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AN ABSTRACT

AN ABSTRACT OF THE THESIS SUBMITTED TO THE UNIVERSITY OF PUNE, FOR THE PH.D. IN COMMERCE IN THE FACULTY OF COMMERCE

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1.3 TITLE OF THE THESIS :

"FINANCIAL ADMINISTRATION IN MUNICIPAL COUNCILS IN MAHARASHTRA - A CASE STUDY OF JALGAON MUNICIPAL COUNCIL".

This is a study of Financial Administration in the Municipal Councils in Maharashtra with a special reference to the case study of the Jalgaon Municipal Council.

1.4 Significance of the Study

In the present era of economic liberalisation, the Socio-economic environment of India is changing fast; with the technological developments and improved standard of living, proper sanitation services, better housing and efficient town planning have now become the necessities. The citizens, also expect well-surfaced roads, drainage and piped pure water. Only the efficient financial administration of the Municipal Council would be able to meet these expectations and bring the marked improvement in the standard, range and quality of services provided.
All undertakings depend upon finance. Hence, foremost attention should be paid to the treasury, (Kautilya). Finance being the very core of administration any 'unsound financial administration may blast the prospects' of running a country well. The rapid industrialisation, coupled with the problem of population growth and development of urban economy has created ever-increasing demand for more and better urban public services posing challenges before the Municipal Administration which is responsible for urban public and civic services at a reasonable cost so as to maximise the social benefits to the urban dwellers.

The pressing need of the hour is to develop an efficient financial administration in the Municipal Council to adapt to the ever-changing socio-economic environment and rising expectations of the conscious urban population to get more and better civic amenities and satisfactory services.

It is against this background that the researcher decided to study the financial administration of the Jalgaon Municipal Council.

1.5 Research Methodology

The Research Methodology comprises of a series of steps which an idealised account of how the research
student actually proceeds with the work. The research methodology adopted in the study includes the following steps -

1.5.1 Review of Existing Literature - A detailed study of the published books, works, articles and magazines on the subject of financial administration of the Municipal Council was undertaken. There has been no research study earlier covering the financial aspect of the Jalgaon Municipal Council.

1.5.2 Types and Sources of Data - The Annual Budget copies of the Jalgaon Municipal Council were obtained from the Stores Department of the Council. Various booklets, articles and magazines on the subject of the research were obtained from the All India Institute of Local Self-Government, Andheri (East), Mumbai. The Maps of the Jalgaon City were obtained from the Town Planning Department of the Council. This was followed by the discussion with the Municipal Authorities.

The entire theoretical aspect is based on the secondary data. The source of the primary data has been the interviews and discussions with the Municipal Authorities of the Council.

The study covers the financial administration of the Jalgaon Municipal Council and has been based on the primary and secondary data mentioned above.
1.5.3 Editing of the Data

The data was edited, classified and tabulated with the care to ensure that it was uniformly entered and arranged in a way that would facilitate tabulation and the same was consistent with the facts secured and as was complete and accurate as far as possible.

1.5.4 Analysis and Interpretation of the Data

The classification of the data was undertaken after editing for the purpose of analysis and interpretation. It was classified on the basis of the parameters evolved from the secondary data for testing whether or not the financial administration of the Jalgaon Municipal Council was on the whole satisfactory and was enabling it to discharge its obligatory duties and discretionary functions as laid down in the statute. The diagrams and tables are also drawn wherever required to ensure the graphical representation of the classified data. The conclusions have been drawn on the basis of the classified, tabulated and analysed data. The study is the combination of both theory and practice. The entire theoretical aspect is examined alongside what exactly are the aspects of the financial administration of the Jalgaon Municipal Council.
1.5.5 **Report Writing**

The findings and conclusions of the study are presented in the form of a report.

1.6. **Scope of the Research Study**

1.6.1 **Financial Administration** is a part of government function that deals with collection, preservation and distribution of public funds with the correlation of public revenues and expenditure, with the management of credit operations on behalf of the State.

1.6.2 **Municipal Council** is the local authority under which the people of the locality possess a certain responsibility and choice in the administration of local public affairs and in the raising of the required finance to meet their expenses. Section 2(20) of the Maharashtra Municipal Council Act, 1965 has defined the term 'local authority' as a 'council' or 'Municipal Corporation' constituted under any of the Corporation Acts or a 'Zilla Parishad' or 'Village Panchayat' constituted under the governing Acts.

**Municipal Councils in Maharashtra:**

In Maharashtra State, there are 232 Municipal Councils, 12 Municipal Corporations and 6 Cantonment Boards.
Jalgaon Municipal Council is of Class A Grade and was established in 1864. Jalgaon is the fastest developing district headquarter of the Jalgaon District in North-West Maharashtra. The population growth of the Jalgaon City over the period of decade 1981-91 is 66.35 percent. It has left an indelible imprint on the socio-economic life of Maharashtra. It was, therefore, thought it fit to analyse the micro in-depth study of financial administration of the Jalgaon Municipal Council instead of considering the overall macro-view of all 232 Municipal Councils in Maharashtra, since the problems and challenges relating to the urban development and population growth are more or less similar to the other Municipal Councils in Maharashtra.

Moreover, the Jalgaon Municipal Council has evolved innovative and different methods to tackle these challenges which would be an eye-opening, stimulating and useful exercise for other councils in Maharashtra.

Financial Revenue and Expenditure

The financial revenue of the Jalgaon Municipal Council is the aggregate sources of Municipal Finance by way of Tax Revenues, Non-Tax Revenues, Grants-in-aid and Public Borrowings.
The Expenditure of the Council consists of disbursements made by the Council in discharging its obligatory duties and discretionary functions as laid down in Section 49 of the Maharashtra Municipal Council Act, 1965. The Municipal Expenditure can be grouped under the heads viz. general expenditure, public safety and security, water supply, public health and sanitation, education, contribution to funds and other expenditure.

1.7. **Time Factor**

Though, the Jalgaon Municipal Council was established in 1864, the authentic and precise data was available only for the period of last 25 years viz. from 1971-72 onwards. Therefore, the Research Study was restricted to the period of 25 years commencing from 1st April, 1971 to 31st March, 1996.

1.8 **Objectives of the Study**

The main objectives of the study are:

1. To study the conceptual framework and theory of Financial Administration with a view to finding out the financial parameters applicable to the efficient financial administration of a Municipal Council;

2. To collect the informational data about the financial administration of the Jalgaon Municipal Council.
3. To correlate the parameters of the efficient financial administration to the financial administration of the Jalgaon Municipal Council with a view to find out the merits and demerits thereof.

4. To make suggestions if any, to improve the financial administration of the Jalgaon Municipal Council.

1.9 Hypothesis

The research design of any research study is usually related to the nature of the problem under investigation and in objective. The specifications of methods and procedures for acquiring the required information depend upon the hypothesis formulated.

The hypothesis for investigation in this Thesis is:

"The financial resources of the Jalgaon Municipal Council are on the whole not sufficient to enable it to discharge its obligatory duties and discretionary functions as laid down in the Maharashtra Municipal Council Act, 1965. It is, therefore, necessary to manage its financial resources more efficiently."

1.10 Outline of the Thesis

The Thesis is divided into the following Chapters:
Chapter I is the introductory Chapter covering the scope and objectives of the study, the hypothesis taken up for examination, Research Methodology adopted and limitations and significance of the study.

Chapter II presents the theoretical review of the financial administration and the parameters of the efficient financial administration of a Municipal Council.

Chapter III presents the historical overview of the development of the Jalgaon City and also as an unit of Local Government and the evolution of the Local Self-Government institutions over a period of 150 years or so.

Chapter IV presents the profile of the Jalgaon City vis-a-vis area, location, growth of population and the present level of civic services.

Chapter V highlights the administrative arrangement for the performance of the duties of the Council.

Chapter VI examines the trends of income and expenditure of the Council over the period of 25 years. It analyses the Source-wise derivation of income and purpose-wise pattern of expenditure.

Chapter VII analyses the factors leading to the problems of the financial administration of the Jalgaon Municipal Council.
Chapter VIII presents the information pertaining to the approach of the Government towards the problems of financial administration of the Municipal Council.

Chapter IX brings out the findings regarding the financial administration of Jalgaon Municipal Council and their correlation with the parameters.

Chapter X contains suggestions for better financial administration of the Jalgaon Municipal Council.

Chapter XI presents the projections for the future and prospective planning.

Chapter XII presents a summary of findings, conclusions and suggestions for the future.

1.11 MAIN FINDINGS, CONCLUSIONS AND SUGGESTIONS

The main findings, conclusions and suggestions may be summarised under the following heads:

1.11.1 General

In this Research Study the main issue that has emerged is that the financial resources of the Jalgaon Municipal Council are short of providing the capital and revenue expenditure to discharge its obligatory duties and discretionary functions as laid down in the Maharashtra Municipal Council Act, 1965.

This was more glaring in the areas of essential services like drainage system, public health and water supply due to the inability of the Council to invest
necessary funds in the capital intensive infrastructure projects which has affected the quality of civic services supplied and is likely to have a deep impact on the future urban planning.

1.11.2 Major Factors

The major factors having bearing on the problems of financial resources are: phenomenal increase in the population of the city, increase in the geographical limits of the city effective from 11th September, 1987 by inclusion of surrounding nine villages in the city limits, unplanned urbanisation and reluctance of revision of taxation. The decadal population growth has been 66.35 per cent during the decade 1981-91. The Constitution (Seventy-Fourth Amendment) Act, 1992 has entrusted additional responsibilities on the Council but without allocating any additional resources.

1.11.3 Accounting System: The present municipal accounting and budgeting systems need to be reviewed and modified. The double entry accounting system, computerisation of accounts and tax collection systems, periodical review of accounting systems, change in the formats of budgets, introduction of Standard Accounting Practices and Principles, continuous and concurrent audit system, management information systems and compulsory banking operations be introduced. The Maharashtra Municipal Account Code, 1971 needs to be amended on war-footing.
1.11.4 Autonomy for Raising Resources: The Municipal Councils be given more autonomy for raising the resources by way of new taxes, increasing non-tax revenue, raising loans and collection of fees from various activities. The provisions of the Local Authorities Loans Act, 1914 need to be reviewed. The problems of financial administration is a culmination of backlog in civic services and interaction of social, economic and legal issues accumulated over the years.

1.11.5 Town-Planning: The implementation of the town planning schemes has been jeopardised due to insufficient finance back-up. There is complete absence of underground drainage system, road conditions are bad, water supply is not only inadequate but is also irregular, maintaining cleanliness has become difficult, street-lighting is poor and primary education is causing financial strain on the Council.

1.11.6 Government Grants: The Government Grants are not sufficient to supplement the revenues of the Council to meet the municipal expenditure of capital as well as revenue nature in the defined areas of administration, public safety and security, water supply, public health and education.

1.11.7 Trends of Income: There is an overall increase in the total income of the Council over the period of 25
years registering an annual percentage increase of 187.05 percent. The Tax Revenue still is the major source of revenue, accounting for 70 percent contribution of total income in 1995-96. Octroi has accounted for for 52.66 percent of total income in 1995-96. The property tax contribution is just 7.9 percent of the total income of 1995-96. Non-Tax Revenue Contributed 9.37 percent of total income in 1995-96. Government Grant has accounted for 20.61 percent of total income including dearness allowance grant and primary education grant.

1.11.8 Loans: The Council has borrowed so far Rs. 1214.57 lakhs upto 31.3.1996, out of which Rs. 396.66 lakhs have been repaid and the balance outstanding was Rs. 817.91 lakhs. Due to State Government restrictions, this source has not been tapped much. There should be liberalisation in the restrictions on borrowings by the Council.

1.11.9 Trends of Expenditure: There is an overall increase in the total expenditure of the Council registering an annual percentage increase of 202.89 percent over the period of 25 years. The general administration expenditure is just 9.64 percent of total expenditure in 1995-96. Other expenditures were: public safety and security - 4.45 percent, water supply - 23.53 percent, public health - 48.15 percent, and primary
education - 3.20 percent. Repayment of Loans and interest was 7.40 percent of total expenditure in 1995-96.

The Expenditure Index has outpaced the Income Index.

1.11.10 Parameters: The Jalgaon Municipal Council has achieved the revenue parameters in the areas of Tax Revenues and Non-Tax Revenues. The Costing Parameters have been achieved in total cost of civic services per person except in 1971-72. However, the itemwise cost parameters in the areas of public safety, education and water supply for some of the years have not been achieved. This has been discussed in detail in Chapter IX.

1.11.11 Factors leading to the Problems in the Financial Administration

A - On Revenue Side
1. No Revision of Taxes on periodical basis,
2. Inadequate returns from certain projects,
3. Limitations on the borrowing powers,

B - On Expenditure Side
1. Expectations of the people and the problem of scarce resources and allocations,
2. Population Explosion,
3. Slums and Improvement Costs,
4. Urbanisation and Industrialisation,
5. Increase in Geographical Limits,
6. Budgetary Accounting System,
7. Primary Education Needs,
8. Interest paid on Loans,
9. Increased cost of maintenance of capital works,
10. Temporary Measures and Schemes,
11. High Cost of Administration,
12. Procedural Delays,
13. Increase in Costs due to the inflationary trends,
14. Control over expenditure and leakages,
15. Additional responsibilities entrusted to the Council.

1.11.12 Suggestions for Better Financial Administration

The Jalgaon Municipal Council has to mobilise additional resources not only to discharge the present statutory obligations but also to gear itself up to meet the future challenges efficiently and effectively. The suggestions made are as follows:

A On Revenue Side:

1. Revision of Taxation.

2. Better Tax Administration - gearing up the collection of machinery and improving the system of imposition, assessment and computation of taxes.


4. Loans and Borrowings.


6. Privatisation of Services and contribution from private parties.
B. On Expenditure Side

2. Propriety and Performance Audit.
3. Cost-Benefit Analysis and optimum utilisation of scarce resources.
5. Privatisation or contracting of services to increase efficiency and quality of civic services.

1.11.13 Projection for the Future: Based on the population projections for the years 2001 and 2011, the estimated finance requirement would be Rs. 549.36 crores for provision of essential civic services for the period of next 15 years. The resource mobilisation can be done by public participation, IDSMT Schemes, Government and Institutional finance, HUDCO and Bank finance and internal generation of funds.

1.11.14 Resource Mobilisation and Performance Budgeting

The perspective planning should be backed by the massive resource mobilisation efforts with efficient financial administration. The concept of Performance Budgeting with Performance Audit covering propriety and efficiency audit must be introduced to find out whether the expenditure has been incurred with wisdom, faithfulness and economy.
1.12 Epilogue

The continued cumulative backlog of civic services needs an urgent attention of the State Government to allocate more resources for the Urban Planning and Development. A State level funding agency is to be set up to study the problems of urban financing and suggest the solutions. The whole issue of Municipal Finance and Financial Administration should be given due priority. A separate expert body should be set up consisting of experts from Urban Planning, Finance and Management fields to evolve an inter-disciplinary approach to the policy-making.

The present ad-hocism has led only to short-term solution, in a haphazard and unplanned manner. Hence, a need for Central Guiding Body to help the Councils in identifying the problems and options and to evolve the best possible solutions having regard to the developmental view.

The Jalgaon Municipal Council has achieved an exceptional objective of extending the helping hand to the poorest of the poor - the slum dwellers - by rehabilitating them in concrete houses. It has allotted public open spaces to various social organisations to set up public halls and schools. It has tried to overcome the problem of 'dependence' on the Government Agencies by securing financial
arrangements from HUDCO to implement the Water supply schemes, communications, and drainage system.

Thus, notwithstanding the growing problems and shortcomings, the Council has some achievements to its credit and a dismal picture need not be drawn. During the period of 25 years, there has been a tremendous effort in the last 10 years i.e. from 1985-86 onwards.

An honest attempt has been made in this Research Study to highlight the problems in the financial administration of the Municipal Councils and to stress the need of efficient financial administration in the light of parameters laid down and to have the perspective planning on the basis of modest projection for the future. The Jalgaon Municipal Council, with the back-up of professionals and experts can deal with the growing challenges of overall improvement and development of the City effectively and efficiently on the lines of suggestions made in this study.

Thus, the hypothesis that "the financial resources of the Jalgaon Municipal Council are on the whole, not sufficient to enable it to discharge its obligatory duties and discretionary functions as laid down in the Maharashtra Municipal Council Act, Act 65 and it is, therefore, necessary to manage its financial resources more efficiently," stands proved.