Making Local Government Accountable

What is the issue?

\n\n

\n
- Looking back after 25 years, neither the Centre nor the States have made consistent efforts to build a viable local democracy.
\n
- It is important to recognise that the **lack of a reliable and regular financial reporting system** is a serious lacuna in promoting credible and accountable local governments.
\n

\n\n

How important is financial reporting?

\n\n

\n
- Financial reporting is the process of producing consistent data as well as statements that disclose an organisation’s financial status to stakeholders.
\n
- In the case of governments, citizens constitute the most pertinent stakeholders.
\n
- **The quality of democracy and its evaluation** depend a great deal on the reliability, regularity and consistency of the information placed in the public domain.
\n

\n\n

What are Government’s obligations?

\n\n

\n
- The Centre and State governments are required to **present annual financial statements** (Articles 112 and 202), popularly called budgets, that consist of estimated receipts and expenditure before Parliament and the State assemblies.

\n
- They provide important fiscal data on a regular basis and follow the accounting formats prescribed by the CAG. The **budgets have an admirable track record** as instruments of financial control and management.
\n
- The Economic Survey of the Union Government supplements the fiscal data with a comprehensive set of macroeconomic information.
\n
- **The budgets and the economic surveys** serve as authentic reports to the nation about the performance of the economy.
\n
- Statutory bodies such as the Union Finance Commission **rely heavily on these data** to arrive at policy decisions, resource sharing, grants-in-aid allocations and so on.
\n
- It is **surprising why the finances of local governments do not occupy a place of importance** in the public finance of the country.
\n
- Along with the 73rd/74th amendments, Article 280 was also amended by adding two sub-clauses which mandate resource support by the Union Finance Commission to panchayats and municipalities on the basis of recommendations by the State Finance Commission.
\n
- This underscores not only the significance of local governments in Indian federal polity but also the organic link underlying Indian public finance.
\n

\n\n

What is the economy of fiscal federalism?

\n\n

\n
- Recent economic surveys acknowledge the growing income and wealth inequality in India, as well as increasing disparities in the accessibility of such vital services as healthcare and education.
\n
- No citizen should be denied minimum comfort because of choice of location.
\n
- How can a democracy ignore the spatial dynamics and the growing divergence in income, wealth, health, education and other infrastructure facilities?
\n
- Local governments in India are **not equipped and empowered** to generate

a reliable set of data which will enable proper monitoring of spatial reality at the micro level — the basis for arriving at relevant macro-level policy choices.
\n

- Undoubtedly, **local government budgets** can serve as an instrument of financial control and supply a reliable and continuous data.
\n
- This is not happening in India, not even in Kerala which has launched from April,1, 2011 an Accrual based Double Entry Accounting system in all the 1209 local governments following the series of financial reforms initiated by the Eleventh Finance Commission.
\n

\n\n

How vital is the budget mechanism?

\n\n

\n

- The Budget is an acknowledged mechanism **to ensure accountability and financial control.**
\n
- The Budget is also meant to continuously compare actual with budget numbers for the achievement of targets. That these are not happening in the local governments is an ominous trend.
\n
- The passing of budgets by local bodies before March 31 every year is routinely done as a statutory requirement.
\n
- Budgets and annual financial statements are not integrated; the numbers in these documents seldom tally and remain as disconnected exercises.
\n
- This is fertile ground for **supporting rent-seeking regimes.** The basic principle of auditing that public money should be spent with wisdom, faithfulness and efficiency is violated with impunity.
\n

\n\n

What is the way forward?

\n\n

\n

- The best way to improve the present situation is to **introduce budgeting and budgetary control** at the local level as essential components of fiscal

management.
\n
- If all the District Planning Committees produce a **district economic survey** along with budgets working as operational fiscal tools, it is possible to generate and build a standardised fiscal database fulfilling all the mandatory requirements as well as an economic data complementing that.
\n

\n\n

\n\n

Source: Business Line

\n

