CHAPTER I
INTRODUCTION
"Democracy can have substance and reality only when a vigorous system of local self-government flourishes in the country, for, it is in the Town Council and the Village Assembly or Panchayat that the citizens of a country develop the habit of taking an active interest in managing their group affairs and gain experience necessary for effectively and efficiently running the Public Administration".

- DR. RAJENDRA PRASAD
FIRST PRESIDENT OF INDIA.

In a message to the All India Institute of Local Self-Government
CHAPTER - I

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CHAPTER - I

INTRODUCTION

1.1 Statement of the Problem

This is a Study of Financial Administration in the Municipal Council of Jalgaon City.

The great Indian Philosopher of ancient India Kautilya wrote, "All undertakings depend upon finance. Hence, foremost attention should be paid to the treasury". 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 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 production and equitable distribution of urban public and civic services at a reasonable cost so as to maximise the social benefits to the urban dwellers.

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, alongwith proper sanitation services, better housing and efficient town planning, the services which were hitherto regarded as luxuries like well-surfaced roads, main drainage and piped pure water have now become the necessities. Only the efficient financial administration of the Municipal
Councils would enable the marked improvement in the standard, range and quality of services provided.

According to Felix Nigro, "Financial Administration is of special importance today for the simple reason that while there seems to be no limit to what we may ask of Government, there is always a limit to the funds available. Determining the spending priorities and finding the money is difficult since there are backlogs of urgently needed projects, with the rising expectations of the people creating pressures for massive programmes and quick results."²

It was on account of these reasons that the study of Financial Administration of Municipal Councils was undertaken.

1.2 Scope of the Research Study

It would be relevant to define different terms used in this Thesis in order to determine the exact scope of the study.

1.3 Financial Administration

According to Gaston Jaze, "Financial Administration includes collection of public revenues, the custody of public moneys thus collected and affecting payments; a proper coordination of public revenues and expenditures through a well-drafted and well-considered plan; public borrowing and management of public debt; and the general management and control of financial affairs of State of Governmental unit."³
Financial Administration is a part of government function which deals with collection, preservation and distribution of public funds with the coordination of public revenues and expenditure, with the management of credit operations on behalf of the State and with general control of the financial affairs of the public household. 4

1.4 Municipal Council

Municipal Council or Local Self-Government is described as 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".5 It connotes "government by the local bodies, freely elected, which while subject to the supremacy of the rational government, are endowed in some respects with some power, discretion and responsibility and which they can exercise without control over their decisions by the higher authority."6

Section 2(20) of the Maharashtra Municipal Council Act, 1965 has defined the term 'local authority' as under:

"Local Authority "means a Council or a Municipal Corporation constituted under the Bombay Municipal Corporation Act (Bom.III of 1888) or the Bombay provincial Municipal Corporations Act, 1949 (Bom. LIX OF 1949) or the City of Nagpur Corporation Act, 1948 (C.P. & Bearer II of 1950) or a Zilla Parishad constituted under the Maharashtra Zilla

As shown in the hierarchical order, Municipal Council is the lowest in the order either under unitary or multi-level arrangement, concerned with urban local government.

The Municipal Councils are divided into three categories A, B and C according to the population of the towns as under:

- **Class A** - Population above 1,00,000
- **Class B** - Population between 40,000 and 1,00,000
- **Class C** - Less than 40,000.

(Section 4 of the Maharashtra Municipal Council Act, 1965).

1.5 Municipal Councils in Maharashtra

Maharashtra is the most progressive state of India. Established in 1960, it is the third largest state in India both in area and population, though, it accounts for 9.2 percent of the total population of the country, it shares about 11 percent of industrial units, over 17 percent of labour, about 16 percent of investment and 23 percent of the value of industrial output. Its capital Mumbai is called as the 'Financial Capital' of the country.

Maharashtra has the total area of 3,07,690 Sq. Kms. Total population of the state is 7,89,37,187 (as per Census
of 1991). Urban population is 3,05,41,586 (38.69 per cent) and Rural population is 4,83,95,601 (61.31 percent). The growth rate of population is 25.36 per cent over the decade 1981-91.

The state is having 232 Municipal Councils, 12 Municipal Corporations and 6 Cantonment Boards.

1.6 Jalgaon Municipal Council

This study deals with the financial administration in Jalgaon Municipal Council.

Jalgaon Municipal Council which is of Class 'A' grade, was established in 1864. It is the fastest developing district headquarter of the Jalgaon District in North-West Maharashtra. The population growth of Jalgaon city over the period of decade 1981-91 is 66.35%. 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 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.

1.7 Financial Revenue

The financial revenue of the Municipal Council is the aggregate of sources of Municipal Finance.

Section 205 of the Act empowers the Council to impose compulsory and voluntary taxes.

The financial revenue can be grouped as under:

**Tax Revenue** including consolidated property tax, octroi, water tax, sanitary tax, special latrine tax, fire tax, environment tax, tax on professions, trades, callings and employments, tax on cinemas, theatres, circuses, animals and other performance and shows, tax on advertisements other than published in the newspapers.

**Non-Tax Revenue** including ground rent, house rent, stallage rent, open theatre rent, hospital and dispensary receipts, weekly and daily market fees, licence fees, projection fees, hawkers licence fee, surveyor licence fees, interest on deposits, notice fee, warrant fee, rent of residential blocks in shopping complexes, non-refundable non-interest bearing deposits from occupiers, development charges, scrutiny fees, copying charges, etc.

**Sharing of Taxes** with State Government i.e. assignment of taxes levied and collected the State Government e.g. tax on professions, trades, callings and employments.
Grants-in-aid from State Government, Central Government or from International Agencies.

Public Borrowings from open market or from the State Government or funding agencies like HUDCO, World Bank, etc.

1.8 Expenditure

Municipal Expenditure consists of the aggregate provisions and disbursements made by the Municipal Council in discharging its obligatory duties and discretionary functions as laid down in Section 49 of the Act. Broadly, this expenditure can be grouped under the following heads:

i) General Administration - Salary, dearness allowance, Printing and stationery, revenue stamps, octroi collection expenses, computer charges, bonus etc.

ii) Public Safety and Security - Watch and Ward section, fire fighting department expenses, equipments for fire fighting, electricity charges for road lighting, electrical equipments, etc.

iii) Water Supply - Salary of water works and maintenance staff, maintenance and pipelines and water works machinery, electricity charges, water treatment plant, chlorination charges, laying on new pipelines and new connections etc.

iv) Public Health and Sanitation - Health office expenses, cleaning charges, vehicle maintenance and new vehicles
and equipments, Prevention of Food & Drug Adulteration Act Enforcement expenses, hospitals and dispensaries maintenance, women and children welfare expenses, inoculation and vaccination, birth-death record keeping, burial ground and cremation places, maintenance of gardens/parks, swimming tanks, latrines and urinals, sanitation, drainage pipelines and new construction expenses.

v) **Education** - Pre-primary, adult, primary and secondary education grants, books, printing and stationery, salary to teaching and non-teaching staff and maintenance of school buildings, laboratories and equipments.

vi) **Contribution to Funds** - for water supply schemes, education fund, etc.

vii) **Other Expenditure** - Repayment of loan, interest on loans, election expenses, postage, insurance premium, cost of acquisition/purchase, meeting fees and allowances, depreciation fund, etc.

1.9 **Time Factor Considered**

Though, the Jalgaon Municipal Council was established in 1864, the authentic and precise data are 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.

The Municipal Budget presents three sets of figures viz. Budget for the next financial year, Revised Estimates
for the current financial year and final figures for the preceding three financial years.

This study is based on the final corrected figures for the period of 25 years mentioned above. The figures for the last financial year covered i.e. 1995-96 have been taken from the Budget for the year 1997-98. Therefore, this study is based on the precise and available data upto 31st May, 1997.

1.10 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 of the Jalgaon Municipal Council with a view to find out the merits and demerits thereof.

4. To make suggestions and recommendations, if any, to improve the financial administration of the Jalgaon Municipal Council.
1.11 Hypothesis :

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

Hypothesis may be defined as a proportion or a set of propositions set forth as an explanation for the occurrence of some specified group of phenomena either asserted merely as a provision conjuncture to guide some investigation, or accepted as highly probable in the light of the established facts. Quits often, the research hypothesis is a predictive statement which is capable of being tested by scientific method that relates an independent variable to some dependent variable. The hypothesis testing in research will result either in accepting the hypothesis or rejecting it totally or partially.

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."
1.12 Research Methodology

"All progress is born of inquiry. Doubt is often better than overconfidence, for it leads to inquiry and inquiry leads to invention". HUDSON 9.

The New Mirriam Webster Dictionary defines research as "the study of the principle or procedures of inquiry in a particular field."

It is believed that crafty men condemn studies and principles thereof. Simple men admire them and wise men use them.

The Research Methodology comprises of a series of steps which is an idealised account of how the research student/scientist actually proceeds with the work.

The research methodology adopted in the study includes the following steps -

1.13 Review of Existing Literature

A detailed study of existing literature on the financial administration of the Municipal Council was done in order to identify the parameters of the efficient financial administration of the Municipal Council. The detailed study involved published books, works, articles and the magazines on the subject of the research. There has been no research study earlier covering the financial aspect of the Jalgaon Municipal Council.
1.14 Types of the Sources of Data

The Annual Budget copies of the Jalgaon Municipal Council were obtained from the Stores Department of the Council with great difficulty. The Budget copies were available only for the latest five years. The Budget copies for the earlier twenty years could be obtained from the various Councillors and Ex-Councillors. 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 Jalgaon city were obtained from the Town Planning Department of the Jalgaon Municipal 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 Jalgaon Municipal Council.

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

1.15 Editing, Classification, Tabulation and Analysis of the Data

While editing, care was taken to ensure that the information collected is -
1. Uniformly entered.
2. Complete and accurate as far as possible.
3. Consistent with the facts secured.
4. Suitable for tabulation, and
5. Arranged in a way that would facilitate tabulation.

1.16 Analysis and Interpretation of Data

The classification of the data was undertaken after editing for the purpose of analysis and interpretation. The classification of data was done 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 classified data has been presented in the compact form of tables for facilitating analysis and interpretation. Diagrams and Tables are also drawn wherever required to ensure the graphical representation and representation of the classified data.

The conclusions have been drawn on the basis of the classified, tabulated, and analysed data. The study is, thus, a 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.
1.17 Report Writing

The findings and the conclusions of the study are presented in the form of a report. The report looks at the financial administration of the Jalgaon Municipal Council as a whole rather than in terms of divisions on the basis of activities.

1.18 Limitations of the Study

The present study is an outcome of an attempt to analyse the financial administration of the Jalgaon Municipal Council.

The main limitation was the fact that only one individual was undertaking the study. However, it was an honest effort to make the study as comprehensive as possible.

Although the Jalgaon Municipal Council was established in 1864, the authentic data was available in form of Annual Budgets only for the period of last 25 years. Therefore, the Research Study was restricted to the period of 25 years from the financial year 1971-72 to 1995-96.

1.19 Significance of the Study

The importance of efficient financial administration in Municipal Council has been aptly described by C.F. Bastable in his book on 'Public Finance' as "Finance is not mere arithmetic, finance is a great policy. Without sound finance, no Sound Government is possible; Without Sound Government no Sound Finance is possible."
Municipal Finance lies between the private finance and public finance. According to C.F. Bastable, "The private finance is supposed to deal with the income and expenditure of a private individual while the Public finance deals with the expenditure and income of the public authorities of the states and their mutual relation as also with the financial administration and control."  

"While the private individual adjusts his expenditure to his income, the public authorities adjust their income to their expenditure." The local authorities or the Municipal Councils hang between the two; they can neither play the role of silent spectator and allow the things to go out of hand and out of gear for lack of finance, nor can they make the inelastic resources so much elastic as to cover the unseen and unexpected expenditures.

According to G.M. Harris, "The principle of cutting one's coat according to the cloth applies to but a small extent in Local Government. Most of it is obligatory."

As we move towards the 21st century, the Municipal Councils have to face many changing and challenging situations arising out of social, economic and technological changes. Municipal Councils can become dynamic and meet these challenges effectively only through the efficient financial administration. In the era of fierce competitive atmosphere, the Councils have been exposed to global influences. In such
a situation only qualitative efficiency assumes a key-factor in every function to be performed by the Council. The Maharashtra Government has already taken the first step in the direction of privatisation - permitting the collection of octroi by the Councils through private agencies.

The 74th Amendment to the Constitution of India has now enabled the Municipal Council to emerge as a strong, vibrant and development oriented system of the local government.

The pressing need of the hour is to develop an efficient financial administration 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.

Peter Drucker has aptly remarked -

"Such a time of turbulence is a dangerous time but its greater danger is a temptation to deny reality. Such time is also one of the greatest opportunity for those who can understand, accept and exploit the new development, which is not possible without the development of crucial human resources in our business and industry."13

No Municipal Council would be immune to the need of streamlining the financial administration efficiently to acquire and increase its capability for stability, growth and revival to render the best possible civic amenities and services.
It is against this background that the researcher decided to study the financial administration of the Jalgaon Municipal Council. There can hardly be two opinions about the imperative need for effective and efficient financial administration of the Municipal Councils in order to meet successfully the challenges of the rapid industrialisation and urbanisation.

1.20 Experiences of the Researcher

The researcher had to face certain difficulties in collecting the data from the Jalgaon Municipal Council. No authentic and precise data was available for the pre-1971-92 period.

However, in spite of the difficulties faced by the researcher initially, sufficient data has been collected for the period from 1971-72 to 1995-96 to warrant the generalisations about the topic under study.

1.21 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, the Research Methodology adopted, limitations of the study 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 Jalgaon Municipal Council.

CHAPTER VI studies the trends of income and expenditure of the Jalgaon Municipal Council over the period of 25 years. It analyses the source-wise derivation of income and purposewise pattern of expenditure.

CHAPTER VII analysis the factors leading to the problems of 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 Councils.

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 future Projections and Perspective Planning.

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

4. Ibid. p.2
5. Harris, Montagu, Local Government in Different Countries p.2
11. Dalton - Public Finance
12. G.M. Harris - Comparative Local Government.