Municipal Budgetary and Financial Control Reforms
(A Success Story of Vadodara Municipal Corporation)

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Introduction

India embarked upon economic and structural reforms since 1991. India is through its first generation of reforms and since 1999 it has undertaken second generation with economic and structural reforms. The processes of economic and structural reforms, economic liberlisation and forces of globalisation have brought in phenomenological changes in India. Indian Municipal Bodies are not exception to this. In the course of last decade various Indian municipal bodies have undertaken various types of structural, financial, accounting and budgetary reforms. Vadodara Municipal Corporation has also carried out various reforms to improve efficiency and accountability of its governance. This paper documents the success story of the budgetary and financial control reforms of VMC as follows –

Historically the process of introduction of accounting reforms started first in VMC that is much before the budgetary and financial control reforms outlined below, but VMC's accounting reforms got implemented with considerable delay during the 1996 to 1998. The process of accounting reforms was started in 1990 under World Bank technical assistance with the appointment of A. F. Ferguson & Co. an accounting firm to develop financial accounting system for the VMC, while the budgetary and financial control reforms were structured in-house and were carried out mainly during the period of 1991 to 1993. Of course budgetary and financial control reforms have continued in VMC till today. The financial control reforms of VMC concentrated on improving system of budgetary control, bills movement and short-term liquidity/financial management while the budgetary reforms of Vadodara Municipal Corporation essentially comprised -

- Restructuring of budget document and reclassification of individual budget items on logical and theoretical basis,
- Making it user friendly by pruning it down and by adding useful information for a layman point of view.
- Making it realistic by improving its formulation and visioning process, along with improvement in the quality of data etc.
- Making it participative by providing real powers of budget making to elected representatives through resource allocation mechanism.

Before taking stock of budgetary and financial control reforms of VMC, it will be appropriate to know about the budget process and budgeting cum financial control systems of the VMC and the drawbacks associated with these systems.

The Budget Process

Budgeting is a statutory activity for all the local self-governments in India. In Gujarat Bombay Provincial Municipal Corporation Act, 1949 is applicable. Section Nos. 95 to 104 of the Act provides for budget preparation, structure, process, adoption etc. The generic or general process of formulating budget is as follows (please see Figure 1)

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The Accounts Department of VMC prepares the entire Budget in the prescribed format of the Budget Document. The budget exercise for the coming year commences in the month of October of the current year. Therein at first instance the accounts for the first six months of the current year (April - September) are prepared by the accounts department. Simultaneously other departments are asked to submit actual budget utilisation in the six moths completed and the budget forecasts about requirements for remaining six months of the year (revised budget) and for the coming year (draft budget). The basis for preparation of the budget is the figures of the previous and current year. Budgetary requirements (departmental budgets) are compiled by the Accounts Department, after deliberations with each departmental / section head at the Chief Accountant's level. In the next round (in the month December) concerned department heads and the chief accountant discuss budget with the Municipal Commissioner. Having compiled the figures of receipts and payments, the taxation proposals are drafted by Chief Accountant and Municipal Commissioner to bridge the budgetary deficit. This first stage (Administrative Stage) of budget preparation and compilation usually takes about 3 months (October to December). Municipal Commissioner presents draft budget proposal in the first week of January to the Standing Committee for deliberation.

Standing Committee reviews the budget estimates and the budget document submitted by the Commissioner and adopt it with appropriate modifications/alterations, which it thinks are necessary and sends it to the General Board in the first week of February.

As per Section No. 99 of BPMC Act, 1949 General Board has to decide about the taxes and rates applicable in the budget year by the midnight of 20th February of the year. Accordingly General Board first deliberates and decides about tax proposals by the midnight of 20th February and about the individual budget items and the estimates of receipts and expenditure by the 31st March of the year. Thus the new budget comes into effect from the 1st of April for the period of one year. If for any reason General Board fails to adopt the budget estimates by 31st March of the year then the estimates approved by the Standing Committee come into effect from 1st April for time being and later on when General Board adopts budget estimates its budget comes into effect.

Budgeting System Prior to Reforms

The Vadodara Municipal Corporation was preparing and presenting its budget, prior to reforms, under three heads by following above-mentioned process.

- **Part I -** Revenue income and Expenditure Budget (Revenue Budget)
- **Part II -** Loan Receipts and Expenditure Budget (Loan Budget)
- **Part III -** Budget for Deposits, Capital Grants etc (Suspense Budget)

1. Revenue Budget:

Revenue budget included tax revenue incomes like octroi, property tax, and other taxes, various non-tax incomes and government grants. It also included capital incomes like sale of land, incremental contribution, development charges etc. Thus there was no distinction between revenue and capital income. Also there was no distinction between capital and revenue grants; as a result capital grants were also included in the revenue budget. On expenditure side revenue budget included expenditure heads like establishment, contingency, repairs and maintenance, loan interest and repayment. It also included expenditure on new works that is capital expenditure. The receipt and expenditure sides of the revenue budget were divided in 17 heads (functions) and under each head/sub-head the object-wise and then subject-wise receipts and expenditure classification was available.

2. Loan Budget:

This budget accounted for the new loans taken and expenditure carried out from it. It was essentially a capital budget but wrongly termed as Loan Budget. It was divided as per the sources of loan like —

i. Government Loan
ii. Open Market Borrowings
iii. Life Insurance Corporation
iv. Commercial Banks
v. HUDCO
vi. World Bank

Under each of the loan-source the budget was further divided as per the name of development work, which formed a budget item. This budget rightfully included only development works/projects and other types of expenditure like establishment, maintenance, repayment of loans etc. never formed a part of it. The loan budget of VMC suffered from certain drawbacks. For e.g. most of the budget items under this budget were of a general or of an adhoc nature i.e. Laying of Water Supply Lines or Electricity Lines or Trunk Sewerage Lines or Construction of Ring Roads, T.P. Scheme Roads etc. The budget allocation to such general (Macro) budget items was made on an adhoc lump-sum manner while preparing the budget estimates and even also after the actual receipts or rising of loan amount. Further though loan budget comprised only capital expenditure, there was no policy of restricting allocation to petty or miscellaneous capital items.

3. The Budget for Public Deposits and Advances.

This was the budget for the extraordinary receipts and payments. The Budget for Deposits and Advances was quite underdeveloped or unaugmented. It included few budget items as a result it was not possible to know deposits received or refunded under different heads or categories or purposes. Similarly it was not possible to know advances given or recovered department-wise or purpose-wise. The estimates pertaining to deposits or advances were mostly enbloc estimates i.e. how many new Deposits would be received or refunded during the year or how many new advances will be granted or will be adjusted during the year. Another drawback associated with this budget was of clubbing two diametrically opposite item deposits & advances under one head or format. Deposits receipts represent liability while advances represent assets, totaling them under one head was not correct.

Vadodara Municipal Corporation followed Classical Line-item Budgeting technique for its revenue budget. In the revenue budget of the VMC prior to reforms all the budget items were presented in a line structure and were grouped in an object-wise or subject wise classification. The revenue income was grouped under the subject heads like tax, non-tax and governments-grants. The expenditure was classified under the 17-object heads; each object head was further sub divided further into subject heads such as the Establishment, Contingency, Maintenance, (Capital works) etc. The Revenue Budget had functional/activity-wise classification of a preliminary nature. Performance budgeting at first instances requires object-wise classification of the budget items. But the object wise classification present in the VMC's budget prior to reform may not be mistaken as application of performance budgeting techniques. Its receipt side and the expenditure side had different structure and classification and there was absence of the physical or performance targets proposed to be achieved through the budget.

Loan budget (Part-2) was neither a Line-Item budget nor any other type of budget (performance or PPBS or ZBB) in a true sense. It was merely a list of developmental items accompanied by adhoc allocations classified under different loan sources.

Suspense budget (Part-3) hardly followed any budgeting technique, as it was in the form of single item enbloc projections. Also it consisted in one place/format two diametrical opposite suspense items such as public deposits which represents liability and the advances, which represents assets.

Vadodara Municipal Corporation followed an incremental approach for the preparation of these budgets, that is, the figures of the previous year were taken as the base and incremental amount was added at a fixed rate or percentage (10% p.a.) to formulate the budgetary allocations for the budget year. Some time base for increment taken was three year's composite average annual growth rate. In most of the cases budget estimates were decided not on the incremental approach but on the basis of pulls and pressures exerted by the elected representative and by the executives.

All the budgets (Part 1 to 3) even at present are prepared and operated on cash basis and not on accrual basis, that is, receipts and payments are not related to the period in which they are earned or appropriated; rather they are based on the receipts received and the payments made. It is suggested that the budgets of the Corporation should have an element of accrual basis. This is true, but it will be a great mistake if someone tries to prepare and operate the entire budget on accrual basis. Municipal Corporation receives various receipts and payments about which it is not possible to quantify their accrual before the receipts/payments are actually made. Also the nature of various receipts/payments of Corporation is such that their incidence more or less coincides with the accrual of them. These two main characteristics of municipal receipts and payments clearly indicate that the budget of a Municipal Corporation should be prepared by a judicious application of both the concepts - Cash and Accrual.

Major Drawbacks of the Budgeting System of VMC

As noted earlier Vadodara Municipal Corporation prepared its budget in three parts. It followed Line Item budgeting technique coupled with increment approach and cash based accounting. The Corporation opted for financial accountability, legality and regularity of expenditure. Line-Item budget facilitates centralised financial control, but in the case of Vadodara Municipal Corporation, due to certain inherent deficiencies, its budget failed to render even this limited advantage of financial control. The major drawbacks of the budgeting system of the Vadodara Municipal Corporation, most of them are common to all local bodies in India, were as follows.

1. **Defective Structure and Improper Classification of Budget**

Almost all the municipal bodies suffer from this drawback. Over and above this each municipal body structure its budget in its own way and also follow classification of its own. This is so because neither central government nor any state government has paid attention to this problem and has not mandated a standard format, which municipal bodies should follow. VMC was not exception to this drawback. Its budget lacked logical budget structure and classification as a result the budget document of VMC tend to grow in size, complexity and in irrationality by leaps and bound every year.

2. **Improper distinction between various natures of expenditure**.

This was another aspect of above-mentioned drawback. This drawback is associated with accounting treatment of various receipts and expenditures. There was no unanimity about which receipt or expenditure to be treated as capital or revenue. Consequently there was also no unanimity about classification of budget into capital and revenue. The basic broad classification of VMC budget was the sources of funds, but even that distinction was not followed correctly.

Accordingly planning, controlling and ascertaining of expenditure source-wise/ nature-wise was a very difficult task.

3. **Budgeting of 'how much' rather than 'how best'.**

The budget of VMC like most of the municipal bodies of our country was characterised by the 'how much' budgeting process instead of 'how best'. Every one was oriented toward discovering 'how much' money/allocation is provided or available next year, 'how much' various departments of the organisation want to spend and 'how much' can be cut in order to make the numbers come out even. If there was an overall goal in 'how much' budgeting, it was to make income and expenditures balance. Departments' goals were usually to spend every rupee allocated to the department (or perhaps just a bit less, in order to show cost-consciousness). 'How best' (quality) budgeting just did not exist at that time in VMC.

4. **Excessive Reliance on Incremental Approach:**

The budget estimates were prepared on the basis of past year's figures and by following an incremental approach. Under this approach, the previous year's level of expenditure was assumed to be appropriate, and as such was taken-for-granted level of expenditure, additional allocation was sanctioned as per pre-determined (thumb rule) incremental rate. Generally a Local body derives its incremental rates on the basis of an average annual growth rate. Incremental approach, builds into an organisation a bias towards continuing the same activities year after year, well after their relevance and utility may have been lost because of various reasons.

In case of VMC, the result of this was that the Corporation allocated budget to various items \ activities without verifying whether a particular item/activity relevant/ useful or whether a particular expenditure was necessary. Also as the Corporation followed fixed rate incremental approach it failed to reflect/absorb the changing national financial environment, inflationary forces and changing developmental priorities.

5. **Absence of Overall Targets/Ceilings:**

Financial estimates and figures were budgeted without having any overall targets/ceilings beforehand, causing heavy demand on sources of funds. Also, no detailed base work or calculations or analysis were made while estimating funds requirements or forecasting receipts of the Corporation.

6. **Unrealistic Past Figures:**

Corporation based its budget estimates and allocations on historical figures but the historical figures were themselves unrealistic as on 1/4/1989 the accounts were pending for past six to seven years at each level and stage. In fact the Corporation's Accounting System failed to operate to such an extent that only primary day-to-day entries were taken care of and secondary entries and finalisation processes like ledger posting, monthly trial balances and annual accounts were left undone. Thus at that time budget utilised those figures as the basis for projections which were far from actual or real.

7. **Absence of Proper Resource Allocation Mechanism:**

The budget document in government organisations is an instrument of planning, coordinating and controlling but it is also an instrument of socio-economic development/transformation. Governments embody their socio-economic development policies in the budget and try to actualize them through the operation of budget that is through judicious resource allocation. Budget is essentially a resource allocation mechanism to achieve balance development of all the sectors or stakeholders. But in the Vadodara Municipal Corporation's budget there was no inbuilt system of resource allocation to correct the developmental imbalances of various areas of the Vadodara City. In the absence of well-designed resource allocation mechanism/policy, VMC's developmental efforts were lop-sided and without focus. Vadodara City's development had suffered because of this drawback, and at that time in 1990 the lop-sidedness was clearly visible in the city's development.

8. Excessive Reliance on Deficit Financing:

While compiling and finalising its budget the corporation followed the classical canon of Public Finance, that is, of deficit financing. As per deficit financing system, Corporation first estimated / finalised the funds requirements, but while balancing its revenue mobilisation/projections, which as usual, fell short of its requirements, it just inflated its revenue projections without any justification/tax raising steps/resource augmentation efforts. The result was disastrous, that is, at the end of year, receipts fell short of projections and expenditure exceeded the allocation resulting into heavy deficit.

9. Expenditure not Contingent on Resource Realisation.

There existed no system linking expenditure with resource (receipts) realisation. This aggravated the vices of deficit financing noted above in point-8. In government set up, budget is a legal authorization as a result once the budget allocations were approved, the departments were free to utilise their allocations fully, even if the receipts are not realised as per targets. Thus by not making its expenditure contingent to actual receipts, Corporation enhanced its budgetary deficit. In fact a local body can control negative aspects of deficit financing by judicously linking and making contingent its expenditure to resource mobilization, but such a linkage was absent in VMC.

10. System of Budget Lapse & Spending Psychology.

The unutilised budget allocation of revenue expenditure items lapsed at the end of the accounting year. As there was a system of allocating budgets to the departments on the basis of actual expenditure in past years, lapsing of budget meant less budget allocation in future. This encouraged the tendency for spending as much as possible and using up the budget grant instead of allowing it to lapse, which resulted in imprudent use of funds and hyper-activity in Treasury around the year-end. Thus instead of being a tool for exercising control on expenditure, the budget becomes the basis for incurring hasty expenditure.

11. Absence of a Subsidiary Budget System

Municipal budgets in our country invariably contain financial estimates about labour cost, O &M expenditure, purchases etc, which are not backed by detailed workings about quantity of raw material required, standard quantity required, price per unit etc. Usually budget estimates are prepared in block financial terms on the basis of past experience (rule of thumb). The thought and the mathematical working which underlies the estimate placed in budget is not inked to form subsidiary document of the budget, such an exercise is done at some places in the form of the establishment schedule. Thus there exists concept of subsidiary budget as many of the municipal bodies do prepare subsidiary document that contains detailed workings underlying the estimates regarding pay and allowances but same is not applied for other expenses. This lacuna makes it impossible to carry out cost analysis of expenditure estimated and actually incurred. Worse is the story about revenue estimates. These estimates are also prepared by following rule of thumb, hunch, average growth rate and the incremental approach. VMC prior to budgetary lacked system of subsidiary budgeting to support various estimates placed in the budget. Consequently suffered all the resultant drawbacks.

12. Improper Classification of Budget.

In view of the not too logical classification of various activities and their allocation to the budget head, the budget of VMC had become a very long and unmanageable document with about 17 parts. There was a lot of overlapping and duplication of budget items.

13. Non-Charging of In-house Services Provided.

There was no definite procedure worked out for inter departmental works and services rendered in-house. Such expenses were budgeted without any detailed workings. In many cases expenses pertaining to services provided on in-house basis were not charged and accounted in the budget. In some cases the expenses were directly budgeted with no emphasis on affixing responsibility on the parent department or the department rendering the service to monitor the progress of the work and its budget.

14. Non-Allocation of Loan Charges to Respective Services

Loan charges/interest payments and repayments of debt have till today been shown as the expenditure of the Accounts Department. This is again a generic feature found in all the municipal bodies of India. The correct treatment is to apportion these expenses to the purpose and to the Budget Center for which these expenses were incurred. This shall correctly reflect the cost of the activity undertaken with the help of loans and other debt instruments like debentures, bonds etc.

15. No Importance to Revised Budget Formulation.

As noted earlier municipal bodies are by act required to prepare revised budget. Consequently VMC also had been preparing revised budget for the current year on the basis of half-yearly actual figures. Theoretically the revised figures can be more realistic. Revised budget provides mechanism to remove the unjustifiable inflation made at the time of finalising the draft figures. Unfortunately this was not happening in the VMC prior to budgetary reforms. VMC used to formulate its revise budget by just reducing the actual amount spent in first six months from the annual target of the current year. The revised budget figures derived in this way for the next six months remained equally unrealistic as they were in the beginning. Some-time revised budget figures were more unrealistic than the originally estimated budget figures. Thus revised budget exercise was reduced to ritual in VMC prior to budgetary reforms.

16. Lacked Long-term Perspective:

Budget is, as per one definition, a policy implementation (actualization) instrument. It must have long-term perspective to become a real policy implementation instrument. Providing long term perspective to budget requires two things. One - an organisation must have a long term (minimum of five years) development plan based on various scientific studies (service or activity wise master plans) at first place and two, its annual budget must be linked to it rather must serve attainment of it.

The corporation’s budget exercise lacked long-term perspective because the Corporation never prepared a five-year developmental plan for the entire city. For preparation of a five-year plan it was necessary that the Corporation should have prepared a Master Plan for each major urban service provided by the Corporation. Also the Corporation’s budget was never made a part of whatever primitive long-term developmental policy/plan which VMC had. Consequently Corporation’s budget lacked long- term policy perspective, focus in its resource allocations and consistency in its development priority.

17. Non-linking of Financial and Physical Outlays:

One of the greatest drawbacks of the municipal budgeting system in India is the non-linking of financial outlay with physical targets/achievements. Budget allocations are made in an adhoc financial terms only i.e. Rs.200 lacs for development of main roads, or Rs.100 lacs for laying

Water Supply lines etc. Nowhere in the budget, the development works/targets to be achieved are linked to any budget allocations. VMC's budget was characterized by this classical drawback. In the VMC's budget, the financial plan and the physical achievement plan were not interlinked. Development works were undertaken from such adhoc/lump-sum budget allocations any time during the year as per pulls and pressures of Socio-economic-political groups and vested interest groups, rather than as per techno-economic-social priorities. As a result, many a times non-priority works preceded priority works and in the end the Corporation exceeded budget allocation to honour the committed priority works. It was also not possible to ascertain with what efficiency and economy the Corporation utilised its budget and how much physical development it really achieved and with what efficiency.

18. No Scope for Cost-analysis and Cost-reduction

One of the important drawbacks of municipal budget is that there is no scope for cost-analysis and thereby no scope for cost-reduction. This drawback is cumulative result of various drawback discussed above. A budget document is basically for controlling, that is, it must facilitate cost analysis and cost controlling, but in India municipal budgets in itself act as impediment to cost-analysis. As discussed earlier the structure, classification and formulation of VMC's municipal budget were such that no cost analysis was possible. Consequently cost-reduction or increase in efficiency or productivity became a remote possibility in VMC prior to budgetary reforms.

Financial Control System of VMC Prior to Reforms

In each and every governmental form of organization, budgeting system and budget document form the foundation (base) of its financial control system. In order to achieve optimum results from both, the budgetary and the financial control systems, it is necessary that both the systems should be complementary; that is they should be two sides of one coin. Accordingly if an organisation opts for Line-Item budgeting system then it should have centralised financial control system; likewise if it opts for performance budgeting, then there should be a two tier financial control, in which department-wise/budget center-wise financial control is done by Central Finance department and activity-wise financial control left to concerned departments. Also performance budget needs activity wise cost control system, while line-item budget utilises object-wise cost control system.

Thus financial or budgetary control system is closely related to the budget system. Consequently along with above-mentioned budgeting system related drawbacks VMC also suffered from weak and inappropriate financial control system as follows.

1. Absence of Centralised Financial Control:

The successful working of Line Item budgeting requires centralised financial control, but there was absence of such system in the Corporation. Once the budget allocations were approved, the departments were free to spend them. The Departments were allowed to draw the budgets after due approval by the competent authority. The Departments were used to send payment bills directly to Audit department without paying attention to budgetary allocations. This practice is common in most of the municipal bodies. Most of the time, departments exceeded budget provisions. The strange fact was that while sanctioning any work/expenditure, at no stage (preparation of estimates, approval of tenders, sanctioning of work by Municipal Commissioner/Standing Committee/General Board) budget availability was verified. Audit department also avoided budget availability verification, as it did not form part of its duty list. Thus there was virtually no neutral and centralised budgetary/financial control system to control expenditure to retain it within the budgetary allocations/estimates.

2. Non-classifications and Analysis of Expenditure:

The day-to-day expenditure was not analysed from point of view of its necessity, urgency and legality/statutory compulsions. Monthly cash budgeting system was not in practice. Expenditure was never classified in terms of very essential, necessary, deferred, and discretionary on monthly, quarterly and yearly basis. As such kind of analysis was not undertaken; it was very difficult to ascertain minimum-maximum requirements of resource on short-term and long-term basis. Consequently many a times non-essential or discretionary payments were released prior to essential/statutory payments and the Corporation faced liquidity crisis for the payment of such urgent/necessary expenditure items.

3. No Advance Intimation of Expenditure:

There was no system by which Accounts department the spending departments informed about likely cash-outflow or likely payments to be made during the current or the coming month. Almost all the organisations decide or set an appropriate expenditure limit; any payment beyond this limit is required to take prior approval of Accounts/Finance Department. In the absence of such a procedure, payment bills of huge amount used to come to Accounts Department of VMC without prior notice and without sufficient time to make necessary liquidity arrangements. This resulted many a times in critical liquidity position for the Corporation.

4. Defective Bill Movement System:

There was no proper system regarding movement and procedures of bills. Departments as a normal practice prepared payment bills on a large scale twice in a year i.e. Diwali and Year-end (in the month of March). Almost 15 percent and 20 percent expenditure used to get booked at the time of Diwali and year-end respectively. Also there was no maximum time limit with in which payments bills for the works completed/supplies received need to be prepared. On an average department prepared bills for payment after 90 days from the date of work completion/supplies. So much delay eroded the patience of contractors/suppliers, and once the payment bill moved from the concerned department to Accounts and Audit Department the contractors use to bring all kinds of pressures for passing and release of payments. Both of these practices/irregularities distorted financial management/working capital management completely. As payment was taking quite a long time, contractors were charging higher cost to VMC, thus indirectly VMC was paying for delay in money terms.

5. Defective Tendering Procedure:

The works tendering procedure was defective. Tenders were called for every work however small it was, thus resulting into excessive administration and accounting work. Annual Rate Contract system was in existence only for supply of certain items. But there was no system like Annual Works Contract based on item rates. This resulted into lack of uniformity in prices and costs at which works were carried out.

6. Lack of Information about Short Term Funds Requirements

As noted above, there was no proper system of cash management, working capital management and bills movement; it was not possible to forecast short-term financial (liquidity) requirements of the Corporation on weekly, monthly and quarterly basis. Consequently it was also not possible to forecast how much liquidity or revenue is required over the period. Without this information Corporation's revenue/recovery departments were targetless. There was no proper management of receivables for recovery, and resource mobilisation efforts lacked focus, aim and minimum target in their operations.

7. Excessive Operation through Suspense Account.

There exists a very unique system of incurring expenditure by drawing advances against the budget allocation in all the municipal bodies. Budget drawing officer can draw advances for the work/supplies for which budget allocation is made and available, such an advance can be drawn at the rate of 80 percent to 100 percent of the budget allocated. As a general rule, the mode of payment by advance should be resorted only when there is urgent/essential expenditure to be incurred and sufficient budget provision not available. But in municipal bodies many a times expenditure is incurred by drawing Advances even when there existed sufficient budgetary allocations. Why it is so? The answer lies in accounting practices prevalent in most of the municipal bodies. As per existing Accounting rules, no expenditure can be booked against budget unless and until supplies received and work completed are inspected, measured and certified. Accordingly, for making purchases under ‘Payment against Delivery’ mode or for depositing money in advance with any organisation for a particular job or work, or for paying mobilisation advances to contractors, it is compulsory to draw an advance against budgets allocated. Such an Advance drawn is cleared after necessary procedural requirements are fulfilled regarding supplies received and works completed. An adjustment accounting entry of “debiting budget account and crediting Advances/suspense account” is passed once adjustment voucher is audited and passed.

There was nothing wrong with the system of drawing advances and later clearing it by passing an adjustment entry. It is an Administrative/Accounting tool utilised in almost all the governmental forms of organization to overcome accounting limitations resulting from the single entry accounting system. This tool though theoretically sound, in actual practice, tends to get associated with following defective practices and aberrations, and makes budgetary and financial control systems meaningless/ineffective.

1. Excessive Use of the Advances Mode of Payment: - This mode of payment should have been resorted only in certain compelling circumstance, but in Vadodara Municipal Corporation, use of Advances mode of payment attained a position of a parallel budget. In fact departments started drawing advances for each and every payment to avoid all sorts of procedural requirements/formalities. On an average more than 15000 entries (Payments) got rooted every year through the system of advances involving outlay of Rs.1500 lacs.

2. Failure to Pass Adjustment Entries: - Everybody showed utmost lethargy to pass on necessary adjustment accounting entries after supplies were received/works completed. Such unadjusted Advances stood at more than Rs.2900 lacs. In other words this much expenditure has escaped from audits and accounts scrutiny and was not part of formal budgetary expenditure.

3. Exclusion of Advances from Budgetary Control: - Strangely and unfortunately the Corporation was not exercising budgetary control, while admitting bills under advances mode. Advances drawn/asked for were not debited against the allocation made in the respective budget items. This flaw allowed the departments to spend as much money as they wanted in place of what was allocated in their budget items, and all the departments merrily took advantage of this loophole of the system. Exclusion of Advances from budgetary control system completely destroyed the budgetary control system itself.

The Budgetary and Financial Control Reforms of VMC

The foregone pages enumerated the budgeting and financial control system of VMC, its processes, and its drawbacks prevalent in the year 1990-91 that is prior to budgetary reforms. In following pages an attempt is made to describe the reforms process, its origin, stages and the results.

Need for reforms:

The defective budgetary, financial and accounting systems, slowly and silently, brought downfall of the Vadodara Municipal Corporation. The eighth decade (1981-1991) of the 20th Century turned out to be the worst for the Corporation. Its developmental expenditure (Capital formation) declined year after year and reached to the lowest ever level in 1990-91. During the whole decade the Corporation could not undertake/complete any major development project or could not augment its urban services substantially. Consequently per capita availability of all the urban services declined continuously over the years. In the year 1990-91 the Corporation's revenue came to a standstill; rather it registered a negative growth rate, while expenditure just went out of control. Over and above the deteriorating financial performance, the Corporation was confronted with many daunting financial challenges. This forced the Corporation to think seriously about budgetary, financial and accounting reforms of a fundamental/constitutional nature. The financial challenges with which the Corporation was confronted at the end of March 31, 1991 were-

- VMC was required to augment Rs. 1800 lacs in the period of 27 months (1/4/1991 to 30/6/93) for its ambitious and urgent Water Supply Project (Panam Project).
- Retrenchment compensation was to be paid to the tune of Rs.600 lacs to the employees transferred to Gujarat Electricity Board.
- VMC was required to discharge the financial liabilities of its erstwhile electric supply undertaking of Rs.300 lacs.
- Pay Arrears of Rs.300 lacs were to be paid to its regular employees and Rs.300 lacs were to be paid to Daily-Wagers as per High-Court decision.
- Current liabilities or the payments to be made to the contractors/suppliers for the works completed/supplies made were pending to the tune of Rs.260 lacs.
- The Corporation also needed to augment Rs.200 lacs as a counter funding for World Bank Project.
- As a part of loan agreement the Corporation was required to increase its water charges rates by almost 150 percent during the period 1991 to 1993. This was in itself a very difficult task, as the Corporation, in past ten years had revised its tax rates only once.

All the above liability if totaled up indicated that VMC required Rs. 3000 lacs additional in the year 1991-92 to mitigate them. The total size of the VMC budget was Rs.6000 Lacs and VMC was capable of setting aside revenue surplus of Rs.200 Lacs only for the development by 50 percent or to mitigate any other liability. In other words VMC was required to increase its receipts or its revenue surplus by staggering 1500 per cent to offset above requirements.

All these factors compelled the Corporation to undertake budgetary cum financial reforms. The whole reforms process began in April-1991, when the then Municipal Commissioner **Mrs. Sudha Anchalia** prepared a **"White Paper"** on the financial position of the Corporation and submitted it to the General Board through the Standing Committee.

In order to formulate **"white paper"** the municipal commissioner has to freeze sanctioning of requests of spending department in an attempt to enlist all the development works pending at various stages with information about estimated financial outlay required to carry out all these works. This exercise was carried out at first instance/priority because, as noted earlier in drawbacks, there was no linkage between the budget allocation or financial availability and the development works suggested or demanded by the elected representatives or recommended by concerned municipal officers. The spending departments used to create file for expenditure without any base or budget availability or technical master plan recommendations, simply on the basis of political pressure or vested interest. In the same exercise of formulating white paper the Corporation matched this information with the actual budgetary allocations made for development works in the year 1991-1992 budget document and the actual financial position of the VMC.

The Corporation utilised detailed matrix format/table having completion-stage-wise and service-wise/major budget item-wise classification of the developmental works on hand in April 1991. (Please see Figure-4). This exercise provided valuable information about the Corporation's current liabilities and it clearly showed that budgetary allocations made in the year 1991-92 budgets were barely sufficient to undertake pending current liabilities. Thus this exercise made it very clear that no new work or suggestions could be accepted in the budget year of 1991- 92. The freezing works sanctioning process which was characterised by lawlessness or no budgetary discipline, presentation of **'white paper'** enumerating financial position, lack of formal works sanctioning process and asking prioritization and curtailment of development works within available financial resources created political uproar and resulted into transfer of the then municipal commissioner Mrs. Sudha Aanchalia.

The executive wing (accounts department) of the VMC meanwhile continued its efforts/base work for budgetary and financial control reforms. The new Municipal Commissioner **Mr.Rajgopalan** took deep interest and as sequel to the **"white paper",** got prepared a 10 year **"Master Development Plan"** in both physical and financial terms. In this document the Corporation forecasted/enlisted major development works/projects required to be undertaken to ensure a balanced development of the City. In it the Corporation forecasted how many funds it would require undertaking these works, how much would be its revenue in coming years, and what would be the gap between resource requirements and resource mobilisation. On basis of this information the Corporation prepared and included in Master Development Plan, detailed year-wise resource augmentation plan to bridge the gap between resources requirements and mobilisation. Preparation of the **"white paper"** and the **"Master Plan"** provided the much-needed clarity and focus to the Corporation's developmental planning and information about where exactly the Corporation stands. On the basis of the **`White Paper"** and the **"Master Development Plan"** the Corporation undertook its historical and unique endeavour of budgetary and financial reforms. The revised budget for the year 1991-92 and the draft budget for the year 1992-93 when presented to the standing committee in December 1991 contained many of the following budgetary reforms.

Budgetary Reforms: -

Budgetary reform is not a one time package or solution, it is a continuous process. Various budgetary reforms carried out by the VMC are enlisted below belong to last whole decade (1992 – 2002). All the budgetary reforms were not under taken at one go, they have been undertaken during the course of time. Wherever possible attempt has been made to mention the year of reforms, still some of the reforms cannot be dated.

1. Reorganised and Restructured Budget:

This was the first and foremost budgetary reform. VMC as a first step segregated its income and expenditure items as per their nature (revenue/capital/extra-ordinary) and as per their sources of finance (revenue, capital, loans, Deposits etc). Accordingly Corporation separated its budget initially into five parts and in 1999 added sixth part in the form of Capital (Grants) Budget. In order to carry out such a bifurcation and reorganization of budget VMC verified each and every budget item and segregated them under following six types of budgets.

(i) Revenue Budget - It now includes only Revenue Income that is, Tax-Receipts, Non-Tax Receipts and Revenue Grants and Revenue Expenditure, that is, expenditure items pertaining to Establishment, Contingency, Maintenance, Loan Charges and Loan repayment. Thus all the receipts and expenditure items of capital nature were segregated from old budget part-1 and were grouped under separate budget to be known as Capital (own source) Budget. (Budget part-2)

(ii) Capital (Own Sources) Budget - This newly created budget now comprises Capital Receipts resulting from VMC's own sources and Expenditure of capital nature carried out from it. It includes capital receipts like-Sale of Land and Assets, Incremental charges, Developmental Charges etc. and Capital Expenditure on various services for their upgradation/extension/development. The revenue surplus resulting from the revenue budget (the budget part 1) is transferred to this budget to the extent it is required.

(iii) Capital (Loans & Borrowings) Budget - Its structure and contents remain the same as they were earlier. It comprises various loans augmented/received during the year as receipts, and the expenditure carried out on major development works to which loans were allocated or for which loans were raised.

(iv) Capital (Grants) Budget – In the first phase of reforms of 1991-92 it was part of deposits/fund budget, but it was separated from the public deposits budget in the year 1999-00 as the transaction under this head increased considerably with the addition of M.P., M.L.A. and 10th Finance Commission Grant for capital works.

(v) Public Deposits Budget - As noted earlier this budget was in the form of one figure; instead, it was detailed out as a part of budgetary reforms of 1991-92. It was bifurcated in three main parts namely - (i) Deposits receipts (Earnest money deposits, Security Deposits and General Deposits etc.), (ii) Special Funds (Supervision Fee Fund, Mayor Fund, Octroi Refund revolving Fund, Land Acquisition Fund etc.) and (iii) Capital Grants. In 1999 capital grants was been separated into independent budget thus it has now first two part only. This restructuring helped VMC, specifically, in the better management of Funds and Capital Grants. Earlier these cash in-flows were getting spent on unwarranted expenditure of revenue budget or nature.

(v) Advances Budget – Prior to reforms this budget also was in the form of Single Summary figure. Under new scheme this budget is also detailed out in which there are main items like General Advances, Store Revolving Advances, Press Revolving Advances etc. employee related advances like food, festival, vehicle etc.

Such an elaborate source-wise and nature-wise bifurcation of receipts and expenditure brought clarity and simplicity to the Corporation's budget. Alongwith reorganization/reclassification, VMC improved logical structuring of the various budget items. For this logical tree-structure layout and coding of all the budget items was undertaken.

2. Judicious Application of Budgeting Techniques:

A municipal body undertakes undertakes a variety of functions and receives various kinds of receipts. Also the nature of municipal expenditure is heterogeneous and is carried out for variety of purposes, period etc. Looking to such heterogeneity, it becomes necessary that a municipal body should have more than one budget and should employ judiciously more than one budgeting techniques and financial control mechanisms to achieve optimum output/results. As a part of reforms, the VMC rightfully adopted multi-budgeting technique strategy to its budgetary planning, implementing and controlling activities. Under the new budget scheme VMC has employed different techniques/approaches for its different parts of budget as follows.

a) Revenue Budget now comprises revenue receipts and expenditure items only, which are of numerous, recurring and highly predictable nature. The annual growth rate of these items can be calculated precisely. Also most of the expenditure items are of a statutory and given nature. Their requirements in the coming year can be forecasted with simple incremental approach. Accordingly VMC has continued with **"Incremental Approach"** for making projections and allocations regarding items of its Revenue Budget. Along with it, VMC has continued to use **"Line-Item Budgeting"** technique for its Revenue Budget, because of the following reasons -

- The volume - Revenue Budget accounts for more than 80 percent of its total receipts and payments.
- The nature of expenditure - more than 90 percent expenditure is such that can be expressed in financial terms only. Further it warranted financial accountability, legality, and regularity and centralised financial control rather than performance evaluation.

b) Capital (From Own Sources) Budget, Capital (Loan) Budget and Capital (Grants) Budget of the Corporation together comprise all types of capital/developmental works. In case of these budgets along with the financial aspects the monitoring of physical performance is a must. Accordingly the Corporation has adopted **"Performance Budgeting"** technique coupled with **"Zero-base Budgeting"** for the formulation, implementation and controlling of these Capital Budgets. VMC has now adopted functional classification and attaches a list of capital/development works prepared in the order of priority, to each and every budget item of these capital budgets. In case of these capital budgets the budgetary control and performance evaluation is now done work-wise and not is a summary manner.

In order to facilitate performance budgeting, Corporation then developed a set of priority criteria pertaining to each service for the preparation of list of capital/development works in a priority order. It has also formulated guiding principles for allocating budget to various services and for selecting particular development work.

3. Streamlined and Pruned Down Budget

VMC streamlined and pruned down all parts and items of its budget by applying Zero-base budgeting concept. It removed all overlapping, dormant, duplicate and repetitive budget items from its various budget parts. Under Zero-base concept, the Corporation deleted all budget items pertaining to the programs/activities, which had lost their purpose/relevance e.g. subsidised flushing latrines scheme, Free of Cost Water Connection Scheme etc. VMC also replaced individual specific items by generic items. This made the Corporation's budget manageable, short and logical.

4. Devised Model for Budget / Resource Allocation.

Budget is essentially a resource allocation mechanism but most of the municipal budget lack well developed resource allocation mechanism. The Corporation devised an in-built model of budget/resource allocation for its Capital Budget (Part-2 to 4) to ensure a balanced development of the entire city. The restructuring and reclassification of the budget under the new system made it very easy to know how many funds will be available for capital works. The balance in revenue budget (Part I) and the revenue capital receipts formed the total funds available for development. The Corporation also adopted a policy of setting aside funds for spillover capital works the committed projects expenditure or counter funding responsibility of the Corporation as a first charge. Deduction of amount required for these items provided VMC with a figure available to undertaken general city development works. Corporation adopted a policy of allocating these funds available for development in the ratio of 80:20 to underdeveloped and developed areas of the city respectively. In 1992-93 and 1993-94 the

Corporation was left out with Rs.622 lacs to carry out area wise development works in 27 election wards to be distributed as per 80:20 formulas. As there were 16 undeveloped & 10 developed wards, the Corporation allocated Rs.512 lacs to 16 undeveloped Wards and Rs.110 lacs to 10 developed Wards. In 1996 VMC carried out further refinement by introducing third category that of semi-developed area. Over and above VMC adopted system of allocating Rs.3lacs as discretionary budget per councilor (now the amount is increased to Rs.5 lacs) to undertake small capital works in his election constituency. In fact VMC was first municipal body to adopt such a system even before the adoption of similar concept by central and state governments in the form of M.P. & M.L.A. discretionary grant. In this manner the Corporation devised an in-built model of resource allocation in its budget.

5. Increased Participation of Elected Representatives.

The Corporation evolved a unique and real participative system of budget formulation. As per Bombay Provincial Municipal Corporation Act 1949, the final powers of budget formulation, adoptions are with the elected wing/ elected councilors. Till 1992 every year councilors were allocating resources /budgets without taking into consideration availability of resources or without any sense of fiscal responsibility. They use to allocate resources in an adhoc terms/lumpsum manner to the development works, which they felt important or necessary; but, in actual practice, bureaucracy or administration undertook or executed only those works, which were compelled/imposed on it by various socio-eco-political pressure groups and vested interests during the course of the year. Thus Councilors never knew or decided which specific development works would be undertaken in their own area and in other Councilors' areas, as they allocated budget in adhoc terms, e.g. Rs.100 lacs for construction of Roads or Rs.200 lacs for laying sewerage lines etc. They never knew how much budget would be actually utilised in their area or in the entire City. This resulted in imbalanced development of the city.

Under the newly introduced participative budget system, the Capital Budget is allocated to various areas, as per developed, underdeveloped and semi-developed status (80:20 formulas explained earlier). Thus each and every area (Election Ward) is sure of a certain amount of development. Also all the works to be undertaken are finalized in the order of priority as per the suggestion of the concerned elected councilors of the particular election wards. In fact Councilors are asked to decide the list of development works within the framework of rules adopted by them and within the budgetary allocations made.

Further the system of allocating certain specified amount (discretionary grant) per councilor to carry out small capital works made it possible that each councilor however he is politically weak or unprivileged gets equitable allocation of resources.

In Loan Budget and Capital Grants Budgets only such development (project) works are selected which benefit the whole city and not any particular area. Even in this budget development works are now selected and prioritized after consultation with the elected members. Such a detailed list is finalized and placed in the budget itself to avoid any kind of adhocism.

Thus, through above described budgetary reforms especially regarding equitable allocation of resources Vadodara Municipal Corporation made its budget fully participative, democratic and truly responsive to peoples' expectations. It placed real responsibility of ensuring balanced development of the city on the elected councilors, thus making them in real sense the **"City Fathers"**.

6. Expenditure Made Contingent to Resource Realisation.

Another milestone in Corporation's reform process came into effect from 1-4-93 (for the budget 1993-94). Corporation, for the first time made its expenditure contingent to actual resource realisation, that is, capital/development works to be undertaken as per actual receipts. In it also Corporation agreed for broad priority for sanctioning or clearing of works/expenditure as follows.

(i) Payment of spillover liability. (Past year's development works)

(ii) Payment of Counter funding/matching contribution liability or transferring of funds to project Accounts.

(iii) Area-wise development works. (Taking cognizance of level of development of each area)

(iv) Councilor-wise small capital works.

(v) Any other development work.

This important reform, which VMC has implemented by and large sincerely, in past eight years, has completely controlled the possibility of deficit financing and thus has set an exemplary financial discipline.

Linking of expenditure to resource mobilisation or keeping expenditure within the income actually received or going to accrue with certainty does not in anyway mean that it should curb the desired/much-needed development. In fact it was a positive intention of attaining resources mobilisation so that budgeted development expenditure can be undertaken. This restriction was introduced with the intention to shift attention/or reform concentration from resource utilisation to resource mobilisation. Development is must; but for that necessary resource augmentation has to be done and within that limit/ expenditure should be carried out to have sustainable financial (resource mobilization) management or to avoid deficit financing.

7. Augmented Tax Rates and Service Charges. (End to Deficit Financing)

VMC has controlled the practice of inflating revenue income without justification to match its expenditure to a great extent. In order to bridge gap between revenue and expenditure the Corporation revised its tax rates and charges consecutively for four years (1990 to 1994). In the later years VMC augmented its resources by revising octroi rate, by stepping up sale of land, by improving assessment system etc. and has kept tendency of unjustified inflation of revenue in check. In those four years Corporation revised its tax rates and charges in all by Rs.425 lacs. This augmentation was not sufficient compared to the growing needs of the Corporation, but it reversed the trend of inflating revenue unjustifiably to match its expenditure.

8. Separated Revised Budget Approval Procedure:

The Corporation was submitting its Revised Budget alongwith it's Draft Budget in the end of December or in the first week of of January. Revised Budget was virtually left unnoticed, as at that time the Corporation had to concentrate its attention on the Draft Budget proposals. As per one study, Corporation's Revised Budget was more unrealistic than the original Draft Budget, even though it is supposed to be based on the actual expenditure of first six months. Corporation made efforts to make its Revised Budget Projections more realistic. Corporation separated it from Draft Budget and presented it much earlier (in the month of November) to the standing Committee for deliberation.

With upgradation and computerization it become possible to have accounting data of completed month within week's time. VMC now uses nine months actual data to formulate next year's projections and the revised budget for the current year.

9. Regularised Accounting System and Work. (End to unrealistic past figures)

The Corporation regularised and strengthened secondary (Ledger posting) finalisation accounting processes. Also it got completed the pending Annual Accounts of the past years. This provided a realistic/historical data on basis of which the Corporation's budget is formulated. Actual and correct historical data brought more reliability and authenticity to the information given and the projections made in the budget. After budgetary reforms VMC implemented accounting reforms which included conversion of single entry cash base accounting system to double entry accrual base accounting system. Not only this but accounting system was computerized on 'on-line' basis w.e.f. 1-4-1998. The accounting reforms improved quality and availability of accounting data tremendously.

Financial Control Reforms

Along with budgetary reforms the Corporation went for the much needed financial control reforms as follows: -

1. Introduced Centralised Financial Control:

The Corporation introduced the system of centralised financial control that is with effect from 1/4/1991, all the payment bills were made to root through Accounts Departments to Audit Department. Thus each and every payment started getting scrutinized from point of view of budget availability, appropriateness of expenditure and financial availability. In Accounts Department this measure ensured that actual expenditure will be within the limit of budgetary allocation, and all the cases where it is necessary to exceed budgetary allocation will automatically come to the notice of higher authorities to take an appropriate decision.

2. Brought Advances under Centralised Control

As noted earlier, in municipal bodies advances taken for purchases or payment of works are not booked against respective budget item. This is the worst loophole of the municipal financial control system. VMC was suffering by this drawback acutely. Accordingly all Advances were brought, w.e.f.1/4/1992, under centralised budgetary and financial control. As per the new system each and every Advance taken is debited against the respective budget item. Thus budget availability stand reduced whenever an advance was drawn. Advances are allowed only if sufficient budget allocation is available; if not, Advances can be drawn only after prior permission of General Board of the Corporation. This reform ensured that each and every expenditure incurred by Corporation, whether by regular budget mode or by Advances made, would have to be within the budgetary allocations. This resulted into real accrual base budgetary control as it started taking cognizance of money paid in advance.

3. Improved Tendering Procedure.

The Corporation switched over to system of item-rate tendering and system of consolidated annual works tendering. Under this new system, tenders are called for a particular type of work to be carried out throughout the city or in particular area of city during the year. For example - Laying of water supply lines or sewerage lines, fixing of streetlights or construction of Roads or storm water Drainage etc. Thus, in this system once a contract is finalised with a particular contractor to carry out works relating to a particular service, he is simply asked to carry out works at various places in the city as & when need arises, and he is paid as per itemised rates finalised in the original common tender. This was not so in old system. Prior to this reform tenders were called for each work and each time. Thus the Corporation was required to carry out the whole tender-sanctioning procedure each and every time. New tendering system not only reduced administrative work and reduced time lag, but also brought uniformity in prices and costs.

4. Formed Priority Works Committee. /Tender scrutiny Committee

W.e.f. 1/4/1992 the Corporation adopted centralised budgetary control system by rooting all the payment bills through Accounts Department to Audit Department. It also brought all the Advances payments under budgetary control w.e.f. 1/4/1992. These two measures were much needed and their introduction improved budgetary/financial control system, can work only at the end point and therefore is only half-effective. Any Control System, in order to be effective and fool proof, must have control over the activity/work right from its conception (Starting Point). Though the two above mentioned reforms brought most of the expenditure within the budgetary allocation, there arose many instances where the Corporation had to allow expenditures beyond budgetary limit as the contractors completed them and so payment had to be made. Thus these two measures were not in position to stop the sanctioning of works or the ordering of purchase of material for which there was no sufficient budget availability. There was a necessity of such a system, which will scrutinize budget availability before the work is approved or the order for purchase is placed. Accordingly the Corporation constituted Priority Works Committee w.e.f. 1/1/1993.

The PWC Comprises following members. -

- Municipal Commissioner.
- Dy. Municipal Commissioner (A).
- Dy. Municipal Commissioner (G).
- City Engineer.
- Addl. City Engineer.
- Chief Accountant.
- Co-ordination Officer. (Technical)

All the works/purchases having a financial outlay of Rs. 1 lacs or more are placed to PWC for approval. The PWC verifies budgetary allocation, liquidity and financial position, time or period required for completion of the work, urgency, priority of the work, and other administrative aspects etc, right at the time of conception of work. This reform ensured that if there is no budget, no work/purchase will be undertaken; and even if any essential/urgent work is required to be taken or approved under non-budget availability circumstances, such works will get approved only after due deliberations and verifications. Thus PWC system ensured that Chief Accountant can undertake budgetary and financial scrutiny of each and every work right at the time of approval and can make financial/liquidity arrangements accordingly.

Later on PWC committee’s nomenclature was changed to Tender scrutiny committee. Municipal commissioner delegated his powers and now he is not part of the tender committee powers to scrutinize development works from budgetary and financial aspects are given to chief accountant. Each and every developmental work need to take financial cum budgetary approval two time, one before calling tender and two before issuing work order.

5. Removed Procedural Limitations to reduce Advances.

The major reason for drawing advances and keeping them unadjusted was financial indiscipline, but peculiar Accounting practice was also equally responsible for the menace of Advances. The procedural limitation and Accounting system as explained earlier was such that budget-drawing officers were compelled to take Advance for making payment. The Corporation removed most of the procedural limitations with effect form 1/4/1993. As per the newly introduced system, Advance is not required to be drawn for making any sort of payment (against Performa-invoice, or a deposit or a claim etc.) to Government and semi-Government organisations. In the same way it is not necessary now to draw Advance to make 90 percent payment against delivery or Performa invoice to private contractors/suppliers, provided there is budget availability. This reform resulted into reduction of Advance Adjustment entries that worked to the tune of 15,000 entries per year. As a part of accounting reforms VMC created independent revolving fund for Advances w.e.f.1.9.97. VMC set aside Rs.5 crore for General Purchase Advances, Rs.5 crore for employee related advances and Rs.2 crore for special stock item purchase advances. Now at any given point of time maximum outstanding advances of VMC could be Rs.12 crore. In past four years outstanding advances of VMC have remained within the range of Rs.7 to 9 crore. It is on VMC which has successfully controlled menace of outstanding advances.

6. Introduced Proper Cash Management and Working Capital Management.

The Corporation analysed its expenditure from various aspects like statutory-non-statutory expenditure, obligatory- discretionary expenditure, Development-non-development expenditure, and urgent, semi-urgent and non-urgent expenditure. On the basis of this exercise Corporation now prepares monthly cash- budget, wherein first of all, Urgent, statutory, essential and obligatory expenditure is estimated, then average, routine, regular income is forecasted. These two projections are compared and if there is a surplus, discretionary expenditure is undertaken, or if there is a deficit, the revenue/recovery departments are given targets to bring necessary additional revenue to bridge the estimated gap between monthly revenue and expenditure. When it is found that even the additional efforts of revenue/recovery departments are not sufficient, other special measures are undertaken to make payments. This exercise brought discipline and proper planning/controlling of cash and liquidity management. As a result the Corporation has carried out development or capital expenditure of Rs.40000 lacs in last ten years. Over and above all its day-to-day expenditure, yet it never went into overdraft or acute liquidity crisis.

As a requirement of proper cash management the Corporation has made it compulsory for the departments to inform central Accounts Department about the payments to be made above Rs.5 lacs well in advance.

With the conversion of manual accounting and budgeting system to on-line computerized system. Now the Corporation can easily and accurately forecast its minimum monthly requirements (Compulsory payments) and how much other expenditure it can take up and how much revenue the recovery personnel should mobilise to meet the planned expenditure.

7. Introduced Time-Bound Bills Movement Procedure.

In the absence of time-bound bills-movement procedure the Corporation faced excessive strain on its cash and liquidity position twice a year (at the time of Diwali and Year-end). The Corporation has introduced with effect from 1/4/1993; a time- bound payment-bills-movement procedure as follows.

a) Departments must prepare bills within 30 days from the completion of work.

b) Accounts Department would forward bill to Audit Department having done budget and other scrutiny within 7 days of receipt of bill from Department.

c) Audit Department would complete pre-audit procedure within 10 days of receipt of bills from Accounts Department.

d) Accounts Department would make payment to party within 7 days of receipt from Audit Department.

The implementation of such a time bound payment of bills programme created good-will about VMC among contractors and with certainty of timely payment of rates offered by contractors came down & made Cash Management of the Corporation became smooth and disciplined. The Corporation will not faced has liquidity problems time and again or repeatedly.

8. Improved Management of Receivables.

The above-mentioned financial reforms not only improved and disciplined the Corporation's Cash and working Capital Management; they have also improved its management of receivables that is tax recovery and other resources realisation activities. All these Budgetary and financial reforms helped the Corporation to estimate its short-term liquidity and medium-term funds requirements accurately. Accordingly the Corporation's top management could set recovery and resource mobilisation targets to its revenue departments/employees. Setting of targets well in advance provided motivation to recovery personnel. It also facilitated performance evaluation of recovery machinery and necessary measures to lift up the lagging recovery performance.

The Results/Achievements

It is very difficult to establish one to one relationships between budgetary and financial control reforms and progress of the VMC or the Vadodara City as various other factors go into efficiency improvement of a municipal body or development of the city. Still following results can be ascribed to the budgetary and financial control reforms carried out by the VMC.

- The reforms made VMC's budget participative and empowered elected representatives with real power. The reforms retrieved but from excessive dominance which is observed in other municipal bodies.
- The reforms resulted into all round, balanced development of the Vadodara City in past ten years. This phenomenon is quite visible even to a lay person. This was direct result of the resource allocation mechanism innovation that is each and every area/elected representative received equitable distribution of funds available for development.
- Another aspect of the resource allocation mechanism that is allocation of resources in a judicious way between different natures of development works e.g. city level, zonal level, election ward level and very small capital improvement works. Such type of graded allocation served both – holistic and sectorian views/needs of development and brought balanced development of the Vadodara City.
- The reforms improved VMC's resource mobilisation performance but again it was not based on tax rate improvement. VMC has increased its tax and rates only four times in past eleven years (1990 to 2002), still it has managed to undertake development works of Rs. 35000 lacs. Today citizens of Vadodara are paying less tax in real terms compare to the taxes, which they were paying 1990s. Here attempt is not to advocate 'no taxation increase' rather to explain that the budgetary and financial control reforms helped VMC to raise resources from other than tax sources, to plug various loop holes and to curtail wasteful expenditure. Thus reforms generated internal resources for development through savings. If VMC would have shown political will to enhance tax rates, it could have achieved much better development of the Vadodara City.
- The reforms stabilized financial position of the VMC. It brought in strict financial discipline, as a result as of today VMC has no overdue payment to anybody in the world. VMC has never defaulted in payment nor has it taken overdraft in last decade or so. It makes timely payment to all lending agencies, supplier, contractors, service providers and workers. Many of the State Governments have found it difficult to cope up with Vth Pay Commission burden, but VMC has easily absorbed that burden. In fact VMC was the first municipal body in the country to implement Vth Pay Commission in toto.

Summing up

This is the story of budgetary and financial reforms implemented by the Vadodara Municipal Corporation. The Successful implementation of these reforms is not the credit one person. These reforms become possible because every person right from top to bottom and from

Political to Executive supported these reforms and co-operated to get them through. Even though the number or type of reforms required to undertaken were more or less clear from the day one, the Corporation introduced these reforms one by one with time-gap, thus allowing earlier reform sufficient time to get settled. This whole exercise carried out by the VMC can be termed as very good example of **“Change-Management”** or **“Management of Change”**.

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