Expenditure Management in Indian Municipal Bodies
Status and Way forward

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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, Allocated 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)