



**ECONOMIC
CLASSIFICATION
OF
URBAN LOCAL BODIES**

**2005-06(Actual)
2006-07 (Revised)
2007-08 (Budget)**

PREFACE

Since the importance of the role of the state Government in the economic life of the community is increasing, it is necessary to design the Urban Local Bodies budget in a suitable manner for economic growth. The Department of Economics and Statistics, being the nodal department for Statistical Data in the State, felt appropriate to bring out a small publication since 1972-73. The financial sector plays an important role in the efficient allocation of resources to different institutions and this aspect assumes all the more significance in the context economic growth of state which is in a rising growth trajectory. Analysis of ULB's budget has become a major instrument of economic policy as the changes in the composition of revenue as well as expenditure significantly affect the level of the state and national output. Since the importance of the role of the state Government in the economic life of the community is increasing, it is necessary to design the ULB's budget in a suitable manner for economic growth.

The main result of the economic classification of the ULB's budget, which are significant for assessing the impact of the Government's budgetary operation on the economy of the state are shown in different tables. This publication which is 33rd in series, has been prepared by the State Income Section of this department. I am very thankful to all Urban Local Bodies Institutions in the State for making available their annual accounts required for interpretation this publication.

I hope this publication will prove very useful to planner, policy makers, researchers and common people. Since there is always some scope of improvement, I shall be thankful to receive suggestions to improve the quality, coverage and contents of the publication.

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Chapter-1

INTRODUCTION

In a developing State like Himachal Pradesh, where Government expenditure plays a substantial role it is imperative to identify the impact of Government transactions on the different facets of economy. Their classification, therefore, becomes necessary for undertaking the economic impact of Urban Local Bodies (ULBs) in the State Government transactions.

The classification of the ULBs transactions is being carried out as per the guidance of Regional Accounts Committee (RAC) constituted by the Government of India.

The definitions and concepts to classify the ULBs accounts are the same meant for Government Budget, according to which the same kind of transactions are being kept intact and all the accounts transfers are deducted from the transaction.

In the present brochure relating to the economic classification of ULBs budget for the years 2005-06(Actual), 2006-07 (Revised) and 2007-08 (Budget) an attempt has been made to bring together the details of the significant economic heads under the following five accounts:-

Account-I: Transaction in commodities and services and transfers
(Current account)

Account-II: Transaction in commodities and services and transfers
(Capital account)

Account-III:Change in Financial Assests
(Capital account)

Account-IV:Change in Financial liabilities
(Capital account)

Account-V: Cash and capital reconciliation of ULBs administration and other units.

There is no reference of departmental commercial undertakings in the various accounts as the DCUs do not exist in State ULBs. Water supply has been taken as part of administration. Notes on definition and concepts of various accounts are given in chapter- 4.

In the current year (2007-08) total 56 ULBs including cantonment boards, accounts has been compiled. The transactions made during 2005-06(Actual), 2006-07(Revised) and 2007-08 (Budget) are shown in annexure-1. Each of the above five accounts is intended to bring out a meaningful set of totals.

Account-I: On the expenditure side it is concerned with Government consumption expenditure and current transfers to others. On the revenue side, it shows current receipts from taxation, fees and property income of ULB.

Account-II: relates to the capital account of ULB and gives components of goods & services transactions and transfers.

Account-III: classified transactions leading to changes in financial assets of ULB and provide their break-up into investment in share, loans for capital formation, other loans and advance deposits (suspense)

Account-IV: indicates the capital account of ULB and its capital transfers to others. On the receipts side loans for capital formation, other loans and repayments.

Account-V; shows the adjustment in cash and capital for goods & services from account-II and account-III and the component of increase and decrease in cash.

Chapter-IV

Notes on accounts their derivations and rationale.

The Frame work of an economic classification scheme presented here is based on the delineation of Urban Local Bodies (ULBs) transaction in set of five accounts. The derivation and rationale of each of these accounts are briefly explained in the following passage:-

Account-I: Transaction in commodities and services and transfers (Current account).

The account deals with the current revenue and expenditure. The current expenditure of ULB consists of the final outlays of the administration on current account which in turns represents final consumption. The final outlays are made up of purchases of goods and services and wages and salaries payments. Besides final outlays ULB make transfer payment i.e. interest, grants, subsidies etc. to the economy which are added indirectly to the disposable income of the community. To meet this current expenditure ULB appropriates a part of the income through a variety of taxes, miscellaneous fees etc. occurring in the course of administration. In addition ULB has an investment income from property and entrepreneurship and also receive revenue grants, contribution and recoveries from the State Government and the rest. The excess of current receipt over current expenditure denotes the savings of the ULB encourages capital formation and employment to some extend. Some of the items responsible for the accounts are as below:

1. Consumption-Expenditure: This account mainly reveals the difference between the expenditure on wages & salary, R&M and income of ULB from services and goods.

1.1 Wages & Salary: This item consists of remuneration i.e. wages and salary (except travelling and daily) and honorarium paid to the officers/officials of the ULB. Wages and honorarium includes dearness and medical allowances. This expenditure is covered under the head "contingencies".

1.2 (k): Goods & Services: Under this item all contingency expenditure, stationery articles and various other expenditures i.e. printing & stationery, telegram & telephone, electricity & fuel, T.A. current expenditure on vehicles and provision for the operation are taken.

1.3 (G): Deductions-sale of goods and services: Income of ULB from the sale of goods and services are covered under this item.

2. Transfer payments: from the economic point of view, ULBs expenditure is of following three types:

- (1) Consumption Expenditure
- (2) Capital formation/expenditure and
- (3) Transfers to the rest of economy.

In this booklet current transfers and capital transfers are kept in different category as capital transfers promotes the capital formation and the current transfers are used for the payments of interest, subsidies current payments.

2.1 Interest: Payment made against the loan raised by ULBs is kept under this item. Some of the ULBs show their interest payments along with principle, so in such cases their interest payment derived is provisional to some extent.

2.2 Current Transfers: Payments made by ULBs to other than the Officers/officials of ULBs for their services rendered to ULBs are taken in this account.

2.3 Grants are classified according to the type of institutions they follow.

3. Savings on Current Accounts: Difference in Income and Expenditure from current accounts which is used for capital formation later.

4. Tax Revenue: Income from various taxes imposed by ULB in their jurisdiction is taken.

5. Property Income: This item consists of rent from the ULB properties i.e. buildings and other properties besides income from interest occurred due to savings and advances made.

6. Fees and other Receipts: License fee from the workers in the jurisdiction of ULB and other fees are collected are taken under this head.

7. Grants and subsidies: This is the flow of amount from State Government and other. Expenditures in terms of receipts are also being taken under this item.

Account-2: Transaction in goods and services- Capital Account of Urban Local Bodies:

1. Gross Capital Formation: It include expenditure on buildings, other constructions and machinery.

1.1 Buildings and Other Constructions: Buildings includes all expenditure on new construction and major alterations to residential and non-residential buildings including value of the changes in work in progress. Office furniture is excluded from this item and included in goods & services component of Account-I.

Small amount spent on the acquisition of land and buildings is also shown here. Other construction includes mostly construction on roads, Street path, pavements and water & sanitation work. This expenditure is shown as 1.1(K) expenditure new construction, 1.1 (Kh) expenditure on repair & maintenance. Net capital formation is the net result of total expenditure minus expenditure on repair & maintenance.

1.2 Machinery & Equipments: This item includes expenditure incurred on the purchase of various equipments such as tractors, trucks, road haulage and other machinery & implements.

1.3 Suspense: These items include expenditure on stationery, printings and storage expenses.

2. Capital Transfers: All grants and transfers for capital formation are taken under this head.

3. Receipts on capital account: Receipts for capital formation consists of gross savings on current account brought over from account-I and II, taxes and State grants etc. It also includes the receipts under suspense account on the assumption that it is paid out of capital.

4 Balance in transaction of goods & services: This account is balanced by raising loan or adjustment in cash as the balance shown negative after adjustment and increase in financial assets and liabilities adjustment shown in Account-3.

Account-3: Changes in financial assets- Capital Account of ULBs.

This account records the borrowing operations of the ULBs. Incomings represent the increase in financial liabilities and out going measures the reduction in liabilities. The balance thus, shows the net increase in financial Liabilities resulting from increased expenditure for acquisition of financial assets. Permanent debt, loans from state Govt. and other are shown as gross which floating debt, cash balance investment account and other debts are shown net.

Account-4: Changes in financial liabilities- Capital Account of ULBs.

Receipts and payments of loans by ULBs are shown in this account besides the balance/surplus in financial responsibility.

Account-5: Cash reconciliation account of ULBs.

This account shows the affect situation arise due to reconciliation of Account-2, 3 and 4. As Account deals in with the transaction of all goods and services and transfers, whereas Account 3 and 4 deals in with the situation of financial assets and liabilities.

