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Assessment of the Public Finance Management and Accountability systems of the Municipal Corporation of Gurugram

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Assessment of the Public Finance Management and Accountability systems of the Municipal Corporation of Gurugram

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Abstract

Over the past decade, the role of an effective public financial management (PFM) system to achieve an improved service delivery mechanism, strategic planning and fiscal prudence through effective policy making is getting increasing attention at the third tier of government in India. A few state governments over the past decade have undertaken public financial management and accountability (PFMA) reforms, but the pace of reform has been slow. Various studies and government committees have recognized the gaps that need to be strengthened in order to have a strong institutional framework for PFMA reform and to improve government's efficiency in spending and revenue generation. The urban local bodies in growing tier two cities have a crucial role to play in determining India's growth story for the near future. Hence, it is essential that the local bodies in emerging cities such as Gurugram introduce reforms to effectively manage their finances and ensure that its citizens enjoy a better quality of life. This paper examines the PFMA reform strategies of the Municipal Corporation of Gurugram (MCG) and uses indicators provided under the Public Expenditure and Fiscal Accountability (PEFA) framework to rate the municipal body based on the various indicators. The paper also provides policy recommendations to the municipal body to ensure that PFMA reforms in the MCG are carried out efficiently. The city of Gurugram was chosen for this study due to the growing importance of the city and its emergence as a major financial hub over the past decade.

Assessment of the Public Finance Management and Accountability systems of the Municipal Corporation of Gurugram

1.1. Evolution of PFM reforms over the past few decades

PEFA can be defined as a methodology for assessing public financial management performance. It provides a detailed and consistent analysis on the performance of various governments. The PEFA methodology developed has identified 28 key components of public financial management in seven broad areas of activity. The framework also helps us in assessing and reporting on the strengths and weaknesses of public financial management (PFM) system using quantitative and qualitative indicators to measure performance. The PEFA framework is designed to provide an assessment of the PFM performance of governments. This methodology that can be replicated in successive assessments in different contexts, giving a summary of changes over time.

Various reputed institutions across the world such as the International Monetary Fund (IMF), The World Bank and the European Union (EU) have contributed to the development of the PEFA framework over the past few decades in order to strengthen the PFM system across various countries.

PFM reform has been a long-term process that does not work to a limited time period. For example, Australia adopted a big bang approach to its reforms. To the contrary, public sector and PFM reform in most OECD countries have followed a comparatively slow and steady path. Even in a developed country, such as the United States, accounting and budget execution reforms have taken a long time to introduce and an even longer time to achieve the desired results.

The following **Error! Reference source not found.** describes how the PFM reforms have evolved over the past few decades.

Table 1: Evolution of PFM reforms over the past decade

| | |
|---------------|---|
| 1970's | There was not much progress on the PFM reform front. Donors had started to provide assistance to the developing countries from the 70's whereas the developed countries were in the initial stages of reform. (Manning 2001) |
| 1980's | It was in the 1980's that there was a recognition of the fact that to achieve economic growth, there was a huge scope of improvement in the public sector management accompanied by technical investments. (Manning, 2001) |
| 1990's | Assistance was provided by the donors despite the governments not being so keen to implement the PFM reforms. The concepts of MTEF: Medium Term expenditure framework, gender budgeting and IFIMIS: Integrated financial management information systems were introduced. (Vani 2008) |
| 2000's | There has been more recognition of aid and realization that corruption can play a detrimental role in reforms. There has been more focus on policy based budgeting as well as an increased emphasis on governance issues. (Wescott, 2008) |

1.2. Different approaches to PFM reform

During the seventies and eighties, various OECD countries and a few developing countries began to review the management of their public sector. This led to the development of the New Public Management (NPM) model which emphasised on managerial accountability, and was accompanied by the introduction of financial management measures, referred to as New Public Financial Management (NPFM).

By the mid-nineties, most countries realized that the transferability of ideas to developing countries using a blueprint approach that was followed in the developed countries was plagued with problems. Due to this, there was a shift in acknowledging the importance of context, and getting ‘the basics right’ for each situation. The World Bank’s Public Expenditure Management (PEM) represented another approach, which highlighted the need to move on and consider all actors and practices involved in the budget process. **(Andrews, 2007)**.

The World Bank’s work in public expenditure management evolved from a focus on investment efficiency in the eighties to a wider recognition of institutions and governance building. Developed in the late nineties as a contemporary approach to budgeting, the PEM Approach is a way of viewing public expenditure management. It stresses the need to understand the rules of governing budget formulation and execution. **(Schick, 1998)**.

The PFM process was looked at differently with the development of an improved understanding of the processes. This led to the creation of three different approaches to the PFM reform as mentioned by a **(JICA report, 2000)**:

- Political Economy Model: This model focuses on the importance of political context.
- The Platform Approach: This approach looks at the sequencing of the reform with a specific country approach.
- The Strengthened approach: This approach defines the roles and relationships of the stakeholders involved in the PFM reform process.

1.3. *Reform experience of various countries and criticism*

According to most of the PFM reform literature, the consensus is that PFM reform is a long- term endeavour and continuing process of improvement. Progress assessments for heavily indebted poor countries (HIPC) have shown limited, but uneven progress. Unrealistic timescales have been identified as one of the reasons for many PFM reform failures. Another reason for the failure of reforms is the content or technical aspect of the reform programme. The PFM reform programmes need to be country specific in nature as the blueprint model has shown only limited success. Experiences of OECD countries suggests that performance-based budgeting is having mixed results. Procurement reforms in developing countries have received increased attention. This emphasises the importance of understanding how the political economy functions. Reforms have also concentrated on the introduction of automated systems in various countries. **(Manning, 2001)**

Supreme Audit Institutions in various countries, such as the Comptroller and auditor General (CAG) in India, have a vital role in holding the government accountable and ensuring transparency in government operations. In most cases, audit reforms take a long time although a few reviews suggest that audit reforms can benefit from peer learning practices including twinning arrangements and contact committees.

First-generation PFM reforms in developing countries concentrated on technical issues, whereas the second-generation reforms have recognised the need to enhance the role of the legislature and improve domestic accountability. The **(JBIC report, 2000)** notes that lack of compliance is often the major issue for a lot of countries, and new legislation alone is unlikely to achieve desired results.

PFM reforms in OECD countries have taken place along with broader public service reforms. This highlights the links and dependencies between public service reforms and sustainable PFM reform. Automated systems have become synonymous with PFM reform considered by many as the primary driver of reform. Despite the initial successes in a few countries, failure rates are reportedly high, because of unrealistic timescales, lack of ownership, insufficient consultation and inadequate specifications in certain countries.

1.4. PFM in the Indian Context

The role of an efficient PFM system to achieve the objectives of fiscal discipline, strategic planning, and improved service delivery has been getting greater public attention in India over the past decade. Public financial management reforms have been undertaken sporadically over the years and hence, they haven't delivered the anticipated results. Various Government appointed committees and expert bodies have identified gaps that need attention to strengthen the PFM institutional framework and to improve the efficiency of government spending in our country. The following literature looks at key PFM reform measures undertaken in India over the past few years.

According to **(D. Swaroop, 1990)**, an efficient PFM system that emphasizes institutional efficiency is important to design and implement appropriate policies to achieve the desired results. While the PFM system appears to be consistent with well-established budgeting, accounting, audit, and legislative control systems, there is still considerable scope to improve the efficiency of government spending and public service delivery by strengthening the institutional framework for PFM.

Reform initiatives such as making the budget more performance oriented, shift to accrual accounting, adopting rule based fiscal management, and strengthening budget management and expenditure control have been crucial. According to **(Premchand 2008)**, not all of the efforts have resulted in changes and increasing demand for better accountability, good governance, and improved service delivery are essential to strengthen India's PFM system.

Although, the reform initiatives have been undertaken to strengthen PFM institutions over the years, they have yet to meet their full potential. This underlines the intent of the Government to boost the efficiency and effectiveness of the system. There are various gaps and agendas that need further action. These include producing suitable performance measures that will influence budgetary decisions, continuing with existing efforts to expand accrual accounting, modernizing internal audit and control, improving the effectiveness of external audit, and introducing an exclusive procurement law. **(Jena, 2013)**

The future agenda should focus on evaluating the outcome of these changes in order to take corrective action. There is always a time lag for institutions to deliver expected results. In a large country like India where the fiscal and federal nature of the country puts a large functional responsibility on sub-national Governments such as ULB's, a coordinated approach is needed to focus the ability of the PFM system in delivering quality services at the state and local level. The willingness to internalize and change at local and state level, and political involvement and willingness to steer the changes are key to facilitate the reform process. **(Jena, 2013)**.

1.4.1. Need for PFM reform at the ULB level

In India, urban governance is a state subject. Governance includes both the administration of urban areas as well as the requirements of control and transparency on public spending. State legislative acts such as the Haryana municipal act of 1994, govern urban local bodies and set out their powers, responsibilities, and obligations with regard to accounting, audit, and oversight. However, most state legislations are ignorant to PFM obligations on urban local bodies. There are no penalties prescribed for non-performance of ULB's, and neither are there any institutional oversight mechanisms prescribed in the acts. The Councillors do have the right to ask and inspect accounts, there are no other public bodies where the audited accounts of urban local bodies must be presented.

Due to the weak PFM legislative framework and low public demand for accountability of public money, the small to medium local bodies in most states have many decades of accounting and audit arrears. The larger local bodies such as the BMC and BBMP can produce recently finalized and audited accounts, but this is driven by the requirement to get credit ratings and access to bond markets rather than strong legislative mandate. **(Jena, 2013)**.

Most states have departments of municipal administration that are responsible for overseeing urban local bodies. These departments can only provide incentives for good PFM practices but they do not have the power to ensure that prudent financial accountability practices such as timely completion and audit of accounts are followed. Since the role of the states is limited, they are not able to influence the PFM environment in ULBs significantly. According to **(Jena 2010)**, the state's role and oversight over the ULB should be re-examined and a system of incentives and disincentives for PFM performance other than small punitive measures like withholding grants from State Finance Commissions (SFC) should be thought of.

The ULB council and the area's constituent public can significantly impact the PFMA environment in the urban context. Councils can be held to task by local people under the Right to Information Act, 2005, which extends to urban local bodies as well and establishes the rights of the people over public spending information.

The Government of India and its constituent ministries responsible for urban development (the Ministry of Urban Development) formulates policies, sponsors and support programs, co-ordinate activities of various state governments concerning urban development in the country. Through prudent policies and programs, the ministry can influence and encourage good PFM practices in ULB's such as the MCG.

1.5. *Research Objectives*

The objectives of the current research is to provide:

- An integrated assessment of the Public Finance Management and Accountability (PFMA) system of the Municipal Corporation of Gurugram (MCG) and highlight the strengths and weaknesses of the existing PFMA systems in the MCG. The analysis draws on the international standards prescribed for the Public Expenditure and Fiscal Accountability (PEFA) framework by international agencies such as the IMF and World Bank.
- The analysis proposes to measure the PFMA performance of the MCG across 20 indicators over a three year time period (2013-14 to 2015-16) and also rate the ULB on the various prescribed parameters

1.6. *Data and Methodology*

1.6.1. *Methodology*

The methodology that has been used for this analysis follows the Public Expenditure and Financial Accountability (PEFA) program methodology. PEFA can be defined as a methodology for assessing public financial management performance. It provides a detailed and consistent analysis on the performance of various governments. The PEFA methodology developed has identified 28 key components of public financial management in seven broad areas of activity. The framework also helps us in assessing and reporting on the strengths and weaknesses of public financial management and accountability (PFMA) system using quantitative and qualitative indicators to measure performance. The PEFA framework is designed to provide an assessment of the PFMA performance of various governments. This methodology can be replicated in successive assessments in different contexts, giving a summary of changes over time. Since the methodology can be replicated at various levels of government, through this study my attempt has been to replicate a similar analysis for the Municipal Corporation of Gurugram. In an effort to do the PFMA analysis for the ULB level, 8 out of the 28 indicators which are not relevant for analysis at the local government level have been neglected and only 20 have been considered.

Various reputed institutions across the world such as the International Monetary Fund (IMF), The World Bank and the European Union (EU) have contributed to the development of the PEFA framework over the past few decades in order to strengthen the PFMA system across various countries.

This methodology provides a detailed analysis of the implications for the system of performance and public financial management outcomes that are desirable for the purpose of governance in the local body. The study also provides a foundation for reform planning, progress and monitoring and dialogue on strategy for the implementation of policies.

When the PEFA methodology initially came into existence, the idea was to focus on central governments as well as the related institutions of oversight and accountability such as the legislature and supreme audit institutions. Despite this, PEFA has evolved over the years and is now increasingly being used to assess the PFMA performance of sub national governments. Other tiers of government outside the central government such as the state, regional or local governments and ULB's can include their own mechanisms and modify the budget and accounting systems according to their own needs.

Through this research, an attempt has been made to provide an integrated assessment of the PFMA system of the Municipal Corporation of Gurugram (MCG). The analysis will measure and rate the PFMA performance of the MCG across 20 indicators over a three year time period (2013-14 to 2015-16).

As mentioned previously, the PFMA analysis using the benchmark PEFA indicators includes 28 indicators. Out of the 28 indicators prescribed in the PEFA framework, eight have been neglected for the purpose of this analysis. The indicators that have not been considered for the study are as follows:

- Monitoring and stock of expenditure payment arrears.
- Extent of unreported government operations.
- Transparency of intergovernmental fiscal relations.
- Oversight of aggregate fiscal risk from other public sector entities.
- Effectiveness of payroll contracts.
- Competition, Value for money and controls in procurement.
- Timeliness and regularity of accounts reconciliation.
- Legislative scrutiny for the annual budget law.

The primary reason that the above mentioned indicators have been neglected is that the indicators are applicable for analysis at the central or state government level and are not applicable for analysis at the third tier of government. There is also no availability of data or information for the above mentioned indicators. All of the above indicators are not relevant for analysis at the ULB level. Neglecting the above mentioned indicators has allowed me to focus on the other 20 indicators.

Hence, the 20 indicators taken for assessing the MCG's PFM system focus on the basic qualities of a PFM system, linking it to the good practices followed internationally. The indicators have been rated (A, B, C or D) and can be interpreted as follows:

Table 2: Indicators and their interpretations

| | |
|----------|--|
| A | Excellent |
| B | Good |
| C | Opportunities for improvement |
| D | In need of improvement in a few areas |

(Disclaimer: It is to be noted here that the above mentioned ratings are those that are prescribed by the World Bank for a comprehensive PEFA analysis and are not to be confused with the ratings provided by credit rating agencies such as Crisil , Moody’s or Standard and Poor’s.)

The 20 indicators are classified into three major categories which further include sub-indicators. They are:

- **Credibility of the budget.**

The first set of indicators are all quantitative in nature and help us in arrive at the **aggregate fiscal discipline** of the municipal corporation.

Table 3: Parameter for budget credibility

| |
|--|
| <ul style="list-style-type: none"> ▪ Total Expenditure out run compared to the original approved budget. <p>This indicator measures the excess or the shortfall of actual revenue expenditure to the budgeted revenue expenditure. The difference between the two is then represented in percentage terms. This expenditure excludes the debt as well as externally financed projects. (Actual expenditure – Budgeted expenditure / Budgeted expenditure * 100).</p> |
| <ul style="list-style-type: none"> ▪ Composition of expenditure out turn compared to original approved budget. <p>This indicator is a follow up of the first indicator as it measures the sector wise expenditure of the ULB and compares it to the budgeted expenditure. The deviations for each major budget head is calculated in order to find out the expenditures with the most deviations. A three year average in the expenditure out turn compared to the original approved budget is also carried out.</p> |
| <ul style="list-style-type: none"> ▪ Aggregate revenue out turn compared to original approved budget. <p>This indicator is also similar to the first one. The only difference is that we calculate the excess or shortfall of the revenue incomes to the budgeted revenue income instead of the expenditure. The actual revenue as a percent of budget estimate is also calculated. (Actual revenue – Budgeted revenue / Budgeted expenditure * 100).</p> |

- **Comprehensiveness and transparency**

The second set of indicators are qualitative in nature. To look at the transparency of the ULB, we need to look at whether the MCG has disclosed the necessary set of documents as prescribed by the PFM framework.

Table 4: Parameters for comprehensiveness and transparency

| |
|--|
| <ul style="list-style-type: none"> ▪ Classification of the Budget <p>Whether the classification of the budget follows the standards set by the CAG or not?</p> |
| <ul style="list-style-type: none"> ▪ Comprehensiveness of information included in the budget document. <p>How many of the eight listed information benchmarks specified under the PFM framework are being disclosed by the MCG in their budget document?</p> |
| <ul style="list-style-type: none"> ▪ Public access to key fiscal information <p>How many of the six listed elements are available for access to the general public?</p> |

- **Budget cycle**

This indicator has been classified into four parameters with sub-indices in each one of the parameters. The 4-sub indices are as follows:

- **Policy based budgeting**

Table 5: Parameters for policy based budgeting

| |
|--|
| <ul style="list-style-type: none"> ▪ Orderliness and participation in the annual budget process <p>Whether the MCG adheres to a fixed budget calendar and if the budget is timely approved by the general body of councillors?</p> |
| <ul style="list-style-type: none"> ▪ Multi-year perspective in Fiscal planning, expenditure policy and budgeting <p>Whether the MCG undertakes a debt sustainability analysis and prepare multiyear forecasts?</p> |

- **Predictability and control in budget execution**

Table 6: Parameters for predictability and control in budget execution

| |
|--|
| <ul style="list-style-type: none"> ▪ Transparency of taxpayer obligations and liabilities. <p>Does the taxpayer have access to information of tax liabilities and administrative procedures?</p> |
| <ul style="list-style-type: none"> ▪ Effectiveness of measures for taxpayer registration and tax assessment <p>How effective are the taxpayer's registration systems and the penalties for non-compliance of registration?</p> |
| <ul style="list-style-type: none"> ▪ Effectiveness in collection of tax payments <p>How frequent is the tax account reconciliation carried out by the treasury?</p> |
| <ul style="list-style-type: none"> ▪ Predictability in the availability of funds for commitment of expenditure. <p>How frequent are budget adjustments carried out?</p> |
| <ul style="list-style-type: none"> ▪ Recording and management of cash balances, debt and guarantees. <p>It measures the quality of debt data available with the MCG and the extent of consolidation of cash balances.</p> |
| <ul style="list-style-type: none"> ▪ Effectiveness of internal controls for non-salary expenditure. <p>How effective are the expenditure controls in place?</p> |
| <ul style="list-style-type: none"> ▪ Effectiveness of internal audit <p>Coverage and quality of internal audit and the management's response to the audit filings.</p> |

- **Accounting, recording and reporting**

Table 7: Parameters for accounting, recording and reporting

| |
|---|
| <ul style="list-style-type: none"> ▪ Availability of information on resources received by service delivery units. <p>How effective is the collection and processing of information?</p> |
| <ul style="list-style-type: none"> ▪ Quality and timeliness of in year budget reports. <p>Coverage and compatibility of the reports along with the timeliness of their issue.</p> |

▪ **Quality and timeliness of annual financial statements.**

The completeness and the timeliness of submission of the annual financial statements.

▪ **External scrutiny and audit**

Table 8: Parameters for external scrutiny and audit

▪ **Scope, Nature and follow up of external audit.**

The nature of the audit, timeliness of the report submission and the evidence of follow up on the audit's recommendations by the MCG.

▪ **Legislative scrutiny of the external audit reports.**

The timeliness of the examination of the audit reports by the MCG

1.6.2. Data Sources

The following data sources have been referred to for the purpose of this research:

- The MCG budget documents for four financial years (2013-14 to 2016-17). The budget estimates as well as the actuals have been considered. Data on actuals was only available till the year 2015-16. All the consolidated data regarding the revenue receipts and expenditure as well as the capital receipts and expenditure were available on the website of the municipal corporation of Gurugram.
- The audit reports by the Comptroller and auditor General of India (CAG) on the district of Gurugram for the year 2012 and the audit report on the status of the urban local bodies in the state of Haryana for 2014-15 have also been referred to for assistance regarding assessment of various parameters.
- The data on the demographics of Haryana and Gurugram have been sourced from the census of India website for 2001 and 2011.

2. Assessment of the PFM Systems in the MCG.

2.1. Budget Credibility

1. Assessment of expenditure out run compared to the original approved budget.

Parameters to be evaluated:

- The difference between the actual revenue expenditure and the originally budgeted revenue expenditure.

(Data is excluding the externally financed projects and their expenditure along with the debt of the MCG).

Table 9: Budget estimates and actual Revenue Expenditure (In Lakhs of Rupees)

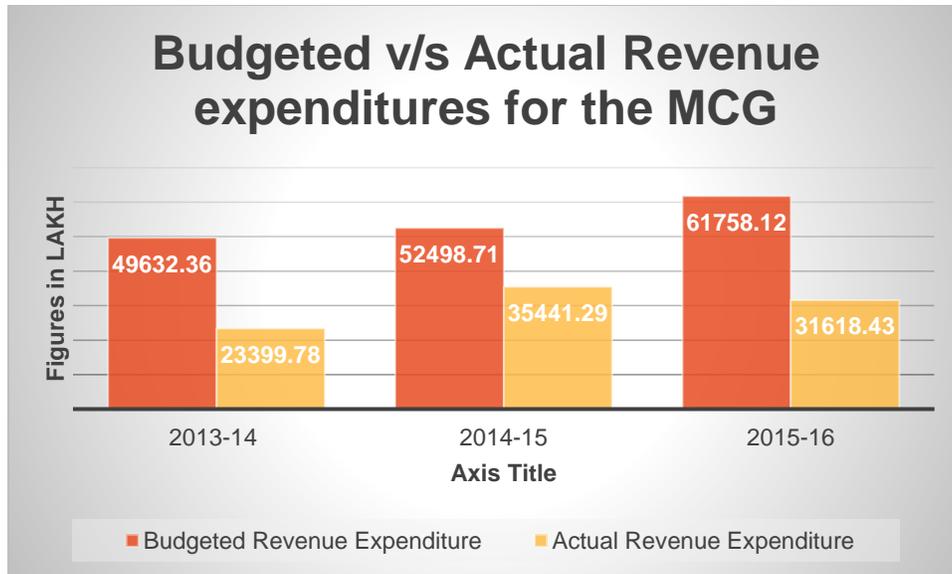
| Particulars | 2013-14 | 2014-15 | 2015-16 |
|---|-----------|-----------|-----------|
| Budgeted | 49632.36 | 52498.71 | 61758.12 |
| Actual | 23399.78 | 35441.29 | 31618.43 |
| Difference between budgeted and actual | -26232.58 | -17057.42 | -30139.69 |
| Percentage Difference | -52.8% | -32.5% | -48.8% |

(Percentage Difference was calculated as: $\frac{\text{Actual expenditure} - \text{Budgeted expenditure}}{\text{Budgeted expenditure}} * 100$)

The table given above provides the data for the budget estimates and actual expenditure of revenue excluding the debt payments of the municipal body. The actual expenditure has lagged behind the budgeted expenditure by more than 30 percent in all the three years taken under consideration. The average three year shortfall of actual over budgeted expenditure is 44.7 percent. The overestimation of budgeted aggregate expenditure is a common trend seen across most of the ULB's in India and same is the case for the MCG.

The MCG tends to overestimate expenditures primarily because they lack the tools for proper estimation of finances. Inaccurate estimates from various departments also contributes to this. The expenditure out run has fluctuated vaguely from -52.8 percent to -32.5 percent and back to -48.8 percent. This shows a huge volatility and the uncertain nature of the budget which raises serious questions on the credibility of the budget. The same has been expressed in the form of a figure in fig 1.

Fig 1: Budgeted v/s Actual Revenue Receipts for the MCG



Source: Municipal Corporation of Gurugram Budget documents

A similar trend can be observed for the data regarding the revenue deficit where the estimates are totally misdirected for all the three years.

Table 10: Revenue surplus/deficit. (Rupees in Lakhs)

| | 2013-14 | 2014-15 | 2015-16 |
|--------------------------------|---------------|---------------|---------------|
| Revenue Surplus/Deficit | Amount | Amount | Amount |
| Budgeted | 35377.64 | 42960.29 | 101782.88 |
| Actual | 17503.12 | 7066.94 | 20097.90 |
| Difference | 17854.52 | 50027.23 | 81684.98 |

The wrong estimation of the revenue deficit has been increasing considerably over the past three years showing that there is a total lack of competence in the estimation of revenues as well as expenditure.

Table 11: Rating for parameter one

| Brief Explanation | Score |
|---|----------|
| In all of the three years under consideration, the actual budget has deviated from the budgeted expenditure by an amount equivalent to more than 20% of the budgeted expenditure. | D |
| Overall Rating | D |

2. Composition of the expenditure out turn compared to the original approved budget.

Parameters to be evaluated:

- Extent to which the variance in primary expenditure composition exceeded overall deviation in primary expenditure during the three years taken under consideration.

Table 12: Aggregate expenditures classified under various budget heads (revenue expenditure and capital expenditure) (Rupees in Lakhs)

| Major Head | 2013-14 Budget Estimates | 2013-14 Revised Estimates | 2014-15 Budget Estimates | 2014-15 Revised Estimates | 2015-16 Budget Estimates | 2015-16 Revised Estimates |
|--|--------------------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|---------------------------------|
| Total for Establishment Expense | 8,527.75 | 3,476.03 | 7,537.24 | 4,255.20 | 9,712.65 | 4,165.43 |
| Total for Administrative Expenses | 884.00 | 552.86 | 835.00 | 904.55 | 5,236.00 | 1,496.29 |
| Total for Operations & Maintenance | 40,110.61 | 19,301.76 | 36,996.47 | 25,257.69 | 22,709.47 | 22,467.69 |
| Total for Programme Expenses | 10.00 | 23.11 | 30.00 | 101.25 | 500.00 | 92.19 |
| Total for Revenue Grants Contribution & Subsidies | 0.00 | 0.00 | 7,000.00 | 438.68 | 8,600.00 | 0.24 |
| Total Miscellaneous Items | 100.00 | 46.02 | 100.00 | 4,483.92 | 15,000.00 | 3,396.59 |
| TOTAL REVENUE EXPENDITURE | 49,632.36 | 23,399.78 | 52,498.71 | 35,441.29 | 61,758.12 | 31,618.43 |
| Total for Buildings | 1,539.00 | 1,144.99 | 2,131.00 | 700.18 | 7,000.00 | 336.00 |
| Total for Road & Bridges | 2,500.00 | 0.00 | 6,637.00 | 0.00 | 21,600.00 | 1,879.73 |
| Total for Sewerage & Drainage | 610.00 | 1,625.34 | 3,918.00 | 485.16 | 1,500.00 | 148.69 |
| Total for Water ways/Water supply | 1,841.00 | 1,235.01 | 3,106.00 | 999.63 | 1,000.00 | 556.91 |
| Total for Public Lighting | 790.00 | 799.92 | 1,520.00 | 544.89 | 2,000.00 | 170.85 |
| Total for Purchase of Plant & Machinery, Vehicles Misc. | 5,900.00 | 187.83 | 3,777.60 | 14.72 | 9,365.60 | 31.44 |
| Total for Office & Other Equipment | 81.00 | 8.50 | 91.00 | 27.40 | 17.00 | 117.64 |
| Total for Furniture, Fixture, fittings & Electrical Appliances | 200.00 | 162.90 | 200.00 | 263.64 | 300.00 | 94.04 |
| Total for Other /Miscellaneous Assets Expenses | 10,000.00 | 595.57 | 21,650.00 | 363.53 | 40,818.00 | 32.36 |
| Total for Fixed Assets | 23,661.00 | 5,760.06 | 43,230.60 | 3,399.15 | 108,110.60 | 3,367.66 |

The data on functional classification was sourced from the summary of the budget document of the MCG. As the data shows, the largest functional head is operations and maintenance (actual expenditure of 224 crores in the year 2015-16) followed by establishment expenditure (41.6 crores) and miscellaneous expenditure (33.9 crores). Thus Operations and maintenance accounts for a huge percentage of the overall expenditures done by the MCG, hence the municipality is left with very little funds to be spent on other expenditures. The subsequent tables have calculated the variances of each budget head from their budgeted expenditure to the actual expenditure and has represented it in percentage terms.

Table 13: Deviation in the actual expenditure from the budgeted expenditure in percentage. Calculated as: (Actual – Budgeted /Budgeted *100) for each parameter

| Major Head | 2013-14 | 2014-15 | 2015-16 | 3 year Average |
|--|---------|----------|---------|----------------|
| Establishment Expense | 59.24% | 43.54% | 57.11% | 53.30% |
| Administrative Expenses | 37.46% | 8.33% | 71.42% | 39.07% |
| Operations & Maintenance | 51.88% | 31.73% | 1.06% | 28.22% |
| Programme Expenses | 131.10% | 237.50% | 81.56% | 150.05% |
| Revenue Grants Contribution & Subsidies | 0.00% | 93.73% | 100.00% | 64.58% |
| Miscellaneous Items | 53.98% | 4383.92% | 77.36% | 1505.09% |
| Buildings | 25.60% | 67.14% | 95.20% | 62.65% |
| Road & Bridges | 100.00% | 100.00% | 91.30% | 97.10% |
| Sewerage & Drainage | 166.45% | 87.62% | 90.09% | 114.72% |
| Water ways/Water supply | 32.92% | 67.82% | 44.31% | 48.35% |
| Public Lighting | 1.26% | 64.15% | 91.46% | 52.29% |
| Purchase of Plant & Machinery, Vehicles Misc. | 96.82% | 99.61% | 99.66% | 98.70% |
| Office & Other Equipment | 89.51% | 69.89% | 592.00% | 250.47% |
| Furniture, Fixture, fittings & Electrical Appliances | 18.55% | 31.82% | 68.65% | 39.67% |
| Other /Miscellaneous Assets Expenses | 94.04% | 98.32% | 99.92% | 97.43% |
| Average Variance (Excluding debt servicing) | 63.92% | 365.68% | 110.74% | 180.11% |

Table 14: Deviation in the actual expenditure from the budgeted expenditure in percentage. (Excluding miscellaneous expenditures)

| Major Head | 2013-14 | 2014-15 | 2015-16 | 3 year Average |
|--|---------|---------|---------|----------------|
| Establishment Expense | 59.24% | 43.54% | 57.11% | 53.30% |
| Administrative Expenses | 37.46% | 8.33% | 71.42% | 39.07% |
| Operations & Maintenance | 51.88% | 31.73% | 1.06% | 28.22% |
| Programme Expenses | 131.10% | 237.50% | 81.56% | 150.05% |
| Revenue Grants Contribution & Subsidies | 0.00% | 93.73% | 100.00% | 64.58% |
| Buildings | 25.60% | 67.14% | 95.20% | 62.65% |
| Road & Bridges | 100.00% | 100.00% | 91.30% | 97.10% |
| Sewerage & Drainage | 166.45% | 87.62% | 90.09% | 114.72% |
| Water ways/Water supply | 32.92% | 67.82% | 44.31% | 48.35% |
| Public Lighting | 1.26% | 64.15% | 91.46% | 52.29% |
| Purchase of Plant & Machinery, Vehicles Misc. | 96.82% | 99.61% | 99.66% | 98.70% |
| Office & Other Equipment | 89.51% | 69.89% | 592.00% | 250.47% |
| Furniture, Fixture, fittings & Electrical Appliances | 18.55% | 31.82% | 68.65% | 39.67% |
| Other Expenses | 94.04% | 98.32% | 99.92% | 97.43% |
| Average Variance (Excluding debt servicing) | 64.63% | 78.66% | 113.12% | 85.47% |

Table 15: Three year mean deviation from total expenditure

| Year | Total Expenditure deviation |
|---------|-----------------------------|
| 2013-14 | 64.63% |
| 2014-15 | 78.66% |
| 2015-16 | 113.12% |
| Mean | 85.47% |

The variance is highest in the miscellaneous expenditures head (three year average of 1505%) followed by office equipment (average of 250%), programme expenses (150%) and sewerage & drainage (114%).

If we ignore functional heads such as miscellaneous expenditures where variations can be caused by volatile events and look at table 2.3, we find out that the average variance was skewed due to the heavy variance in the miscellaneous expenditure which is an outlier in the data. Excluding the miscellaneous expenditures, the average 3 year variance observed was 85.47%. An in depth analysis of object heads of expenditure under their functional classification will help to understand the quality of expenditure and the causes for their variation.

Table 16: Rating for parameter two

| Brief Explanation | Score |
|--|----------|
| Average deviation of expenditure over the three year period was more than 85 percent. That is way more than the prescribed level of 20%. | D |
| Overall Rating | D |

3. Aggregate revenue out turn compared to the original approved budget by the municipality.

Parameters to be evaluated:

- Actual revenue collection compared to the revenue estimates provided in the budget document.

The data is taken from the MCG budget documents. The revenue estimates are generally of poor quality because the urban local bodies in most of the cities in India do not have the technical experts to provide a systematic analysis and estimates of the revenue that will be generated.

As the table mentioned below shows, the revenue estimates have been grossly underachieved in the years under examination in the MCG. The revenue projections used by the MCG to estimate the budgeted revenues are not based on a formal revenue estimation model. Due to this, the budgeted revenues usually become targets rather than a forecast. It is very important for the municipality to build the capacity for accurate forecasts based on the relevant factors.

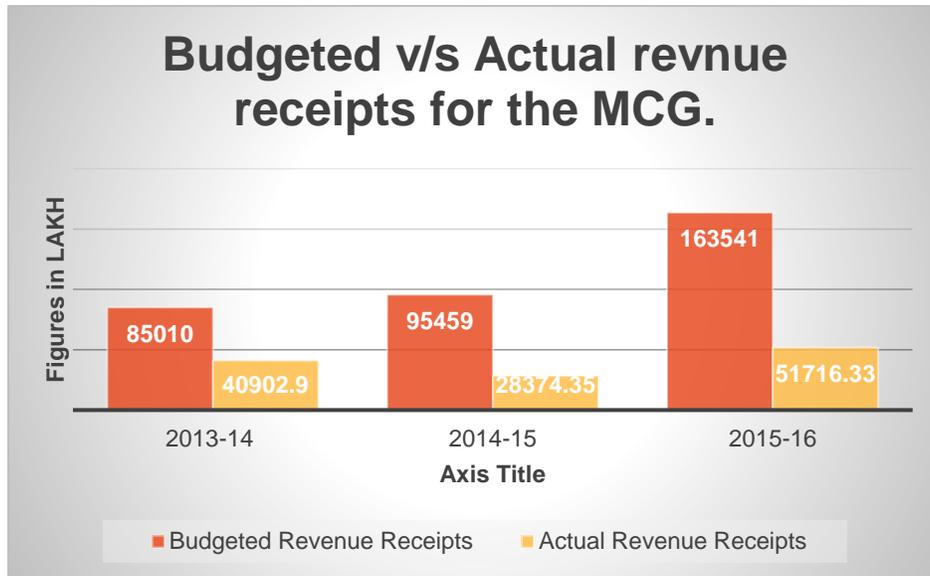
Table 17: Budget estimates and actual Revenue Collection (In Lakhs of Rupees)

| Year | 2013-14 | 2014-15 | 2015-16 |
|--|---------|----------|----------|
| Budget estimates | 85010 | 95459 | 163541 |
| Actual | 40902.9 | 28374.35 | 51716.33 |
| Revenue as a percentage of budget estimates | 48.1% | 29.7% | 31.6% |

Similar to the revenue expenditure, the revenue collection has also fluctuated over the three years taken under consideration. The revenue as a percentage of budget estimates has declined from 48.1 percent to 31.6 percent

showing that over the past three years, the revenue collection efficiency of the municipality has declined even further. This does not bode well for the MCG and raises huge questions on the credibility of the budget.

Figure 2: Budgeted v/s Actual revenue expenditure for the MCG.



Source: Municipal Corporation of Gurugram Budget documents

Table 18: Rating for parameter three

| Brief Explanation | Score |
|--|----------|
| Actual revenue collection was less than 50% of the budgeted revenues in all the three years taken under consideration. | D |
| Overall Rating | D |

2.2. *Transparency and Comprehensiveness*

4. Classification of the Budget

Parameters to be evaluated:

- The classification system used for the formulation, execution and reporting of the government’s budget.

The municipality’s overall accounting system that is in place is in coherence with the uniform countrywide system of classification of accounts consistent with the structure as prescribed by the CAG to be followed by the ULB’s in India.

Table 19: Rating for parameter four

| Brief Explanation | Score |
|---|----------|
| The MCG follows the country wide norm for budget classification as prescribed by the CAG. | A |
| Overall Rating | A |

5. Comprehensiveness of the information included in the budget document.

Parameters to be evaluated:

- How many of the eight listed information parameters are shared in the most recent budget document.

The MCG Budget Manual details the budget document to be presented before the general body of councillors for their scrutiny and approval. The Budget document comprises of the annual financial statements, detailed estimates of receipts and expenditure tables for new expenditure on schemes, the municipal commissioner speech explaining the salient features along with the budget summary.

The 2015-16 budget document presented before the general body includes five out of the eight elements of the benchmark of information as prescribed by the PEFA framework.

Table 20: The documents required to be presented along with the budget document

| Element | Presence |
|--|-----------------|
| Fiscal Deficit | Yes |
| Deficit Financing | No |
| Debt Stock | No |
| Financial Assets | Yes |
| Prior year's budget out turn | Yes |
| Current year's budget | Yes |
| Summarized budget data for both revenue and expenditure | Yes |
| Explanation of budget implications of new policy initiatives | No |

Table 21: Rating for parameter five

| Brief Explanation | Score |
|---|--------------|
| The recent budget document fulfils 5 out of the 8 information benchmark but misses out on two basic elements (1-3). | C |
| Overall Rating | C |

6. Public access to key information on fiscal parameters.

Parameters to be evaluated:

- Number of the five listed elements of public access to information that is fulfilled.

In Gurugram, public access to key information on fiscal plans and position and performance of the ULB is mainly available through the municipality website. Publication of information on the MCG website is neither defined nor uniform. Although, efforts have been taken up by the recent commissioner to improve the general public's access to information. Disclosures are made under the Right to Information Act, 2005 (RTI Act) but the disclosures do not cover any of the PEFA information benchmarks. The PEFA guidelines identify six major elements:

- **Annual Budget document:** The published budget document in the electronic mode is usually incomplete and very untimely in nature as it is done after the approval of the budget by the general body. The PEFA benchmark desires that the process be carried out before the approval of the budget.
- **Budget execution reports:** These documents are also not made available to the public by any of the departments in the MCG. Public access to such reports can be through the RTI Act only.
- **Year-end Financial statements:** The financial statements are also not made available to the public in a proactive manner. In order to access the financial statements from the MCG, the citizens have to use the

RTI act. Only when the financial statements are presented by the municipal commissioner to the general body, does the ULB publishes the financial statements on its website.

- **External audit reports:** The Comptroller and Auditor General of India or the CAG is the external auditor that is responsible for the audit of the ULB's. For the state of Haryana, there have been no external audits carried out by the CAG since the year 2014-15, whereas the last such report was published on the Gurugram district in the year 2012. These reports are not available on the ULB's website and have to be procured from the CAG's report archive.
- **Contract awards:** The MCG does not have a policy of publishing information on the award of contracts periodically. There is no department that publishes this information and public access is very limited other than through the RTI Act.

The MCG has publishes minimum information on their websites and only discloses two out of the five listed documents to the public without the RTI act.

Table 22: Rating for parameter six

| Brief Explanation | Score |
|--|----------|
| The ULB has made only two out of the five documents available to the public. The public resorts to using the RTI act in order to access the other documents. | C |
| Overall Rating | C |

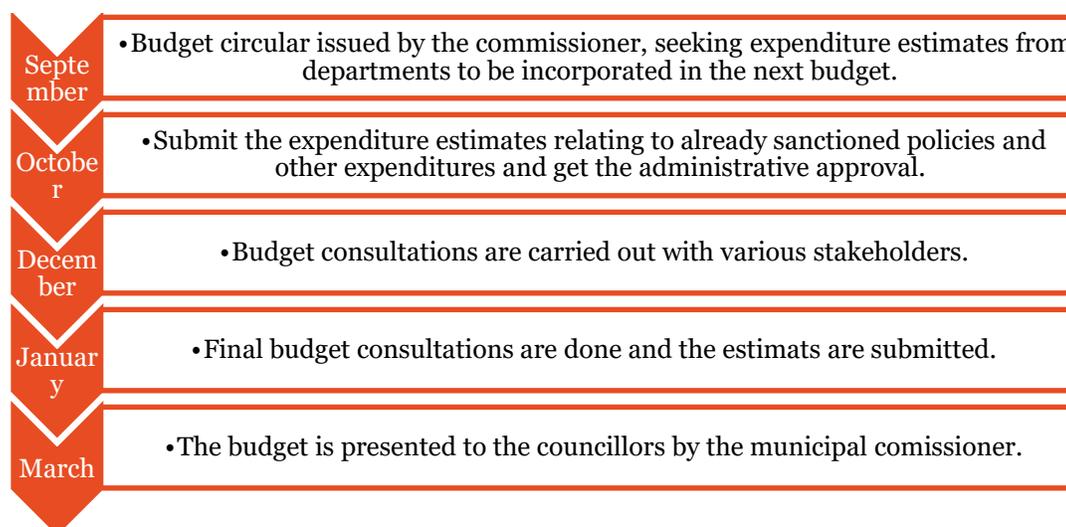
2.3. Policy based Budgeting

7. Orderliness and participation in the annual budget process

Parameters to be evaluated:

- Adherence to a fixed budget calendar.
- Clarity and comprehensiveness of political involvement in the guidance on the preparation of budget submissions.
- Timely budget approval by the mandated body.

Figure 3: Flow Chart for the budget calendar of the MCG



The budget is presented in the first week of March and is supposed to be sanctioned by the start of the new financial year, but that is not the case. For the year 2015, the councillors rejected the budget proposed by the commissioner as they felt that they had not been thoroughly consulted in the budget drafting process. Hence a revised budget was tabled in May and sent for approval by the state government in the last week of May. Thus, the MCG budget was finally approved in the month of June, i.e three months behind schedule.

In practice, the budgets presented in the MCG are incremental in nature, taking last year's allocation as a base, adding a small percentage for inflation and real growth on account of new spending proposals. This type of incremental budgeting reflects a mismatch between policies and resources and excessive focus on funding at the expense of policy. However, political priorities often find their way into the budget through the year, incorporated through additionalities or re-appropriation. For example, in the year 2015, one year before the MCG elections, the councillors got a 1cr fund approved for each ward to be spent at their own discretion. The initial budget was not accepted by the councillors as it did not adhere to their demands. Hence the budget making process in the MCG is heavily driven by political considerations.

Table 23: Rating for parameter seven

| Brief Explanation | Score |
|---|-----------|
| A clear annual budget calendar does not exist and is not adhered to. The departments do not submit their estimates on time as well. | D |
| Comprehensive political involvement in the budget making process is observed. | B |
| In none of the three years under consideration has the budget been approved before the start of the financial year. | D |
| Overall Rating | D+ |

8. Multiyear perspective in fiscal planning, expenditure policy and budgeting.

Parameters to be evaluated:

- Preparation of multi-year forecasts and functional allocations.
- Scope and frequency of debt sustainability analysis.

The government of Haryana started preparing a Medium Term Fiscal Plan (MTFP) for the period beginning 2007-08 that articulates the Government's medium term fiscal objectives and strategic priorities consistent with the FRBM Act, and set clear milestones for five years, beginning 2007-08. The MTFP is consistent with the FRBM act.

However, the weakness is that budgeting at the municipality level does not necessarily have to follow the FRBM act and the rules set in the act are only applicable on the central and the state governments. Hence there is a lack of initiative from most of the ULB's including the MCG regarding the implementation of a MTFP.

The existing budget system of the MCG is functional in nature but a wide range of reforms are needed to achieve the development vision of the state and implement it at the ground level with a prudent fiscal strategy.

The key challenges of the MCG are to ensure a comprehensive resource framework and a medium term perspective guide along with the achievement of three objectives of budget management:

- Ensure aggregate fiscal discipline in line with the MTFP.
- Follow strategic policy decisions by GoH within the constraints of the MTFP.
- Stimulate the efficient use of public funds.

Table 24: Rating for parameter 8

| Brief Explanation | Score |
|---|--------------|
| Forecasts of aggregates are incremental in nature and do not follow any specific methodology. | D |
| No debt sustainability analysis has been done for the three years | D |
| Overall Rating | D |

9. Transparency of tax payer obligations and liabilities

Parameters to be evaluated:

- Clarity and comprehensiveness of tax liabilities
- Taxpayer access to information on tax liabilities and administrative procedures
- Existence and functioning of a tax appeals mechanism.

The implementation of the Goods and services tax (GST) from July 1st 2017 has led to an overhaul in the state's capacity to impose and collect taxes. That has also had an impact on the ULB's in the country and its ability to impose taxes. The lack of any share for the ULB's in the GST (CGST and SGST) has led to the ULB's being starved for funds and even more dependent on the state government for funds and grants. This has also led to the decrease in the financial autonomy of the ULB's.

Prior to the implementation of the GST, the tax regime was complicated and was combined with cumbersome, largely manual tax administration procedures and multiple rates. The tax policy in Haryana was predictable in that it was guided by a comprehensive set of laws such as the VAT Act 2005, Haryana Motor Vehicles Taxation Act etc.

Despite these persistent taxation issues at the state level, the MCG has tried to reform the taxation process at the ULB over the past few years. The primary focus of the ULB has been to improve the taxpayer service function. The municipality has taken conscious efforts to improve and simplify the taxpayer's access to information on tax liabilities and make administrative procedures much more efficient. In particular, it has created a tax website (<http://www.mcg.gov.in/HouseTax.aspx>¹) where taxpayers can find tax laws, regulations, and instructions to fulfil their tax obligations.

Table 25: Rating for parameter 9

| Brief Explanation | Score |
|--|--------------|
| Procedures for taxes imposed are clear and are updated on the website regularly. | B |

¹ The mentioned link is the URL for the payment of taxes of the MCG.

| | |
|--|----------|
| Tax-payers have easy access to information on tax liabilities and tax procedures for major taxes like property taxes. There is lack of information for minor user charges. | B |
| A tax appeals system is in place but the functioning of the same is questionable. | C |
| Overall Rating | B |

10. Effectiveness of a measure for taxpayer registration and tax assessment.

Parameters to be evaluated:

- Controls in the taxpayers registration system
- Effectiveness of penalties for non-compliance with registration and declaration obligations

Procedures for registration of municipal taxes are completely manual, complex, and ineffective. The complexity was reflected, in the absence of an integrated registration system for the payment of the property taxes and stamp duties until a couple of years back when the system was reformed and an online database for property tax was created by the MCG. There is also a lot of discrepancy in the collection of user charges for water and fire tax, vehicle tax etc.

Fines and fees constitute a very small chunk of the tax revenue that is collected by the MCG. The rent that is collected from shops, community halls, and liquor vendor's registration fees for births, marriages and various other sources has been steadily on the rise in the past three years taken under consideration. In the last couple of years, the MCG has also imposed stringent fines for the non-registration of the shops by dealers or illegal road side stalls. Non-compliance could lead to a fine in the range of Rs 2000-10,000. The detection of the compliance has also been fully automated with an ever growing database in the past three years. Hence, there has been significant improvement on this part.

Tax auditing at the ULB level primarily focuses on two aspects:

- Arithmetical errors in returns
- Concealment of property to avoid property taxation.

Random selection ordered by the Commissioner is part of the overall audit strategy. However, until a few years back, auditing was a completely manual process, not computer aided. Although, over the years cumbersome manual auditing has been replaced by computerised systems, although full computerisation still does not exist. In addition, there exists a mistrust of taxpayers by the tax administration; hence, the administration relies much on coercive enforcement. Tax inspectors have been known to come into the premises at any time at their discretion and surprise visits become the norm in some parts of the city. The tax authorities have also seized a few properties due to non-compliance with the property taxation.

Table 26: Rating for parameter 10

| Brief Explanation | Score |
|--|--------------|
| Taxpayers are registered in a taxpayers system but the linkages to other systems are weak | B |
| Penalties for non-compliance do exist, but there is significant scope of improving the compliance rate for property tax. | C |
| Overall Rating | C+ |

11. Effectiveness in the collection of tax payments

Parameters to be evaluated:

- Effectiveness of transfer of tax collections to the treasury by the revenue administration

The municipality tax collection authorities are not able to provide accurate data on tax arrears broken into individual years, citing technical difficulties in compiling such data as the entire process of arrears management was manual until a couple of years ago. The system has now been automated and the taxpayer can easily access information on the tax arrears if he possesses a unique tax id or even through location based services on the municipality website taxation page.

Table 27: Rating for parameter 11

| Brief Explanation | Score |
|--|--------------|
| Revenue collections are transferred to the treasury at an irregular basis. | D |
| Overall Rating | D |

2.4. Predictability and control in budget operations

12. Predictability in the availability of funds for commitment of expenditure.

Parameters to be evaluated:

- Extent to which cash flows are forecasted and monitored
- Frequency and transparency of adjustments of budget allocations

The annual budget is approved by the councillors at the commencement of the financial year. Although for the MCG, this process is a little delayed and it might take more than three months after the commencement for the budget to be approved. The finance department prepares a cash flow forecast for the year. The FD is responsible for carrying out the forecasts and updating them on a monthly basis. Despite following the process, the MCG is not transparent about its budget adjustments that they carry out over the course of the year. In recent years, the MCG has passed the budget only after the commencement of the fiscal year. For the last three years, budgets have been passed and approved in the month of June, three months behind schedule. Hence, budgetary appropriations for making expenditure commitments are not available to the departments at the beginning of the year. The departments have to function within these budgetary ceilings.

The data regarding the supplementary budget that is approved over and above the annual budget is not available as they do not disclose the information on the website.

Table 28: Rating for parameter 12

| Brief Explanation | Score |
|---|--------------|
| A cash flow forecast is prepared for the year but is not updated on a regular basis | C |
| In year budget adjustments are very frequent and are not carried out in a transparent manner. | D |
| Overall Rating | D+ |

13. Recording and management of cash balances and debt.

Parameters to be evaluated:

- Quality of debt data recording and reporting.
- Extent of consolidation of cash balances

The finance department maintains memorandum records for debt on spreadsheets primarily containing data on principal, repayments and interest. Most recently, these records have been updated till the year 2015-16. However,

the debt data is not available for access to the public and there is lot of ambiguity in this aspect. The budget documents as well as the summary of the budget that is presented to the councillors also do not contain any information regarding the debt of the ULB. The CAG has adversely commented on incorrect exhibition of internal debt in its report on the status of ULB's in Haryana report of 2012. Little action has been taken by the MCG to correct this and further audits by the CAG have also not been carried out since.

The ULB's are also not under the ambit of the FRBM act and hence cannot be restricted in their borrowings and expenditures. This has led to fiscal malpractice and excessive borrowings and dependence on the state government to waive off such debt in case they are not repaid. Thus, a standard framework prescribing criteria for eligibility, appraisal and approval of debt and guarantees has not been laid down by the municipality.

Table 29: Rating for parameter 13

| Brief Explanation | Score |
|--|--------------|
| Debt records are complete but are not accessible to the public without an RTI application. | C |
| Cash balances are consolidated in nature except for the expenditure. | B |
| Overall Rating | C+ |

14. Effectiveness of internal controls for non-salary expenditure

Parameters to be evaluated:

- Effectiveness of expenditure control commitments

The 2012 CAG report on the ULB's of Haryana showed that the incorrect estimations of budgetary provisions by the MCG are a common trend. Over the last three years under consideration, the actual expenditures have been consistently lesser than the budgeted expenditure as the municipality does not have enough revenue streams to fulfil the high expectations that are set by them in the budget. For the year 2015-16, the actual revenue expenditure was approximately 316 crores against a budgeted expenditure of 617 crores, a shortfall of 301 crores i.e 48.8 percent of the budget. For the same year, the revenue collection was 517 crores against a budgeted 1635 crores.

There is a need to thoroughly update, revise and simplify the official documents and modernize them in line with the current work environment (introduction of alternative service delivery mechanisms, rapid advancement in IT enhanced expectations of the public towards accountability and transparency – Audit report by the CAG on the status of ULB's in Haryana).

Table 30: Rating for parameter 14

| Brief Explanation | Score |
|---|--------------|
| Expenditure commitment control procedures do not exist resulting in a huge difference between the budgeted and actual expenditures. | D |
| Overall Rating | D |

15. Effectiveness of Internal audit.

Parameters to be evaluated:

- Coverage and quality of the internal audit function.
- Extent of management response to internal audit findings

There is no system of internal audit in the MCG, except in the taxation department where the internal audit cells have been established. Although their effectiveness is still a major doubt.

Table 31: Rating for parameter 15

| Brief Explanation | Score |
|--|--------------|
| There is no effective internal audit function | D |
| Since there are no internal audits, the management is not expected to have a response on the reports | D |
| Overall Rating | D |

2.5. Accounting, Recording and Reporting

16. Availability of information on resources received by service delivery units

Parameters to be evaluated:

- Collection and processing of information to demonstrate the resources that are received in relation to the overall resources made available to the sector.

Post the allocation of the budget to the departments, funds are allocated to the department in the months of April-May. The primary expenditure head for most of the departments is on the salaries and materials expenditure. The bills for all purchases are first verified by the head office and then submitted for payment. The following two cases represent the budget allocated in the following two sectors:

Health Sector: The municipality had allocated Rs 60 crores for the construction of a new medical college in the city aided by Shri Sheetla Mata Shrine board. For other health expenditures such as on dispensaries and other medical facilities, the municipality estimated an expenditure of Rs 50 crores. (Both figures are 2016-17 budget estimates).

Waterways/water supply: The expenditure on water supply in the city has declined over the last three years taken under consideration. The actual expenditure on water supply in the year 2013-14 was 11.2 crores and it has declined to Rs 5.5 crores in the year 2015-16. For the year 2014-15, the budget estimates allocated Rs 31.4 crores for the water supply, but the municipality spent less than one third of that amount at Rs 9.99 crores. Hence the resources that are received by the sectors is lesser than what is allocated for almost all of the years. Other sectors that have been allocated lesser money than the budgeted amount are sewerage, roads and bridges, public lighting etc.

Table 32: Rating for parameter 16

| Brief Explanation | Score |
|---|--------------|
| There is no routine data collection on resources received by the service delivery units. The data is only available on an annual basis. | C |
| Overall Rating | C |

17. Quality and timeliness of in year budget reports.

Parameters to be evaluated:

- Scope of reports in terms of coverage and compatibility with budget estimates.
- Timeliness of the issue of reports and the quality of information.

All the departments in the municipality have to maintain a register in the prescribed format in order to keep a record of expenditure at the unit level. These records from the departments help the municipality in comparing the budgeted and actual expenditures. Despite having this mechanism in place, the MCG ends up with the wrong budget

estimates for almost all the years. The departments submit their reports on time in most cases and the quality of data available is reasonable. No major differences are observed if reconciliation process is carried out.

Table 33: Rating for parameter 17

| Brief Explanation | Score |
|--|--------------|
| Classification of budget allows comparison with the original budget | C |
| The reports are issued later than they usually should, although the quality of data available is reasonable. | B |
| Overall Rating | C+ |

18. Quality and timeliness of annual financial statements

Parameters to be evaluated:

- Completeness of the financial statements
- Timeliness of submissions of the financial statements
- Accounting standards used.

Annual Accounts of MCG are prepared on a regular and timely basis and provide considerable information. The structure and framework of year-end financial statements is common across most of the ULB's in India and is determined by Article 151 of the Indian Constitution. The financial statements do not present any information on revenue due but not collected, payables and outstanding commitments. In case of Centrally Sponsored Schemes (CSS) or state sponsored or aided schemes, only the municipality's share is reflected in the Financial Statements, since the central and state governments directly transfer the funds to the implementing entities for these programs.

Table 34: Rating for parameter 18

| Brief Explanation | Score |
|--|--------------|
| There are consolidated financial statements that are prepared annually. | B |
| The statements are submitted for audit if required. Although audits are not carried out in most cases. | C |
| Basic accounting standards are adhered to. | B |
| Overall Rating | B |

2.6. External Scrutiny and Audit

19. Scope, nature and follow up of external audit.

Parameters to be evaluated:

- Nature of audit performed and the timeliness of submission of audit reports
- Evidence of follow up on audit recommendations

The institution of CAG established under the Indian Constitution, is the Supreme Audit Institution in the country as well as for the state of Haryana and all the ULB's in the country. The CAG is appointed by the President of India for a fixed non-renewable term for six years. The powers, roles and responsibilities of the CAG are mentioned in articles 148 to 151 of the Constitution of India and as provided for in a central legislation i.e. Comptroller and Auditor General (Duties, Powers and Conditions of Service) Act, 1971.

The CAG has a mandate to audit various government departments, government companies (PSU's), statutory corporations, local bodies and other such bodies that is funded by the government. The CAG commenced audits of the urban and rural local bodies since the early 2000's. The CAG conducts the audit in the state of Haryana through the office of the Accountant General- Audit (AG) based at Chandigarh. The most recent audit by the CAG on the

ULB's of Haryana was carried out in the year 2014-15 and the most recent audit on the district of Gurugram was carried out in the year 2012. There has been no independent audit carried out by the CAG over the MCG.

Table 35: Rating for parameter 19

| Brief Explanation | Score |
|---|----------|
| There are no annual audits and there has been no specific audit for the MCG by any institution. CAG has carried out audits on the Gurugram district only. (Last in 2012). | D |
| There is no evidence of follow up by the MCG on the previous audit recommendations given by the CAG in 2012. | D |
| Overall Rating | D |

20. Scrutiny of the external audit reports.

Parameters to be evaluated:

- Timeliness of examination of audit reports
- Extent of hearings on key findings

As mentioned before, a compressive audit report by the CAG on the Gurugram district was released in the year 2012. It did not specifically deal with the MCG but the various other areas that come under the district. Another annual inspection report was prepared by the CAG on the Panchayati raj institutions and the ULB's for the state of Haryana for the year 2014-15. Since then there hasn't been any instance of the General body of councillors of the MCG sitting down to discuss the specifics of the CAG reports and the recommendations made by them. The municipal commissioner, mayor and all other senior officials seem to conveniently ignore the recommendations made by the CAG to improve the functioning of the state ULB's and have not acted on it.

Table 36: Rating for parameter 20

| Brief Explanation | Score |
|---|----------|
| The detailed examination of the audit reports is not carried out. | D |
| No evidence of hearings on any key findings of previous audits. | D |
| Overall Rating | D |

Table 37: Aggregate table including all the indicators of the PFMA analysis of the MCG

| Indicators | Overall score | Ratings for the sub-indices | | | |
|---|---------------|-----------------------------|------|-------|------|
| | | (i) | (ii) | (iii) | (iv) |
| A). Credibility of the budget | | | | | |
| 1. Assessment of expenditure out run compared to the original budgeted expenditure. | D | D | - | - | - |
| 2. Composition of expenditure out turn compared to original budgeted expenditure. | D | D | - | - | - |
| 3. Aggregate revenue out turn compared to original budgeted revenue. | D | D | - | - | - |
| B). Comprehensiveness and Transparency | | | | | |
| 4. Classification of the Budget. | A | A | - | - | - |

| | | | | | |
|---|-----------|----------|----------|----------|---|
| 5. Comprehensiveness of information included in the budget documentation. | C | C | - | - | - |
| 6. Public access to key fiscal information | C | C | - | - | - |
| C). Budget Cycle | | | | | |
| C) (I) Policy based Budgeting | | | | | |
| 7. Orderliness and participation in the annual budget process | D+ | D | B | D | - |
| 8. Multi-year perspective in Fiscal planning, policy of expenditure and budgeting | D | D | D | - | - |
| C) (ii) Predictability and control in budget execution | | | | | |
| 9. Transparency of taxpayer obligations and liabilities. | B | B | B | C | - |
| 10. Effectiveness of measures for taxpayer registration and tax assessment | C+ | B | C | - | - |
| 11. Effectiveness in collection of tax payments | C | D | B | - | - |
| 12. Predictability in the availability of funds for commitment of expenditure. | D+ | C | D | - | - |
| 13. Recording and management of cash balances, debt and guarantees. | C+ | C | B | - | - |
| 14. Effectiveness of internal controls for non-salary expenditure | D | D | - | - | - |
| 15. Effectiveness of internal audit. | D | D | D | - | - |
| C). (iii) Accounting, Recording and Reporting | | | | | |
| 16. Availability of information on resources received by service delivery units. | C | C | - | - | - |
| 17. Quality and timeliness of in year budget reports. | C+ | C | B | - | - |
| 18. Quality and timeliness of annual financial statements. | B | B | C | B | - |
| C). (iv) External scrutiny and audit | | | | | |
| 19. Scope, Nature and follow up of external audit. | D | D | D | - | - |
| 20. Legislative scrutiny of the external audit reports. | D | D | D | - | - |

3. Conclusion and Policy Recommendations

3.1. Conclusion

The results from the PFMA analysis done presents a bleak picture for the MCG. The analysis using the 20 indicators has helped us assess the ULB on various parameters such as the budget credibility, comprehensiveness and transparency as well as the budget cycle process. To summarise the ratings given in the analysis, the MCG is ranked A only on one of the parameters, whereas the rating D is the most common with 8 of the 20 indicators having that rating. The following table (5.1) classifies the overall rating of the parameter and the number of indicators that have given the rating.

Table 38: Number of parameters and their overall rating

| Overall Rating | Number of Parameters |
|----------------|----------------------|
| A | 1 |
| B | 2 |
| C+ | 3 |
| C | 4 |
| D+ | 2 |
| D | 8 |
| | Total : 20 |

The following (5.2) table lists the score under the parameters of budget credibility. This is the worst performing set of indicators for the MCG as the municipal body has scored a D rating in all the three components. It is evident from the analysis that the MCG has to take a lot of measures in reforming its budget making process in order to make it more credible. Currently the budget estimates for receipts as well as the expenditure are very inaccurate and there is a lot of deviation in the amount that is allocated to various departments as well. This leads to a lot of confusion among the departments and also results in the inaccurate allocation of the resources from the municipality. To put the bad performance of the ULB in context, a 20% over or under estimation of budget estimates over or under the actual expenditure is considered a very low score. For the MCG, the three year average was 44.7% which is an abysmal number. This also proves that the road to reforms will be long and tough.

Table 39: Summary of budget credibility parameters

| Budget Credibility Parameters | Score |
|---|-------|
| 1. Assessment of expenditure out run compared to the original budgeted expenditure. | D |
| 2. Composition of expenditure out turn compared to original budgeted expenditure. | D |
| 3. Aggregate revenue out turn compared to original budgeted revenue. | D |

The MCG has scored better in the following set of parameters under the comprehensiveness and transparency. Here the municipal body has scored the rating A in one parameter whereas C in the other two parameters. This better

performance can be attributed to adhering to the CAG guidelines on the classification of the budget which were only recently adopted by the municipality. The current municipal commissioner has also taken steps in reforming the transparency aspect and has been more proactive than his predecessors in that regard. Various documents that were previously not available on the municipality’s website have been made available so that the general public can have access to those documents.

Table 40: Summary of comprehensiveness and transparency parameters

| Comprehensiveness and Transparency parameters | Score |
|---|--------------|
| 1. Classification of the Budget. | A |
| 2. Comprehensiveness of information included in the budget documentation. | C |
| 3. Public access to key fiscal information | C |

The MCG scores a poor rating in the policy based budgeting as well since most of the budgets that are made are just incremental in nature and do not account for the individual needs of the departments or the city. There is also no participatory budgeting through which the citizens can take part in the budget planning process. In order to bring about reforms, the city needs to involve citizens in the budget making process and by introducing new methods of budgeting such as gender sensitive budgeting.

Table 41: Summary of policy based budgeting parameters

| Policy based Budgeting | Score |
|---|--------------|
| 1. Orderliness and participation in the annual budget process | D+ |
| 2. Multi-year perspective in Fiscal planning, policy of expenditure and budgeting | D |

In terms of parameters related to the accounting, recording and reporting of the various aspects, the MCG has scored considerably better scores compared to the other indicators. As mentioned previously, there have been some minor reforms in transparency as well as the accounting processes in the MCG. The focus of the commissioner is to ensure the accounting reforms which would then translate into better performance in the budget and other aspects. Despite this, there is a lot of scope for improvement, especially in improving the timeliness of the submission of the budget reports which are delayed by three months every year.

Table 42: Summary of accounting, recording and reporting parameters

| Accounting, recording and reporting | Score |
|--|--------------|
| 1. Availability of information on resources received by service delivery units | C |
| 2. Quality and timeliness of in year budget reports | C+ |
| 3. Quality and timeliness of annual financial statements | B |

Along with the budget credibility, this is one parameter in which the MCG has performed the worst. There has been an overall lack of initiative from the municipal officials in order to bring reforms to the audit process of the MCG. There have been no external audits conducted by the CAG specifically on the MCG and its performance.

Table 43: Summary of external scrutiny and audit parameters

| External Scrutiny and audit | Score |
|--|--------------|
| 1. Scope, Nature and follow up of external audit. | D |
| 2. Legislative scrutiny of the external audit reports. | D |

The subsequent section will provide policy recommendations in order to revive MCG's PFMA reform strategy and make it more effective.

3.2. Policy Recommendations

An ideal government budget has to be realistic for faster and effective implementation. Currently, this is not the case with the MCG. Vast differences between actual and budgetary estimates of revenue and expenditure are observed in MCG's budgets. Transparency is another important feature of budgetary process that enables scrutiny of the ULB's policies and their programs along with its implementation. Transparency in the ULB is essential to ensure that the activities and operations of the ULB comply with adequate budgetary management and reporting frameworks.

An effective policy based fiscal strategy can help the MCG to plan and mobilise the use of resources in line with its strategy and fiscal policies. Regular and reliable information is necessary to support the decision making processes and the budget management in order to have an efficient accounting and reporting process.

Effective external scrutiny and audit by the responsible bodies is crucial in holding the municipal body accountable for fiscal and expenditure policies and its implementation.

One of the main constraints to a strong PFMA framework in the MCG is the ambiguous legal framework that is in place currently. This, along with low demand for accountability, lack of incentives for compliance or penalties for noncompliance, limited use of available guidelines also contribute to the constraints to a strong PFMA in Gurugram.

The following recommendations listed below should be considered by the MCG in order to reform its PFMA strategy.

1. Improving the budget preparation process.

An effective municipal budgeting process has to be realistic and participatory for budget estimation and establishment of proper linkages with other stakeholders as well as organisations and metropolitan plans. The budgeting process would involve innovative techniques like participatory budgeting, pro-poor budgeting and gender responsive budgeting. These budgeting techniques have helped municipalities such as Pune Municipal Corporation (PMC) and Pimpri-Chinchwad Municipal Corporation (PCMC) in reforming their budget preparatory process and similar frameworks could be adopted by the MCG as well. The budget forecasting process of the MCG needs to be reformed as well. Proper techniques for forecasting and budgeting need to be incorporated in the forecasting process rather than using an incremental approach for all the budget heads.

2. Staffing and capacity building

The MCG has to do away with outdated staffing practices and focus on capacity building of the municipal staff through introduction of certification requirement for the accountants as well as providing regular trainings to the current employees. The current employees working in the MCG are underqualified and not competent in carrying out their jobs in an efficient manner. Introduction of performance based incentives as well as increased private sector participation through outsourcing should also be looked as possible measures to improve efficiency

3. Improving public oversight over the functioning of the local body.

The reports on the financial performance of the MCG should be made available to the public for debate and discussion. This would allow more transparency in the system as well as enable the municipality in taking the public's opinion as well as encourage participatory budgeting. An annual performance report should also be prepared which would include a review of the previous year's performance and its comparison with the current budget (comparison of the previous year's estimates with the actuals). The performance should also include a response to the audit requirements and a detailed plan for the current year.

The MCG can also make use of disaggregated data to identify local planning issues at the ward committee and area Sabha meetings. The councillors have a crucial role to play in ensuring that the citizens staying in their wards are proactive and involve themselves in the reform process.

The current implementation of the PFMA framework remains weak in the municipal body due to the absence of enforcement and follow up mechanism in the municipal act. Although action must be taken to penalize non-compliance and delays, there should also be incentives provided for compliance with the mandated requirements such as regularly updating the budget financial statements and audit reports in a timely manner.

Ensuring that the compliance of the reforms is carried out in an effective and efficient manner will ensure whether the PFMA reforms in the MCG are successful in the long term.

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Appendix

Table A: Change in the Rural-Urban composition for Haryana

| Year | 2001 | 2011 |
|-------|--------|--------|
| Rural | 71.08% | 65.12% |
| Urban | 28.92% | 34.88% |

(Source: Census of India)

Table B: Population for the state of Haryana

| | Population (2011 census) |
|-------|--------------------------|
| Rural | 16509359 |
| Urban | 8842103 |
| Total | 25351462 |

(Source: Census of India)

Table C: Population of Gurugram

| Year | Population |
|------------------|------------|
| 1991 | 135000 |
| 2001 | 211000 |
| 2011 | 978000 |
| 2017 (estimated) | 1843000 |
| 2021 (projected) | 2425000 |

(Source: Census of India)

Table D: Budgeted v/s Actual revenue receipts and revenue expenditure (Rupees in Lakhs)

| | 2013-14 | 2014-15 | 2015-16 |
|------------------------------|----------------|----------------|----------------|
| Budgeted Revenue Receipts | 85010 | 95459 | 163541 |
| Actual Revenue Receipts | 40902.9 | 28374.35 | 51716.33 |
| | 2013-14 | 2014-15 | 2015-16 |
| Budgeted Revenue Expenditure | 49632.36 | 52498.71 | 61758.12 |
| Actual Revenue Expenditure | 23399.78 | 35441.29 | 31618.43 |

(Source: MCG Budget documents)

Table E: Budget Summary statement for the MCG. (Rupees in Lakhs)

| Particulars | 2013-14 Budget Estimates | 2013-14 Revised Estimates | 2014-15 Budget Estimates | 2014-15 Revised Estimates | 2015-16 Budget Estimates | 2015-16 Revised Estimates | 2016-17 Budget Estimates |
|---|--------------------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
| REVENUE ACCOUNT | | | | | | | |
| Revenue Receipts | 85,010.00 | 40,902.90 | 95,459.00 | 28,374.35 | 163,541.00 | 51,716.33 | 168,405.00 |
| Revenue Expenditure | 49,632.36 | 23,399.78 | 52,498.71 | 35,441.29 | 61,758.12 | 31,618.43 | 72,595.80 |
| Surplus/(Deficit) on Revenue Account | 35,377.64 | 17,503.12 | 42,960.29 | -7,066.94 | 101,782.88 | 20,097.90 | 95,809.20 |
| CAPITAL ACCOUNT | | | | | | | |
| Capital Receipts | 350.00 | 5,204.02 | 4,150.00 | 10,803.26 | 15,260.00 | 3,753.84 | 15,260.00 |
| Capital Expenditure | 24,201.00 | 14,292.21 | 43,500.60 | 4,311.58 | 109,045.60 | 4,318.61 | 104,729.00 |
| Surplus/(Deficit) on Capital Account | -23,851.00 | -9,088.19 | -39,350.60 | 6,491.68 | -93,785.60 | -564.77 | -89,469.00 |
| TOTAL SURPLUS/(DEFICIT) (B3+C3) | 11,526.64 | 8,414.93 | 3,609.69 | -575.26 | 7,997.28 | 19,533.13 | 6,340.20 |

(Source: MCG budget documents)

Table F: Expenditure Composition under major Budget heads. (Rupees in Lakhs)

| Major Head | 2013-14 Budget Estimates | 2013-14 Revised Estimates | 2014-15 Budget Estimates | 2014-15 Revised Estimates | 2015-16 Budget Estimates | 2015-16 Revised Estimates |
|--|--------------------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|---------------------------------|
| Total for Establishment Expense | 8,527.75 | 3,476.03 | 7,537.24 | 4,255.20 | 9,712.65 | 4,165.43 |
| Total for Administrative Expenses | 884.00 | 552.86 | 835.00 | 904.55 | 5,236.00 | 1,496.29 |
| Total for Operations & Maintenance | 40,110.61 | 19,301.76 | 36,996.47 | 25,257.69 | 22,709.47 | 22,467.69 |
| Total for Programme Expenses | 10.00 | 23.11 | 30.00 | 101.25 | 500.00 | 92.19 |
| Total for Revenue Grants Contribution & Subsidies | 0.00 | 0.00 | 7,000.00 | 438.68 | 8,600.00 | 0.24 |
| Total Miscellaneous Items | 100.00 | 46.02 | 100.00 | 4,483.92 | 15,000.00 | 3,396.59 |
| TOTAL REVENUE EXPENDITURE | 49,632.36 | 23,399.78 | 52,498.71 | 35,441.29 | 61,758.12 | 31,618.43 |
| Total for Buildings | 1,539.00 | 1,144.99 | 2,131.00 | 700.18 | 7,000.00 | 336.00 |
| Total for Road & Bridges | 2,500.00 | 0.00 | 6,637.00 | 0.00 | 21,600.00 | 1,879.73 |
| Total for Sewerage & Drainage | 610.00 | 1,625.34 | 3,918.00 | 485.16 | 1,500.00 | 148.69 |
| Total for Water ways/Water supply | 1,841.00 | 1,235.01 | 3,106.00 | 999.63 | 1,000.00 | 556.91 |
| Total for Public Lighting | 790.00 | 799.92 | 1,520.00 | 544.89 | 2,000.00 | 170.85 |
| Total for Purchase of Plant & Machinery, Vehicles Misc. | 5,900.00 | 187.83 | 3,777.60 | 14.72 | 9,365.60 | 31.44 |
| Total for Office & Other Equipment | 81.00 | 8.50 | 91.00 | 27.40 | 17.00 | 117.64 |
| Total for Furniture, Fixture, fittings & Electrical Appliances | 200.00 | 162.90 | 200.00 | 263.64 | 300.00 | 94.04 |
| Total for Other /Miscellaneous Assets Expenses | 10,000.00 | 595.57 | 21,650.00 | 363.53 | 40,818.00 | 32.36 |
| Total for Fixed Assets | 23,661.00 | 5,760.06 | 43,230.60 | 3,399.15 | 108,110.60 | 3,367.66 |

(Source: MCG Budget documents)