CHAPTER VIII

PROBLEMS AND SUGGESTIONS
The efficiency of any organization in general and urban local government institutions like municipal corporations in particular to a large extent depends upon its financial resources and strength. The better the fiscal resources are the better amenities and services provided by these organizations. Thus, the robustness of urban local bodies would be reflected in the state of their finances and in their capacity to look after their own needs. Hence, finance is the life blood of municipal administration and fuel of its operational machinery. Sound financial administration is the crux of the efficient administration of urban local bodies. In short, municipal financial administration is the art of maximizing financial output, the optimization of financial resources and their judicious utilization.

The development of municipal finance is conditioned by two important aspects namely local and institutional. The local aspects consist physical resources, population, industries, commerce and trade in the city or town concerned. The institutional aspects include the development and growth of local self-government with constant increase in its powers and its ability to levy and collect taxes efficiently. In other words, the local physical and other resources must be exploited completely by the municipal administration concerned and the revenues thus collected must be economically utilized to realize the desirable end in terms of services and amenities.

Kurnool district is one of the four districts of Rayalaseema region of Andhra Pradesh. Kurnool Municipal Corporation is one of
the five municipalities of the district which was elevated as Municipal Corporation in August 1994 and completed as many as Eighteen years in serving the citizens of Kurnool Municipal Corporation area. Like any other municipal corporations in India, the efficiency of Kurnool Municipal Corporation also depended much on its financial position. This corporation gets its revenue through various sources like Tax and Non-Tax revenues, Plan and Non-Plan Grants from State Government as aid, donations and if needed loans raised from various financial institutions with the approval of State Government as permitted by the A.P. Municipal Corporations Act. The sources of taxable income are Property Tax, Profession Tax, Tax on carriages and carts, Tax on advertisements, Tax on transfer at immovable property and Entertainment tax. The Non-Tax resources are two types. They are; Internal sources like; income from remunerative enterprises like slaughter houses, municipal shop rooms, markets, income from license fee, and income from school fees, income from water charges, income from fairs and interest on investments. The external sources or non-Tax income are Grants in-Aid from Government of Andhra Pradesh in the form of Plan grants and Non-plan Grants. Thus all the monies received by the corporation, all proceeds of the disposal of property by or on behalf of the corporation, all rents on the property of the corporation, taxes, fees and fines collected, compensation for compounding offences, monies received from the government or public bodies or private individuals as grant, gift or deposit, interests and profits from transaction or interest by the corporation, accumulated
fund in the corporation standing to the credit is called as Municipal fund as per the Act.

Besides the powers of collection of taxes from its citizens the municipal corporation is entrusted by the Act with several functions to meet the day to day civic needs of the citizens under the corporation area. These functions are broadly divided into Engineering, Communication related, Public Health and Sanitation related, Town planning related, Education related and other urban development related as discussed in the preceding chapters.

The present study revealed that the financial position of Kurnool Municipal Corporation is good and it is running with surplus budget as on today. But the study on the functions and performance of the Municipal Corporation in respect of the above said functions showed mixed picture and mixed responses from the citizens. The performance of the municipal corporation could be judged by way of the expenditure incurred on different services and the impact that it had created thereby on the lives of the citizens.

Under engineering and communication, roads, bridges, ferries and lighting are covered, under public health problems such as birth and maternity relief, sanitation, compost, food adulteration, water supply, drainage are covered under town planning different town planning schemes, housing schemes are discussed, under Education the number of Primary schools and secondary schools and pupils
strength was discussed and under recreation brief account of parks and libraries are studied in Chapter VII.

The observation made by the researcher through his personal visits and on-the-spot studies it is revealed that significant development could be seen in respect of roads, bridges and town planning. Further there is wide scope for widening of internal roads with in the city to bear two-way traffic. The Municipal Corporation also constructed and maintained cause ways and culverts. The observation also revealed that the need for lighting facilities in the streets during nights was well attended. The birth and maternity facilities in coordination of Kurnool General Hospital were also taken care of. The sanitary activities needs little more attention in the city. Sweeping of roads and scavenging, removal and disposal of refuse needs little more attention. The Sanitary Inspectors should pay more attention to this aspect. With regards to compost the Kurnool Municipal Corporation trenching ground which is utilized for made of compost situated about three kilometers from the city in more than ten acres. The item of food adulteration was not properly checked by the sanitary / food inspectors of the corporation. An analysis of the adulterated food items during the period of study revealed that the adulteration was found in milk products, edible oils, milk, cereals and fast foods.

Supply of drinking water is one of the most important services of the corporation. The Kurnool Municipal Corporation is quite
successful in supplying 100 percent protected water but only for two and hours per day was supplied. Adequate water round the clock is not provided by the Corporation.

There is no proper and comprehensive drainage system in Kurnool city limits. But partial drainage scheme for busy localities of the city is operative. The citizens of Kurnool city faced lot of problem whenever heavy rains come. When twice floods hit Kurnool city and surroundings as there was poor drainage system the flood water mixed with rain water flown into residential areas and caused huge loss to property, lives and health.

During the personal visits of the researcher, it was also found that the sewage management was quite improper, the markets were not properly organized, cleaned and the parking facilities for vehicles in the city area was also not properly maintained. There were number of cases of food adulteration registered and many cases of victims of food adulteration were recorded in government hospitals. Above all the most important aspect of environmental protection was much neglected. The municipal corporation failed to take any steps to promote environmental protection.

The personal visits of the researcher to the primary and secondary schools run by the Kurnool Municipal Corporation revealed that the schools were not properly run and the teachers also did not take their function as seriously as they should. The impact of local politics on these educational institutions is also obvious. Though
Education grants were released by the government, the teachers in these schools were not realizing the responsibility of giving good education to the children.

The present study revealed that the performance record of Kurnool Municipal Corporation recorded in the records, the personal visits and on-the-spot studies conducted by the researcher and the perceptions of 500 sample respondents collected through empirical study by administering a well structured questionnaire matched each one about the performance of the corporation in extending amenities to its citizens.

Kurnool is a fast growing city in terms of population and area. The Municipal Corporation is straining itself to meet the growing demands of the citizens. The performance of Kurnool Municipal Corporation in providing civic amenities showed ups and downs and the rating of the performance of the corporation in providing civic amenities were good, average as well as bad.

Peoples participation in civic affairs was also not in full measure. The municipal corporation must motivate the interest of the citizens of the city to actively participate in the affairs of the corporation. The Corporation should also enable every citizen to get all the information he requires for the purpose.

At present there is no proper vigilance machinery to ensure proper assessment and collection of municipal taxes. Consequently property taxes are grossly under assessed or over assessed and
entertainment tax is not properly remitted. A view is expressed by the officials of the corporation that a separate vigilance wing should be created in the corporation to conduct surprise checks and ensure proper collection of taxes.

Kurnool Municipal Corporation could successfully construct and profitably make use of remunerative enterprises like shopping complexes with its surplus money. Even the nationalized banks and government provide sufficient loans to the corporation to acquire more remunerative enterprises and further increase revenue.

There is also a feeling among the officials and non-officials of the corporation that the assistance provided by the government by way of grants was not only inadequate but also not timely. It is argued that since the municipal governments deal with nation building activities and provide vital services to the citizens they should get full assistance from the government. It is also necessary for the government to release the grants on time so that the time schedule of the activities of urban local bodies is not disturbed.

It is observed that the present provision of stipulating the Kurnool Municipal Corporation to submit its budgets to the government has become a routine formality. It is, in fact the duty of the government to verify whether the municipal corporation has made adequate provision to meet all its obligatory functions including the working balance. But in practice, the state government neither makes any changes nor communicates its comments to the Corporation.
Such neutral attitude towards vital function is not a healthy practice. The Budget is the most important document of the municipal corporation which lists out the programme of activities and financial allocations. Hence the government should make every effort to educate the municipal corporation in the art of budget making through its detailed comments on different items of income and expenditure.

An analysis of the Revenue and expenditure of Kurnool Municipal Corporation revealed that this corporation is generating revenue surplus and overall resource gaps are very little. At the same time, it could be observed that spending by the corporation is lower than that required for providing a minimum level of civic amenities. This apparent contradiction of sound fiscal health and high level of under spending is due to statutory obligations, whereby the corporation is generally bound to restrict their expenditure to the resources available and are also not granted liberal permission by State Governments to incur debt.

A comparison of per capita spending on core services by the Corporation in terms of the Zakaria Committee norms indicate that the level of under-spending on an average works out to be about 76 per cent. The extent of under – spending varied between 30.78 per cent in the case. Reasons for under-spending are traced to MCs own operations (endogenous) as well as to policy issues related to the upper tiers of Government (exogenous). Exogenous factors include
dependency for resources on the upper tiers of Government and inadequate delegation of revenue-raising powers. Endogenous factors include inefficient revenue (tax) administration, low cost recovery and poor quality of expenditure.

The exogenous factors are essentially those factors over which the MC do not have any control. The delegation of revenue powers and grants which determine the resources of the local bodies, are the key exogenous factors influencing the ability of the MC to spend and provide these services. These factors can be captured in the form of 'dependency ratio' and 'decentralization ratio'. Dependency ratio is defined as the share of grants a MC receives in relation to its total expenditure. Decentralization ratio refers to the proportion of the MC's per capita revenue to state per capita revenue receipts.

Decentralization increases efficiency of the lower levels of Government in the provision of various local services due to their limited jurisdiction and better matching of resources, services and preferences. An increase in decentralization is expected to delegate more powers to local government authorities and augment their capacity to mobilize resources. Dependency of local government on the upper tiers of Government arises from the support extended to them in the form of grants, which arise largely out of vertical mismatches between functions and finance, as well as out of the compulsions necessitate by horizontal disparities between different jurisdictions. However, greater dependency on the upper tiers renders
the local governments vulnerable regarding spending on the provision of basic infrastructure and services. This adversely affects the performance of the local governments.

It is unfortunate that the audit of the municipal accounts was not up to date. In this municipal corporation, the audit of accounts has been long pending. Such delayed action serves no useful purpose as most of the functionaries responsible for the accounts would have either retired or have been transferred to other places. There is also a tendency to keep large amounts of expenditure under objection and waive objections item by item after prolonged correspondence. This leads to avoidable paperwork and unnecessary tension for those involved in transactions. The audit objections should be cleared within the shortest possible time and action initiated without delay.

Though, Director, State Audit conducts audit periodically, the audit of accounts of ULBs for the past several years was pending, as the accounts were yet to be compiled by the ULBs. The arrears ranged up to 20 years in some Municipal Corporations. The District wise arrears position in respect of Municipalities furnished by Director, State Audit ranged between four to 42 years. The Director, State Audit had, so far, submitted the Consolidated State Audit and Review Reports for the year 1998-99 to 2003-04 to the Finance department. Though the State Audit Act prescribes that the reports should be laid on the table of the Legislative Assembly, the same was
not done by Government of Andhra Pradesh. Some of the major areas commented on by Director, State Audit are excess / non-utilization / diversion / misutilisation of grants, non-collection of dues, advances pending adjustments, violation of rules, wasteful expenditure, etc.

Inspection, a powerful tool for controlling the local body and also for providing guidance to it is undertaken in a casual manner. It is only peripheral and does not involve an in depth study of all problems of the corporation.

Transparent financial information and standardized accounting practices only enable effective governance, but also form the foundations for carrying out municipal credit ratings, development of commercially viable urban infrastructure projects, and involvement of the private sector in the delivery of urban services.

The government also enjoys elaborate powers to control and regulate the municipal finances more particularly in the areas of assessment and collection of municipal revenues. The system of Grants-in-aid further tightens the control of the government over the municipal corporations. So, is the case in respect of maintenance of accounts, and raising of loans.

An insight into the Kurnool Municipal Corporation Budgets prepared by it shows that these budgets often classified all types of public works into one category. This classification had mixed functions like roads, which are amenable to tax financing with functions such as Water supply which is eminently suitable for user
charges. There is a need to re-orient the municipal budgets so that they can facilitate financial planning and accountability. The budget should play the following roles effectively:

a) Policy making role in allocating resources between various categories of infrastructure and services.
b) A management role in allocating resources to particular agencies / departments and estimating inputs - personnel, equipment etc., required to achieve specific outputs;
c) A control role in giving authority to local officials to collect and spend money and in prescribing who can spend how much and on what?

It is widely accepted that the property taxes can provide the municipal governments an access to a broad and expanding base while promoting efficiency through the linking of provision of municipal services closely to their financing. The State Government should ensure that the Municipal Corporations in general switch over to the “Unit area method” or ‘Capital value method” for assessment of property tax in a time bound manner. The categories of exemptions from property tax need to be reviewed and minimized. A periodical physical verification of the properties and the taxes levied on them should be carried out in the municipal corporation area by a separate wing directly under the control of the Municipal Commissioner.

The discussions with the Chief Executive of the Kurnool Municipal Corporation and the Corporation staff revealed that the expenditure on establishment being higher side needs to be curtailed
by employing part-time or contract workers privatizing the services. Some of the developmental works may be executed not directly by the Corporation but may be entrusted voluntary organizations i.e., Ward Committees with some financial assistance and guidance.

Discussions with the staff and citizens of Kurnool Municipal Corporation resulted in the following points which can enhance the financial efficiency of Kurnool Municipal Corporation.

a) Need of union Government support through Five Year Plans to meet the needs.

b) Need of infusing positive attitudes among citizens to local functions and finance.

c) Need to introduce new techniques of Budget : Performance Budgeting and Zero Based Budgeting.

d) Need to kindle interest among political elite.

e) Need to exploit local resources.

f) Need of raising internal municipal resource.

g) Need of examining privatization of some aspects of municipal services.

h) Adoption of earmarking under user charges and Benefit charges.

i) Efficiency in the collections of property and water charges have to be stepped up by fixing targets for individual Bill Collectors and
review of progress in recovery, in a focused manner, at frequent intervals.

j) Water meters should be fixed in a phased manner to collect charges based on usage and avoid wastage of water.

k) Water rate should be revised at regular intervals to keep pace with the increase in the costs of water supply and distribution.

Suggestions:

Urban local governments are unable to meet the basic services requirements of the population living in the selected urban centres. It is reported that a high proportion of the population /households remain uncovered by piped water supply facility, underground sewer facility and solid waste collection services. It is further observed that the quality of piped water supply, the condition of underground sewer /drains, the disposal of sewage and solid waste are some of the aspects, which are in a critical state.

There appears to be a bias against maintenance of existing urban services. In this regard, it is observed that the state government has taken measures for the successful implementation of new infrastructure projects at the local level. The municipal members and authorities are in fact quite concerned about the timely availability of such funds and about signing of new project contracts with private contractors. A similar enthusiasm among municipal officials with respect to the maintenance and upkeep of basic civic services, however, seems to be lacking. It is learnt that there is
considerable inefficiency among the municipal personnel in the performance of their duties. This attitude is leading to the deterioration of existing civic services.

There is inefficiency among urban local governments in the management of their finances, which affects adversely the efficient delivery of basic civic services. Some of the important observations noted in this regard include: deficiencies in the procedure for determining the cost of services; low cost recovery from taxes, non-taxes, high outstanding dues of previous years; high dependence on external sources of finance; etc.

Studies indicate that the municipalities in India fail to tap own sources adequately. A recent study by the Indian Institute of Public Administration (2010) found that the share of own sources in most cases is only one per cent of city income. This study, however, also confirms that given a chance i.e. placement of adequate revenue instruments and financial reforms, the municipalities can raise own revenues in a range of 6 to 7 per cent of city income, suggesting the potential of a quantum jump in own sources of municipal finance. The study also confirms that though cities have immense potential to mobilize own sources, the magnitude of the potential will not remain the same and will vary according to the size of city and regional productivity. Therefore, the role of collection through fiscal transfers will remain the critical and deciding factor for financial sustainability at municipal level. The High Powered Expert Committee (HPEC) on
Urban Infrastructure (January, 2011) has also recognized this situation and has mooted a constitutionally mandated revenue sharing arrangement whereby the states would transfer to the local bodies a certain percentage of own tax revenues in a fixed and predictable manner.

The fiscal gap of serious magnitude that the municipalities are facing can be attributed to a host of internal and external factors. Vertical imbalance in resources and responsibilities, fiscal dependency, borrowing constraints and inefficiency in management of municipal services are affecting the financial viability of the local bodies. While the municipal governments do not have adequate autonomy to fix the rates and base of fiscal instruments available with them they also do not have adequate institutional capacity to raise resources within the given framework. Instruments such as Geographical Information system (GIS) and asset accounting etc. are not adequately employed by Local Bodies. Secondly, municipal bodies do not receive adequate amount of fiscal transfers from higher levels of governments, who have better command over the resources and relatively low level of expenditure leading to mismatch between finances and functions. These factors lead to a horizontal and vertical fiscal imbalance for the local bodies and continue to cause regular addition to the strategic fiscal gap.

Local bodies need to be provided their due place on the public finance map of the country, which is essential to facilitate inclusive
economic growth and equitable development. We may recall that the size of the municipal fiscal sector in India is very small compared to that in many developed and developing countries and in relation to the expenditure requirements for public services that the urban local bodies are mandated to deliver.

There is a mismatch between functions and finances of Municipalities, which primarily explains the vertical imbalance. Out of 18 functions to be performed by the municipal bodies in India only a few have a corresponding financing source which is utilized only marginally. The 12th Schedule in the Constitution introduced via the 74th Amendment also envisages that functions like 'safeguarding the interests of weaker sections of society, including the handicapped and the mentally retarded', 'slum improvement and upgradation' and 'urban poverty alleviation' belong to the legitimate functional domain of urban local bodies. However, there are no commensurate resources with these institutions to discharge these functions.

Urban local finance registers only a small presence in the overall public finance in India, which is actually declining. The total municipal revenue in India accounts for about 0.75 per cent of the country's GDP as against a figure of 4.5 per cent for Poland, 5 per cent for Brazil and 6 per cent for South Africa. In terms of both revenue and expenditure the urban local bodies account for little above 2 per cent of the combined revenue and expenditure of Central Government, State Governments and Municipalities. A study of municipal finances
by the RBI in 2007 also revealed that the total revenue of Municipalities is growing at a lower rate compared to the growth of combined Central and State Government revenues. This is in contrast to the situation obtaining in advanced countries, where local bodies normally account for 20-35 per cent of the total government expenditure and the principle of 'subsidiary' is regarded as a cornerstone of fiscal federalism.

**Problems of Tax Administration:**

There are several problems of tax administration in Urban local bodies. Such as under utilization of taxation powers due to general reluctance of local political leadership and unpopularity; lack of knowledge, familiarity and awareness about laws; tax compliance is not encouraging – reluctance to pay taxes – evasion – avoidance – lack of voluntary tax compliance awareness; no suitable mechanism to maintain a proper list of tax payers and prospective tax payers - absence of information; inadequate machinery to collect taxes at local level etc., It is suggested that a policy of legal action and provision will help tax evasion; review of taxes and appropriate assessment of taxes periodically which is not being done at present; and need to create public awareness. Other problems and constrains include narrow tax base; lack of administrative machinery and trained staff in tax collection; lack of guidelines to levy taxes; and unpopularity of certain taxes among voters. As a result, some local bodies do not impose and collect taxes that they are authorized to. Local tax collections can be improved by improving the administrative capacity of local bodies.
before giving them higher tax authority and through more frequent revision of their tax rates. There is urgent necessity to develop training infrastructure and provision of training to technical staff.

The First State Finance Commission in Andhra Pradesh recommended statutory sharing of the rate’s tax and non-tax revenue with urban local bodies to make a matching contribution from their side. The requirement of matching grant may persuade local governments to improve their revenue collection. While such grants can help improve accountability they can also add to the fiscal burden of local bodies. Question is how far is the transfer of responsibilities accompanied by matching resources / tax powers.

In all the states, only the own revenues – excluding transfer from the union – have been placed in the divisible pool. Even here the percentage is quite small. Departments continue to protect their budgets and their activities. Division of funds to lower levels is being made in the departments, in consultation with the finance and planning departments. The funds of local bodies are included in the demands of different departments that implement various schemes. Even in supplementary budgets the process is same. Thus, the Corporations have very little by way of funds – tied or untied. After meeting the expenses, they can do very little. Financially, they are crippled. Even today many of the powers that have been given to local bodies are delegated powers, and the state governments continue to retain overall responsibility. Powers for raising resources through tax,
duties, toll and fees have also been conferred on Urban local bodies subject to rates, instructions and rules to be framed by the State Government. This being taken care of by the setting up of a State Finance Commission for every five years.

The State governments, for their better performance to the Corporations, should extend incentives by way of grants–in–aid. As regards raising their own resources Corporations may be given untied funds to enable them to select development work according to their needs. The National Commission to Review the Working of the Constitution observes that, “the extent of fiscal decentralization through empowerment of the Urban local bodies has been very limited. Fiscal autonomy of these institutions is far from adequate as they have practically no fiscal powers and depend heavily on grants mostly tied to certain schemes.

Alternatively, the Eleventh and Twelfth schedules have to be restructured in a manner that reduces the area of the state’s discretion and guarantees devolution of fiscal powers from the state to the Corporations. Periods covered by the Union Finance Commission and State Finance Commission should be identical. To prevent the state governments from sitting over the reports of the State Finance Commissions, there has to be a constitutional obligation on the part of the State Government to place an Action Taken Report before the legislature within six months or so after the receipt of a report.
Suggestions to improve the finances of Kurnool Municipal Corporation:

At present, financial position of Kurnool Municipal Corporation is, far better than that it was earlier. The Kurnool Municipal Corporation has to consider these to improve its finances further.

- The corporation should be given general purposes grant and liberal grants-in-aid for general and specific purposes followed by a grants-in-aid code in each state.

- Municipal borrowing should be encouraged by setting up a finance corporation at the centre to provide loans and also subsidies at lower rates of interest.

- The Corporation should be allowed and encouraged to undertake remunerative enterprises and should be supported by finance and technical advice.

- The corporation should be assured of specific financial sources of revenue either by convention or by amendment to the constitution.

- The State Government should encourage the corporation to improve their non-tax revenues by making available all possible assistance and encouragement.

- The corporation should be allowed to impose terminal tax instead of octroi. As the terminal tax is in the union list of tax sources, measures have to be taken for the transfer of the tax.
• Betterment tax should be imposed on the increase in the urban land values affected by town planning and urban land development.

• The corporation should be allowed to impose a surcharge on sales tax within the municipal limits or share from that tax.

• In view of the increasing revenue to the states, the share of the revenue from the motor vehicles tax due to the corporations should be proportionately increased.

• Due to the increasing cost of living in urban India, the cost of dearness allowance payable to the municipal staff on par with the state and central Government employees should be borne by the state and union Governments.

• A surcharge on sales tax or an additional excise duty on articles manufactured in a city could be an alternative source to meet the burden of increased salaries of municipal staff.

• There should be central valuation department for assessment of taxation in each state.

• Coercive measures will have to be take in collecting the taxes and the staff to collect the taxes should be encouraged so as to improve the collection and reduce the tax amount from being written off.

To conclude, Reform of urban governance and finance are critical not only to improving the quality of life of the people living in urban areas but also to ensure cities become the drivers of economic growth in the country. Ensuring adequate availability of Finances and
improving governance is an imperative, and the rate at which urbanisation is taking place makes it urgent than reform initiatives must be under taken. If India is to expand its national rate of economic growth significantly, concerted action to reform both urban policies and urban initiatives are required soon.

To conclude, in the ultimate analyses, a city or town will be what the citizens make it. Even the best efforts of Kurnool Municipal Corporation with all its financial soundness, stability and strength will be of no avail unless the citizens are motivated, enlightened, educated and allow them to participate in the maintenance and extraction of civic amenities and municipal services.

Hence, the issue discussed in this chapter with regard to the finances and financial administration need ready treatment as it requires qualitative treatment. The suggestions made in this thesis and their prompt and effective implementation by the concerned would certainly go a long way in systematizing the financial administration of Kurnool Municipal Corporation and enable the corporation to serve its citizens with noble commitment in providing high quality civic amenities with utmost efficiency.