Chapter Two

Nature, Scope, Objectives & Research Methodology
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2.1 Nature of the Study:

As local self government, municipal councils have to make large investments for providing necessary infrastructure. They are not only the performers of sanitary and regulatory functions but also the developmental agencies for providing all important services to the citizens and also for the development of the area. Since the needs of citizens have been increasing, the demands for civic services have also mounted up. It is doubtless that the local bodies are the institutes for delivery of fundamental services to the citizens.

Municipal council requires a two fold funding, capital fund for implementing projects and current fund for operational and maintenance purposes. Hence, it is necessary to trace out the financial aspects of the municipal councils.

The share of grants in total municipal revenue is relatively much less than the share of central grant to the state revenues. A study report of the national council of applied economics says, local administration being a state subject, the constitution is silent on the mode of flow of funds from the states to the municipal bodies whereas the flow of funds from the centre to the state is well defined. Hence it is necessary to evolve a suitable mechanism under adequate constitutional provision to review the financial requirements of the local bodies in the overall context of central-state-municipal financial relationship.
In order to protect the autonomous structure, municipalities have to ensure efficient and effective management of domestic resources, tax collection & allied dues etc. At present, municipal councils of India are suffering from inadequate funding, insufficient personnel, outmoded system of management, structural deficiencies etc.

The vidarbha region is neglected from its developmental activities. Within Maharashtra state, municipalities are facing a lot of problems such as limited resources, lack of funds, insufficient grants & contributions from govt., abolition of octroi etc.

The objective of the study is to make an assessment of the financial administration of municipal councils in Vidarbha region of Maharashtra state. A study of this nature would be useful to present an actual insight into the problems concerned with the municipal councils. Since the problems and challenges of municipal councils are common throughout the country, the study can prove helpful to enlighten the framework of the financial policies relating to the development of municipal bodies in the country. The present study can also become beneficial and interesting to the policy makers, planners and other related authorities for restructuring the progressive policies in the municipal councils.

2.2 The Scope of the Study:

This study is confined to the municipal councils in Vidarbha region. It comprises ‘A’, ‘B’ and ‘C’ class municipal councils from various districts of Vidarbha. It is based on the secondary data collected from municipal records, state government offices and personal interviews with officials and representatives etc.
This study highlights financial analysis of municipal revenues and expenditure for a period of seven years i.e. 2000-01 to 2006-07.

2.3 Objectives of the study:

The following prime objectives were considered for undertaking the present study –

i) To study and analyse various sources of revenue i.e. tax revenue and non-tax revenue.

ii) To study the growth and structure of different taxes levied by the municipal councils in Vidarbha region.

iii) To review the progress of the municipal councils pertaining to their revenue and expenditure.

iv) To do a comparative study of the financial aspects in all three categories of the municipal councils.

v) To provide remedial measures for adverse effects created due to the gap between the expenditure and revenue.

vi) To determine development of new resources of the municipal revenue through proper exploitation of the existing resources.

vii) To research the composition of municipal expenditure and make possible recommendations for improvement.

viii) To recommend the ways useful to attain the urban challenges.
ix) To assess the impact of the abolition of octroi on the financial strength of municipal councils.

x) To find out further scope of research in the topic.

2.4 Research Methodology:

Efforts have been made to collect maximum possible information of sample municipal councils to fulfill the above objectives. To collect data, discussions were made with presidents, chief officers and authorities. Other available records and accounting records such as audit reports, municipal budgets etc. were also taken into consideration.

For the purpose of this study, 12 out of 68 municipal councils in the vidarbha region have been selected as sample. The municipalities selected for the present study (shown in chart 2.1) are categorized into three classes i.e. ‘A’, ‘B’ & ‘C’ covering various districts in the region.

CHART 2.1
SAMPLE MUNICIPAL COUNCILS IN VIDARBHA

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>District</th>
<th>Class</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>‘A’</td>
</tr>
<tr>
<td>1</td>
<td>Yavatmal</td>
<td>Yavatmal</td>
</tr>
<tr>
<td>2</td>
<td>Chandrapur</td>
<td>Chandrapur</td>
</tr>
<tr>
<td>3</td>
<td>Wardha</td>
<td>Wardha</td>
</tr>
<tr>
<td>4</td>
<td>Gadchiroli</td>
<td>&quot;</td>
</tr>
<tr>
<td>5</td>
<td>Amravati</td>
<td>Achalpur</td>
</tr>
</tbody>
</table>

Note: The selection of sample has been made on random basis and the same is followed throughout the entire study.
2.5 Collection of Data:

Necessary data was collected from municipal records by approaching concerned authorities, the District Statistical and Accounts offices at different district headquarters, Regional office of the Statistics and Accounts at Amravati, The office of Directorate of economics and statistics, Mumbai, Gokhale Institute of Politics and Economics Research, Pune, The Burffiwala Institute of Local Self Government, Mumbai, Jaikar library, Pune University Pune etc.

2.6 Hypothesis of the Study:

Following are the hypothesis designed for the study:

i) Municipal councils are facing the problems of shortage of funds.

ii) Municipal councils have failed to collect their tax revenues regularly.

iii) Municipal councils are heavily dependent on loan funds for their capital expenditure.

v) Municipal councils have failed to generate adequate revenues fro their properties.

v) Establishment expenditure is relatively high.
2.7 Interpretation of Data:

The data interpretation has been done on the basis of indices, simple average, percent growth rate and co-efficient of variation. Further, few charts and tables are also inserted to highlight the progress of municipal councils.

In order to make correct comparisons of time series data, absolute figures of revenue and expenditure are converted into the constant value of 2000-01. For this purpose, cost in inflation index published by Income Tax department, Govt. of India are used. The cost inflation index of the review period were as under:

CHART 2.2

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Cost of Inflation Index</th>
<th>Converted Figure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>406</td>
<td>Figure x 406/406</td>
</tr>
<tr>
<td>2001-02</td>
<td>426</td>
<td>Figure x 406/426</td>
</tr>
<tr>
<td>2002-03</td>
<td>447</td>
<td>Figure x 406/447</td>
</tr>
<tr>
<td>2003-04</td>
<td>463</td>
<td>Figure x 406/463</td>
</tr>
<tr>
<td>2004-05</td>
<td>480</td>
<td>Figure x 406/480</td>
</tr>
<tr>
<td>2005-06</td>
<td>497</td>
<td>Figure x 406/497</td>
</tr>
<tr>
<td>2006-07</td>
<td>519</td>
<td>Figure x 406/519</td>
</tr>
</tbody>
</table>

Source: Income Tax, Singhania and Singhania.
2.8 **Chapter Plan:**

This study consists of 7 chapters revealing a deep analysis of the different income sources of municipalities and the various ways of expenditure as follows –

Chapter I relates to the Introduction of the subject, Urbanisation trends, Concept of local self government, Role of municipal bodies, Profile of municipal government in Vidarbha region, Significance of municipal finance, Problems and challenges and needs of the study etc.

Chapter II deals with the Nature, Scope, Objectives, Research Methodology, Collection of data, Chapter plan, Review of Literature, Hypothesis and Limitations of the study.

Chapter III has coverage on total municipal revenue, total municipal expenditure incurred under different heads and its surplus or deficit.
Chapter IV highlights the analysis of source-wise revenue of sample municipal councils in the region.

Chapter V contains a deep analysis of headwise expenditure of sample municipal councils. It provides a detailed analysis of municipal expenditure done under different heads such as general administration, public works, public safety, public health, education, miscellaneous etc.

Chapter VI has summary of the findings and recommendation.

2.9 Limitations of the Study:

This study has suffered the following limitations.

1) Due to resource constraint, the present study is limited to the Vidarbha region only.

2) Although efforts have been made to update the data to its latest origin, it could not be made available for assets and liabilities, D.A. grants to the employees etc.

3) Detailed data concerned with the dues of electricity for street lights and water supply was not available despite our efforts to collect the data. Hence, we could not incorporate it in this study.
However, honest attempt to maintain the quality of work has been made throughout the entire study and its presentation.
2.10 Review of Literature:

i) Om Prie Srivastava¹, in his Ph.D. thesis, ‘Municipal Government and administration in India’ has investigated that a fresh approach to state local relations is needed.

ii) S.G. Barve², ‘Urbanisation of Maharashtra State Problems and Plan of Action’ states that the state administration must look upon the local authorities of the urban centers and as partners in the program of planned development.

iii) K.M. Rastogi³, in his thesis, ‘Local Finance’ has analysed that local expenditure is that part of the public expenditure that is incurred by the local authorities. The main aim of local expenditure is service to the community.

iv) Mr. Bhola Paswan Shasrti⁴, Ex-Union Minister for Works, Housing and Urban Development, had delivered the presidential lecture in 9th all India conference of municipal corporation stating that, “Municipal authorities in India are in difficulty to cope its financial resources with the demands of increasing civic facilities.

v) Dr. Rafik Zakkeria⁵ has suggested in the report of committee on augmentation of finance resources of urban local body exhibition that grant-in-aid or sharing of state taxes is the better method of rendering financial assistance to municipal corporation.
vi) Dr. Rafik Zakkeria has stated his views that certain services like water supply, sewerage, drainage, public health, primary education, maternity and child welfare etc. are of national importance and central as well as state govt. should share the responsibility for providing these services to the urban population.

vii) Gautam Naresh, in his 'Municipal Expenditure in India', a cross-sectional and time-consistent analysis, has examined that, civic bodies should be well equipped with a sound fiscal base with a degree of autonomy that makes the civic bodies both, respectable and also responsible to handle local problem with efficiency.

viii) Satish Tripathy, Secretary to govt. of Maharashtra, Urban Development Department in his augmentation of 'Financial resources through improvement in consolidated property tax assessment', reveals that the rent control act should be modified for revision of standard rent so that the ratable value keeps increasing with time. Moreover, the state budget for plan assistant to the urban local bodies should be increased from 7 % to 10 %.

ix) Abhijit Datta in his book, 'Local Government', has stated that, Municipal finance should be related to the more elastic resource basic available with the states and the central government for overcoming the difficulty of stagnation of local resources.
x) S.A. Mangley\textsuperscript{10} in his book, 'Lectures on Property Tax Administration' has suggested that there should be a uniform system of property tax administration that will lead to substantial increase in revenue of the local body.

xi) Dr. N. Ashok Kumar\textsuperscript{11} in his paper has cited that urban governance is grappled with terrible financial crises. To maintain the set standards, local governments require higher investment and traditional funding strategy is grossly inadequate. There is an urgent need to explore aggressive potential strategies and methodology to reconstruct the financing urban infrastructure. For ensuring better growth, the author has suggested the following measures –

1) Regular maintenance of services and infrastructure provide adequate savings.

2) All classes of consumer of services should be liable to share the investment.

3) Provision for subsidy and cross subsidization must be cut.

4) Banks and other financial institutions should be given role to play in the urban development programs.
Dr. O. R. Sharma has made an in-depth study of financial aspects of municipal councils in the Marathwada region of Maharashtra state. He has used the relevant data for the period 1993-94 to 1999-2000.

The researcher has analysed the revenues and expenditures of selected sample municipal councils belonging to A, B & C category. He has observed upward trends of municipal revenues and expenditures. He has observed that increasing trends in revenue and expenditure are different in all class municipal councils. Among other suggestions, he has suggested introduction of self assessment of property tax, provision of inflation compensation grants and introduction of productivity audit by independent bodies and inclusion of the report in annual report. Moreover, the researcher has made some useful recommendations for economy in municipal council expenditure and increasing their revenues. The researcher has made very useful recommendations in respect of A, B, and C grade of municipal councils.

P.D. Kharwadkar has made an in-depth study of financial aspects of municipal corporations in Maharashtra. He has used the relevant data for the period of 2002-03 to 2007-08.

The researcher has analysed the revenues and expenditures of selected sample municipal corporations in Maharashtra.
References:


6) Ibid, Chapter VII, Para 21, cited in Dr. O.R. Sharma’s Ph.D. Thesis, p. 27


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