



*Journal of Advances and
Scholarly Researches in
Allied Education*

*Vol. VI, Issue No. XII,
October-2013, ISSN 2230-
7540*

A STUDY ON FINANCIAL MANAGEMENT OF MUNICIPAL CORPORATIONS

AN
INTERNATIONALLY
INDEXED PEER
REVIEWED &
REFEREED JOURNAL

A Study on Financial Management of Municipal Corporations

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Abstract – The phenomenon of urbanization is neither new nor surprising. During the ages people have tended to cluster together for their living and in due course of time areas inhabited by human beings for purposes other than agriculture got designated as urban. Of course, invariably there are other attributes too but these are in the nature of afterthoughts and refinements, and mainly to distinguish the viable units from the non-viable ones and do not deserve to be considered as characteristic of the scene. One may, indeed, be tempted to make a broad generalization to help identification; clusters where human beings are found together basically and initially for purely social reasons maybe termed as non-urban; areas where economic necessity brings them together are generally urban. That is so far as sociological factors go too. Naturally, with the evolution of human society and complexities added to human activity, even the rural areas have gradually begun to get transformed into economic entities. Agriculture has already become an industry in many countries and is well on its way to show these characteristics in India as well. A way of life is getting changed to a way of living.

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INTRODUCTION

When an urban local body desires to impose a tax, it passes a resolution at a general meeting specifying therein, the class or classes of persons liable to be taxed, the system of assessment to be adopted, etc. and publishes the rules so approved with a notice in the form of schedule specified in the Act. An objection the urban local body submits such objections with its opinion thereon to the State Government. The State Government has the power to sanction, modify and impose conditions relating to the levy of the proposed tax. The rules so sanctioned by the government have then to be published by the municipality together with a notice citing the sanction and the date and serial number thereof. The tax may then be imposed by the municipality from the date specified in the notice.

For levying the discretionary taxes laid down in the Act, the following procedure is followed by the municipal corporation. Rules are made by the corporation and submitted to the State Government for sanction. The State Government may either refuse to sanction them or refer them back to the corporation for further consideration or sanction them either as they stand or with such modifications as it thinks fit. Any sanction given by the State Government becomes operative from a date not earlier than one month from the date of the sanction.

The State Government gives loans to municipalities against sanctioned capital improvement schemes under the running Five Year Plan. In the case of

corporation also no loans may be taken for the execution of any work other than a permanent work and only with the previous sanction of the State Government. The corporation has also powers to borrow from banks against public securities for execution of any work.

Work relating to the municipalities in the State forms part of the panchayats and health department. One deputy secretary and one undersecretary with some ministerial staff are in charge of the work connected with the urban local bodies in the State. This section helps in drafting legislation and rules under the Act, advises municipalities suitably in the solution of particular problems and issues executive instructions to them from time to time on relevant matters. The Department of Public Works, Health and Education have also functional relationship with the urban local bodies. They provide technical advice and give grants-in-aid to municipalities for specific items.

With urbanization and growth of cities, there is need and urgency for better governance. Urban governance is no more limited to provision of infrastructure and operation of civic services. Conventional methods of governance with top-down approaches are considered inadequate, inappropriate and restrictive. Good urban governance is characterized by sustainability, equity and efficiency, transparency and accountability, civic engagement, security development of partnerships etc. liability, competitiveness and bank ability are the other features of a modern city. There is a need for prudent

and efficient financial and asset management to increase their capacity to facilitate market borrowing for investment in city development.

REVIEW OF THE LITERATURE:

The institution of local government has a long history in India. Even in ancient India, there were various types of local government institutions including Panchayats. But during the Mughal period, the local government units greatly deteriorated. Even in the time of East India Company and during the early British suzerainty, the local bodies decayed considerably. But it cannot be gainsaid that these local government institutions acquired representative character during the British period and the municipal institution are the legacy of British administration. Literature on municipal administration is scattered in a large number of public documents, research and other academic documents and descriptive writings of national leaders and administrators associated with the municipal institutions. In a research "A Study of Local Self-Government in Urban India", P.K. Matoo makes some interesting observations on local government. For example, he argues that there is no need for having rural panchayats unless "it be for the purpose of small scale litigation." He is not in favour of rural-urban relationship. He criticizes the present day tendency to study the problems of rural and urban local self-government institutions together.

Elsewhere in the same publication, he states - A static state of existence invariably leads to decay. Local bodies have been static for such a long time that they reek of decay. There has been no serious effort by the local bodies to examine their own. Weaknesses and to boldly speak out the same. Local bodies have been persistently following the same old rut. R.L. Khanna in his research "Municipal Government and Administration in India" discusses the growth and structure of municipal Government and organization of municipal authority. He lists 14 defects and deficiencies in the municipal service in India and makes 12 recommendations for improving municipal personnel administration in India. In order to stress his point, he quotes the Report of the Committee of Municipal Employees Training which states, "The weakness of our municipal administration is due, among other reasons, to the fact that the administrative personnel of municipal bodies in the country have not been always recruited by a system of merit or trained adequately in the techniques of municipal administration. Nor are men of talent attracted to the municipal service because of the low salaries paid to municipal employees in general.

M. Venka Tarangaiya and M. Pattabhiram have prepared a compilation of extracts from various reports and resolutions both before and after Independence in their "Local Government in India - Select Readings". The authors trace the development of urban local government in India from the days of Kautilya to modern times. They point out. In the post-

independence period, problems of urban local government did not receive from the State and the Union authorities or the Planning Commission as much attention as rural government did. Consequently, only a few changes - several of them of minor character were made in their structure and functioning. Several of the defects found in them before 1947 have continued - and some in a heightened form till today. It is only when the Third -Five-Year Plan was prepared that some notice was taken of them- They also observed that —caste and communal feelings, which began to poison the political atmosphere from about 1990. The blame for it lies on the politicians, who find it useful and convenient to appeal to them no come into power.

RESEARCH METHODOLOGY:

Municipal Corporations, as institutions of local government, are constituents of the third tier that play an important role in local economic development; they have a sizeable proportion of overall public financial resources but are nevertheless subject to the scrutiny in terms of physical and financial performance. Normally, an analysis of municipal finance begins with taking stock of their revenue and expenditure in terms of composition, trends and balance. To ensure transparency and give a correct picture of assets and liabilities, Municipal Corporation has introduced the accrual based accounting system; presently, a mix of cash based system and accrual based system is being followed. The system involves the revenue function (receipt of taxes, charges, loan and grants) and the expenditure function (release of funds against establishment, works and supplies). The corporation maintains its accounts in the form of funds; the income and expenditure items are indicated under each fund account. There is a municipal general fund under which the normal income and expenditure (revenue and capital) items are listed. The analysis of municipal is made and presented thereafter successively in terms of the identified parameters and their measures. This chapter highlights the basic manner and methodology in which the research is conducted.

Amreshwar Avasthi in his "Municipal Administration in India", which is a compilation of various articles by different writers; covers problems of urban government, training in municipal administration in India government control and assistance to the municipal bodies, and public participation in local government. Part II of the book is entirely devoted to the municipal administration in fifteen Indian States, Part III of the book covers the administration of four municipal corporations, namely, Mumbai, Kolkata, Delhi, and Raipur, and research entitled "Urban Government in India —some reflections." According to his view-point, "...most municipal acts enunciate fairly precisely the functions of municipalities and municipal corporations and place them distinctly either in the mandatory or the discretionary category. But these enactments do not define the role of local government. One of the most outstanding report in this field is

Rural-Urban Relationship Committee Report. The first volume of the Report, discusses at length urban development and planning machinery, the structure of urban local bodies, municipal personnel, finance of urban local bodies, public participation in urban community development, and relation between the state government and local administration. The second volume contains a number of notes on urban local government practices in various states in India and also gives a list of municipal acts and state-wise lists of different types of urban local bodies. It also gives some details about local governments in different countries of the world. Volume III of the Report is concerned with the analysis of replies given to the questionnaires issued by the Committee and also contains the evidence given before the Committee by various persons and organizations throughout the country. These three volumes constitute an important source material for the study of the administration of urban areas.

OBJECTIVES OF THE STUDY:

- (1) To compare the financial system of these three municipal corporations and to compare it each other.
- (2) To analyze the revenue resources and revenue expenditure of these three municipal corporations.
- (3) To find out whether existing resources are sufficient to meet the expenditure.
- (4) To find the effect of rise in prices on revenue and expenditure.
- (5) To study the gap between resources and expenditure and majors to bridge the gap
- (6) To study the existing structure and suggest suitable majors to improve it.
- (7) Suggestions for improvement in financial position, public facilities, future requirements of these three municipal corporations.

HYPOTHESES OF THE STUDY:

- (1) State Governments do not find financial crunch on public expenditure.
- (2) Financial position of State Governments represents the financial status.
- (3) There is no effect of rise in prices on Revenue Income of State Governments.
- (4) There is no effect in rise in price of Revenue Expenditure for public utilities.

TOOLS AND TECHNIQUES USED:

- Financial Techniques
- Ratio analysis
- Percentage analysis
- Trend analysis
- Various parameters comparisons between cities using analysis of variance statistics
- Regression
- Diagrammatic representation

FINDINGS OF THE STUDY:

- 1) All three municipal corporations are almost alike in terms of income and expenditure.
- 2) The trend growth in all major expenditures found significantly increase year wise in all three municipal corporations.
- 3) All municipal corporations are similar in terms of income and expenditure.
- 4) All municipal corporations are in a financial crunch.
- 5) Surpluses reflect good financial health.
- 6) Large cities can generate more finances.
- 7) High income/expenditures indicate better financial health.
- 8) High operating costs indicates better level of services.
- 9) Municipal corporations with poor financial health follow cash based accounting system.
- 10) Loans deteriorate the financial health of Municipal Corporation.
- 11) Privatization can improve the financial health of a municipal corporation.

CONCLUSION:

Municipal Corporations, as institutions of local government, are constitution of the third tier that plays an important role in local economic development; they have a sizable proportion of overall public financial resources but are nevertheless subject to the scrutiny in terms of physical and

financial performance. Normally, an analysis of municipal finance begins with taking stock of their revenue and expenditure in terms of the composition, trends and balance. The analysis of municipal finance first looks at the current financial status of municipal bodies in providing civil amenities, which is carried out in terms of current spending vis-à-vis the standard/norm. The revenue and expenditure sides of municipal finance are then analysed in terms of the growth rate and their normalized indicators are used.

Municipal corporations are expected to render a minimum level of services to the citizens in order to ensure providing a minimum standard of living to the citizens. The performance of urban local bodies on this aspect is gauged by comparing their levels of revenue expenditure on water supply, roads, sewerage and street lighting. Ascertaining the lack of required civic amenities, the per capita revenue receipts and expenditures to see whether there are any inherent constraints to the provision of services before the municipal corporations. This needs to be further extended by identifying the constraints to the three municipal corporations in meeting the norms of service provision in the revenue sources – tax, non-tax and transfers. Growth rate of composition of tax and non-tax revenue indicates one way of establishing creditworthiness. This growth rate varies from 6.05% to 15.87% in SMC in the year 2000-2001 and 2008-2009 respectively. In the VMC this growth rate varies from -15.66% to 28.12% in the year 2000-2001 and 2008-2009 respectively.

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