CHAPTER VI

MUNICIPAL FINANCIAL CONTROL
Introduction

In the preceding two chapters, two important aspects of management of Finances i.e. mobilisation of funds and efficient utilization of the funds generated has been analysed in detail. Equally important aspect of the management of Finances is the financial administration which relates to budgeting and control. An effective system of financial administration is important for every organisation whether public or private as it sets achievable service targets and decides where from the funds will come to achieve the same. Further it helps in controlling the expenditure by providing a basic framework for each expenditure to be incurred in a given financial year. It is in view of these facts that it has been said that a sound financial policy implemented through a sound financial administration system is sure to produce best results. Contrary, even the best financial policies and plans will come to naught, if financial administration is weak or inefficient. It is in view of this fact that an attempt has been made in this chapter to study the Municipal financial administration in the Municipal Corporations of the state.

Following para's are devoted to the critical analysis of the budgeting practices followed by the two Municipal Corporations with the purpose to highlight the weaknesses if any, in their budgeting system.
Budgeting Procedure

A budget of Municipal Corporation, as provided for in the J&K Municipal Corporation Act, 2000 and the Account Rules made there under is split up in four accounts, viz., Revenue account, Capital account, Suspense account and Development Fund account. Revenue Account is the account of the ordinary revenue of the Municipal Corporations from tax, non-tax and grants-in-aid (recurring) sources and the expenditure met from these sources. The difference between such income and expenditure represents the surplus or deficit, as the case may be, for the year.

Capital account is an account of expenditure incurred with the object either of increasing assets of material character or of reducing recurring liabilities. It also includes receipts arising generally from the sale of assets. Expenditure on capital account is usually met from borrowed funds, financial aid from central or state Governments for specific purposes/schemes/programmes.

Suspense account consists of mainly the deposits and refund account and as such it does not represent the real income of the Municipal Corporations. It has therefore, no significance as far as the revenue or capital account income and expenditure is concerned.

The Development Fund account is a new account for Municipal Corporations in the state, constituted for carrying out improvement schemes for general development and expansion of the city. It has at its credit all the moneys received by or on behalf of Municipal Corporation as loans or issue of debentures for development purposes, grants and subsidies for carrying out any work of land acquisition and development, housing and slum clearance or any other projects for
development or sanitation and all other sums which the state Government may from time to time direct to be credited to the development fund account.

The Municipal Corporations in the state focus greater attention on the revenue budget (Non-plan account) than the capital budget, because the revenue budget is used to fix the rate of levy/fees/taxes during the financial year and it is used as the yardstick by which to measure actual performance in terms of income received or money spent.

The J&K Municipal Corporation Act, 2000, provides the procedure to be followed in the Municipal Corporations of the state. It lays down that the corporation should on or before 1st 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. The budget estimate adopted shall be submitted to the Government not later than the last week of February preceding the year to which the budget estimates relate.

Usually the work of preparation of budget for the next financial year commences by the middle of the current financial year, with the issuance of a circular to the heads of the departments by the chief executive or the Municipal Commissioner. The Municipal budget is drawn up in the prescribed form (Form B-1) as laid down in the act, which represents the original works which the Municipal Corporation proposes to execute during the year. The amount columns of the budget statement are classified into six parts, viz., (1) actuals of the past three years (2) Budget estimates of the current year (3) actuals for last six months of the last year (4) actuals for first six months of the
current year (5) revised estimates of the current years budget (6) proposed estimates for the next year.

The heads of departments prepare estimates of income and expenditure pertaining to their respective departments for the ensuing financial year and submit them to the central office before such date as may be fixed by the Municipal Commissioner. On receipt of the estimates from various departments, the budget is compiled in the central office. The accounts officer scrutinizes the budget and submit it to the Municipal Commissioner and there after action is taken for adoption of budget as laid down in the act.

The budget after it is approved and adopted by the General body of the corporation, is implemented under the supervision of the executive committee. The Municipal Commissioner, as the apex executive authority is responsible for the implementation of the budget. It is the implementation of the budget which makes an impact on the financial policies and programmes and also present an opportunity for the evaluation of their performance. Its implementation, therefore, is the most important aspect of Municipal financial administration in the Municipal Corporation.

Critical Analysis of Budgeting Practices

Budgeting is a system of financial management which sets an estimate for different expenditures and at the same time fixes priorities for various expenditures. More importantly, it identifies the sources of funds by deciding about the rates for different levies and taxes. Added to it, new sources of funds are identified to raise the maximum amount of funds while preparing a budget. As such, an efficient budgeting system is one which sets achievable target for revenues and expenditures.
A critical analysis of the existing budgeting practices followed by the Municipal Corporations in the state shows that they are based on traditional budgetary practices. The budget generally provide for the estimated figures of income and expenditure for the current financial year which is revised after some time and revised estimate is proposed and sanctioned for the remaining period. In order to arrive at figures of income and expenditure for the current year, the corresponding figures for the preceding years are taken into account. In estimating the income, no scientific technique is followed and the estimates about income are generally based on guess work and speculation. The income estimate is mostly shown on higher side which makes the budget surplus in the beginning. By the end of the financial year, the budget turn out to be deficit one. This is unrealistic and defective budgeting system and does not give the real financial position of the Municipal Corporation. The existing budgeting practices need to be improved. There are a number of defects in the existing budgeting system which for the sake of convenience can broadly be grouped under the following main heads:

1. **Lack of Objectivity in approach**

One of the main defects / weaknesses of the existing budgeting system followed by the Municipal Corporations in the state is that the system has failed to achieve the revenue targets and the expenditures have generally exceeded the limits. For instance, a big gap has been observed between the estimates and actual figures of income in the budget proposals of the Municipal Corporations in the state. The reason for this is that the officials in these bodies generally prepare estimates without adhering to any scientific basis. To illustrate, the
estimated income from trade tax in SMC for the year 2002-03 was put at Rs.10 lacs. As against this, the actual income during that year was only Rs.6.10 lacs. In JMC also, the actual income from trade tax during the year 1999-2000 was only Rs. 0.45 lacs. As against this the budget estimate for the next year (2000-01) has been put surprisingly at Rs. 20 lacs. The actual income realized during that year was only Rs. 1.81 lacs. Similarly, the actual income from the rent of municipal property in JMC in 2001-02 was only Rs. 41.87 lacs. As against this, the estimate for the next year (2002-03) was put at Rs. 60.00 lacs. The actual income realized during that year (2002-03) was only Rs. 20.26 lacs. In SMC, the estimated income from the rent of Municipal Property for the year 1998-99 was put at Rs. 50.00 lacs. The actual income realized during that year was only Rs. 42.46 lacs. A number of similar instances from other individual items are common in the budget documents of Municipal Corporations.

These wide variations in estimates and actuals in individual items ultimately affect the overall figures of total estimates and actuals of the income and expenditure. In SMC, for example, the estimated income for the year 2000-01 were put at Rs. 313 lacs. As against this, the actual income realized during that year was only Rs.190 lacs. On the other hand, the estimated figures of expenditure proposed for the year 2002-03 was put at Rs. 3375 lacs. While as the actual expenditure incurred during that period was more than the estimated amount i.e. Rs. 3528 lacs. In JMC also, wide variations were observed in estimated and actual figures of income and expenditure. The actual income for the year 2000-01 was Rs. 233 lacs, as against, the estimated income for the period was put at Rs. 292 lacs. Similarly, the estimated expenditure
for the year 2002-03 was put at Rs 1590 lacs, against that, the actual expenditure for the period was Rs. 1616 lacs. The effect of such variations are that the budget which appeared to be surplus or balanced budget at the time of adoption, turn out to be deficit budget at the close of the financial year causing a complete collapse of financial planning.

The situation described above clearly indicates that on the one hand, no effort is made to realize the estimated income and on the other hand, the spending departments exercise no control over expenditures. Further the expenditures are not planned according to actual availability of funds. It reflects upon the accuracy in estimating the figures. In the absence of accuracy in the budget figures, one cannot get the correct financial picture of the municipal corporations.

2. Failure to Innovate

Another defect in the existing budgeting system is that it has failed to innovate new sources of funds. Over the years, the budget heads of income from which revenue is derived have remained same and no new source of revenue has been identified for resource mobilization. As pointed out earlier, that despite the fact that the revenue from own sources of the Municipal Corporations are markedly inadequate for meeting their expenditure needs, no efforts have been made to adequately mobilize their revenue potential. Failure to innovate new sources of revenue has led to increasing dependence of Municipal bodies on state grants, which in turn has made them complacent and in many cases extravagant.

As mentioned earlier, that the abolition of octroi tax and the consequent fiscal stress of urban local bodies in India have become compelling reasons to innovate new sources of revenues. These
compulsions have already led some of the municipal governments in the country to introduce new sources of local revenue. For example, Municipal Corporation Delhi (MCD) imposes a tax on consumption of Electricity at a rate of 2 paisa per unit consumed. In the state of Madhya Pradesh, the municipal governments introduced a Paryavaran Kar (Tax on Environment) on goods vehicles. Also a Niryat Kar (Tax on Export from local area) was imposed to generate additional revenue. In the state of Haryana in India, the state Govt. introduced new fiscal tools to mobilize revenue for urban local bodies after the abolition of Octroi tax. (See Box 1st for further details):

Box 1: New Fiscal Tools innovated by Cities

Pune:
- Street Tax @ 5 percent of ARV
- Use of land as resource.

Raipur:
- Niryat Kar (Export Tax)
- Paryavaran Kar (Environment Tax)

Municipal Corporation of Delhi
- Toll Tax on commercial vehicles including government vehicles.

Haryana:
- Local Area Development Tax @ 4% of the value of goods moving from one area to another within the state.
- Tax on profession, trade and callings.
- Fire Tax @ 1 % of ARV
- Rs. 100 tax on Driving Licence
- Five Paise per unit on power consumption.
- Rs. 1500 per year on private laboratories, commercial colleges, computer centres and showrooms of big companies.
- Tax on Tent houses, cable operators, printing press, medical and general stores.
- Levies on registration of new vehicles.

However, in the state of J&K neither the state government nor the municipal bodies have innovated new fiscal tools to mobilize revenue for Urban local bodies after the abolition of octroi tax in 1987.

3. Poor Mobilisation

Not only the Municipal Corporations in the state have failed to innovate new sources of funds, they are reluctant even to exploit the existing resources available to them. As mentioned earlier that the contribution of tax revenue sources is very insignificant mainly because of the non-levy of some of the important taxes like property tax, profession tax, show tax, sewerage tax, etc. The Municipal Corporations have not shown any inclination to build up the optimum revenue yielding capacity out of given resources. With the exception of trade tax, no tax is found to have been levied by the Municipal Corporations in the state. In addition to non-utilization, underutilization of available resources is equally responsible for the present state of fiscal crisis. The Municipal Corporations have not only failed to levy all the taxes they are empowered to levy, they have also failed to raise the rates of the existing taxes/fees/levies. The rates of taxes/levies remain unchanged for years together.

4. Lack of Prioritisation

For an efficient municipal system it is not only essential to have adequate financial resources at their disposal, but it is equally important that the money is properly and justifiably spent. It has to be seen whether the expenditure which is going to be incurred is proper, genuine and necessary. This will ensure an effective expenditure planning and control. But many a times the expenditure is incurred on un-productive and unapproved items. For instance, misclassification of
expenditure such as debiting of expenditure incurred on petrol, oil and lubricants (POL) of the administrative vehicles to the POL provisions of functional vehicles (Garbage removal transport) constitute budgetary indiscipline in the Municipal Corporations of the state and should in no case be treated with impunity. Similarly, more than required percentage of expenditure is incurred on establishment and other unproductive items which is considered as bad financial management. The expenditure pattern of the Municipal bodies has to show change to survive the pressure of civic needs and services. A rationale expenditure pattern has to be evolved for the municipal bodies keeping in view the civic needs and corresponding resources. This should adequately be reflected in the Municipal budget.

5. \textit{Interference}

In addition to defects discussed above, interference from the deliberative wing in the day-to-day affairs of the Municipal Corporations also affects the proper implementation of the budget plans and programmes. During discussion with the municipal officials, it was revealed that the members activities are not confined to the stage of budget finalization only but they interfere at various levels to get their work done. It affects the judicious and speedy execution of the projects as a lot of time is lost in dealing with them. The elected representatives belonging to different political parties are concerned for interests of their constituencies rather than the development of city as a whole. This has also been reported by the Local Finance Enquiry Committee (1951) that "Political Interference in the day to day matters, is equally responsible for the slackening performance of the Municipal Authorities in India. By exercising their influence, the local politicians
greatly jeopardise the functioning of these municipal authorities. Such interference also causes misallocation of funds plus delay in the execution of their plans”. The excessive interference has been affecting the execution of programmes much to the detriment of the overall planned development of the cities as a whole.

Conclusion

What emerged from the discussion is that the existing budgeting system of the Municipal Corporations in the state suffers with number of problems. Preparing budget estimates on the basis of incremental approach is a routine exercise in these bodies, which often has failed to give a realistic budget estimate. Budget documents do not contain physical or performance targets to be achieved through budget allocation. The budget prepared by the municipal corporations only give an idea of expenditure on different services and sources of income and normally try to balance their expenditure with the income. A mere aggregation of the various items of expenditure and the corresponding resources does not make for a good budget.

Budgeting which is considered as the main instrument of financial management and a good measure of financial control is not based on any definite work programme. It does not spell out clearly the planning programmes, targets and achievements. It also lacks in financial planning based on sound principles of financial management.

Municipal budgeting on sound scientific lines has yet to emerge in the state of J&K. In other words, the budgeting practices followed by the Municipal corporations in the state of J&K are unscientific. Under these circumstances, the Municipal Corporations spend money in the manner they like irrespective of the budget provisions, rules and
procedures. Unless, the budgetary practices improve not much headway could be made in the overall Municipal financial administration system. In view of various new techniques evolved for budget making, the traditional budgetary practice needs thorough improvement.

The performance budgeting as recommended by the committee on Budgetary Reforms in Municipal Administration if introduced in municipalities, could go a long way to mend this situation. “The performance budget is a budget based on functions, activities and projects which focus attention on the accomplishments and the relative importance of the work to be done and the services to be rendered rather than on the means of accomplishment such as personnel, services, supplies, equipment, etc. Under this system the functions of various organizational units would be split into programmes or into activities, sub-programmes, schemes, etc. and estimates would be presented for each” (Budgetary Reforms Committee, 1957-58). The central government has already introduced performance budgeting and efforts are being made for installation of a system of performance budget at the state levels. But similar efforts are not being made at the Municipal level where the introduction of performance budgeting is relatively easier due to more meaningful classification of Municipal functions and activities.

The observations and conclusions with regard to what has been analysed and interpreted in the preceding chapters in the light of the objectives of the study already set forth using the required data for the purpose and other informative materials necessary for the conduct of such study, the succeeding culminating chapter features the ‘conclusions and suggestions’.
REFERENCES

1. Report of the Local Finance Enquiry Committee (1951), Govt. of India, New Delhi, P.161.