

PART III
FINANCIAL MANAGEMENT OF
MUNICIPALITIES

XV. Municipal Fund

17. *Regarding the provisions of clause (d) of article 243X entitled “Power to impose taxes by, and Funds of, the Municipalities” according to which the Legislature of a State may, by law, provide for constitution of such Funds for crediting all moneys received, respectively, by or on behalf of the Municipalities and also for the withdrawal of such moneys there from, the question is as to what should be the specific provisions which may be made in any municipal law.*

- (1) In this regard, the State Governments need to take note of one concern which has already been expressed in sub-para (1) of para 13 of this paper relating to the constitution of the Municipal Fund in a manner whereby it may be ensured that salaries do not eat into the entire Fund.
- (2) The Calcutta Municipal Corporation Act, 1980, in section 119, provides a unique example whereby it is provided that the Municipal Fund shall be maintained in five different accounts as against the six accounts as listed under sub-para (1) of para 13 of this paper as referred to above.

Section 120, section 121, section 122 and section 123 of the Calcutta Act, identify the specific sources of revenue whose proceeds shall be credited to the respective accounts and also specify the purposes for which the moneys credited to the respective accounts may be applied.

- (3) Certain other Acts contain provisions for *Special Funds* also such as, under the Bombay Municipal Corporation Act, 1888, there is a provision for constitution of *Consolidated Water Supply and Sewage Disposal Loan Fund* (section 119A), constitution of *Water and Sewage Fund* (section 119B), constitution of *Fines Fund* (section 120) and constitution of *Welfare Fund* (section 120A). Enabling powers have also been assigned for Special Funds which may be created with the approval of the Corporation (section 121).
- (4) Even in the Gujarat Act, section 91 provides for constitution of *Special Funds* as may be prescribed by rules or such *Other Funds* as may be necessary for the purposes of the Act.

- (5) The various municipal laws also include enabling provisions relating to the following :
- (a) expenditure on physical assets beyond the specific municipal area
 - (b) operation of bank accounts
 - (c) payments not to be made out of Municipal Fund unless covered by a budget grant
 - (d) procedure when money not covered by a budget grant is paid
 - (e) temporary payments from the Municipal Fund for works urgently required in public interest, and
 - (f) investment of surplus moneys

All these provisions are of a routine nature and no major policy issues are involved.

- (6) Conventionally, the municipal laws provide that surplus moneys in the Municipal Fund may be invested in public securities or small savings schemes approved by the State Government, or deposited at interest with such scheduled banks as may be approved by the political executive, by whatever name called, or the Commissioner.
- (7) Section 130 of the Calcutta Municipal Corporation Act, 1980, has a special provision whereby the surplus moneys standing at the credit of any of the Accounts of the Municipal Fund, which may not, either immediately or at an early date, be applied for the purpose of the Act by the Corporation, may, in accordance with such rules as may be made by the State Government in this behalf, be transferred by the Corporation, either in whole or in part, to any other Account of the Municipal Fund. It has been provided, however, that no such moneys shall be transferred permanently from any of the Accounts to any other Account without the previous approval of the State Government.

Provisions Made in the Municipal Law

20. *Clause 75 of the Municipal Law provides for the constitution of a Municipal Fund.*

Sub-clause (2) of this clause provides that subject to such directions as the State Government may issue and keeping in view the classification of municipal areas, the receipts and expenditures of the Municipality shall be kept under such heads of

accounts including those for water-supply, drainage and sewerage, solid waste management, road development and maintenance, slum services, commercial projects and other account heads.

Sub-clause (3) of this clause provides that every head of account shall be split up into a “revenue account” and a “capital account”.

21. *Under this Part, the Municipal Law also makes the following provisions :*

- (1) clause 73 - Implementation of the recommendations of State Finance Commission*
- (2) clause 74 - Financial assistance from State Government*