

Expenditure Management in Indian Municipal Bodies Status and Way forward

**National Workshop on Municipal Finance and Urban Planning
By Ministry of Housing and Urban Affairs – Nirman Bhavan – Delhi
26th November, 2018 – Vidnyan Bhavan New Delhi**

**Dr. Ravikant Joshi
Team Leader - TSU
DAY - NULM**

Expenditure Management in Indian Municipal Bodies - Introduction

- ▶ Across the world public expenditure management is now receiving increased attention,
- ▶ GOI has adopted it – expenditure management commission
- ▶ Municipal resource mobilisation has off late receiving attention but expenditure management in municipal bodies is yet to receive such importance.
- ▶ Expenditure management comprises three aspects
 - ▶ Fiscal Discipline, Allocative Efficiency, Operational Efficiency
- ▶ Rupee saved is Rupee Generated
- ▶ Need to adopt it in Indian municipal bodies

Expenditure Management in Indian Municipal Bodies - Introduction

- The main tool of public expenditure management is budget and budgetary control
- Precisely budgeting and budgetary control systems are weakest in municipal bodies.
- Even expenditure management (budgets) in municipal bodies which are big, advanced and leader in other aspects is defective, inadequate
- There is urgent need to improve expenditure management (budgeting) in municipal bodies.

Expenditure Management (Budgeting) in Municipal Bodies - Drawbacks

- Defective structure, improper classification
 - Receipts classified as per accounting heads
 - Expenses classified as per budgeting / cost heads
- Improper classification of income and expenditure items (revenue, capital, extra ordinary)
- Excessive reliance of incremental approach & on Line item budgeting technique
- Absence of Long Term Perspective, overall targets / ceilings
- Unrealistic past figures – incomplete annual accounts
- Highly rigid, fixed (absence of concept of contingency budgeting)
- Expenditure not contingent on resource realization

Expenditure Management (Budgeting) in Municipal Bodies - Drawbacks

- Absence of proper resource allocation mechanism
 - Absence of policy and criteria to allocate resources to different types of works, to different functions, to different nature of works, to different areas of the city
- No scope for cost-analysis/cost-reduction
 - Non-charging of in-house services provided
 - Non-allocation of loan charges to respective services
- Non-importance to revised budget formulation
- Non-linking of financial & physical outlays (Absence of performance or outcome budgeting)

Expenditure Management (Budgeting) in Municipal Bodies - Drawbacks

- Overlooking deficit financing which takes place
- Spending psychology - Budgeting of 'how much' rather than 'how best'
- Absence of centralized financial control
- Non-classification and analysis of expenditure
- No advance intimation of expenditure
- Defective bill movements system
- Defective tendering procedure
- Lack of short term fund requirement budgets

Expenditure Management (Budgeting) in Municipal Bodies - Way Forward

- Reorganize, restructure budget, reclassify budget items
 - Streamline and prune down budget
 - Introduce subsidiary appendixes
- Judicious use of budgeting techniques – Adopt Zero base and performance cum outcome budgeting
- Adopt long term (five years) and medium term (three years) budgeting framework with rolling plan format – GoI has adopted MTBF
- Regularize accounting system and work; tune budget with it
- Make Expenditure contingent to resource realization
- Adopt contingency budgeting

Expenditure Management (Budgeting) in Municipal Bodies - Evolve Resource Allocation Model

- Budget is a resource allocation mechanism which must be based on principle of equity
- It should mirror public choice or needs of various stakeholders in allocation of resources
- In representative form of democracy elected representative is supposed to reflect public choice or needs of various parts of society
- Various dimension (eight) to be considered while allocating resources in equitable manner
- Resource Allocation is like solving 'Rubic Cube'

Expenditure Management (Budgeting) in Municipal Bodies - Evolve Resource Allocation Model

- 1 – Obligatory and Discretionary
- 2 - Level of Development in the City
 - Inter urban areas prioritization
 - Highly Developed Area
 - Moderately Developed Area
 - Average Developed Area
 - Poor in Development Area
- 3 – Level of Development of Each Service
 - Inter Urban Services Prioritization
- 4 – Gestation Period of the Capital Work
 - Short, Medium, Long Term
- 5 – Necessity of Work
 - Very Urgent, Moderately Urgent, can wait
- 6 – Nature of Development Works
 - Spill Over Works
 - City Level – benefiting whole city
 - Inter Zonal – benefiting more than one zone
 - Intra Zonal – benefiting only one zone
 - Ward Level - benefiting only one ward
 - Micro Level – very small nature
 - Emergency -
 - Special Works – for the benefit of weaker
- 7– Estimated Life of the Capital Work
 - Short, Medium, Long Term
- 8 – Commercial Potentiality of Work
 - Economic, General , Social



Expenditure Management (Budgeting) in Municipal Bodies - Way Forward

- Separate revise budget approval process
- Introduce centralized financial control
- Introduce system of budget variance analysis
- Adopt short term budgeting (weekly, monthly)
- Improve tendering (procurement) process
- Rationalize bills movement process
- Increased Councilor's Participation
- Increased Peoples' Participation
- Follow rational process of budget formulation



Expenditure Management (Budgeting) in Indian Municipal Bodies

Thank you

Budget Formulation Structure

➤ Find Revenue Income

Deduct

➤ Revenue Expenditure

You Get

➤ Revenue Surplus

Add to this Figure

➤ Capital receipt from own sources

➤ Capital grants from government

➤ New loans planned and feasible

You Get

➤ Gross Amount Available for Development



Budget Formulation Structure

- Gross Amount Available for Development

Deduct from this

- Loan Repayment Figure
- Emergency or exigency works requirement

You Get

- Net Amount Available for All types of Development
- Find following figures and deduct this from this amount

- Works Completed payment yet to be made
- On going works payment liability which will be required to be paid in near future
- Works sanctioned in the past but not started

You finally get

- Net Amount available for new development



Budget Formulation Structure

➤ Amount available for new development

Deduct from this

➤ Own contribution towards grant & loan projects

You get Net amount for development

How to allocate this Net Amount for development?

➤ Evolve Resources Allocation Mechanism

➤ Having allocated resources, link each allocation with the works and their physical targets (outcomes)