

CRITICAL NOTE ON MUNICIPAL BUDGET

Miss Sharyn Bangera and Dr. Waman K Acharya

Government of Maharashtra, Ismail Yusuf College, Government of Maharashtra ,
Ismail Yusuf College, Jogeshwari East Mumbai

Abstract : Local Governments in India do not have the innate power of taxation – The constitution does not specify any taxes for their exclusive use. The question was examined by the Local Finance Enquiry Committee in 1951 and it had recommended a list of thirteen taxes viz. (i) Terminal tax on goods or passengers carried by railway, sea or air, (ii) Tax on land and buildings, (iii) Tax on mineral rights, (iv) Octroi, (v) Tax on vehicles other than those mechanically propelled, (vi) Tax on animals and boats, (vii) Tax on professions, trades, callings and employment, (viii) Tax on advertisements other than those published in newspapers, (ix) Tax on goods and passengers carried by road or inland waterways, (x) Tax on the consumption or sale of electricity, (xi) Capital Tax (xii) Tax on entertainment and (xiii) Tolls, for exclusive utilization by the local government but had disapproved the idea of inclusion of this list in the Constitution.

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1 INTRODUCTION

Similarly the Taxation Enquiry Commission (1953-54) had suggested a list of ten taxes to be reserved for local government which the state government could increase also but had dis-favored their incorporation in the Constitution. “Although constitutional amended may not be a feasible proposition, the earmarking of an area of taxes for exclusive utilization by local government will keep it unaffected by the changing moods of the state government and ensure it definite and elastic sources of revenue. This requires specific provisions in the municipal legislation.”¹

MUNICIPAL BUDGET:-

Municipal budget is the annual financial statement of the anticipated income and expenditure of the concerned municipal body. Budget preparation is usually the occasion for determining the levels of taxation and the ceilings on expenditure. The main objective of the budget is to ensure that funds are raised and money is spent by the expenditure. The main objective of the budget is to ensure that funds are raised and money is spent by the executive department in accordance with rules and regulations and within the limits of sanctions and authorizations by the municipal council. The councilors look at it a san opportunity to advance interests of their constituencies and to appraise the policy fulfillments. In the state governments’ view it is a method of exercising control and enforcing uniformity in the interest of efficient functioning of local government institutions.

The responsibility for preparing the budget rests with the Executive and it is often considered by the Finance sub-committee before it is put before the council for discussion and approval. The approval of the budget is granted by the state government in the case of Class – I and the Deputy Commissioner in case of Class – II and III municipalities. Municipalities are required to submit the budget for approval to the government before the 25th of February every year. It is not feasible for the authorities to scrutinize the

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budget in a short span of one month and is therefore approved in a hurry. As a matter of fact the budgets are treated as routine communications and are examined mostly at the clerical levels and passed with certain routine remarks. In most cases the approval is accorded even without properly examining the documents. Detailed examination is conducted only in case the state government has received complaints about serious irregularities.²

The system of approval of budget by the state government either directly or through its functionaries is not conducive to efficient management of municipal affairs as quite often the process of approval is time consuming and till the formal approval is received. The municipal government is run on a most slender budget. Consequently no worthwhile activities are undertaken in the first three to four month. The delay also occurs unwittingly on the part of the state government because of the fact that the Department of Local Government and Directorate of Local Government are not adequately equipped to make such scrutiny quickly and comprehensively.

But the state government had its own reasons to have the right to approve the municipal budget, chief among them being its concern in ensuring proper financial health of the local government for which it is accountable to the legislature on the one hand and to the people on the other; it gives substantial grants to the municipal bodies for a number of activities and it would naturally be interested in ensuring proper utilization of such grants.

The via media could be that the state government should retain indirect control over the budgets of the local bodies. It should assume powers under the municipal statutes to issue guidelines in sufficient details and the municipal bodies be left free to formulate and finalize their budgets within the framework of the provisions and laid down there under. Similarly the controls like laying down certain conditions at the time of giving loans and grants with a view to gain some leverage for providing guidance would be preferable to the direct and negative ways of control.

MUNICIPAL EXPENDITURE:-

The various Municipal Acts lay down priorities in respect of expenditure of municipal committees. The first charge on the municipal fund is the repayment of loans followed by various other items of expenses in the following order.

Contributions not exceeding one percent of the income for the financial year preceding the year, towards the cost of Directorate/Inspectorate as the state government may establish for advising, assisting, and supervising the work of municipal bodies; charges of establishment including police; audit fees; maintenance of homes pauper and lunatics; water works; drainage, sewerage and other works; annual payment to the state government equivalent to the total provision made in the budget for the year (when the educational institutions run by the municipal bodies were provincialized) under the main head 'Education' excluding provisions relating to public libraries, reading rooms and museums; construction and maintenance of public streets, bridges, drains, latrines, urinals, tanks and water courses; hospitals and dispensaries, rest houses, sarals, poor houses, markets and other works of public utility, relief works in time of famine, floods and scarcity, public parks and gardens holding of fairs and exhibitions; and all acts and things which are likely to promote the safety, health welfare and convenience of the inhabitants.

The Municipal Corporation Acts provide for the application of moneys from the corporation fund in payment of all service charges and costs necessary for carrying out the provisions of the Act, and on all acts and things which are likely to promote the safety, health, welfare or convenience of the inhabitants, for meeting the cost of the local government Directorate or its sub-offices and for the execution of any work certified by the Secretary, Local Government Department of the concerned state to be urgently required in public interest.

Most of the expenditure incurred by municipal bodies relates to the charges of establishment, payment of loans with interest and very little percentage of revenue is left for meeting expenditure on the provision of minimum needs of the citizens of their respective localities and hardly any amount for development activities and the finer needs of enrichment of life. Invariably the municipal bodies suffer from acute financial stringency and most of them reach a critical state of bankruptcy. Most of the municipal corporations/committees owe crores of rupees to contractors, their development works are at stand still. There is deterioration in the sanitation work, the sewerage system remains choked, the residents do not get adequate piped water supply, roads are in bad shape, street lighting is poor, pollution causes big health hazards, and so on. They have therefore to approach the government for substantial financial aid which is not made available promptly with the result that the civic conditions of the city suffer further deterioration.

ACCOUNTING AND AUDITING:-

Accounting and auditing occupy a place of importance in any organization, public or private. In a local body they function as custodians of the public money and are responsible for ensuring proper custody. Accounting and expenditure in accordance with the rules and regulations and provisions in the budget.³

Accounting reflects accurately the day-to-day financial transactions, the receipt of revenues and the payment of expenses. Municipal bodies are required to maintain accounts in the form and manner as prescribed by the state government and to follow the Accounts Coded which inter alia describes the duties of the officials connected with the financial transactions and lays down procedure for disbursement of money.

Audit is a tool of financial control. Its function is to ensure that all financial transactions are conducted according to the rules, that all receipts are duly credited to the proper accounts and that no amounts are paid without proper authorization. It is required to take into account the principles of financial property i.e. of faithfulness, wisdom and economy.” In all recognized democracies, audit is not just tolerated as necessary evil, but is looked upon as a valued ally which brings to notice procedural and technical irregularities and lapses on the part of individuals, whether they are errors of judgement, negligence or acts and intents of dishonesty. The complementary role of audit in administration is accepted as axiomatic being essential for toning up the machinery of government”.⁵

Audit of the municipal bodies generally is conducted by the Examiner. Local Fund Accounts. It can either be post-audit or pre-audit. In the former case, a test audit is conducted of a part of the financial transactions of the year and if it discloses serious irregularities, faults and mistakes, the government may order special audit. Post – audit is not considered to be of any value as it is post-mortem of the expenditure which has already been incurred and it is just like locking the barn after the horse is stolen.⁶ Pre-audit system, on the other hand, is regarded to be a more effective instrument of financial control. The state government introduces pre-audit system in selected municipal bodies and places at their disposal the services of one Resident Audit Officer representing the Examiner, Local Fund Accounts assisted by a number of junior auditors. The auditors draw their salary from the government which charges its audit fee from the municipal body concerned. They pre-audit all the payments, whereas accounts of income, stock, etc. are subject to post – audit check in accordance with the quantum prescribed from time to time in respect of each account. Pre-audit is however, criticized on the ground that it curbs initiative and leads to delay in the process of implementation.⁷

Objections of various kinds are raised by the audit. Instances of some of them are : Municipal bodies do not put up the records asked for by the audit. It leads the audit to feel that non-production of records was intended to conceal serious financial irregularities committed by the officers; Temporary advances remained outstanding against Government Department / Agencies and municipal employees. Many of the employees had either been transferred or had retired from service. It was intriguing how the last pay certificates were issued to them without getting the advances adjusted; The arrears of various taxes were not worked out and carried over in the New Registers nor the statements supplied to audit to enable it to depict their up to-date positions; No attention was paid towards the settlement of outstanding objections which had piled up over the years. Even the objections relating to the recoveries had not been attended to. Action on them might not be possible at this late stage being time barred under the Indian Limitation Act etc. It is a matter of great concern that the deliberative and executive wings of the municipal bodies do not take the audit reports and objections seriously. This is alleged to be quite natural in view of the inherent defects in the system. The audit objections are usually directed against the decisions of the councilors themselves who cannot be obviously expected to take action against them. The result is that an unconsciously long time it taken for reports to be put up for consideration and still longer to act upon the audit recommendations and with the passage of time, their value is considerably diluted.

Municipal bodies, on the other hand are highly critical of the negative attitude of the audit which has resulted in curbing initiative and creating friction between the deliberative and executive wings on the one hand and within the executive wing on the other. They feel that audit should not only be progressive and enlightened in outlook but also appreciative of the difficulties in implementation of the schemes. There is enough weight in the observations of the municipal bodies and it is therefore desirable that the audit should give greater emphasis on evaluation of efficient performance rather than just confining itself to the regulatory aspect as is the case at present.

As mentioned earlier, it has also been observed by the audit that innumerable audit objections have been pending for a number of years, some being as many as over two decades old. The continuation of audit objections in such a large numbers and for such a long period undoubtedly casts a reflection on the performance of the municipal bodies concerned but the keeping of these objections alive for so long is also of no value. Evidently the remedial or corrective value of these objections has ceased to exist. All long

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standing audit objections therefore need to be dropped.

In conclusion, it may be observed that the controversy regarding the role of audit is largely due to lack of appreciation on the part of the auditors and councilors / executive of the importance of each other.

REFERENCES

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