

Managing debt and the capital budget

Countries



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Clearview township was a town that had lacked a council manager for three years and population was increasing rapidly and had reached 25, 000. This growth necessitated Bill Harper, the new manager to adequately plan, manage and finance the highly demanded public services and infrastructure in the township. The township had to assume new mode of budgeting that would ensure increased ability to manage debt and financial capital. Due to poor previous management, it had no systematic program for road, storm water and other infrastructural improvement.

After attending to the staffing problem, the bigger challenge was to plan for capital improvement and infrastructural financial management for the township. Integrating the concept of advance planning which projected into the future concerns, Harper established the requirements of the township which he prioritized as a major option to reduce the township from dependence on debts. He therefore points out forward to major policy requirements that would help in improving the quality of the people in the township. 2. Key players involved.

Clearview finance management depended on the immediate manager who had to prepare the budgetary proposals necessary for the township. The citizens too were involved indirectly in that they had participated in the referendum to change the form of management from committee system to council managed system which was more responsive to their needs. As a result the council was established with the highest mandate for controlling the operations of the township. It was responsible for approving the budgets and hiring the staff.

It had fired the previous manager and also communicated to Bill Harpers on the problems of the council before he took office. All the departmental heads were involved in the financial management by preparing their immediate long term and short term budgetary proposals. However, their propositions had to be evaluated for consideration by the manager in the final budget. 3. Decision problems facing the key players As the core of the management in township, the council was under intense pressure to allocate a manager who would ensure that the township improved and grew from the point it was at to higher levels.

On his arrival, the council communicated the major problems which had to be resolved. Mr Bill Harper had a bigger problem of determining the priorities to attend to first in the budgetary allocation of the township. Besides, major dilemmas existed on how he would prioritize the major requirements and continue to finance the major capital improvement as well as providing the best long range financial structure for the community. Also, he had major pressure to establish a clear scheme that would ensure the present debt was repaid.

Both the council and the new manager were under intense political pressure as Harper was accused of introducing new guys into the township. He was accused of instituting a political dynasty that was meant to keep local people out reaching the council resources. This was dangerous as it could compromise his immediate good will of delivering the township from the immediate abyss. 4. Potential causes of action Having understood the problems that faced the township, the council agreed to look for a new manager who would assist in improving the management of the council.

Bill Harper studied and understood the problems which faced the township and hired professional experts to assist him in running of the township. He could use the pay as you go system which would ensure minimization of expenditures by the council and increase the taxes paid to eliminate the debt service. After establishing a clear prioritized system with immediate priorities being for capital improvements, roads resurfacing and rescuing squad, they would be paid for in cash to reduce the accumulation of debts which had increased and reached \$ 2. 5 million.

This option would on a long term keep the debts down but could leave the council with no running finance for other businesses. The council could rely fully on long and short term debt for all capital expenditures setting appropriate maturity dates so that all the capital expenditure would be financed during it's anticipated life use. This option would minimize greatly the short term costs but increase the the long term expenditure for the township. To add to that, the council could also rely on capital improvements with combination of of the short term debt and cash.

Addressing the main problems and putting the township to the infrastructural development and improving the services would ensure increased stability as the council had made the agendas of the new manager very clear at his appointment. 5. Recommended alternative A combination of cash and short term debts to improve capital base would be better for the council in that it had already cut his Bill Harpers proposed increase in cash expenditure with 50% in the next fiscal year.

Having increased the taxes in the township and established new management it would be possible to maintain the short term and long term

growth for the council. As a major advantage to the people and the management, the option would reduce the existing debt therefore assisting in the future independence. Though this option may leave little cash for new improvements, it is superior to exclusively relying on short term and long term debts for capital expenditures option in that the later may put the council into long term heavy indebtedness.

Increasing tax for the people may act as a recipe for new activism in the township and political reaction from the local politicians. In addition, using cash to reduce the town reliance on bonded debt would have been a good choice but the council had already declared 50% reduction on use in the cash expenditure for the next financial year.

Reference list Braun, J. P. Managing local government finance: Infrastructural demands versus debt. (Case study).