

Commune Budgetary Control in HCMC Situation and Solutions

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1. Problem

Budget of a commune (in rural areas) or ward (in urban areas), commonly referred to as commune budget, is part of local budget included in the national budget, but it is different from budget of a district or a province, or the national one. It is the lowest level of the national budget and also a unit that receives and spends money granted by the budget of higher levels. So the financial body of a commune should control public funds and at the same time, do economic, financial and accounting jobs to manage cash and assets of the commune as a public service.

In recent years, operation of commune budget in HCMC has met with many difficulties and obstacles and it failed to play a role as a budgetary level and facilitate local socioeconomic development. That is why improvement in the budgetary control at commune level has become a matter of urgency now.

This paper aims at the following objectives:

- Assessing the budgetary control at commune level in HCMC in order to identify achievements and shortcomings.

- Suggesting measures to perfect the budgetary control mechanism at commune level in HCMC in the coming years.

This paper is based on field researches and surveys to assess exactly the budgetary control at commune level in HCMC before working out useful suggestions.

Table 1: Budget income at commune level in 2004 -2007 (VND1,000)

Year	Planned (1)	Realized (2)	(2) / (1) (%)
2004	290,304,764	497,958,571	171.53
2005	377,594,800	709,401,561	187.9
2006	503,790,031	842,888,303	167.31
2007	661,084,000	1,210,206,672	183.06

Source: HCMC Service of Finance

2. Situation

There are 24 rural and urban districts in HCMC.

- 19 urban districts: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, Phú Nhuận, Gò Vấp, Bình Thạnh, Tân Bình, Tân Phú, Bình Tân, and Thủ Đức.

- 5 rural districts: Củ Chi, Hóc Môn, Bình Chánh, Nhà Bè, and Cần Giờ.

These districts are divided into 322 wards (in urban districts), communes (in rural districts) and townships; or more exactly, 259 wards, 58 communes and five townships.

Before 1996, the budgetary control at commune level was regulated by subordinate legislation because the National Budget Law didn't come into being.

From 1997 to 2003 it was regulated by the 1996 National Budget Law and Amendments to the National Budget Law (1998).

From 2004 till now it has been regulated by the 2002 National Budget Law. Some facts about the situation in this period are as follows:

The Table 1 shows that the planned commune budget income in 2004-07 in HCMC rose over years, by 27.66% on average. And the realized income also rose by 26.24% a year. Although its growth rate is lower than the growth of planned budget income, the realized income always exceeded the planned target, by 77.45% a year on average.

The commune budget income comes from three sources: income used totally for the commune; income used partly for the commune and grants from authorities of higher levels.

The Table 2 shows that in the planned budget, commune-totally-used income in 2004-07 account for 6.24%; commune- partly- used income 27.26% and grant from higher authorities 65.5%. Thus, the income used totally for the commune is the smallest.

As for the realized budget income, the commune- partly- used income represents a small percentage, 24.62% on average; the commune-totally-used income 27.2% and the biggest share belongs to the grant from higher levels: 48.18%. Comparing the planned with the realized budget income, the commune- totally- used income exceeded the planned target by 20.96%; the commune- partly- used income failed to reach the planned target; and the grant from higher authorities was lower than the planned target.

Commune- totally- used incomes in 2004-07 include:

- Fees and charges (not including real estate registration fees).

- Fee for services supplied to the public.

Table 2: Structure of commune budget incomes in 2004 -2007 (%)

Year	Income used totally for commune	Income use partly for commune	Grant from higher levels			
	Planned	Realized	Planned	Realized	Planned	Realized
2004	7.25	27.40	28.62	24.36	64.13	48.24
2005	6.95	28.20	25.56	23.78	67.49	48.02
2006	5.71	29.39	32.42	22.30	61.87	48.31
2007	5.03	23.81	22.42	28.06	72.55	48.13
Average (2004 - 2006)	6.24	27.20	27.26	24.62	66.50	48.18

Source: HCMC Service of Finance

- Income from bidding for, or rent of, commune's land.

- Contributions from organizations and individuals.

- Unrefundable aid given directly to the commune.

- Unused fund from the previous year.

- Other receivables.

Commune- partly- used incomes (a percentage of these incomes are sent to financial authorities of the district level) comprise:

- Tax on transfer of land-use right.

- Land tax.

- License tax paid by businesses.

- Land value tax paid by farming families.

- Land and real estate registration fee.

These incomes are divided between commune and district financial authorities according to the following proportions:

- Ward (in urban areas) authority holds 20% and send 80% to the district budget.

- Commune (in rural areas) authority holds 30% and send 70% to the district budget.

The Table 3 shows that the planned commune budget expenditure in 2004-07 in HCMC rose continuously over years, by 26.48% on average. And the realized expenditure also rose by 23.18% a year (compared with the growth rate of 26.24% a year of budget income) and always exceeded the planned target, by 31.88% a year on average.

Regarding its structure, budget expenditures include two classes: regular expenditure and expendi-

ture on development. Of ward budget, there is no expenditure on capital construction like the one in commune budget. Realization of budget expenditure at commune level in HCMC in 2004 - 07 is as follows:

The Table 4 shows that the regular expenditure accounts for a large proportion of budget expenditure (95.82%) while the development expenditure represents only 2.12%. The share of regular expenditure in the budget expenditure didn't change much over years: 96.15% in 2004; 95.02% in 2005; 94.46% in 2006 and 97.65%. The same thing happened to the development expenditure: its share varies from 2.62% in 2004 to 3.20% in 2005; and 2.48% in 2006; but it fell to 0.18% in 2007.

a. Achievements in budgetary control

In the 2004-07 period, budget of all levels is worked out and realized according to the National Budget Law passed by the National Assembly on Dec. 16, 2002. The budgetary control at commune level gives its support to the socioeconomic development. Specific facts are as follows:

- Ministry of Finance has promulgated guidelines on the commune budgetary control (making budget plan, realizing the plan, keeping account books, and making reports, etc.) The guidelines and related documents also identify rights and duties of public services with relations with the budgetary control, thereby providing a legal basis for strict control and effective use of budget income and contributions from the public, supervision by authorities of higher levels, and improvements in commune budgetary control.

- Regulations that allow provincial government to make decision on division of incomes and expenditures among different levels of budget provide a basis for some financial autonomy of local authorities, including the one of commune level, when carrying out their socioeconomic development plan.

- The 2002 National Budget Law has helped unify the national finance, enhance activeness and

Table 3: Budget expenditure at commune level in 2004 -2007 (VND1,000)

Year	Planned (1)	Realized (2)	(2) / (1) (%)
ntbl2007	290,304,764	391,337,074	134.8
2005	377,594,800	557,229,425	147.6
2006	503,790,031	652,254,265	129.47
2007	661,084,000	764,584,219	115.66

Source: HCMC Service of Finance

responsibility of authorities of all levels for control and use of budget incomes, beef up financial discipline, and increase reserves needed for modernization and industrialization.

- As the lowest level of the 4-level national budget system as from 2002, the commune budget in HCMC has contributed a lot to tasks of generating sources of income and covering expenditures on the socioeconomic development with a view to bridging the gap between the rich and the poor, and between urban and rural areas.

- The commune budget also support projects to urbanize rural areas, build schools and roads, and supply electricity to remote areas on the principle of cooperation between the state and local residents.

- The commune budget control is increasingly beefed up, all incomes and expenditures are realized through the local treasury as required by law with a view to preventing wrongdoings and introducing scientific ways of doing job to financial officials at commune level.

- Account books and forms and other documents are standardized, which forces financial officials of the commune to enhance their knowledge to get equal to their jobs. Part of budgetary control is also computerized when more and more commune offices are equipped with computers.

- HCMC government has paid full attention to training of commune officials, especially financial ones, to improve their performance in recent years.

- Inspection and supervision are beefed up and many violations of financial principles have been discovered and dealt with properly.

- Financial disclosure is introduced to commune level with a view to helping the public grasp their financial obligations and rights, thereby reducing the red-tape and enhancing work ethics of civil servants of the commune.

b. Shortcomings

- The existing national budget system includes many overlaps, which makes it difficult for commune authorities to balance their budget.

- + Delegation of budgetary control: Acts of delegating tasks of collecting budget incomes to communes and townships fail to encourage exploitation of sources of income in the communes; division of budget incomes as required by the National Budget Law leads to wide gaps between efforts to generate sources of incomes and cover expenditures by commune and township authorities, and affects unfavorably the district budgetary control.

The commune-totally- used incomes constitute the biggest source of budget income that covers

Table 4: Commune budget expenditure in 2004 - 07 (%)

Year	Regular expenditure	Development expenditure
2007	96.15	2.62
2005	95.02	3.20
2006	94.46	2.48
2007	97.65	0.18
Average (2004 - 2007)	95.82	2.12

Source: HCMC Service of Finance

most regular expenditure. This source, however, depends too much on grants from the budget of higher levels. The grants are decided by difference between budget income and expenditure realized by the commune, which leads to habit of relying on the budget of higher levels and hard bargaining when making the budgetary plan. Declaring higher expenditures and lower incomes by commune authorities becomes widespread.

- + Distribution of planned targets: The plan for budget expenditure and incomes for the commune level is usually imposed by higher authorities and the plan making task by the commune is a mere formality. Commune people's councils can't play its role in deciding and supervising the commune budgetary plan, which slows down the process of discussing the budgetary plan and balancing the budget.

- + Limits on budget expenditures: Such limits on some items of regular expenditures for the commune are not reasonable and appropriate to local conditions with the result that the commune finds it hard to carry out their tasks.

- + Balancing reports: Balancing reports by financial authorities, and by commune financial office in particular, are made using a software introduced by the Ministry of Finance. This form of report, however, is not compatible with standards set for the report by local treasury, which leads to difficulties in checking and certifying the report before submitting it to higher authorities for approval.

- Giving grants by issuing orders to pay is not perfect and limits the role of the treasury in controlling the expenditure.

Guidelines issued by the Ministry of Finance are not adjusted to governmental regulations about treatment to commune officials and implementation of Accounting Law.

- Control and guidance by financial and planning office at district level is not beefed up properly.

- Knowledge of commune accountants is limited and they tend to leave for better jobs.
- Inspection of budgetary control of the commune level is not regularly implemented.

3. Solutions

The following aspects must be dealt with properly to perfect the budgetary control at the commune level in the coming years.

- The commune is the basic unit of the State. It manages relations between citizens with the State and carries out assigned tasks based on its financial sources. To carry out well its tasks, the commune needs sources of finance that are big enough to implement socioeconomic development plan assigned by the State.

- To implement well the socioeconomic development plan in the years 2001 – 2010, the commune budget should be increased and various measures should be taken to encourage its autonomy and responsibility for budgetary control. The commune budgetary control should be used as a force that encourages organizations and individuals to develop their businesses, create new jobs, reduce the poverty, and get rich legally. By achieving these aims, the commune budget can play well its role in improving the public health and education, developing the human resource and modernizing rural areas. These achievements may help rural areas get free from poverty and backwardness, and generate new sources of budget incomes, thereby getting enough resources for further development and cooperation with higher authorities in beefing up the budgetary control.

- Commune authorities must be aware of importance of the budgetary control in carrying out their functions and duties in order to work out development plans appropriate to local conditions.

- The commune budget, as an integral part of the national budget system, has characteristics different from other levels of budget: (1) It has no subordinate budget level; (2) It is a budget level and a unit that receives grants from higher levels; (3) Commune people's committee is the body that controls its budget without a treasury of the same level; and (4) Commune financial office is considered a the basic financial body responsible for various tasks, such as generating sources of budget incomes; cooperating with tax agency to collect taxes; keeping funds and covering expenditures; keeping account books and public funds and other assets in the commune. Apparently, their workload is too heavy

in comparison with skills and salary of commune officials.

- Delegation of budgetary control to commune authorities should be accelerated in order to enhance their autonomy and responsibility and accelerate the administrative reform in the years 2006-2010.

- Commune authority should know how to make the best use of local potentials instead of relying on help from the higher authorities. They should grasp laws and regulations, and rely on the public when generating sources of budget incomes and contributions from the public.

- Commune budget income must be based on development of all economic sectors in rural areas, especially the private one. The commune budget must strong enough to allow the commune authority to manage the economy according to laws and ensure harmony between economic growth and social progress.

- Full attention must be paid to timely and exact collection of budget incomes. The commune people's committee must organize a tax -collecting team with help and guidance from the tax agency of higher level, and create new and effective measures to ensure the budget income and avoid failure to pay taxes. Commune budget expenditure must be used reasonably and economically. Priority could be given to salary and allowance for commune officials and regular expenditures. Conferences and receptions should be reduced.

To beef up the budgetary control at commune level, it's necessary to ensure financial disclosure and transparency with inspection from the higher authorities and supervision of local residents.

a. Solutions suggested to the central government

- Amending the National Budget Law with a view to remove overlaps in the system of national budgets.

- Allowing more autonomy for local authorities in determining and managing sources of budget incomes, such as increases or decreases in incomes from sources specific to some communes or districts.

- The Government can allow local authorities to decide their expenditures based on the principle that expenditure is allowed for the authorities that can supply the best public services. Moreover, their can be allowed to determine expenditures and financial treatments within frames set forth by the central government.

- Beefing up transparency and financial disclosure by local authorities.

- Removing regulations about division of income between different budget levels: Commune budget can hold at least 70% of incomes from tax on transfer of land-use right, land tax, license tax paid by businesses, land value tax paid by farming families, and land and real estate registration fee.

- Adjusting Circular 60/2003/TT-BTC issued by the Ministry of Finance on June 23, 2003 on the commune budgetary control in order to make it appropriate to current regulations.

- Allowing supply of fund according to the plan for regular expenditures in the commune budget.

- It's necessary to set forth specific regulations on commune accountants: standards, qualifications, wage scale, allowances, and procedures for appointing and dismissing.

- Changing the commune budgetary control from controlling it through input items to controlling it through output results.

- Employing a sole software for the commune accounting task.

- Reforming the wage scale for commune officials, especially commune accountants, because their wage is too small to ensure good performance.

b. Solutions suggested to local authorities:

- HCMC government should accelerate the delegation of budgetary control to commune authorities. Each income delegated to the commune must be based on expenditure necessary to them and their ability to collect such income. Most incomes from local sources could be delegated to them in order to increase their budget income and reduce grants from the higher levels of budget.

- Perfecting the process of the commune budget in the following directions: (1) ensuring unity in the commune budgetary control; (2) ensuring the transparency of the commune budgetary control; (3) ensuring thrifty behavior when employing the commune expenditures.

- Beefing up control over budget incomes: This task should meet the following requirements: (1) all incomes must be registered with the treasury; (2) all incomes collected in the commune must be considered as national budget incomes; and (3) the commune authority should help tax agencies to collect these incomes. By doing so, the commune authority can control strictly all incomes at its disposal, and put them into fund as required in order to cover expenditures allowed for them. Operation of the commune budget must be linked closely with the market by making the best use of existing sources of incomes and generating new ones. When collecting incomes, invoices must be made and kept properly.

- Beefing up the control over budget expenditure: The commune authority must observe the following rules: (1) spending the budget income effectively and economically; (2) persuading the public to share expenditures on public works; and (3) avoiding paying subsidies. Budget incomes should be spent on regular expenditures, public works, education and public health services, social security and order. Various measures should be taken to control strictly every expenditure.

- Beefing up financial inspection: Inspection is indispensable to the process of budgetary control. It

reflects responsibility of authorities of all levels and should be carried out regularly. Financial inspection must aim at checking the implementation of laws and regulations about formation and use of budget incomes, reasonableness and balance of distribution of financial resources; economic and social efficiency of budget expenditures; and efficiency of the control and use of public assets.

- Beefing up autonomy and responsibility



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of the commune authority. This effort is appropriate to the reform in the public finance today. Autonomy in recruiting employees and using budget incomes is a good measure to improve performance of public services in general and of the budgetary control in particular. Just because of limited skills and competence of commune financial officials, a detailed program including appropriate stages must be worked out to help them absorb the new financial management system and acquire their autonomy.

- Beefing up the human resource of the commune: The army of civil servants at the commune level must be trained in managerial skills, work ethics, knowledge of legal matters and political stance so they can do well their jobs when requirements posed for them are increasingly complicated.

- Beefing up the VCP guidance and inspection of the people's council: Experience shows that awareness of VCP cells, people's council and committee of the importance of budgetary control to the implementation of tasks and functions of local authorities always determines performance of the budgetary control in all stages: from working out policies on the budgetary control, implementation of the budget plan, to mobilizing contributions from the public to development projects. The HCMC government should apply creatively the National Budget Law to existing conditions in the communes, increase public investment in rural infrastructure, and perfect the mechanism for controlling the commune budget in order to make the best use of this budget level for the modernization and industrialization.

Communes, wards, and townships (referred collectively as communes) are basic units of the administrative machinery and they play an important role in the socioeconomic life. Commune authorities act as a bridge connecting local residents with authorities of higher levels. The commune budget is a financial instrument that helps the commune authority to implement their tasks and regulate socioeconomic life at the lowest level. In recent years, along with the economic reform, the commune budgetary control has been improved, both incomes and expenditures have increased remarkably, and the commune authorities started to prove that they could enjoy some autonomy in controlling their budget. And as a result, the commune budget has contributed a lot to development projects. The commune budgetary control, however, also reveal many shortcomings that should be dealt with properly in the coming years. Suggestions presented in this paper may help authorities solve these problems with a view to beefing up the performance of the budgetary control at the commune level. ■

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