CHAPTER - VII

Summary of Conclusions and Suggestions
This chapter sums up the main line of argument presented in the previous charities, and offers certain workable suggestions to improve the financial manager of Nellore Municipality. Local self-Government is a very important institution in a democratic set-up. Its Functions and those of state and central governments are interlinked. There is only a difference of degree between them. Local self-government is based on the principles of decentralization of authority and therefore, very important for a large country like India. Local self-government has the advantages of people participation in administrative work. If it is free from the defects of bureaucracy and red-tapism, it can lead to economy in administration. It also provides training in democracy and develops local leadership and qualities of organization. It helps in the development of the spirit of self-help and self-dependence. If worked competently it also lightens the burden of the provincial and national governments by decentralising administration. It promotes civic consciousness and political responsibility.

Urban development is based upon economic, social, political and ecological aspects. Among the major economic consequences, the striking points are the necessity of the development of an extensive market for agricultural raw materials and foodstuffs leading to replacement of traditional self-sufficiency of the village by market oriented economy. Urbanization poses a multitude of problems, which are multidimensional nature. In India the recent urban growth has created problems of unprecedented character such as unemployment, growth of slums, insanitation environmental pollution,
scarcity of housing, water, electricity, transport, medical aid, education etc., and other civic problems. To solve them and to promote the welfare of society in general and of urban areas in particular, there is a dire necessity of designing a national urbanization policy to serve as a guide for making specific decisions affecting the pattern of urban growth. An expert group on National Urbanization policy has recommended that urbanization policies be based on the consideration of urban population, creation of urban settlement patterns, maintenance of ecological balance.

**Progress of Local Self-government in India**

The story of local self-government in India dates back to the Vedic period. In the Vedic times, there were Panchayats. There was also a system of self-government of cities like Pataliputra. This situation persisted till the advent of the Muslim rule in India. During this period, the local self-government did not make any headway. Local self-government in modern India begins with the British rule. Evolution of local self-government in modern India may be studied under different stages. The first stage of development in modern India began with the British rule and went up to 1882. It was during this period that corporations were set up in Calcutta, Bombay and Madras. Certain institutions were also established outside the presidency towns. It was during this period that the Municipal Act was passed. Then came the Royal Army Sanitation Commission. It was during this period that Mayo’s resolution of 1870 also saw the light of day. The second stage of development began with 1882 and went on up to 1917. It was then that Lord Rippon’s resolution came into being. Lord Rippon has been called the father
of local self-government in India. During this period, several steps were taken in order to bring about the development of local self-government institutions. During this period, the Decentralization Commission gave its recommendations, 1906. Unfortunately neither Lord Rippon's resolution nor the recommendations of the Decentralization Commission could be properly implemented. During the second stage of the development, no doubt, certain institutions of local self-government were established. They also grew a number but no progress worth the name could be made.

During the third stage of development, which began in 1918 and continued up to 1947, when India became free, several steps were taken to bring about the development of Institutions of the local self-government. It was during this period that the Government of India Act of 1919 was passed, and then, the Government of India Act of 1935 came into being. During this period, Congress ministries came to power and they made efforts to bring about the development of the institutions of local self-government. Several Acts were passed, and several steps taken to bring about the development of local self-government. But the Second World War broke out and the efforts to establish local self-government in India were thwarted. However, new Acts were passed and new institutions came into being. The fourth stage of development is the development of local self-government in free India. Local self-government has become the constitutional responsibility of the central as well as state governments. State governments are making efforts to bring about the improvement and development of these institutions. Unfortunately, these efforts have yet to produce desired results.
Sources of Income of Municipalities

Sources of revenues and utilisation of sources effectively is known as financial management of an organization. Normally the sources of income of the municipalities are income from taxes, Grant-in-aid from the government, loans, and other sources of revenue Municipalities can levy two types of taxes (a) Direct taxes (b) Indirect taxes. Sources of revenue of Indian municipalities are (a) grant in aid from the state government (b) taxes (c) levy on different services (d) other resources. There are both direct and indirect taxes. The municipalities also have income from service levy, fine, levy for providing veterinary factors and fee from licence. Municipalities prepare annual budgets and spend money accordingly. Their income is very low. The causes for it are (1) Poverty (2) increase in population (3) rising prices (4) distribution of resources (5) reluctance to impose necessary taxes. (6) Laxity in collecting taxes (7) failure to development plans (8) underdeveloped character of trading services.

The following measures can be adopted for augmenting the income of Municipalities: (1) improvement in the system of realization of taxes (2) undertaking profitable trades (3) obtaining Interest free loans from the government (4) raising grant-in-aid (5) checking wastage (6) training public in civic responsibility (7) payment of share of taxes collected by municipalities. The State government exercises a good deal of control over the working of municipalities. These controls are: (a) Legislative control (b) administrative control (c) financial control (d) control over personnel. In
certain respects these controls are useful but in certain other respects they are not. What is needed is a judicious control that can bring about the progress of municipality and also implementation of the principle of decentralisation of authority.

Nellore Municipality is a selection grade municipality having nearly 4 lakh people. Of them, one-fourth dwells in slums. It collects mainly three types of finances: (1) Major source of revenue (2) Minor Sources of Revenue and (3) Government grants. Financial Management of Municipality results in the performance of financial administration. It is a managerial activity. Planning, Budgeting, collection of taxes, utilisation of funds and controlling are the main activities of financial management. Nellore Municipality suffers from shortage of finance.

The overall composition of finances of Nellore Municipality for the year 1999-2k shows that 81.4% income was raised from General revenue, 5.4 percent from elementary education, 5.6% from water drainage, 2.0 percent from town planning and 5.6 percent from deposits and advances. Under general head of revenues, property tax, entertainment tax, advertisement tax and other taxes are mentioned. However different shares of sources of revenues reveal that the taxes listed under general head contain major portion of the revenue. All these sources of revenues are not collected as per demand. And hence the need to study the financial management of Nellore Municipality.
Financial Management of Municipalities and Nellore Municipality

The general management framework of municipal government in India is radically different from that of the upper level government. At the upper-tiers of government, the system of financial management is designed to subserve the needs of financial control in the legislative, executive and audit fields. This has important and far-reaching implications for the entire system of financial management of municipalities. However, this type of requirement is not easy to implement at the municipal level. The reasons are (1) the integration of legislature and executive powers in the municipal council makes it difficult for its executive committee to function as an inquisitorial body as well, and (2) the separation of executive powers and functions in municipal government cannot accommodate the existence of an independent finance officer responsible only to the municipal council or its executive committee. This leaves the system of external audit as the only meaningful instrument of controlling municipal expenditure.

Budgeting: Budgeting in municipalities is a drawing up of estimates by commissioner and their submission to the standing committee (finance) which finalises the budget for consideration and sanction by the council, where the tax rates have to be fixed. But the problem is, the actual receipts are not sufficient to meet the expenditure of estimates. It creates financial difficulties. So, care must be taken in the budget preparation so that inflates budget estimates are taken into consideration. Net present value method is also implemented in future work valuation. It gives accurate estimation value of the work to be completed in future.
**Accounting:** The system of accounting reflects accurately the day to day financial transactions, receipt of revenue, payment of expenses, changes in the budget, custody of funds and stores etc. Municipalities are required to maintain accounts in the form and manner as prescribed by the state government. A proper accounting system helps in the financial analysis, which in turns facilities, the finding of financial problems of municipalities. Unfortunately, various municipal accounts codes or manuals, which are in vogue do not go into many details and commercial or traditional or double entry system, are generally not adopted. However, under certain Acts separate budgeting, and accounting system is required to be adopted in respect of municipal utilities such as electricity, water supply, sewerage and transport.

A number of municipal operations are identical with or closely akin to those of commercial concerns. The maintenance of plants, vehicles, the erection and maintenance of buildings, the provision of meals, printing work are the operations where the local authorities may keep some of the cost account as their commercial counterparts. The possibilities of applying to municipalities of modern conceptions of cost accounting, Management Accounting and Financial Management should be explored especially in engineering, water supply, town planning and other services. So, it is the time to think about the change of accounting system in municipalities.

**Audit:** The main purpose of audit is checking the accuracy of accounts. It is instituted in order to ensure that all financial transactions are conducted according to rules, that all receipts are duly credited to the proper
accounts and that no accounts are paid without proper authorization. Now a days, besides satisfying the above-mentioned aspects, audit is also required to take into account the principal of financial priority etc. that all expenditures are made according to the principle of faithfulness, wisdom and economy.

The audit in municipalities is conducted by the Examiner of Local funds Accounts who belongs to the state establishment in most states or by the provisional Accountant General in some states. This is the machinery for external audit, which is an outside check on the municipal authority and its servants, imposed primarily to protect the interest of the public.

The procedure for external audit starts when the accounts are declared ready for audit. Initially, the Examiner conducts a test audit, Local funds Accounts, of a part of the financial transactions of the year. If the test audit discloses serious irregularities, faults, and mistakes, the government may order special audit. The audit report consists of

1. Audit notes dealing with serious irregularities, which call for special attention of the committees and

2. Objection statement relating to technical errors, irregularities and defects etc. The council is required to consider both the audit notes and the objection statement and to express its opinion to the Examiner. In case a particular loss is found incurred on account of the personal negligence or misconduct of particular councilor or officer, a surcharge can be ordered.
The utility of audit depends largely on the effective and timely disposal of audit objections. Apart from this there should be a system of internal audit and internal check, which helps to minimize the number of objections. An efficient inter audit system is also considered as an important instrument of financial control. It is, therefore, for the bigger municipalities to organize their internal audit department with efficient and qualified staff.

Controlling: The State government exercises a good deal of control over the working of the municipalities. These controls are of the following types.

a. Legislative control

b. Administrative control

c. Financial control

d. Control over personnel

Legislative control of municipalities is in the form of improving their status and to frame rules and regulations about their working. Administrative control takes in the form of inspections, action to be taken against municipalities, hearing appeals against the actions, supervision, super session and dissolution and withholding sanction to certain resolutions. Financial control will be in the form of imposition of taxes, control over expenditure, loans and auditing. The State government also exercises control over the office-bearers, members and other officers and employees of municipalities. Such control is necessary to check the several ills of municipalities, and see
that they do not go astray. But this control should be exercised in a restrained and moderate manner exercising discretion. If the state government assumes wide powers, municipalities lose their identity and the very principle of decentralization of authority will be defeated. The growth of municipalities gets stagnated.

**Tendency of different sources of revenues to total revenue in Nellore Municipality**

Out of the nine types of accounts maintained in Nellore Municipality major portion of ordinary and capital revenues are collected on six accounts, i.e., General Account, Lighting Account, Elementary Education Account, Water supply and drainage account, Town Planning Account and Deposits and Advances Account. The compound growth rate rose from 100 to 394 between 1990-91 and 1999-2k. In the decade the total revenue of Nellore increased from 698.50 lakhs to 2758.2 lakhs. Impressive though the figures are the amount is not sufficient to meet the growing expenditure of the Municipality. The share of capital revenue increased comparatively from 14 percent to 43 percent and ordinary revenues came down from 86 percent to 57 percent between 1990-91 and 1999-2k. The tendency reveals that proper steps have to be taken to improve the share of ordinary revenue, which contains major portion of the total revenue. It is observed that General Account shares major portion of the total revenue of the ordinary and capital revenues. The percentage of General Account in Capital revenue increased from 9.35 to 81.99 between 1990-91 and 1999-2k. In ordinary revenue the percentage
increased from 56.4 to 80.47 between 1990-91 and 1999-2k. It reveals the importance of General Account as a source of revenue to ordinary and capital revenue. The tendency of Lighting Account to total capital revenue decreased from 20.29 to 4.45 from the year 1990-91 and 1996-97 respectively. There were no notable contributions during the last three years of the study period and lighting account to total ordinary revenues reveals that it decreased from 6.24 to 3.48 from the year 1990-91 to 1997-98. There was no notable contribution during the last two years. The elementary education account reveals that there was no special contribution to total capital revenue. But there was a constant contribution to ordinary revenue receipts from it. But it decreased from 16.4 to 9.62 between 1990-91 and 1999-2k. It follows that steps have to be taken to improve the contribution to elementary education. The fourth account of water supply and drainage account shows the percentage of total capital revenue decreased from 20.29 to 4.91 between 1990-91 and 1999-2k. Water supply and drainage account to total ordinary revenues reveals that the percentage decreased from 19.47 to 6.29 between 1990-91 and 1999-2k. It shows a downward tendency in the share of the total tendency. It is necessary to raise the share of water supply and drainage account in the total ordinary and the total capital revenues. It is observed that there were no constant contributions to the Town planning fund Account from total capital revenues in Nellore Municipality. But regular contributions are observed from Town Planning Fund Account to total ordinary revenues. It is also seen that there were a growing tendency in the share of percentages to
total ordinary revenues from 1.48 to 3.61 between 1990-91 and 1999-2k. The trend of share of deposits and advances to total capital revenues account is discouraging. It is from 41.95 to 13.10 from the year 1990-91 to 1999-2k. It shows that there were no share of Endowment Accounts to total capital and ordinary revenue accounts. It is time to think about the causes of downfall in the share to total Capital and Ordinary revenues from all accounts except General Account, and also find out the reasons for minor and no contributions from Town Planning Fund account, Endowment account and Remunerative Enterprises Account. Some steps have to be taken to increase the share of the above said accounts to total revenue account. These steps have to be taken to set right the financial position of Nellore municipality. And suggestions from the public should be welcomed to improve the share of all sources to total revenue, if necessary.

**Tendency showing different items of expenditure to total expenditure in Nellore Municipality:**

In Nellore Municipality funds are utilized on different heads of accounts already mentioned. The share of General Expenditure Account to total Capital and Ordinary Expenditure Account shows on increasing tendency. The share of General Account to total expenditure account was from 44 to 86.65 percent from the year 1990-91 to 1999-2k, and the share of General Account to total ordinary expenditure account was from 57 to 90 percent between 1990-91 and 1999-2k. The Lighting Account to total expenditure account shows a decreasing trend year-by-year. It was from 11 to
0.63 percent from 1990-91 and 1999-2k, and the share of lighting account to total ordinary expenditure account also decreased. It was from 10 to 2 percent from 1990-91 to 1999-2k. The trend showing the Elementary Education account to total capital expenditure account is also discouraging. It was from 3 percent to 1.29 percent from the year 1990-91 to 1999-2k, and the share of Elementary Education to total ordinary expenditure account was from 17 to 0.7 percent from the year 1990-91 to 1999-2k. The trend showing the share of water supply and drainage account to total capital expenditure account was decreasing. It was from 14 to 4.99 percentages from the year 1990-91 to 1999-2k, and water and drainage account to total ordinary expenditure account also showed a decreasing tendency. It was from 14 to 7 percent from 1990-91 to 1998-99.

There was no share of expenditure in the year 1999-2k. Trends showing Town Planning Account to total Capital Account showed that there was no regular expenditure every year. And they also reveal that there was a growing tendency from 0.5 to 1.86 percent from 1990-91 to 1998-99. The share of Town Planning Account to total ordinary expenditure account showed a decreasing trend. It was from 1 to 0.87 percent between 1990-91 and 1998-99. There is no share of expenditure on Town Planning Account for the year 1999-2k. The share of deposits and advances account to total capital expenditure account showed a clear decreasing trend. It was from 27.5 to 7.73 percent from the year 1990-91 to 1999-2k. The trend of the share of endowment accounts to total ordinary expenditure account was to decrease. It
was from 0.13 to 0.06 percent between 1990-91 and 1999-2k. All these observations reveal that except General Expenditure Account the trend in the remaining items of expenditures were not encouraging. It shows that the development activities have not been implemented in Nellore Municipality satisfactorily. But the main reason for is the shortage of revenues. Effective financial management is the only solution to prevent a financial crisis recurring in Nellore Municipality.

Sources and Utilisation of Funds in Nellore Municipality

All the sources of revenues collected by Nellore municipality are utilised on different items of expenditure of capital or ordinary in nature. It collects the following general taxes: (1) Property tax (2) Profession tax (3) tax on carriages and carts and (4) tax on animals. Apart from the taxes, other sources of revenue of municipalities are (1) fees and fines (2) grant-in-aid by the government and (3) loans and advances. All these revenues are categorised into nine different accounts, which have already been explained.

Tendency showing the Balances of sources and utilisation of revenues in Nellore Municipality

In Nellore Municipality the balances of ordinary revenues and expenditure of General Account shows an increasing tendency during the study period except in the years 1992-93, 1993-94 and 1995-96. Under this account amounts are used for day-to-day general administration including salaries of the staff. It indicates that funds allotted to general administration
are sufficient. The tendency in the revenues and utilization of lighting account is ordinary in nature. Negative Balances are observed in the last three years of the study period (1997-98, 1998-99 and 1999-2k). There is a need to collect and allot adequate revenues on Lighting Account, so that lighting facilities in the municipal area can be improved. At present due to the deficit of resources it is inadequate. It is a major amenity to be provided by the municipality to the public. The Elementary Education account shows a tendency of both increasing and decreasing throughout the study period. During the last two years of the period 1998-99 and 1999-2k it showed a negative balances of 33.11 lakhs and a positive balance of 151.25 lakhs. It reveals that the revenues were not collected properly. It is also one of the results of poor financial management. The tendency showing increasing balances of water supply and drainage account for the last five years, from 1995 to 2k, is a prospective tendency. Water supply and drainage is an important amenity provided by the municipality. The Town Planning Account balances also shows a positive tendency for the last five years, from 1995-96 to 1999-2k. Other accounts of remunerative enterprises, deposits and advances, endowment and conservancy show that there were nil balances for count the efficiency of municipality.

The General Account of Capital revenue however shows increasing and decreasing tendencies during the study period. During the last two years, 1998-99 and 1999-2k increasing and decreasing tendencies are noticeable. It indicates that the amount released to the General Account in the capital revenue was not released properly for capital expenditure. The Lighting
Account in the capital revenue shows decreasing balances during the last three years of the period, i.e., 1997-98, 1998-99 and 1999-2k. It means that the revenues allotted did not meet the requirements of expenditure under this account. The Elementary Education Account, capital in nature reveals a decreasing tendency and nil balances during the two years, 1997-98 and 1998-99. The last year 1999-2k shows nil revenues and expenditure. The Water Supply and Drainage Account shows a decreasing tendency during the last three years, from 1997-98 to 1999-2k. It shows that the revenues allotted to water supply and drainage account were not sufficient to meet the expenditure and there was a shortage of funds. The Town Planning Account shows there were no continuous receipts and expenditure throughout the period. The Deposits and Advances Account reveals that there was an increasing tendency during the last five years, from 1995-96 to 1999-2k. It shows that specific grants were released for special schemes and development activities, and that general grants and matching grants were not released. It makes it very difficult for the municipality to implement development activities other than special schemes. All these readings give out wide picture about the efficiency of municipality. The Efficiency of a municipality depends upon proper collection of its revenues and utilisation of resources. All the balances of Capital and Ordinary Revenue reveal that except General Account and Deposits & Advance Account, all the remaining accounts show mixed tendencies of increasing and decreasing. It boils down to the fact that rising sufficient financial resources to all accounts is the only solution for this problem.
Performance of Nellore Municipality

It is observed that the capital revenues of Nellore Municipality collected during the ten years of study show mixed results, because of uneven collections. It is not a healthy tendency in any organization. The percentage of collection on demand shows that in the years 1992-93, 1993-94, 1995-96, 1998-99 and 1999-2k there was more than cent percent collection, that is 107, 121, 115, 117 and 106 percentages respectively. During the other years the percentage was below 100. It shows the collection of capital revenues was uneven and that there were overdues. This confusing situation is hardly conducive to the utilisation of revenues for development activity according to the plans. It affects the performance of the Municipality. The compound growth rate of collection is uneven, compared with the compound growth rate of demand of capital revenues. It is also observed that while the collection on capital revenue from general source during the last three years of the study period was satisfactory, the C.G.R. of collection was very uneven. The C.G.R. of Demand of capital revenues on general source, and collection of capital revenues on lighting source during the last three years of the study period i.e., 1997-98, 1998-99 and 1999-2k was very poor. The growth rates of collection were not calculated for three years due to the poor collections. The Capital Revenue Collection on elementary Education source reveals, that during some of years of the period there were no demand and collections. It means that no proper development activities were planned on this source even though it is one of the important amenities provided by the municipality. Majority of the
municipal schools in Nellore are running without minimum facilities. The calculation of the C.G.R on demand collection and balance is very difficult, because of the scarcity of funds allotted from this source. The capital revenue on water source and drainage account reveals that there is sufficient allotment of resources on this source and the collection, except in 1997-98, during the remaining years was more than fifty percent. The C.G.R. of collection reveals that except in the years 1991-92 and 1992-93 in the remaining years it was more than hundred percent. It means that performance was satisfactory on this source. Collection performance on the Capital Revenue on Town Planning account was not even. There was no constant allocation of funds on this source. But the collection performance on Capital Revenues on endowments reveals that certain funds were allocated and collected throughout the study period. The percentage of collection was also more than seventy percent except 1990-91. But the Compound Growth Rate of collection was uneven compared with the Compound Growth Rate of demand.

It is observed that the allocation of total ordinary revenue and collection pattern shows a growing tendency throughout the period from 1990-91 to 1999-2k. The Collection performance of ordinary revenue on general source reveals satisfactory performance. The Percentage of collection on General source of ordinary revenue receipt was also more than seventy six percent through out the period. Except in the year of 1991-92, during its remaining years there was more than 100 percent of Compound Growth Rate on general source. But the ordinary revenue on Lighting source was very poor.
during 1998-99 and 1999-2k. The C.G.R. of collection was not calculated, as there were no collections. Ordinary revenues on Elementary Education were allotted and collected throughout the period. The percentage of collection also was more than 66 percent throughout the period. The C.G.R. of collection also reveals better growth in the collections. The above readings of revenue collections reveal that the financial performance of Nellore Municipality was not up to the mark. The obvious conclusion is that many steps have to be taken to improve the financial resources of the municipality to provide better facilities to the public.

Need to create better amenities to public

Every year in the municipal council meeting many development activities are planned but due to the shortage of ordinary and capital revenues they are not implemented. In Nellore Municipality due to the growing population and necessary number of slum areas there is an urgent need to construct culverts, drains, tree guards, absorption ponds, buildings for higher education, reading-room, maternity centres and others which contribute to the welfare of the public. At present Nellore Municipality only those development activities for which special grants are released by the government are being implemented. Other development activities, which are planned on the basis of internal sources, are not implemented, as they are inadequate. So raising funds, both ordinary and capital in nature, are very important to implement the other development activities in the municipality.
Problems faced by Nellore Municipality

To recount again the many problems faced by Nellore Municipality, unorganised personal administration, shortage of funds issued by government, unbalanced distribution of resources to different items of expenditure, complicated taxation procedures, poverty and urbanization, local politicians' influence, weak administration, poor matching grants, spurt in labour cost, ineffectual system, limited borrowing power and absence of productive enterprises these and others have been chronic. These problems also reflect its poor financial performance of the funds available are inadequate. Those, which are available, are not managed properly. It is time to find ways solving the problems, and rise strengthens the financial stability of the municipality. It must also be realised that without repairing simultaneously the grossly defective mechanism of municipal administration, both personnel and financial, the municipality cannot justify its existence.

Suggestions

Nellore Municipality is a replica of most municipalities in Andhra Pradesh, and of many in India. Most of the problems and hurdles faced by it are shared substantially by the others, but for some local and minor variations. Very few municipalities in the state can be said to be satisfactory in their performance and in fulfilling their objectives and obligations. The cause for their plight is many, human and material, and they are all tangled up, and have tended to become chronic. Though it may sometimes seem that
superhuman effort may be required to set things right in our municipalities, the effort nonetheless has to be made, where there is a will, there is always a way. And the situation in municipalities is admittedly confusing but not desperate. Broadly, the issues facing our municipalities are mainly financial and administrative. Committees and conferences, and academic men have made many suggestions to make Indian municipality, whether has a fairly long history, a viable institution. As the present study focuses on municipal financial management, some workable suggestions are offered based on the study of financial management of Nellore Municipality. Conditions and problems in may other municipalities being alike; it is not unrealistic to hope that the suggestions will be useful to other municipalities too, to better their performance. Both the state government and those who are involved in making the municipality as offices and councilors, may pay heed to them. Several of the following suggestions have already been made separately in different contents in the study. They are brought together here.

(1) Augmentation of Internal sources of finances:

It is essential that municipalities be placed on a sound financial basis. Only then can they function properly. Augmenting their internal resources is the first step, because it is imperative for them to do so. Collecting different kinds of taxes is an important source of revenue. For Nellore, as for other municipalities, it is very necessary that the revenue collected is more than its expenditure. There are always many tax evading and defaulters. They have to be contained. At present the prevailing rules and regulations are such that the
municipality cannot take easily disciplinary against them. Municipalities, which do not utilise their existing power of taxation, can have no claim on the financial resources of the state. Therefore, they must overcome their reluctance to impose new and necessary taxes. Where a municipality is unwilling to impose tax at an adequate rate, the state government should have the right, in the first instance to give advise and if the local body fails to carry it out, the state government should in the last resort, have the power to impose or raise taxes. It is a workable solution to increase internal sources. Proper estimation, monthly wise revisions, proper checking of collections, excess of tax collection to meet the growing expenditure of municipality all these steps help to increase the self financing funds of municipalities.

It is eminently desirable to impose a limit on the levels of taxation and a sort of slab system is introduced as it is being done in fixing the charges for electricity consumption and use of telephone. Those whose income is considerable or who have more of landed or other property may well be taxed at a higher rate. One of the reason advances for not getting the municipal personnel trained is that municipalities are poor, does not have the resources and cannot afford it. But it is not then poverty that cramps them as much as the self-centred reluctance of the elected councilors to impose new taxes for fear of losing popular support. None takes courage to explain to their supporters why fresh taxes are necessary and how paying them by helping municipality to provide better would really benefit them and more services to the community. A community’s willingness to impose high taxation in itself
for common needs is proof of a very advanced civic consciousness. But it is doubtful whether the elected councilors have ever tried to promote civic consciousness and responsibility in their followers and supporters.

(2) Proper distribution of taxes between state and local bodies:

State Government has to take some steps to improve the tax income of municipalities by revising the tax structure. Some taxes, which produce more revenue, should be transferred to the local bodies. When there is a need to abolish some indirect taxes and fees, the tax system should be made elastic. This helps municipalities to acquire more funds.

(3) Relaxation of rules and regulation to impose new taxes:

At present it is not easy for a local body to restructure its tax policy and introduce new taxes or amend tax rates because the official procedure is very cumbersome. The period of approval of the state government causes excessive delay to implement the new tax policy by the municipality. Meanwhile the cost of maintenance grows tremendously adding to the already existing financial problems. This situation can be remedied if the prior approval of the state government is made compulsory only in extraordinary cases. It may be suggested that many taxes, particularly some productive taxes, now being imposes by the state government be transferred to municipalities so that the tax system becomes flexible. This arrangement would be advantage on to both the parties.
(4) State Level Finance Commission:

At present there is a finance commission at the national level to give suggestions to state and local bodies to improve their financial resources. It is advisable to set up a State Level Finance Commission on the lines of the National Finance Commission and under its control to suggest the pattern of distribution of the sources of income between the state government and local bodies. The Commission shall draw a rational tax structure for the municipalities so that they know what items are to be taxed and to what extent.

(5) Emphasis on non-tax revenue:

Apart from taxes it is also important to raise income by exploiting non-tax resource, such as town bus services and their means of transport, municipal licensing on each and every item mentioned in the A.P.M.Act 1965, municipal trading and housing etc., on profitable basis. Such activities as supplying electricity, drinking water etc., and running trade not only bring revenue but also have social advantage. Municipality then would have more money to spend usefully.

(6) Growth on funds released by government:

Generally funds released by government are of two types: (1) Grants for special projects (2) Grant-in-aid. At present special grants for specified work are released more readily than grants-in-aid. The funds released as grant-in-aid are not sufficient to meet the growing municipal expenditure. The
need for rational and liberal grants grows because larger sums of money will have to be given by the state to municipality in future in view of the growing trend towards centralisation of revenue. Further, present grants are given by the state on a year-to-year basis or on an adhoc basis. As a result, municipalities are not able to plan their activities properly with a sense of certainty. Instead, they should be given some idea in advance about the grant-in-aid likely to be made available to them over the next five years or over the plan period. The present practice of releasing grants when the financial year is running out, is resulting in wasteful expenditure or non-utilisation of grants within the financial year. This practice can be easily avoided.

(7) Liberalised policy and procedure to raise loan:

At present there are ever so many obstacles for municipalities to raise loans from even recognised financial institutions, to meet their capital requirements. There are many statutory and administrative restrictions on the borrowing power of municipalities. The setting up of a Municipal Finance Corporation with simple and easy procedure may go a long way to meet the legitimate loan needs of municipalities.

(8) Trained people and modern techniques for assessing and collection of revenues:

Most municipalities are deprived of considered revenue because of laxity in the assessment of taxes and collection. So it is very important to appoint competent employees on merit basis rather than other consideration,
impart proper training to them, and provide incentives to them for rendering efficient service. Further there should be strict check on the corrupt and defaulting employees. There should also be a check to prevent further increase in arrears. Installation of E-Seva centres for collection of revenues and computerisation in internal administration help municipality to close the loopholes in the collecting machinery. In other words, the tax collecting machinery in the municipality should be properly organised and made effective to reduce dues, and to catch evaders. Heavy penalty imposed defaulters and evaders may act as a deterrent. Municipal taxpayers tend to take municipal demand notices of tax easy. Incentives may be offered to those taxpayers who are regular and prompt in paying tax.

(9) Recovery of arrears:

Many municipalities suffer from piled up arrears. Internal checking of day-to-day collections, setting up of standards to collect money and day-to-day efforts to collect arrears are some of the necessary steps to control accumulation of arrears. Special units may be created for this purpose in view of the overall economy. At the same defaulters as mentioned in the A.P.M Act 1965, have to be brought to book, without extraneous considerations.

(10) Proper utilisation of funds available:

As municipal funds and resources are meager. They have to be utilised in the most economical, efficient and effective manner. At present a good deal of the income of municipalities spent without tangible results, regarding
utilisation of funds, there should be clear priorities. Wastage of money should be checked under all circumstances. A rupee saved is as good as getting a rupee. The basic needs should be fulfilled first and the balance if any, should be put to productive activities.

(11) Performance budgeting:

In preparing its annual budget, Nellore Municipality (and of course other municipalities too) must bear in mind its financial position. The prepared budget first should go before the finance committee for its approval, and then to the municipal council. After passing it, the council distributes it among different committees for utilization. This Technique of performance budgeting seeks to correlate financial outlays with physical targets and achievements. By a rational structure in terms of functions, programmes and activities and through a meaningful analysis of the relative costs and benefits of competing and alternative proposals, it helps the management to achieve its objectives most prudently. In the field of municipal government the potentiality for the application of the technique is enormous, provided some amount of discipline is created in it. Similarly, there are other modern management techniques, which may also be introduced gradually.

(12) Proper accounting and auditing system:

Proper and regular accounting and auditing of municipal finances facilitates a municipality to exercise control over its finances. It provides a clear picture of the resources available for the financial year and helps to
pinpoint the maladies afflicting its internal management. The audit objections should be carefully attended to and should not be ignored. The audit itself should be timely and strict.

The financial problems of a municipality cannot be viewed in isolation of public finances. It is very closely to the overall tax structure and the system of financial devolution. While introducing reforms in municipal finance the higher governments should view the problem in the wider perspective of public finance in the country and should provide the local bodies their due share. The seventh five year plan (1985-90) acknowledged the financial problems of urban local bodies and stated that only efficient management of municipalities could restore the health of local bodies. It goes without saying that here management includes financial management and internal management of municipalities. The strategy for urban development would include a package of measures to strengthen the capability of local bodies comprising restoration of popular government, structured reforms, and improvement in general and financial administration and reforms of the system. Implementation of effective financial management system with specified functions of Planning, Budgeting, Controlling, Traditional Accounting system, Internal checking and Internal Auditing system only can solve the financial problems of our municipalities.