Chapter - 5

Municipal Finance
CHAPTER-5

MUNICIPAL FINANCE

5.1 FINANCE

In the words of Henry Ford, "Money is an arm or a leg you either use it or lose it". This apparently simple statement, is quiet meaningful, underlining the significance of finance. According to Ray. G.Janes and Dean Dudley the word finance directly originates from the Latin word "Finis”. To quote Husband and Dockery. Basically, the corporation finance serves two important functions First it is a means of assembling the funds necessary to initiate any new business. Second and perhaps more important is that, it provides the basis for continuous operations. The ever increasing urban population entails serious repercussions for the urban local bodies. They are under constant pressure for providing better and adequate level of services. The provision of urban infrastructure, its level and quality assumes further significance as these are instrumental in attracting and sustaining a wide range of economic activities in urban centers. The success of the economic reforms is dependent on productivity of urban economy. Despite this crucial role of urban centers, the availability of basic services has remained adequate, sizeable populations residing in them are without access to basic services such as water supply, sewerage, drainage, roads, street lights and collection of

garbage. The problem becomes more acute because provision of such services requires mobilization of financial resources, both for capital investment and recurring expenditure on the maintenance of the created assets. But over the years, the financial health of the Municipal bodies in the country has deteriorated considerably their own resources are inadequate, the grants-in-aid received from the governments are adhoc and insufficient which do not match their requirements and there are strict restrictions on borrowing from outside agencies. They also have to seek the approval of the state governments before effecting an increase in the existing taxes or imposition of new ones. Matters are further worsened because of lack of political will to enhance the revenue from existing tax structure. In order to secure their vote bank, arrears are waved off by the elected Councillors and regressive financial policies are implemented. In order to bring reforms in the finances of local bodies and also to allocate financial resources to them commensurate with their functions, the 74th Constitutional Amendment Act provided for setting up of the state finance commissions on the lines of central finance commission, within one year from the commencement of the Act and there after, every five years. They were to cover the following areas:

a) Distribution of Income between the State Government and Municipalities.

b) Determination of taxes, duties, tolls and fees to be assigned or appropriated to the Municipalities.

c) Grants-in-aid to Municipalities from the consolidated fund of a state.

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d) Measures needed to improve the financial position of the Municipalities and allocation of shares of such proceeds between Municipalities at all levels in a state.

The state Finance commissions (SFCs) set up after the 74th Constitutional Amendment, therefore, may be regarded as the first generation SFCs in the country. Between April and November, 1994, nineteen states setup such commissions. Two more followed in 1995 and one in 1997 making a total of twenty two. While Punjab and Rajasthan submitted their reports in December 1995, most others made them available only during 1996 and 1997. So far, 20th State Finance Commissions have submitted their reports including one interim report, in the case of Pondicherry.6 Local government finance has in the past, received little attention from the Union or the State government. Even the social scientists and the students of public finance have paid lesser attention and importance to the problems of finance of Municipal governments or the Panchayati Raj. We find that local finance is comparatively neglected part of public finance, just as local administration is a comparatively neglected part of politics and administration.7 Municipal finances are a necessary counter part of the Municipal Corporation function. Local self-government can work smoothly only when the resources are efficiently used. As far as the finances of a Municipal Corporation are concerned, it is a self financing body. However, state government sanctions the grant in aid of the Corporation for development programmes.8

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6 Institute of Social-Science( Panchayati Raj) update Delhi(1998)
Sound administration depends upon sound finance and sound finance depends upon sound administration. This applies to administration at all levels including local self government. Finance is the lifeblood of all monetary socio-economic formulations ranging from simple nuclear families to complex national and international organizations. The financial system is a subsystem of an administrative system.

The role of finance became more important in the context of development administration with the emergence of the welfare state. The government at all levels have undertaken tasks of the vast magnitude and proper performance of such tasks requires the provision of adequate finance. Through financing, every one enjoys some advantages from the services of government. Finance is the backbone of an organization. No organization can fulfill its objective without the support of adequate finance. The governments which have multi-dimensional responsibilities cannot achieve its social and economic objectives, without requisite financial resources. It has been rightly remarked that finance is the lifeblood of any government. Municipal Corporations need more and more taxes for their exclusive use. The autonomy of Municipal Corporations depends upon their ability to meet their obligations. The question of exclusive taxation by local bodies was taken up by a number of enquiry committees such as the local finance enquiry committee 1949-51 and the rural urban relationship committee (1963-66).

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5.2 **FINANCIAL MANAGEMENT**

Financial management is essentially an attempt to provide the solution to the three areas of decision-making discussed above. In simple terms, it means the entire gamut of managerial efforts devoted to the management of finances (both its sources and uses) of the enterprise. Traditionally, the basic objectives of Financial Management were the maintenance of liquid assets and maximization of the profitability of the organization. It has undergone a change. Today, ultimate objective of financial management is maximization of wealth. The objective of wealth maximization holds good for municipal financial management also. As we all know, municipal bodies or any governmental form of organization exists not for 'profit maximization' but for 'wealth maximizations'. In order to improve overall standard of living of people or society, government needs to maximize wealth and then to ensure equal distribution of wealth generated. Similarly, municipal bodies are expected to attain the objective of wealth maximization through judicious allocation and utilization of resources. In order to achieve this objective, municipal bodies must run their financial function as per modern financial management science as the discipline of financial management strives for 'wealth maximization'.

5.3 **BUDGET**

The term 'budget' means the plan of the expenditure and revenue to balance the expenditure of a public authority. In India, when we speak of the budget of a department, the word budget is used as an equivalent of

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13 Dr. Ravikant Joshi is presently working as an Advisor to Vadodara Municipal Corporation, Crisil Infrastructure Advisory – Mumbai and Youth for Unity and Voluntary Action – Mumbai.
the estimates or the expenditures only. The budget shows receipts and payments of the Government. 

5.4 MUNICIPAL BUDGET

Municipal budget is the annual statement of the anticipated Income and Expenditure already incurred and also for the ensuing period of time of the individual Municipal Council. Budget preparation is usually the occasion for determining the levels of taxation and the ceiling on expenditure. The main objective of the budget is to ensure that taxes, fees and levies etc are raised and money spent by the executive departments, in accordance with rules and regulations and within the limits of sanctions as authorized by the legislative council. The Councillors look at it as an opportunity to advance the interests of their wards. The state governments adopt it as a method of exercising control and enforcing uniformity in the interest of efficient functioning of local government institutions. Budget, is therefore, an administrative necessity as well as a legal obligation besides of course, being compulsory for local governments. The main functions and features of a local budget are:

1. It fixes the rates of local taxes, and the purpose to which the produce of taxation shall be applied.
2. The budget is a documentary evidence of policy-making, both short term and long term.
3. It is a plan of action.
4. It is the medium for ensuring that the money of the local authority are ultimately laid out in the way it has been decided.

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5. By providing suitable yardsticks, it helps to ensure efficient and economical administration.

**Budget Estimates**

1) The Corporation shall not later than the first week of February of every year, adopt for the ensuing year, a budget estimate which shall be an estimate of the income and expenditure of the Corporation to be received and incurred on account of the Corporation.

2) The budget estimates adopted under sub section (1) shall be submitted to the Government not later than the last week of February preceding the year to which, the budget estimates relates.

3) The budget estimates received by the Government under sub section (2), shall be returned to the Corporation before the 31st day of March after approval without any modification or with such modification as the Government may deem fit.

4) The budget estimate shall be prepared in such a manner and shall provide for all such matters, as may be prescribed,

**Power of the Corporation to alter budget estimates**

1) On the recommendations of the Commissioner, the Corporation may, from time to time, during the year;

   a) Increase the amount of any budget grant, under any head.

   b) Make an additional budget grant for the purpose of meeting any special or unforeseen requirement arising, during the said year.
c) Transfer the amount or portion of the amount of the budget grant under any head to the account of budget grant under any other head.

d) Reduce the amount of the budget grant under any head, provided that due regard shall be given to all the requirements of this act and in making any increase or any additional budget grant, the estimated cash balance at the close of the year shall not be reduced below the sum of one lakh rupees or such higher sum as the Corporation may determine in respect of each

e) Budget estimates.

2) Every increase in a budget grant and every additional budget grant made in any year under sub section (4) shall be made with the prior approval of the Government and after such approval shall be deemed to be included in the budget estimate finally adopted for that year.

3) The Commissioner may, from time to time, during the year:

a) Reduce the amount of a budget grant.

b) Sanction the transfer of any amount within a budget grant. Provided that every reduction if it exceeds fifty thousand rupees, shall be reported forthwith by the Commissioner to the Corporation and the Commissioner shall give effect to any order that may be passed by the Corporation in relation thereto.

4) The Commissioner may from time to time during the year, sanction the transfer of any amount not exceeding fifty thousand
rupees within a minor head if such transfer does not involve a recurring liability.

Financial Powers

Delegation of financial powers in Shimla Municipal Corporation is provided in following table:

Table 5.1
Delegation of Financial Powers

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Powers vested with</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Assistant Commissioner</td>
<td>Up to 20,000</td>
</tr>
<tr>
<td>2.</td>
<td>Commissioner</td>
<td>Up to 1 lakh</td>
</tr>
<tr>
<td>3.</td>
<td>House</td>
<td>Up to 5 lakh</td>
</tr>
<tr>
<td>4.</td>
<td>State Government</td>
<td>&gt;5 lakh</td>
</tr>
</tbody>
</table>

Source: Accounts Branch, Municipal Corporation Office Shimla

Power of a Corporation to Re-adjust Income and Expenditure during the year

1) If at any time during the year, it appears to the Corporation that not withstanding any reduction of budget grant that has been made under section(81), the income of the Corporation fund during the same year will not suffice to meet the expenditure sanctioned in the budget estimate of that year and to leave at the close of the year, the cash balance specified or determined under the provision to sub-section(1) of section(81), then it shall be incumbent on the Corporation to sanction forthwith any measures which it may consider necessary, for adjusting that years income to the expenditure.
2) For the purpose of sub section (1), the Corporation may either reduce the sanctioned expenditure of the year so far as it may be possible to do with regard to all the requirements of this Act.

**Provisions as to unexpended budget grant**

If the whole or any part of any budget grant included in the budget estimates for a year remains unexpended at the close of that year, and the amount thereof has not been taken into account in the opening balance entered in the budget estimates of any of the next two following years, the Commissioner may sanction the expenditure of the such budget grant or the unexpended portion thereof, during the next two following years, for the completion of the purposes of object for which the budget grant was originally made and not for any other purpose or object.\(^\text{15}\)

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**Chart 5.A**

**Structure of Municipal Finances**

![Diagram of municipal finances structure]

*Source: Accounts Branch, Municipal Corporation Office Shimla*

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5.5 TAX

Tax is defined as, “compulsory extraction made by General Department from the hard earned income of the general public for their (public) purposes.” The term general government includes central, state and local governments. It is a financial charge or other levy imposed on individuals or a legal entity, by government in pursuant to legislative authority. Taxes are levied by the government by virtue of its sovereign powers. The proceeds from taxes constitute a major source of revenue to government and a large chunk of these taxes is spent for the common benefits of the society. A tax is not a voluntary payment or donation but an enforced contribution imposed in pursuant to legislative authority. For some, taxes are effective routes for socio-economic development of the country, while for others, it is not more than the legal extraction of money from the earners. Increasingly, the later approach to tax is being looked down up on.

In the words of Justice Holmes, “Taxes are what we pay for a civilized society. I like for pay taxes, with them, I buy civilization.” However, taxes lack direct quid-pro-quo between the tax payer and the government. It means that, tax payer cannot claim direct and equal reciprocal benefits as a consideration of taxes paid. Taxes are levied on citizens and other artificial income generating entities. Over the years, a number of taxes have been imposed by different governments, covering different aspects, such as, income, wealth, sales, expenditure, services provided, production, import, export etc. In fact, everything we have is taxed.16

Taxes to be imposed by Shimla Municipal Corporation

(1) The Corporation shall, for the purpose of this Act, levy the following taxes:

   a) Taxes on buildings and lands

   b) Such other tax, at such rates as the State Government may, by notification, in each case, direct.

   c) A duty on the transfer of immovable properties situated within the limits of the municipal area in addition to the duty imposed under the Indian Stamp Act, 1899(2 of 1899) as in force, for the time being, in the state of Himachal Pradesh, on instruments of sale, gift and mortgage with possession of immovable property situated in the municipal area at such rate, as the State Government may, by notification, direct, which shall not be less than one per centum and more than two per centum on the amount of the consideration, the value of the property or the amount secured by the mortgage, as set forth in the instrument. The said duty shall be collected by the Registrar or sub Registrar in the shape of non judicial stamp paper at the time of registration of the document and intimation thereof shall be sent to the Corporation immediately. The amount of the duty so collected shall be paid to the Corporation.

2) Subject to the prior approval of the Government, the Corporation may for the purposes of this Act, in addition to the taxes specified in sub section (1), levy:

   a) A tax on profession, trades, callings and employments.

   b) A tax on vehicles other than motor vehicles and animals.
c) A tax on the increase in urban land values caused by the execution of any development or improvement work.

d) Show tax

e) Tax on consumption of energy at a rate not exceeding 2 paisa for every unit of electricity consumed by any person within the municipal area.

f) Sewerage tax on commercial buildings.

g) Any other tax that may be imposed under the provisions of the Himachal Pradesh Municipal Act, 1994 (13 of 1994). Provided that no tax shall be imposed under this sub section unless an opportunity has been given in the prescribed manner to the residents of the municipal area to file objections if any, thus received have been considered.

3) The taxes as specified in sub section (1) and sub section (2) shall be levied at such rates as may, from time to time, be specified by the Government by notification and shall be assessed and collected in accordance with the provisions of this Act, and the bye laws made there under.

4) The Government may, by special or general order, direct the Corporation to impose any tax falling under sub section (1) or sub section (2) not already imposed, within such periods as may be specified and the Corporation shall thereupon act accordingly.

5) If the Corporation fails to carry out any order passed under sub section (4) the Government may by a suitable order notified in the official Gazette, impose the tax and the order so passed shall
operate as if the tax had been duly imposed by the Corporation under sub section (1) or sub section (2) as the case may be.\textsuperscript{17}

\textbf{Components and rates of taxes of lands and buildings}

(1) Save as otherwise provided in this Act taxes on lands and buildings in the municipal area shall consist of the following namely:-

a) A water tax at such percentage of the ratable value of lands and buildings, as the Government may deem reasonable for providing water supply in the municipal area or in lieu thereof water charges of such rate as may be decided by the Government from time to time.

b) A general tax not more than fifteen percent of the ratable value of land and building within the municipal area.

\textbf{Determination of ratable value of lands and buildings assessable to taxes}

Subject to the rules, if any change made by the state Government in this behalf, the ratable value of any land or building assessable to taxes specified in section 86 shall be :-

a) In the case of land, the gross annual rent at which it is let.

b) In case of any building, the gross annual rent at which such building, together with its appurtenance and any furniture that may be let for use for enjoyment therewith, is let, subject to the following deductions:

1) Such deductions not exceeding ten percent of the gross annual rent, as the Commissioner in each particular case, may consider reasonable allowance on account of the furniture let therewith.

\textsuperscript{17} \textit{Himachal Pradesh Municipal Corporation Act 1994}, Op cit, 260-261.

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2) A deduction of ten percent for the cost of repairs and all other expenses necessary to maintain the building in a state to command such gross annual rent. The deduction under this sub clause shall be calculated on the balance of the gross annual rent after the deduction, if any under sub clause (i).

3) Where land is let with a building, such deduction, not exceeding ten percent of the gross annual rent, as the Commissioner in each particular case may consider reasonable on account of the actual expenditure, if any, annually incurred by the owner on the up-keep of the land in a state to command such annual rent.

**Premises in respect of which water tax or charges are to be levied**

Save as otherwise provided in this Act, the water tax shall be levied only in respect of land and buildings:-

a) To which a water supply is furnished from or which are connected by means of pipes with municipal water works.

b) Which are situated in any portion of the municipal area in which the Commissioner has given public notice that sufficient water is available from municipal water works for a reasonable supply to all the lands and buildings in the said portion.

**Tax on Vehicles and Animals**

(1) A tax under clause (b) of sub section (2) of section 84 shall be levied at rates specified, from time to time by the Government in this behalf on:-

a) Vehicles, other than motor vehicles, and other conveyances plying for hire and kept within the municipal area.
b) Animals used for riding, driving, drought or load when kept within the municipal area.

2) A vehicle or animal kept outside the limits of the municipal area but regularly used within such limits shall be deemed to be kept for use in the municipal area.18

Table 5.2
Taxes and their rates which are taken by Shimla Municipal Corporation

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Tax</th>
<th>Tax Rates</th>
<th>Tax section implied by Himachal Pradesh Municipal Corporation Act, 1994 are such as:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Tax on land and buildings.</td>
<td>Fix amount for annual tax 15%</td>
<td>84(1)a. and 86(1)b.</td>
</tr>
<tr>
<td>2.</td>
<td>Water tax (only where corporation is not able to supply 2.50% and 87 meter water.)</td>
<td>Fix amount for annual tax that is 15%</td>
<td>86(1)a. and 87</td>
</tr>
<tr>
<td>4.</td>
<td>Show tax</td>
<td>Rs. 50/- per show.</td>
<td>84(2)d and State Government notification, Dated 29-3-2000.</td>
</tr>
<tr>
<td>5.</td>
<td>Amount of electricity consumed</td>
<td>2 paisa/ per unit.</td>
<td>84(2)e and State Government notification, Dated 29-3-2000.</td>
</tr>
</tbody>
</table>

Source: Accounts Branch of Municipal Corporation Shimla

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18 Ibid. 290-291.
### Table 5.3
**Relaxation to Certain Categories Regarding Property Tax**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Relaxation to Certain Categories Regarding Property tax.</th>
<th>Under the Notification by Himachal Pradesh Municipal Corporation Act, 1994 an State Government under which Relaxation has been Provided are such as:</th>
</tr>
</thead>
</table>
| 1.      | Category/Assets which have been relaxed by taxation. | Section 88(c)\

**Source:** Municipal Corporation Office Shimla

**Fees Charged by Shimla Municipal Corporation**

1. Fee on advertisement.
2. A Fee on building application.
3. Development fee for providing and maintaining civil amenities.
4. A fee with regard to lighting.
5. A fee with regard to scavenging.
6. A fee for providing internal services in buildings.
7. Any other fee deemed fit by corporation for services rendered.  

5.6 REVENUE INCOME AND EXPENDITURE

Constitution of Corporation fund

Save as otherwise provided in the Act;

a) All funds which immediately before the declaration and Constitution of the Corporation under section 3 and 4, the Act vested in any body or local authority in the municipal area or any part thereof.

b) All moneys received by or on behalf of the Corporation under the provisions of this Act or of any law for the time being in force or under any contract.

c) All proceeds of the disposal of property by or on behalf of the Corporation.

d) All rents accruing from any property of the Corporation.

e) All moneys raised by any tax, rate or cess levied for the purpose of this Act.

f) All fees collected and all fines levied under this Act or under any rule, regulation or bye law made there under.

g) All moneys received by or on behalf of the Corporation from the government or any individual or association of individuals by way of grant or gift or deposit.

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Ibid. p.262
h) All interests and profits arising from any investment of, or from any transaction in connection with, any money, belonging to the Corporation including loans and advances under this Act.

i) All moneys received by or on behalf of the Corporation from any other source whatsoever shall form one fund, to be known as the Corporation Fund. The Corporation Fund shall be held by the corporation in trust for the purposes of this Act subject to the provisions here in contained and a general account relating to all moneys received by or on behalf of the Corporation shall be maintained.

**Corporation fund to be kept in State Bank of India or in a schedule Bank or in a Government Treasury**

All moneys payable to the credit of the Corporation Fund shall be received by the Commissioner and shall be forthwith paid into the State Bank of India or into any Schedule Bank or in treasury of the Government or any other bank approved by Government in this behalf.

**Operation of Account with Banks**

Save as otherwise provided in this Act, no payment shall be made by any bank referred to in section 70, out of the Corporation Fund except on a cheque signed by both.

a) Officer in charge of the account.

b) The Commissioner or by an officer subordinate to him in his behalf.\(^\text{20}\)

\(^{20}\) *Opcit, p.286.*
5.7 ACCOUNTS AND AUDIT

Accounts of Shimla Municipal Corporation is maintained in following forms:

Maintenance of Accounts

1) They shall be kept in such a manner and in such form as may be prescribed by regulations of the accounts of receipts and expenditure of the Corporation.

2) Till regulations as mentioned in sub section (1) are framed, the provisions of the Himachal Pradesh Municipal Account code, 1975, presently in force in respect of the Municipalities shall be applicable.

3) The accounts of the Municipal Corporation fund shall be audited by a separate and independent audit agency, under the control of the Director.

4) For the purposes of examination and audit of the Corporation accounts, the audit agency shall have access to all the Corporation accounts and to all the records and correspondence relating thereto and the Commissioner shall forthwith furnish to the audit agency any explanation concerning any receipts or expenditure which they may call for.

5.8 SIGNIFICANT ACCOUNTING POLICIES

Basis for Preparation of Accounts

The accounts have been prepared to comply in all material aspects with applicable accounting principles in India, the accounting standards issued by the institute of Chartered Accountants of India and relevant provisions of the Shimla Municipal Corporation Accounts Manual.
Revenue Recognition

Income is recognized when demand rose in respect of Property Taxes, water charges, rent from municipal assets and medical waste disposable charges. Interest on investments is booked on a time proportion basis taking into account the amounts invested and the rate of interest.

Expenditure

Expenses are accounted for on accrual basis.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided (except in case of land) on the written down value method and at the rate and in the manner specified in Income Tax Act.

Investments

Investments are classified into short term and long term investments. A current investment is stated at the lower of cost and at the rate and in the manner specified is stated at cost.

Inventories

Inventories in store are as taken, valued at the cost price or market value whichever less, as per AS-2 and as certified by the management.

Sundry Debtors and Loans and Advances

No provision has been made during the year regarding doubtful debts due to non availability of year wise break-up of water charges, Property Taxes and Rent.
Contribution Use Recruitment Benefits

Contribution to the defined contribution schemes such as provident fund and pension fund are charged to income and expenditure account as incurred i.e., on cash basis. The Corporation also provides for retirement/post retirement benefits in the form of gratuity pensions, leave encashment and medical re-imbursement. Separate funds have been formed for general provident fund and meeting pension and other retirement benefits including gratuity.

Prior Period Items

Income and expenditure account for the year ending on 31-3-2011 has been prepared after considering the prior period items as per accounting standards-5.\(^\text{21}\)

Audit

A very important agency of financial administration is the Audit department. In India, the audit agency is headed by the Comptroller and Auditor general. His function is to exercise control over the drawing of the money from the public exchequer according to the budget, to examine the accounts and ascertain and point out to the legislature the cases of expenditure contrary to the grants made by the legislature.\(^\text{22}\)

Report by Audit Agency

1) The audit agency shall:
   a) Report to the Corporation any observation in the expenditure or in the recovery of moneys due to the material impropriety or irregularities which it may find at any time or in the corporation accounts.

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\(^\text{21}\) Shimla Municipal Corporation Balance Sheet as on 31.3.2010.

b) Furnish to the Corporation such information as it may from
time to time require concerning the progress of the audit.

2) On receipt of the report under sub section (1) of the Corporation,
shall take such action thereon as may be deemed necessary.

3) As soon as it may be, after the commencement of each year, the
audit agency shall deliver to the Corporation, a report of the entire
Corporation accounts for the previous year.

4) The Commissioner shall cause the said, report to be printed and
shall forward as soon as it may be, a printed copy thereof, to each
member.

**Action by Commissioner on the Report**

1) The Commissioner shall, as soon as may be, remedy defects or
irregularities, if any, pointed out in the said report and shall also
forward without delay to the Government, so many copies of the
said report, as may be required by the Government with a brief
statement of the action, if any, taken or proposed to be taken
thereon.

2) If there is a difference of opinion between the audit agency and the
Commissioner or if the Commissioner does not remedy the defects
or irregularities pointed out in the report within a reasonable
period, the audit agency shall refer the matter to the Secretary,
local Government Department whose decision shall be final and
binding.

**Procedure to be followed by Audit Agency**

1) Audit agency shall audit the accounts of the Corporation with the
assistance of officers and other employees subordinate to it.
2) In the discharge of his functions under this section the auditor shall:
   
a) Audit the accounts of expenditure of the Corporation and shall ascertain whether moneys shown therein, as having been disbursed, were legally available for, and applicable to the service or purpose to which they have been applied or charged, and whether the expenditure conforms to the authority which governs it.

b) Audit the accounts of debt, deposits, sinking funds, advances, suspense and remittance transaction of the Corporation and report up on those accounts and upon the results of verification of the balances relating thereto.

3) The auditor shall examine and audit the statement of accounts relating to the commercial services conducted in any department of the Corporation, including the trading, manufacturing and profit and loss accounts and the balance sheets where such accounts are maintained under the order of the Corporation, and shall certify and report upon these accounts.

4) The auditor shall, in consultation with the Commissioner and subject to any direction given by the government, determine the form and manner to which his reports on the accounts of the Corporation shall be prepared and shall have authority to call upon any officer of the Corporation to provide any information necessary for the preparation of these reports.

**Power of Auditor to make queries etc and call for returns etc**

1) The auditor may make such queries and observations in relation to and of the accounts of the Corporation, which he is required to
audit and call for such vouchers, statements, returns and explanations in relation to such accounts, as he may think fit.

2) Every such query or observation as aforesaid shall be promptly taken into consideration by the officer or authority to whom it may be addressed and returned without delay with the necessary vouchers, documents or explanations to the auditor.

3) The powers of the auditor with regard to the disapproval of and the procedure with regard to the settlement of objections to the expenditure from the revenues of the Corporation shall be such as may be prescribed in consultation with the auditor.

4) If the auditor considers it desirable that the whole or any part of the audit applied to any accounts which he is required to audit, shall be conducted in the offices in which those accounts originate, he may require that those accounts together with all books and documents having relation thereto, shall at all convenient times be made available to the said officers for inspection.

5) The auditor shall have the power to require that any books or other documents relating to the accounts, he is required to audit, shall be sent for inspection by him. Provided that, if the documents are confidential he shall be responsible for preventing disclosure of their contents.

6) The audit agency shall have authority to frame standing orders and to give directions on all matters relating to audit and particularly in respect of the method and the extent of audit to be applied and the raising and pursuing of objections. 23

23 *Op cit* p.285-287
The Audit Committee shall perform the functions relating to the finance of the municipality, framing the budgets, scrutinizing proposals for increase of revenue, examination of receipts and expenditure statements, consideration of all proposals affecting the finances of the municipality, general supervision of the revenue and expenditure of the municipality and co-operation, small saving scheme and any other function relating to the development of the municipal area.

Budget of Shimla Municipal Corporation can be analysed by interpreting financial income, expenditure and budget deficit condition of Shimla Municipal Corporation in preceding years as given below.

5.9 INCOME STATEMENT

An income statement presents the economic performance of the enterprise during the period covered by the statement. It presents revenues, expenses, gains and losses for the period, ending with net profit. The Municipal Corporation Shimla have been empowered to derive their income from its own schemes, government grants, loans, tax revenues, rental income, fees and user charges, sale and hire charges, income from investments etc. These are the main sources of income like fines, penalties, rents, fees, development charges etc. Analysis of income statement of Shimla Municipal Corporation is clear from upcoming table:

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<table>
<thead>
<tr>
<th>Income</th>
<th>2007-08 (Amount in Rs)</th>
<th>2008-09 (Amount in Rs)</th>
<th>2009-10 (Amount in Rs)</th>
<th>2010-11 (Amount in Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenue</td>
<td>62097731.00</td>
<td>59327260.00</td>
<td>65435487.00</td>
<td>74397633.00</td>
</tr>
<tr>
<td>Assigned Revenues and compensation</td>
<td>42542780.00</td>
<td>100566470.00</td>
<td>103568347.00</td>
<td>104179834.00</td>
</tr>
<tr>
<td>Rental Income from Municipal Properties</td>
<td>15898251.00</td>
<td>18042262.00</td>
<td>19275991.00</td>
<td>26403028.00</td>
</tr>
<tr>
<td>Fees and user charges</td>
<td>67902684.00</td>
<td>86908273.00</td>
<td>88879775.00</td>
<td>102941352.00</td>
</tr>
<tr>
<td>Sale and hire charges</td>
<td>9737216.00</td>
<td>1472399.00</td>
<td>929484.00</td>
<td>1773415.00</td>
</tr>
<tr>
<td>Revenue grants, contributions and subsidies</td>
<td>13061714.00</td>
<td>13790767.00</td>
<td>74553679.00</td>
<td>32944156.00</td>
</tr>
<tr>
<td>Income from investments</td>
<td>13758503.00</td>
<td>13560644.00</td>
<td>21887455.36</td>
<td>10780484.00</td>
</tr>
<tr>
<td>Interest earned</td>
<td>1585702.00</td>
<td>1236778.00</td>
<td>1508360.08</td>
<td>1478032.70</td>
</tr>
<tr>
<td>Other income</td>
<td>10428863.00</td>
<td>711459.00</td>
<td>1090671.00</td>
<td>764637.00</td>
</tr>
<tr>
<td>Total Income</td>
<td>237013744.00</td>
<td>295616312.00</td>
<td>377129249.94</td>
<td>355662571.76</td>
</tr>
</tbody>
</table>

**Source:** Accounts Branch of Municipal Corporation Shimla

It is pertinent from analysis of table 5.8 that tax revenue increased from Rs. 5,93,27,260 Crore in 2007-08 to Rs. 7,43,97,633 Crore in 2010-2011. Although, there was significant increase in 2010-11 in assigned revenues and compensation, rental income in municipal properties, fees, user charges, sale and higher charges as compared from 2007-08 but on the other hand, there was decrease in the income of Shimla Municipal Corporation in 2010-11 as compared to 2007-08 with respect to the income from revenue grants, contributions and subsidies, income from investments, interest earned and income from other sources, was concerned. There was an overall decrease in income of Shimla Municipal Corporation in 2010-11 as compared to 2009-10. Although, total income increased from Rs. 23, 70,137,44 Crore in 2007-08 to Rs. 37,71,29,249.94 Crore in 2009-10 but afterwards declined to Rs. 35,56,62,571.76 Crore in 2010-11.
Thus it is pertinent from the above analysis that the biggest challenge before Shimla Municipal Corporation is to regenerate and improve its financial resources to discharge its functions efficiently.

**Tax Revenue**

Tax revenues includes all taxes such as tax on building, land, animal tax, tax on vehicles other than motor vehicle, show tax, sewerage tax, water tax and fiscal transfer; for example tax on exemption, electricity, energy, duty on transfer of immoveable property, etc.

**Non-Tax Revenue**

The income which is not a tax revenue such as rent, sale of water, fees for regulation of job potters, slaughter house, PFA and non PFA license, tehbazari, laboratory tax, birth and death registration, forest income, income from rest houses, interest on investments, sales of municipal assets etc.

**Government Grant**

The government of Himachal Pradesh and central government are also providing grants for developing infrastructure and running state government and central government, welfare scheme.

**Grants-in-aid**

They are the financial subsidies given by the state government in aid of certain services rendered by Municipalities These grants tend to be specific in nature i.e. are tied to some particular services.
Table 5.5
Tax Revenue, Non Tax Revenue and octroi Grant of Shimla
Municipal Corporation in 2002-2011

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenue (in lakhs)</td>
<td>375.25</td>
<td>393.59</td>
<td>409.43</td>
<td>644.13</td>
<td>593.22</td>
<td>520.97</td>
<td>593.22</td>
<td>654.35</td>
<td>743.96</td>
</tr>
<tr>
<td>Non-Tax Revenue</td>
<td>461.58</td>
<td>449.45</td>
<td>664.55</td>
<td>1027.57</td>
<td>1199.93</td>
<td>425.42</td>
<td>1005.64</td>
<td>1035.68</td>
<td>1029.41</td>
</tr>
<tr>
<td>Octroi grant</td>
<td>459.01</td>
<td>241.04</td>
<td>273.67</td>
<td>418.54</td>
<td>385.52</td>
<td>130.61</td>
<td>137.90</td>
<td>745.53</td>
<td>329.44</td>
</tr>
<tr>
<td>Total</td>
<td>1295.84</td>
<td>1084.44</td>
<td>1347.65</td>
<td>2090.24</td>
<td>2187.67</td>
<td>1177</td>
<td>2435.56</td>
<td>2101.81</td>
<td></td>
</tr>
</tbody>
</table>

Graph 5.A

Source: Accounts Branch, Municipal Corporation Office Shimla

It is clear from analysis of above table that Tax revenue of Shimla Municipal Corporation is steadily increasing. It was just Rs. 375.25 lakhs in 2002-03 but it increased to Rs. 743.96 lakhs in 2010-2011. There was increase in non tax revenue of Municipal Corporation also. It was Rs. 461.58 lakhs in 2002-03 but it increased to Rs 1029.41 lakhs in 2010-11, but on the other hand there is sharp decline in octroi grant of Shimla Municipal Corporation.
Table 5.6
Taxes collected by Shimla Municipal Corporation from 2007-2011

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Tax</th>
<th>2007-08 (Rs in lakh)</th>
<th>2008-09 (Rs in lakh)</th>
<th>2009-10 (Rs in lakh)</th>
<th>2010-11 (Rs in lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Property Tax (General Tax, Water Tax, Sewerage Tax)</td>
<td>546.45</td>
<td>564.38</td>
<td>618.86</td>
<td>734.43</td>
</tr>
<tr>
<td>2.</td>
<td>Show Tax</td>
<td>2.86</td>
<td>1.32</td>
<td>1.10</td>
<td>1.26</td>
</tr>
<tr>
<td>3.</td>
<td>Electricity Tax</td>
<td>20.36</td>
<td>39.71</td>
<td>33.35</td>
<td>30.22</td>
</tr>
<tr>
<td>4.</td>
<td>Selling of liquor besides having license fees.</td>
<td>3.94</td>
<td>14.31</td>
<td>18.83</td>
<td>21.34</td>
</tr>
</tbody>
</table>

Source: Accounts Branch of Municipal Corporation Shimla

It is evident from analysis of table 5.3 that income of Municipal Corporation through property tax has increased from Rs. 546.45 lakhs in 2007-08 to 734.43 lakhs in 2010-11. Income through electricity tax was Rs 20.36 lakhs in 2007-08 and it increased to Rs. 30.22 lakhs in 2010-11 while tax collected through selling of liquor in 2007-08 was Rs. 3.94 lakhs and it was increased to Rs. 21.34 lakhs in 2010-11.

Thus, it can be analyzed that income of Shimla Municipal Corporation through property tax, electricity tax and selling of liquor has increased while income through show tax has decreased steadily in Shimla Municipal Corporation.

Table 5.7

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2008-09 (Amount in Rs)</th>
<th>2009-10 (Amount in Rs)</th>
<th>2010-11 (Amount in Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property tax residential buildings</td>
<td>24411701</td>
<td>41638542</td>
<td>17689208</td>
</tr>
<tr>
<td>Property tax commercial buildings</td>
<td>27822885</td>
<td>17057643</td>
<td>49240175</td>
</tr>
<tr>
<td>Property tax land</td>
<td>1780066</td>
<td>688183</td>
<td>1053740</td>
</tr>
<tr>
<td>Water tax</td>
<td>44915</td>
<td>45512</td>
<td>49540</td>
</tr>
<tr>
<td>Sewerage tax</td>
<td>5032855</td>
<td>5506494</td>
<td>6146876</td>
</tr>
<tr>
<td>Vehicle Tax</td>
<td>9118</td>
<td>8536</td>
<td>7544</td>
</tr>
<tr>
<td>Tax on animals</td>
<td>56970</td>
<td>12347</td>
<td>371500</td>
</tr>
<tr>
<td>Show Tax</td>
<td>168750</td>
<td>4782309</td>
<td>173400</td>
</tr>
<tr>
<td>Total Tax Revenue</td>
<td>59327260</td>
<td>65435487</td>
<td>74397633</td>
</tr>
</tbody>
</table>

Source: Accounts Branch of Municipal Corporation, Shimla
It is clear from analysis of table 5.5 that income of Shimla Municipal Corporation through total tax revenue was Rs. 5,93,27,260 lakhs in 2008-09 but it increased to Rs.7,43,97,633 lakhs in 2010-11. In this, tax revenue, share of property tax on residential buildings, vehicle tax, tax on animals and show tax has decreased considerably in 2010-11 as compared to 2009-10 but share of property tax on commercial buildings, property tax on land and sewerage tax has considerably improved in the preceding three years.

5.10 EXPENDITURE OF SHIMLA MUNICIPAL CORPORATION

Expenses incurred towards establishment cost, operation and maintenance, expenditure for provision of services and repayment of loans are treated as revenue expenditure and expenditure on asset creation, purchase of equipment and investments in new projects etc. are treated as capital expenditure. Advances and deposits and any items of income or expenditure of temporary nature, are treated and accounted for, under suspense account.

Payment not to be made unless covered by a Budget grant

No payment of any amount of the Corporation Fund shall be made unless the expenditure of the same is covered by a current budget and sufficient balance of such budget grant is still available not withstanding any reduction or transfer thereof, which may have been made under the provision of this Act. Provided that, this section shall not apply to payment made in the following classes of cases namely:

a) Re-payment of moneys, belonging to contractors or other persons and held in deposit and of moneys collected or credited to the Corporation Fund by mistake.
b) Refund of taxes and other moneys which are authorized under this Act.

c) Sums payable in any of the following circumstances.

1) Under orders of the Government on failure of the Corporation to take any action as required by the government.

2) Under any other enactment, for the time being, in force.

3) Under the decree or order of a civil or criminal Court passed against the Corporation.

4) Under a compromise of any claim, suit or other legal proceeding.

5) On account of cost incurred in taking immediate action by the Corporation or the Commissioner to avert a sudden threat of danger to the property of the Corporation or to human life.

6) Temporary payment for works urgently required by the Government in the public interest.

7) Sums payable as compensation under this Act or under any rules, regulations or bye-laws made thereunder.

8) Expenses incurred by the Corporation as special measures taken due to the outbreak of dangerous diseases.\(^{25}\)

Expenditure of Shimla Municipal Corporation is analyzed in following

Table 5.8

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>2007-08 (Amount in Rs)</th>
<th>2008-09 (Amount in Rs)</th>
<th>2009-10 (Amount in Rs)</th>
<th>2010-11 (Amount in Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment Expenses</td>
<td>152626381.00</td>
<td>159987772.00</td>
<td>212933390.00</td>
<td>251311977.00</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>14385344.00</td>
<td>159987772.00</td>
<td>212933390.00</td>
<td>251311977.00</td>
</tr>
<tr>
<td>Operations and Maintenance</td>
<td>153732040.00</td>
<td>8012015.00</td>
<td>8430639.00</td>
<td>10033168.00</td>
</tr>
<tr>
<td>Interest and Finance Expenses</td>
<td>18991.00</td>
<td>154719104.00</td>
<td>192249636.00</td>
<td>281119927.00</td>
</tr>
<tr>
<td>Programme Expenses</td>
<td>38996.00</td>
<td>202940.00</td>
<td>407032.00</td>
<td>60305.61.00</td>
</tr>
<tr>
<td>Revenue grant, Contributions and Subsidies</td>
<td>0.00</td>
<td>198000.00</td>
<td>411376.00</td>
<td>139613.00</td>
</tr>
<tr>
<td>Provisions and Write Off</td>
<td>35328864.95</td>
<td>305000.00</td>
<td>18316.00</td>
<td>37500.00</td>
</tr>
<tr>
<td>Depreciation</td>
<td>211313340.00</td>
<td>208210312.00</td>
<td>192197415.30</td>
<td>181023421.42</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td><strong>567443956.95</strong></td>
<td><strong>531635147.00</strong></td>
<td><strong>606647804.30</strong></td>
<td><strong>7237159912.03</strong></td>
</tr>
</tbody>
</table>

Source: Accounts Branch Municipal Corporation office Shimla

It is pertinent from the above table that out of the total expenditure including all the expenses of the Corporation like, establishment expenses, interest and finance expenses etc, the Corporation is incurring the highest percentage of the expenditure on interest and finance expenses.
It is evident from the analysis of table 5.9 that, with passage of time from 2007-08 to 2010-2011 there is increase in the expenditure pattern of Shimla Municipal Corporation as far as establishment expenses, administrative expenses, operations and maintenance, interest, finance expenses and programme were concerned. But overall picture depicts that total expenditure was Rs.56, 74,43,956.95 Crore, in 2007-08 and it was increased to Rs.60,66,47,804.30 Crore in 2009-10 and afterwards, it also increased to Rs. 72,37,15,912.03 Crore in 2010-11.

Table 5.9
Analysis of Income and Expenditure Statement of Shimla Municipal Corporation for the period from 2007-2011

<table>
<thead>
<tr>
<th>Analysis</th>
<th>2007-08 (Amount in Rs)</th>
<th>2008-09 (Amount in Rs)</th>
<th>2009-10 (Amount in Rs)</th>
<th>2010-11 (Amount in Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Surplus(Deficit) of Income over Expenditure Before Prior Period Items</td>
<td>330430512.95</td>
<td>236018835.00</td>
<td>229518554.00</td>
<td>368053340.27</td>
</tr>
<tr>
<td>Add: Prior Period Items (Net)</td>
<td>26000.00</td>
<td>6106205.00</td>
<td>13755522.00</td>
<td>17931295.00</td>
</tr>
<tr>
<td>Gross Surplus(Deficit) of Income over Expenditure After Prior Period Items</td>
<td>330404512.95</td>
<td>242125040.00</td>
<td>243274076.00</td>
<td>385984635.27</td>
</tr>
<tr>
<td>Net Balance Being Surplus/ Deficit</td>
<td>330404512.95</td>
<td>242125040.00</td>
<td>243274076.00</td>
<td>385984635.27</td>
</tr>
</tbody>
</table>

Source: Accounts Branch Municipal Corporation Office Shimla

The income and expenditure pattern of Shimla Municipal Corporation for last five years as presented in table 5.10, shows deficits,
in almost all the years analyzed. Total expenditure was always higher than the total income in all the years analyzed between 2007-2008 to 2010-2011.

It is pertinent from the table that with the Income increased, the Expenditure was also increasing which shows that the Corporation has not been able to manage its revenue accounts well, over the years. The deficit in one or the other account for all the years shows that Shimla Municipal Corporation needs to improve its efficiency, enhance revenue sources and reduce expenditure.

In order to have a crystal clear view of the financial scenario of Municipal Corporation Shimla in tables, an overall view of income and expenditure of Municipal Corporation Shimla is also shown. In five years, its expenditure and its income, exceeded respectively, meaning there by that, Corporation registered a much more deficit.

Though the Corporation has been found to be acting as a powerful agent in bringing about local services in Shimla town, yet in view of its limited resources, frequent budgetary deficits, faulty expenditure pattern, with very little expenditure made on works and new desired projects, the Corporation appears to have partly failed in initiating that development pattern, which is required for growth and good physical quality of life.
Table 5.10
Budget Deficit of Shimla Municipal corporation from 2002-2011

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Income</td>
<td>1514.13</td>
<td>1546.97</td>
<td>1578.65</td>
<td>2103.72</td>
<td>2013.33</td>
<td>2370.14</td>
<td>2556.16</td>
<td>3774.29</td>
<td>3556.62</td>
</tr>
<tr>
<td>Revenue Expenditure</td>
<td>1451.99</td>
<td>1630.96</td>
<td>1548.22</td>
<td>2051.49</td>
<td>2019.49</td>
<td>3674.95</td>
<td>5316.55</td>
<td>6066.47</td>
<td>7237.15</td>
</tr>
<tr>
<td>Surplus/Deficit</td>
<td>63.54</td>
<td>-83.99</td>
<td>30.43</td>
<td>52.23</td>
<td>-6.12</td>
<td>-33.09</td>
<td>-23.18</td>
<td>-22.19</td>
<td>-36.53</td>
</tr>
</tbody>
</table>

Graph - 5.B
Source: Accounts Branch, Municipal Corporation Office Shimla

It is pertinent from the analysis of the above table, that budget deficit is increasing from 2006-07 to 2010-2011. This deficit was Rs. -6.12 lakhs in 2006-07, it increased to Rs. -33.09 lakhs in 2007-08 then it decreased to Rs. -23.18 lakhs in 2008-09, and Rs. -22.19 lakhs in 2009-10 and the budget deficit again increased to Rs. -36.53 lakhs.

Thus the Municipal Corporation of Shimla is struggling through financial crunch and budget deficit is increasing.
5.11 LIABILITY

A liability is an obligation present at the balance sheet date. The true test of a liability is to assess whether the institution has any realistic alternative to settle the obligation. If the answer is no, the obligation is a liability. If it is probable that the economic benefits will flow out of the enterprise when the obligation will be settled, the obligation is recognized as a liability in the balance sheet, provided the amount of benefits to flow out of the enterprise can be estimated reliably.  

Table 5.11

<table>
<thead>
<tr>
<th>Liabilities (Reserve and Surplus)</th>
<th>2007-08 (Amount in Rs)</th>
<th>2008-09 (Amount in Rs)</th>
<th>2009-10 (Amount in Rs)</th>
<th>2010-11 (Amount in Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal General Fund</td>
<td>4083191205.87</td>
<td>4592884602</td>
<td>4349352486</td>
<td>3962979344.90</td>
</tr>
<tr>
<td>Earmarked Fund</td>
<td>131897279.39</td>
<td>151995885</td>
<td>195159364</td>
<td>194087163.62</td>
</tr>
<tr>
<td>Reserves</td>
<td>6270969.00</td>
<td>14978344</td>
<td>19285226</td>
<td>39786368.00</td>
</tr>
<tr>
<td>Total Reserve and Surplus</td>
<td>4221359454.26</td>
<td>4759858831</td>
<td>4563804424</td>
<td>4196853876.52</td>
</tr>
<tr>
<td>Grants, Contributions for Specific Purposes</td>
<td>64202837.00</td>
<td>170419732</td>
<td>204521177</td>
<td>330834179.83</td>
</tr>
<tr>
<td>Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Secured Loans)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unsecured Loans</td>
<td>177000.00</td>
<td></td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total Loans</td>
<td>177000.00</td>
<td></td>
<td>20000000</td>
<td>20000000</td>
</tr>
<tr>
<td>Current Liabilities and Provisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits Received</td>
<td>12749633.00</td>
<td>15835593</td>
<td>22373878</td>
<td>24801152.00</td>
</tr>
<tr>
<td>Deposits Works</td>
<td>6630670.00</td>
<td>6889516</td>
<td>7360624</td>
<td>6806583</td>
</tr>
<tr>
<td>Other Liabilities (Sundry Creditors)</td>
<td>344315273.00</td>
<td>473393934</td>
<td>61105640</td>
<td>842463269.00</td>
</tr>
<tr>
<td>Total Current Liabilities and Provisions</td>
<td>363695576.00</td>
<td>496119043</td>
<td>640840142</td>
<td>874071004.00</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>4649434867.26</td>
<td>5426397606</td>
<td>5429165742</td>
<td>5421759060.35</td>
</tr>
</tbody>
</table>

Source: Accounts Branch Municipal Corporation Office Shimla

5.12 ASSET

An item is an asset if it is probable that it will provide economic benefits to the firm in the next or subsequent periods. It is essential that
the firm has sufficient control over the item. Control ensures that, the economic benefits embedded in the item will flow to the enterprise. An asset is recognized in the balance sheet only if its value or cost can be recognized in the balance sheet reliably. For example, an internally generated brand is not recognized in the balance sheet as an asset because its value cannot be measured reliably.  

**Table 5.12**

**Assets Statement of Shimla Municipal Corporation for the Period from 2007-2011**

<table>
<thead>
<tr>
<th>Assets</th>
<th>2007-08 (Amount in Rs)</th>
<th>2008-09 (Amount in Rs)</th>
<th>2009-10 (Amount in Rs)</th>
<th>2010-11 (Amount in Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Block</td>
<td>436139220.17</td>
<td>516965895.55</td>
<td>4736842240</td>
<td>4660838531.97</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>277501154.91</td>
<td>485705616</td>
<td>192190067</td>
<td>18105922.34</td>
</tr>
<tr>
<td>Net Block</td>
<td>4083892065.26</td>
<td>4883653337</td>
<td>4544652173</td>
<td>4479832869.63</td>
</tr>
<tr>
<td>Total Fixed Assets</td>
<td>4091748536.26</td>
<td>4700304071</td>
<td>4574090057</td>
<td>451805766.63</td>
</tr>
<tr>
<td>Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments General Fund</td>
<td>100837469.45</td>
<td>166410464</td>
<td>225370216</td>
<td>191571710.07</td>
</tr>
<tr>
<td>Investment Other Funds</td>
<td>193589540.00</td>
<td>219840611</td>
<td>242749581</td>
<td>282414966.00</td>
</tr>
<tr>
<td>Total Investments</td>
<td>294427009.45</td>
<td>386251075</td>
<td>46811197</td>
<td>473986676.07</td>
</tr>
<tr>
<td>Current Assets Loans and Advances</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock in Hand (Inventories)</td>
<td>5908632.53</td>
<td>4815032</td>
<td>8710479</td>
<td>8696615.53</td>
</tr>
<tr>
<td>Sundry Debtors (Receivables)</td>
<td>94271833.73</td>
<td>118123864</td>
<td>125394714</td>
<td>84656335.71</td>
</tr>
<tr>
<td>Gross Amount Outstanding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Accumulated Provisions Against Bad and Doubtful Receivables</td>
<td>35328863.75</td>
<td>35328864</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>Net Amount Understanding</td>
<td>58942969.98</td>
<td>82795000</td>
<td>125394714</td>
<td>84656335.71</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Bank Balance</td>
<td>32480457.35</td>
<td>77478968</td>
<td>41426196</td>
<td>68897056.91</td>
</tr>
<tr>
<td>Loans Advances and Deposits</td>
<td>165585231.53</td>
<td>174237724</td>
<td>210498736</td>
<td>265718390.50</td>
</tr>
<tr>
<td>Net Amount Outstanding</td>
<td>165585231.53</td>
<td>174237724</td>
<td>210498736</td>
<td>265718390.50</td>
</tr>
<tr>
<td>Total Current Assets, Loans and Advances</td>
<td>262917281.39</td>
<td>339328724</td>
<td>386030124</td>
<td>429071398.65</td>
</tr>
<tr>
<td>Other Assets</td>
<td>342030.16</td>
<td>365736</td>
<td>619364</td>
<td>328379.00</td>
</tr>
<tr>
<td>Miscellaneous Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(To the Extent Not Written Off)</td>
<td>150000</td>
<td>315000</td>
<td>315000</td>
<td>315000.00</td>
</tr>
<tr>
<td>Total Assets</td>
<td>4649434867.26</td>
<td>5426397606</td>
<td>5429165742</td>
<td>5421759060.35</td>
</tr>
</tbody>
</table>

Source: Accounts Branch Municipal Corporation office Shimla

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27 Op cit, p. 452.
It is evident from analysis of tables, 5.11 and 5.12, that total liabilities and assets of Shimla Municipal Corporation was Rs. 4,64,94,34,867.26 in 2007-08, it increased to Rs. 5,42,63,97,606 in 2008-09, it again increased to Rs. 5,42,91,65,742 in 2009-10 and it decreased to Rs. 5,42,17,59,060.35 in 2010-11.

Thus from the above table, it can be analyzed that Shimla Municipal Corporation liabilities and assets were same from 2007-08 to 2010-11 and balance sheet of Shimla Municipal Corporation was accurate during the said period.

- The current cash based accounting system and its financial reporting by the Shimla Municipal Corporation is unable to show their true financial performance and position. The double entry based accounting system to be implemented as a part of reform process under Jawaharlal Nehru Urban Renewal Mission (JNNURM) will overcome this issue.

- High subsidy on water, which the Corporation is supplying at Rs. 3.85 per Kilo litre for domestic and Rs. 30.25 per Kilo litre for commercial purposes while procuring the treated water from IP&H at Rs. 8 per Kilo litre. With heavy subsidy on water supply, Shimla Municipal Corporation is not able to recover its procurement and O&M costs.

- The Energy bills towards Himachal Pradesh State Electricity Board is increasing due to the interest levied by Himachal Pradesh State Electricity Board to Municipal Corporation on the previous due amount. Shimla Municipal Corporation has been paying the electricity charges regularly without any interest payments.
The collection efficiency is low in case of the property tax. Shimla Municipal Corporation has been able to collect maximum 70% of the billed amount for the current years and 45% of the total amount if total arrears are considered.

Due to recent merger or Special Area Development Authority (SADA) area into Shimla Municipal Corporation, Shimla Municipal Corporation shall be providing all the basic services to the residents of these areas without having income from property tax from these areas, which will increase the burden on municipal finances.

No diligence is done on the project viability, user-charge recovery for capital expenditure.

SUMMARY

The Municipal finance needs to be improved urgently to enable the Municipal Corporation to perform their duties effectively. There is a need to design an integrated management system which may cover the planning of work programmes, budget preparation, resource mobilization, reviewing and evaluating results and definition of programmes and aims. This chapter discussed the income and expenditure of the Corporation. There was an overall decrease in the income of Shimla Municipal Corporation in 2010-11 as compared to 2009-10. Although, total income increased from Rs. 23,70,13,744 in 2007-08 to Rs. 37,71,11,29,249.94 in 2009-10 but afterwards declined to Rs. 35,56,62,571.76 in 2010-11. The biggest challenge before Shimla Municipal Corporation is to regenerate and improve its financial resources to discharge its function efficiently.

In this chapter, we have studied that in the year 2007-08 to 2010-2011 there is an increase in the expenditure pattern of Shimla Municipal
Corporation as far as establishment expenses, administrative expenses, operations and maintenance, interest, finance expenses and programme were concerned.

Income of Municipal Corporation has increased from Rs. 546.45 lakhs in 2007-08 to 734.43 lakhs in 2010-11. Income through electricity tax was Rs 20.36 lakhs in 2007-08 and it increased to Rs. 30.22 lakhs in 2010-11 while tax collected through selling of liquor in 2007-08 was Rs. 3.94 lakhs and it increased to Rs. 21.34 lakhs in 2010-11.

It can also be analyzed that the income of Shimla Municipal Corporation through property tax, electricity tax and selling of liquor has increased while income through show tax has decreased steadily.