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A study on financial management of urban municipal corporations in India

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Abstract

The demand for improved governance is pressing due to the increasing urbanization and expansion of cities. The supply of infrastructure and the running of public services are no longer the exclusive aspects of urban government. Traditional top-down governance techniques are viewed as insufficient, unsuitable, and constrictive. Sustainability, justice and efficiency, accountability and openness, civic participation, security, and the formation of partnerships are all characteristics of good urban governance. The additional characteristics of a modern city include liability, competitiveness, and bank ability. Prudent and effective asset and financial management is required to boost their ability to support market borrowing for investments in urban development. The present study focused on Financial Management of Urban Municipal Corporations in India in general. The study it is based on secondary sources of information. Secondary sources of information gathered by different published sources like Books, Journal articles, reports, census data, periodicals, websites, newspapers, unpublished thesis.

Keywords: Urbanization, financial, government, health, and education

Introduction

Urbanization is an index of migration from traditional rural economies to modern industrial one. Urbanization is very long-term process and closely related to industrial revolution and economic development. Historically, it is said that, the Urbanization is an inevitable and an universal process.

The growth of urbanization in India is very slow compared to the many other developing countries. Now days, it is observed that there is major transition in the world, and a very high amount of people are living in urban areas. People from rural area are migrating to the cities for many reasons. According to the 2007 UN State of the World Population report, 40.76% of India's population may live in urban areas, by 2030.

The need for improved governance is pressing due to the increasing urbanization and expansion of cities. The supply of infrastructure and the running of public services are no longer the exclusive aspects of urban government. Traditional top-down governance techniques are viewed as insufficient, unsuitable, and constrictive. Sustainability, justice and efficiency, accountability and openness, civic participation, security, and the formation of partnerships are all characteristics of good urban governance. The additional characteristics of a modern city include liability, competitiveness, and bank ability. Prudent and effective asset and financial management is required to boost their ability to support market borrowing for investments in urban development. In reaction to these new challenges of the twenty-first century, the Indian government established the Jawaharlal Nehru National Urban Renewal Mission, which consists of three complementary and interrelated parts: governance, infrastructure development, and the provision of basic services to the impoverished. Governance reforms include the enactment of laws promoting public disclosure and community participation, the earmarking of funds by local bodies for the purpose of reducing poverty, the levying and collection of user fees, and the simplification of procedures. When an urban local body wants to impose a tax, it passes a resolution at a general meeting that details the class or classes of people who will be subject to the tax, the assessment system to be used, etc.

The rules that are approved are then published along with a notice in the form of a schedule that is specified by the Act. An objection is submitted to the State Government by the urban local body along with their assessment of it. The authority to approve, amend, and set restrictions on the implementation of the suggested tax belongs to the State Government.

Review of Literature

The study "Municipal Government and Administration in India" by R.L. Khanna explores the development of municipal personnel administration in India and offers twelve suggestions for its improvement. He cites the Report of the Committee of Municipal Employees Training to accentuate his point: "Among other reasons, the administrative staff of municipal bodies in the nation has not always been hired on the basis of merit or trained effectively in municipal administration techniques, which contributes to the weakness of our municipal administration. Furthermore, the low pay offered to municipal employees generally deters talented individuals from entering the field.

P.K. Matoo presents some insightful insights about local governance in his study paper, "A Study of Local Self-Government in Urban India". He contends, for instance, that rural panchayats are unnecessary unless "it be for the purpose of small scale litigation." He opposes relationships between rural and urban areas. He critiques the current trend of examining the issues facing both urban and rural local self-government organizations concurrently. He writes, "A static state of existence invariably leads to decay," elsewhere in the same article. Local bodies smell of decay because they have been stagnant for so long. The local bodies haven't made a sincere attempt to look into their own.

Paper Scheme

The present study focused on Financial Management of Urban Municipal Corporations in India in general. The study it is based on secondary sources of information. Secondary sources of information gathered by different published sources like Books, Journal articles, reports, census data, periodicals, websites, newspapers, unpublished thesis.

Analysis and Discussion

The revenue-expenditure is the basic work of all local bodies which shows direct bearing on the quality of civic services of the corporation. Since all the expenditure of the local bodies are from the revenue collected by different sources and ultimately use for the purpose of maintenance and improvement of civic amenities only. However, the strength of expenditure is related with the strength of the income, which is affected due to economical position of the urban area concerned, and with the capacity of the revenue body of raising the revenues by the several sources.

It is observed that, the local self government continuously works for the welfare of the state and such work is done by the local self government. This is turned into the reconstruction of the national life. Consequently, it is emphasized that the work of local self government is more pronounced and ultimately the local expenditure for functioning of local self government are the matter of policy. In brief, the local self government plays significant role in the national development. The efficient performance

of local self government and their municipal services not only create a congenial milieu for construction of healthy and comfortable living. The municipal government also participates with the State Government and Central government in promoting the welfare of the people and ultimately of the society as a whole.

But from the analytical observation it is observed that there is continuous increase in the expenditure of the municipal bodies to manage all the functions in accordance with the several plans and new schemes, as a result of increase in population, urbanization, globalization, and industrialization. Such development affect to change the social and economic values caused due to the increased standard of living. Now as the criteria of people change there is a change in concept of democracy which is the effect of inflation.

Following are the causes which show the enormous increase in the municipal expenditure:

- The growth in demand for existing civic services of local bodies due to rapid growth of urbanization;
- Transfer of functions from higher level authorities to the lower level authorities.
- Higher standards are insisted upon among the existing civic services: Adoption of panchayat raj : three- tier system in the state:
- Impact of the inflation particularly on capital expenditure incurred by the municipal councils having no time bound.

Overall it is to be found that, the municipal governance are suffering from short funds. In fact the requirement of funds is not fulfilled by the municipal corporations as they are inadequate. Consequently, the municipal bodies are failed to provide better civic amenities to the large size of people as required.

The important components or ways of expenditure in municipal corporation as per the budget presented by the municipal authorities are General Administration, Public Safety, Health and Convenience, Education, Contribution, Miscellaneous Expenditure, Water etc. These function wise classification has been taken for the in depth analysis during the review period.

The above table indicates that, as an annual average expenditure for the whole study period of ten years from 2003-04 to 2012-13 was Rs. 5183.59 lakhs while the rate of growth as an annual average was 163.17% for the review period. The total annual expenditure of municipal council for the whole period shows increasing trend, except in the year 2004-05 and 2008-09 as compared to the base year 2003-04. It is because the municipal corporation failed to provide the amenities to the additional population and areas. Furthermore, the coefficient of variation is 34.38% and standard deviation is 1782.24% which shows that there is a vast increase in the municipal expenditure. It seems that, major expenditure has occurred on salaries to staff, water supply, road maintenance, and sanitation, education, on dearness allowance but at the same time comparatively less expenditure made on public works, public safety, and health, which are also the most important works of the municipal corporation.

From the above discussion, the municipal corporation spent maximum amount of revenue on several works but still the position is unsatisfactory as day-by-day new demands come

into existence but the revenue sources are not increased comparatively. Though there is a correlation between the corporation revenue and corporation expenditure but this correlation increases on the side of the expenditure. The basic works of the corporations are to provide civic services and public works but due to unusual increase in revenue and incompetency of the municipal corporation in management of the revenue and expenditure they suffer from different problems.

Under the current Five Year Plant, the State Government lends money to municipalities in accordance with approved capital improvement plans. In the case of corporations, loans may only be obtained with prior State Government approval and may not be used for any purpose other than permanent projects. In order to fund any kind of operation, the corporation is also authorized to borrow money from banks secured by public securities. The panchayats and health department handle work related to the State's municipalities. The duties related to the State's urban local bodies are overseen by a deputy secretary, an undersecretary, and a few ministerial staff. This section helps in the creation of laws and regulations under the Act, provides towns with appropriate advice on how to solve specific challenges, and occasionally gives them executive orders on pertinent subjects. The urban local bodies and the departments of public works, health, and education are functionally related. They offer towns grants-in-aid for particular items and technical advice.

Municipal corporations are third-tier institutions of local government that are crucial to the growth of the local economy. Although they possess a sizable share of the public financial resources, their financial and operational performance are closely monitored. Typically, a municipal finance study starts with a review of the composition, trends, and balance of the revenue and spending. Municipal Corporation implemented the accrual-based accounting system in order to guarantee transparency and provide an accurate picture of assets and liabilities; currently, a combination of cash-based and accrual-based systems is used. The system consists of two parts: the expenditure function (funds released against establishment, works, and supplies) and the revenue function (reception of taxes, charges, loans, and grants). The company keeps track of its accounts as funds, with the revenue and expense items listed beneath each fund account. The typical revenue and capital (or income and expenditure) elements are included under the municipal general fund. Municipal analysis is conducted and then progressively provided in terms of the determined parameters and their measurements.

Conclusion

It may be concluded that Municipal Corporations are third-tier local government institutions that are crucial to the growth of the local economy. Although they possess a substantial share of the public financial resources, their financial and operational performance are closely monitored. Typically, a municipal finance study starts with a review of the composition, trends, and balance of the revenue and expenses.

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