

# To Our Readers



It is interesting to see how the world as a whole has a tendency to turn full circle in matters of governance. Half a century ago, we Indians were derided because we had opted for a mixed system of governance, tending more towards the socialistic and command economy pattern rather than the pure capitalist pattern promoted by the West. It was argued by everyone in the West that decentralization on the US model was the road to economic growth.

Over the years, we have changed, but we have changed after testing every step so that, while we have moved away from the command economy model, the level of decentralization is still at a workable level which does not permit a situation of *laissez-faire* to emerge.

And what has happened to the West in the meanwhile? In the US, there is a growing tendency towards centralization and control over business. The Americans themselves are questioning the three fundamental premises of the US - free business, motherhood and apple pie. However, the British case is more to the point. In Britain, property taxes and taxes from business are collected by the Local Government and sent to the Central Government. The Central Government then reallocates this money to Local Governments based on some extremely complicated formulae. The result is that if a Local Government wants to have an increase in its own budget, say by 4%, in fact the Council rates (as the property taxes are called) need to be raised by as much as 35% to 40%. Obviously then, this is a total command economy model which is operating.

For the sake of comparison, in a city like Delhi, Government grants are about 10% of the budget. For the cities like Birmingham and London, Government grants are between 45% to 50% of the budget. Shared taxes make up the bulk of the remaining with Local Governments' own earning being only about 10% to 15%.

What does this mean for India? It means first, that we should be proud of the fact that our Local Governments are largely autonomous in terms of managing their own finance. Second, it means that local governments can leverage on their own assets independent of Central Government intervention. In UK, Local Government borrowings from the Government are to the tune of 80%-90% because the Government gives money cheaper to them. This could be seen as another way of tying the Local Governments to the apron strings of the Central Government. Nevertheless, at the local level, the issue is that there is less pressure to perform financially. In the Indian model therefore, Local Governments have the choice to deal with alternatives in their own best interests and take responsibility for those decisions.

This is where we feel that Indian finance and accounts professionals have a very large role to play in further strengthening the financial base of the Indian local governance system. The conversion to the Accrual Basis of Local Government accounts is only the first step. We may note in passing that although many of the UK Local Governments have been keeping their accounts on accrual basis, this is only for the purpose of recording income and expenditure. Largely, they do not have accounting for their fixed assets. Even the transport undertaking of London which has one of largest fleet of buses in the world and runs the London underground, does not account for the fixed assets for the London underground which, next to Paris, is the largest underground in the world. Obviously, we have in India, a huge opportunity for rejuvenating our local bodies, and this time, we know where we are better off.

*December, 2003*

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