of these activities has the potential to eliminate expenditure areas while also may have potential to generate some revenues through disposal of related assets.
- 3) *Increased outsourcing* – outsourcing where possible and appropriate of core functions and services that would remain the responsibility of the local

government was recommended. If conducted effectively, this could increase value for money of the local government's expenditure by introducing innovation and efficiencies. Particular opportunity areas were identified as solid waste management and the maintenance and management of the public markets.

- 4) *Reduction of personnel expenditures* – in particular it is necessary for the local government to get out of the salary expenditure trap in which it finds itself. To do this it was recommended to review various provisions under the conditions of service and to undertake a staged and strategic downsizing of staff. Staff downsizing, primarily through retrenchment, would be initially in areas related to non-core functions that are to be disposed of and functions where outsourcing is possible. In the medium term, further downsizing would be informed by a more thorough organisational evaluation exercise. Staff downsizing should be phased to enable the local government to gradually increase its financial position to embark on further retrenchment. It was also recommended that proceeds from the disposal of non-core functions and related assets should be established as a restructuring fund to cover initial retrenchments until more budget space was cleared to fund downsizing from operational expenditure.

The essence of the financial improvement planning recommendations on the expenditure side related to expenditure reduction in non-core function areas and on creating financial space to embark on a strategic downsizing exercise. In many respects, this restructuring of the functional and personnel size of the local government would make the organisation more consistent in size and function with the reduced circumstances of the area as a result of economic decline. It would be unrealistic to expect the local government to continue to operate in the fashion that it had during more favourable economic times.

### Building Financial Management Capacity

It is important that KCC builds a sustainable foundation of financial management capacity both of councillors, management and staff. New skills are also needed for new roles. For example, outsourcing implies a different role for the city council. Capacity building will be required in setting performance requirements, contracting out, contract management, and so on. A programme of financial management capacity building was recommended, focusing as much as possible on targeted on-the-job training, short seminars, workshops and courses. Strategically, the provision of training to a core of financial management personnel would provide external support and guidance for the financial improvement planning measures to be implemented. In particular, it was intended that strategic capacity building interventions would build capacity in strategic locations within the local government to undertake financial

improvement planning. As such, while the training is intended to cover financial management in an ideal situation, it is also oriented on financial management in a less than optimal organisational, political and economic setting. Technical areas that are to be dealt with include:

- General local government financial management practices
- Current financial management practices and procedures and alternative options (drawing in particularly international experience)
- Analytic tools to assess the current financial 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

An initial financial management capacity support framework, targeting various levels and functional areas of the organisation, was developed and prioritised through discussion with the local government. From this, a two-part financial management capacity support programme was developed. The first part involved providing a series of short training modules (less than 1 week in duration) targeted to specific staff and following the prioritisation of financial improvement planning measures to be implemented. Initial training is to be provided in debtor management, budgeting techniques and consumer relations. The second part of the support programme involves developing a 'hands-on' financial management manuals tailored to the specific conditions and needs of local governments in Zambia, and the KCC in particular. The manual is developed in conjunction with the delivery of the training modules and includes material fed back through these training sessions and has the following goals:

- Capacitating Zambian local government personnel 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

The development of such a financial management manual therefore provides both longer-term support for training to the KCC and also enables similar training to be extended to other local governments in the country and region. The structure of the capacity support intervention and financial management manual is indicated in the box below.

#### **Structure of Local Government Financial Manual**

- Chapter / Module 1 : Introduction to the Local Government Financial System In Zambia
- Chapter / Module 2 : Role of Local Government Financial Management in Local Development
- Chapter / Module 3 : Local Government Revenue Sources and Collection
- Chapter / Module 4 : Debtor Management and Dealing with Non-Payment
- Chapter / Module 5 : Local Government Budgeting
- Chapter / Module 6 : Capital Budgeting and Investment Planning
- Chapter / Module 7 : Local Government Accounting Systems
- Chapter / Module 8 : Local Government Procurement
- Chapter / Module 9 : Local Government Borrowing
- Chapter / Module 10 : Financial Management and the Public
- Chapter / Module 11 : Financial Improvement Planning

Capacity support in financial improvement planning therefore can play an important strategic role. It can increase the penetration and application of improvement measures, help to introduce and support overall strategic direction for financial improvement planning under the curatorship of a strategic core of financial management personnel, and build the general capacity of the local government to remedy its financial situation over time.

### **Implications for Decentralisation and Financial Improvement Planning Practices**

A recent review of the financial situation of a sample of local governments in Zambia (Saasa et al., 1999) suggests that Kitwe in many respects is representative of the experiences of other local governments in the country. Similarly, local governments in other countries in the region and in other developing countries experiencing comparative developmental circumstances are likely to face similar financial difficulties and dynamics, albeit possibly at different scales or manifest in different ways. Based

on the application of financial improvement planning in this local government experiencing significant financial problems resulting from both local and national policy factors, therefore, several observations can be made regarding financial improvement planning practices and their relationship within decentralisation. These 'lessons' reflect both the experience of the particular case of applied financial improvement planning and also reinforce several general trends and observations regarding decentralisation and local government finances.

***1. Financial improvement planning in local governments should form an integral part of a country's decentralisation policy***

Financial improvement planning within local governments takes on greater importance within the context of decentralisation. Increasing functional responsibilities within urban areas that are growing geographically and demographically places a premium on sound local financial management. The 1999/2000 World Development Report (World Bank, 2000) emphasises the common international appreciation of the importance of developing effective and efficient local institutions of governance in countries undertaking decentralisation. The two main lessons regarding financial resource allocation and management by local governments are well made:

"First, subnational governments need resources commensurate with their responsibilities. Second, subnational authorities must operate under firm budget constraints, so that they do not spend or borrow excessively in the expectation of a central government bailout" (World Bank, 2000, p. 117).

The implication that responsibility for effective financial management must be vested within local governments themselves is clear. The extent to which local governments will be able to respond to this challenge is less clear, particularly in the face of increasing urban growth and possible distortions in the decentralisation policy environment. It can be expected that local governments are likely to increasingly delve into financial improvement planning, either on their own initiative or as a requirement within a decentralisation programme (see Suselo, Taylor and Wegelin, 1995). Here financial improvement planning might be both required for crisis stabilisation and / or for introducing refinements to existing financial management systems and performance.

In this context, it is likely that financial improvement planning will become of increasing importance to both local governments wishing to stabilise their existing financial situation and to those attempting to introduce greater efficiency in existing financial performance and financial management systems and practices. Similarly, for central governments committed to achieving effective decentralisation, ensuring that support for local governments to undertake financial improvement planning is also important.

***2. Poor application or design of decentralisation policies, and the lack of genuine political commitment to implementation, can fundamentally affect the financial viability of local governments***

The impact on local government viability of the various unwise policy interventions by central government in the Zambian case emphasises the importance of a stable and effective policy framework for effective decentralisation. Interventions from central government directly affected the financial viability of local governments by removing or disrupting several of their sources of revenue, including effectively terminating fiscal transfers from central government. These interventions also created considerable uncertainty for local governments regarding their basic autonomy, the security of their revenues and the possibility of further such interventions. One effect was to reduce the perceived responsibility of local governments to deal with their own affairs and to replace it with a seemingly close dependency on direction from central government in an unpredictable environment.

It may be debated whether the interventions of central government in Zambia have been a result of poor policy capacity at central government level, or rather have been more intentional acts underlying a more fundamental lack of political commitment to decentralisation. Nevertheless, the lesson is that establishing sound financial management over a viable local government is extremely difficult in the absence of a stable and cohesive policy environment for decentralisation.

***3. Stable and predictable inter-governmental fiscal transfers are vital for the financial viability of local governments***

The reduction and eventual termination of fiscal transfers from central to local governments in Zambia has fundamentally brought their future viability into question. It is internationally acknowledged that local governments are not able to fund all of their activities solely from their own revenues without some form of sharing in national fiscal resources taking place. By terminating fiscal transfers to Kitwe, the GRZ has certainly undermined that local government's ability to function. It is unlikely that the local government will be able to operate effectively in future without a resumption of these transfers.

***4. Financial improvement planning in local government should form part of an overall organisational reform and development process***

Financial improvement planning can be an important process for a local government to undertake. Many of the measures likely to result from a financial improvement planning exercise will relate to organisational structure and personnel issues. To have



maximum benefit, financial improvement planning should be conducted as part of a wider organisational reform and development process. This implies both a wider and a longer term perspective. Wider in that it draws in a broader range of organisational and strategic issues of the local government. Longer in that it requires considering the nature of support and intervention required over a longer period of time. In the case of Kitwe, the financial improvement planning exercise formed part of such a wider organisational reform process, drawing in core functional evaluations, development of a broad developmental strategy, and examination of the wider strategic role and potential role of the local government within local economic development. So, for example, the work being conducted on opportunities for private sector involvement in core functional areas of the local government has resulted in proposals with significant organisational consequences as well as financial prospects, particularly with regard to the efficiency of expenditure. The strongly interlinked nature of financial, operational and personnel aspects of a local government suggests finally that while these issues should all be addressed within an overall organisational reform and development process, the work being undertaken to explore possible improvements in each area should be carefully co-ordinated and sequenced.

##### ***5. Effective process design can maximise the implementation of recommended financial improvement measures***

Financial improvement planning should be viewed as both a political and a technical process. It is also a process that by its nature deals with issues that are often sensitive to an organisation. While much of the information required to inform and develop strategic options can be assembled at a technical level, typically financial improvement planning recommendations have considerable organisational implications and would require significant political support to be adopted. A strong process orientation, both prior to, during and after a financial improvement planning exercise is therefore important. While this may slow down technical work, it is essential for maximising penetration of proposed measures. Prior to the exercise, efforts should be made to ensure that there is an adequate base of support for the exercise, especially at decision-making level, within the organisation. During the exercise, the process should focus on involving the personnel concerned, especially those who are likely to be involved in the implementation of recommendations. After the exercise, a consistent process is required to ensure that the recommendations are effectively considered by the organisation, prioritised and adopted. Attention should also be given to the longer term support for the personnel involved in implementation, which is where ongoing capacity support and development activities are especially important.

**6. *A strategic approach to ongoing capacity support and development is important for financial improvement planning in local governments***

Capacity development around financial management within a local government should be seen as one of the main tools available for financial improvement planning. In particular, if providing ongoing capacity support is viewed as a strategic opportunity for financial improvement planning, it has the potential to:

- Provide a platform for developing and maintaining a strategic focus around financial improvement within the local government, especially among a strategic core of councillors and officers who may become part of an ongoing capacity development programme.
- Transfer the necessary skills to enable key councillors and officers to implement the required improvement measures. Important in this regard is a focus on transferring actual financial improvement planning skills so that further improvement planning measures might be identified and developed by the local government itself.
- Creating a network of support for councillors and officers involved in financial improvement planning within the local government. This is especially important in cases such as that discussed in this report where councillors and officers might expect little, if any, real support for the improvement measures they are attempting to implement either from the mainstream local government organisation itself or from central government. A regular capacity building network can elevate the perceived importance of their activities and provide a support network.

**7. *Rebuilding the relationship between revenue collection and visible delivery is fundamental to financial improvement planning for a local government***

A break down in the relationship between the payment of taxes and user fees by the public to a local government and the visible delivery of quality services by that local government is probably at the base of many of the revenue collection problems experienced by local governments. This breakdown can result in a vicious circle of financial decline, worsened by inactivity or a late response by the local government. Declining revenue collection with constant or rising expenditure (especially salary) levels leaves less income to be spent on visible delivery of services. Less visible beneficial activity by the local government results in growing disillusionment among the public and a rise in non-payment. This in turn reduces revenues and contributes to the underlying service delivery problem. Certainly such a situation is occurring in the case

considered here. Breaking the vicious cycle requires joint action on the revenue (improved collection efficiency, consistent action on defaulters) and the expenditure side (maximising visible delivery of services with existing revenues). The basic orientation of financial improvement planning measures can be seen therefore to be focused ultimately on rebuilding the fundamental relationship between payment and service delivery in a local government.

## Conclusion

The use of financial improvement planning by local governments is likely to increase as decentralisation in developing countries continues. Moreover, the effectiveness of financial management by local governments will effect the overall effectiveness of a country's decentralisation policy. Application of financial improvement planning techniques under the SINPA programme illustrated some dimensions of this link between decentralisation and financial improvement planning in local governments. Several considerations have also been raised regarding the application of financial improvement planning techniques themselves. The work suggests ways in which the framework for financial improvement planning as applied in local governments can be further developed. From a practitioner perspective, this is particularly important as the framework that is adopted has significant implications for the nature of the recommendation package that is developed. Moreover, the importance of linking financial improvement planning to an overall framework of organisational improvement and development of local governments was emphasised. Applied financial improvement planning in local governments therefore presents both technical challenges and policy implications within the framework of decentralisation.

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