

FINANCE INCOME AND EXPENDITURE MANAGEMENT OF LOCAL AREA GOVERNEMENT BODIES: A CASE STUDY ON PANCHKULA DISTRICT

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ABSTRACT

Local finance also plays very important role in the economic development and well-being of the people of the local area concerned. Therefore, after independence one of the most important objectives of the Government of India was to inculcate a spirit of freedom and self-reliance in each and every walk of life of the people. Among the various measures taken in pursuance of this goal, India adopted the system of self government at the local level in rural as well as urban areas keeping in view the local needs and importance. The Panchayati Raj institutions cover the rural area and urban local authorities namely, Municipal Corporation, municipal councils, municipal committee etc. have been created to cater to the needs and to address the problems of the urban area. The urban local institutes are governed by the separate enactment in each state. Main emphasis in this paper has been made on analyzing the concept; to examine the financial picture of the municipal council, Panchkula.; to analyze the income and the expenditure profile of the municipal finances in order to bring out the weaknesses, which might have impaired the efficiency and functioning of municipal council; to study whether the received revenues are fully utilized or not; and to study the scope for mobilization of additional resources. In this paper, to conduct this study, Research Methodology used, is based on primary as well as secondary data. This study is based on data obtained from various records, reports and accounts of the municipal council, Panchkula. An extensive attempt has been made to critically examine this unpublished data. Besides the employees and members of the council were interviewed who have some knowledge of financial position.

INTRODUCTION

Local government is an integral part of the four-tier system of government i.e., international, national, provincial and local. Municipal Council Panchkula is local government and subordinate to government of Haryana which exercise control and supervision over it. Local government is considered as the backbone of a democratic state because it implies active and direct participation of citizens in the administration of the affairs of the community.

In India, we have a number of local governance systems like village, panchayat, panchayat smiti, zila parish, municipal committee, municipal councils and municipal corporations. Similarly we have notified area committee, town area committee, cantonment boards etc. improvement trusts for urban areas. The development of the local bodies has been at a slow pace, but its presence completes the three tier system of a local governmental structure in which the country has the central government, state government and local government. Local self government is considered to have many advantages and is supposed to be an integral part of an ideal government system. There are a number of functions which can be best performed by local authority only. Such functions need local attention and adaptation to circumstances. They can not be standardized on a state or national levels. For example, street lights, the laying out of parks, scavenging and various others such services are best left in the hands of the local authority. They need variations and adjustments from city to city; variations are needed from locality to locality and even street to street.

We have Municipal Corporation for the bigger cities, municipal councils for smaller cities, and municipal committee for the towns. A municipality may be defined as “An area which forms a separate, legally constituted with the authority to decide its town administrative affairs wholly or partly by means of its own government organ.”

LOCAL FINANCE

The term local finance means the problems pertaining to the finance i.e. income and expenditure of the local self-government bodies. For a clear understanding of the meaning of local finance, it is necessary to know the meaning of ‘Public Finance’. Public Finance is concerned with the way in which public authorities (central, state and local) finance their activities-how their expenditure is spent upon and how their revenue is obtained. The outstanding characteristics of local finance are mainly concerned with local trading, local services and local amenities of the residents living within the jurisdiction of local administration. In nutshell, local finance is concerned with the receipts and payment of local authorities. To perform a variety of services, local bodies need finance. Unfortunately, in India, municipal bodies suffer from inadequacy of finance and unwanted political interference.

The main sources of revenue of the municipal council are taxes and non-tax revenue. The tax includes octroi, house tax (property tax), vehicle and animals tax, ‘shows’ tax etc. and non-tax revenue comes from municipal property, fees and fines, grants-in-aid from state government bodies, loans, tehbazari, water supply and deposits also figured in municipal non-tax revenue. Hence how local taxes direct and indirect, fee, fine are collected by local administration and how

local debts are solicited, are studied under local finance. Present study is concerned with the analysis of income and expenditure of municipal council of Panchkula.

IMPORTANCE OF LOCAL SELF GOVERNMENT

Local bodies are the pillars of our whole administrative structure. Only local government can understand the basic needs and problems of local people. The local administration acts as an instrument which provides the principal points of contest between the citizens and the processes of government. Such government is essential for promoting the well-being of the people.

William A. Robins remarks, "Local authorities have greater opportunities totally than ever before. If the power of the central government are increasing so are the power of local council" "Nagarpalika" States real importance of these institutions, which means that the local government is for the physical, mental, economic and social or in other words, over all well being of its inhabitants. It is a democratic government at local level and a training centre of administrative services.

In view of our pledge for a welfare state and for democratic socialism, we need gigantic efforts to improve the social and economic lot of the people. This can be achieved by an investment in human welfare and building up a favorable social climate through local authorities, which are both an organ of government and also a social institution. For the prosperity of social and economic lot of the people, the investment in human welfare activities and expenditure on social and economic overheads should be encouraged, only than talk of welfare state and democratic socialism will be meaningful.

Thus, it can be said that the local bodies can have a better understanding of the problems of local people and can deliver the better solutions to them. Such bodies should be equipped with enough powers to deal with these problems properly and execute the solution measures.

LOCAL SELF GOVERNMENT

The powers of local government in regards to raising finances are defined by the municipality Acts such as Haryana Municipal Act., 1973 and hence, they are restricted under certain circumstances, the state government can suspend or dissolve it. The jurisdiction of the local government is limited and its functions relate to the provisions of civil amenities to the population living within its limits. It has no legislative power. Local government bodies are a better ground for political education. Jawahar Lal Nehru regarded local self government as the basis of a true system of democracy. In the words of G. Montague Harris "By local self government we mean a system under which the people of the locality possess a certain responsibility and discretion of local public affairs and in the raising of the money to meet their expenses."

B.K. Gokhale (1972) observes "Local self government is the government of a specified locality by the local people through the representatives elected by them." According to William A. Robins "Local government may be said to involve the conception of a territorial, non sovereign community possessing the legal right and the necessary organization to regulate its own affairs." Therefore, local government body is a government at the local level for the well

being of its citizens and local government contributes to the strength of democratic institution in a number of ways. Mahatma Gandhi observed that in the absence of efficient and honest functioning of local bodies, India could not claim to be right for independence.

LOCAL GOVERNMENT IN INDIA

Local institutions of some sort existed in India even during the early Hindu period. Villages enjoyed perfect autonomy and were governed by a 'Panchayat', a body of five leading men of the village. These 'Panchayats' administered the villages and decided civil as well as criminal cases. They were also responsible for the cleanliness of the village, the upkeep of local roads, the management of village temples and the maintenance of irrigation works. These 'Panchayats' had to collect money for their needs within the village itself, which was a self-sufficient economic unit.

Besides, the village panchayats, there were territorial 'Panchayats', known as Srenis or Ganas. They were what we call in the modern times, municipalities. These bodies of five or seven members carried on day to day administration of towns.

The Muslims cared more for urban life and not for village life. So the village panchayat administration continued unchanged even during this period. However, the urban municipalities cared to be governed by people's representatives and the 'Kotwal' who was responsible for the city administration also managed the municipal affairs.

During the early British rule in our country all the local bodies-urban and rural were abolished as a result of centralized administration adopted by the East India Company. But soon the government realized their mistake and began to retrace its steps. But it started very slowly from big cities, giving them only limited powers. In 1687 a municipality was established in Madras under a Royal Charter. In 1793 by the Charter Act, the British Parliament allowed the establishment of municipalities, which began to be established from 1842 onwards. Acts of 1850 and 1856 allowed the nomination of municipal commissioners. In 1873, for the first time, Lord Mayo recommended the system of election in local bodies. It was, however, in 1882 Lord Ripon's time that municipalities were put on a really sound footing as they were given more powers. The Resolution of 1915 granted further autonomy to these bodies and by the government of India Act, 1919. The portfolio of local bodies was transferred to the control of provincial ministers. Since, then the provinces have granted them more and more independence by increasing the number of elected members.

During the period 1919-1947 various Acts were enacted and amended by different provinces, but the performance of these institutions was insignificant. After independence, our government accepted their importance for the upliftment of people. In the Indian constitution, the term used for these institutions is 'Local Government' by July, 1965 a network of panchayati Raj a three tier system village panchayat, panchayat samiti and zila parishad was separated to twelve states of India.

At present every important town or city of India has a local government body governed by the Act concerned. Urban local administration has also made progress since early times. For

the improvement in the powers and functioning of these local bodies, Indian government appointed many commissions and council, from time to time which are given below:

- (i) Local Finance Enquiry committee (1949-51)
- (ii) Taxation Enquiry Commission (1953-54)
- (iii) The Committee on Augmentation of Financial Resources of Urban Local Bodies or Zakaria Committee (1963)
- (iv) Rural Urban Relationship Committee (1966)

The central council of local government and urban development plays a dynamic role in the field of urban local reforms. It also acts as an advisory body to the central government on matters of allocation of funds to the local authorities and their periodic review.

GROWTH OF LOCAL GOVERNMENT IN HARYANA

The Haryana Municipal Act is more restrictive than the Punjab Municipal Act. It leaves little room for municipal discretion. Instead, levy of certain taxes by the municipalities has been made compulsory by this Act, Employment of children below the age of 18 for scavenging and house sweeping and carrying of night-soil as head load have been prohibited. Provision has also been made for the payment of salary to the president out of the municipal funds.

LITERATURE REVIEW

Man being a social animal has always aspired to live in a society or social set up. This basic fact is the foundation of local self government because as and when the social circle of man increases he has to face and solve his local problem. So, in a way local self government without being named as such existed even in the ancient time and continues in its latest gamut and nomenclature.

The evolution of local self government in India may be studied on three different levels:-

1. Ancient and Medieval Period.
2. British Period
3. Post Independence Period.

1. LOCAL SELF GOVERNMENT IN ANCIENT AND MEDIEVAL PERIOD

From our old scriptures it comes to light people in ancient times had a social outlook which was not confined to a particular caste or group. Rather, it was the ideal of each and everyone to see to the welfare of others before self. "In a sense it is true to say that in the early days of civilization all government were local, for the areas to be governed were small. It is

when the nations grow big and affairs become more complex that the central government needs local subordinate help.”

2. EVOLUTION OF LOCAL SELF GOVERNMENT DURING BRITISH PERIOD

The evolution of local self government during British Rule in India passed through the following three phases:-

- (a) I- Period - 1687 to 1882
- (b) II- Period – 1882 to 1919
- (c) III – Period – 1919 to 1947

A. I- PERIOD 1687 TO 1882

In 1687, James II, the King of England permitted through a Charter Act the formation of Madras Corporation with a Mayor, 12 Elder man and 60 Burgesses-all belonging to the European communities. The corporation was to look after the arrangement of prisons, schools, cleanliness and lighting of roads. It had power to levy octroi and property tax. The people rose against this act which resulted in its formal withdrawal. Under the Act of 1813 it was decided for the first time that the revenue through local tax would be spent on the local municipalities. In 1842, the Bengal Municipal Act empowered the municipalities to look after the sanitary arrangement. This act was held null and void due to the mounting pressure of the people and in 1861, Army Sanitary Commission drew the attention towards the deteriorating health conditions which resulted in the 1867 Act giving wide powers to the Municipalities to look after the arrangement of water, lighting and health.

B. II PERIOD 1882-1919

The Governor General of India, Lord Ripon may be called the founder father of present system of local self government in India. Recommendations of Lord Ripon's Resolution, 1882, can be summed up as follows:-

There should be a network of Local bodies (Rural as well as Urban) throughout India. The majority of members should be non-officials elected through elections. The main aim of the local self government should be to give political education to the people and to make progress in organization of administration.

C. III PERIOD 1919 TO 1947

Government of India Act 1919 established Local Government under Diarchy which was a responsible government. The subject of provincial administration were the reserved subject as well as transferable. Even then the organization of local self government suffered because of the autocracy of the provincial Government.

3. THE POST INDEPENDENCE PERIOD

The local self government by and large, continued in the same form after independence with some consolidation and modifications as well as erosion owing to the greater control and encroachment by the state government. Almost four decades after the independence, the Local government continued to be neglected politically financially and authority wise.

OBJECTIVES OF THE STUDY

In the light of above said information the present study is designed with the specific objectives:

- (i) To examine the financial picture of the municipal council, Panchkula.
- (ii) To analyze the income and the expenditure profile of the municipal finances in order to bring out the weaknesses, which might have impaired the efficiency and functioning of municipal council.
- (iii) To study whether the received revenues are fully utilized or not.
- (iv) To study the scope for mobilization of additional resources.

RESEARCH METHODOLOGY

Municipal Council the grass-root level governance which carry on the developmental work in urban societies, is the subject matter of the present investigation. The various provisions for revenue and expenditure as per Haryana Municipal Act, 1973 and other guidelines recommended under the constitution are kept in mind while analyzing the income and expenditure of municipal council.

This study is based on data obtained from various records, reports and accounts of the municipal council, Panchkula. An extensive attempt has been made to critically examine this unpublished data. Besides the employees and members of the council were interviewed who have some knowledge of financial position. The data has been analyzed by making use of percentages. The period covered by study runs from 1996-97 to 2009-10 and the whole data have been analyzed with the help of master charts, suitable tables and graphs. Simple statistical tools such as simple percentage, mean value, index number, summation etc. have also been used to play with the data for meaningful results.

SOURCE OF DATA

As this study focuses on the local finance of municipality of Panchkula for ten years (1996-1997 to 2009-2010). The income and expenditure data were collected from the office of the municipality Panchkula on request. The data are primary which are unpublished and based on various records, reports and accounts belonging to municipality Panchkula. Moreover certain facts are based on the oral communication with officials, employees and elected members of the council having the knowledge of financial position of municipal council.

FINDINGS

The detailed major findings of the study are as follows:

- A sound system of local finance depends upon stable and strong foundation of local taxation. Taxation forms the significant source of income to local bodies. In India state government control municipal finances by putting restriction on their financial resources.
- Taxes and Non-taxes are the two main sources of revenue of the municipal council, Panchkula.
- During the study period the contribution of tax revenue was more than that of the non tax revenue. The tax revenue, on an average, was 52.99 percent and non tax revenue, on an average, was 47.01 percent of the total revenue.
- The contribution of house tax to the total tax revenue had been at peak. On an average, it was 52.42 percent of the total tax revenue. But it was found suffering from fluctuations.
- The second major component of tax revenue was octroi duty. It contributes to the total tax revenue was 24.01 percent, on an average, during the study period till 1999.
- Dangerous and offensive trade fees contribute 17.04 percent, on an average, the total tax revenue.
- The municipal works revenue i.e. registration fees and stamp duty has also been major source vital contribution in the total non-tax revenue of Panchkula municipal council. It was 38.92 percent, on average, during the study period i.e. 1996-97 to 2009-10.
- Among the non- tax revenue rent on buildings and lands is also of highest value. Its percentage share was 14.69 percent on an average, during the study period.
- The flow of non-tax revenue on an account of tehbazari fees was 9.69 percent, on an average during the study period.
- The other sources of non-tax revenue included in miscellaneous head contribute 25.32 percent, on an average, to the total non tax revenue during the study period.
- Out of the total expenditure of the municipality, the expenditure on municipal work was highest. It was 47.30 percent, on average, of total expenditure during the study period.
- The percentage share of expenditure on general department was the second highest after expenditure on general. It was 29.72 percent on average, of the total expenditure over the period 1996-97 to 2009-10.
- The balance was positive during the all study period covered by the study.

SUGGESTIONS

On the basis of the above inferences the following suggestions may put forth for further improvement in functioning of the municipality.

- To perform various services/functions a sufficient and continuous flow of funds is necessary. The major sources of income of Panchkula municipal council has been house tax, rent and municipal work for the fulfillment of its functions. The council should make full use of its power to impose taxes generated to it by the Haryana Municipal Act 1973, under section 69. The council should generate additional means of revenue by organizing fairs, running restaurant, constructing new shops etc. and augment the existing resources. The government should compensate the loss due to the abolishment of octroi duty by increasing the grant-in-aid and the municipal council should make efforts. The council should make efforts to get or seek more and more grants from the Haryana Government for the better maintaining the city.
- The utilization of funds reflects the performance and efficiency of any institution. The total revenue of Panchkula municipal council had exceeded for study period 1996-97 to 2009-10. The municipality should try to avoid such conditions so that the well being of the inhabitants is not hindered.
- The yield from taxes, particularly from house tax, can be increased if fearless, impartial and uniform assessment is secured. Tax evasion must be checked.
- The yield from fees collected by the municipality such as license fees, bus adda fees, property transfer fees, development charges etc. should be made more rational and progressive.

CONCLUSION

Local finance also plays very important role in the economic development and well-being of the people of the local area concerned. India adopted the system of self government at the local level in rural as well as urban areas keeping in view the local needs and importance. The Panchayati Raj institutions cover the rural area and urban local authorities namely, Municipal Corporation, municipal councils, municipal committee etc. have been created to cater to the needs and to address the problems of the urban area. The present study was conducted to analyze the trends in income and expenditure of municipal council of Panchkula i.e. a local body during the period 1996-97 to 2009-10. Main findings of the study are: that indices of both income and expenditure showed as increase of order of 46 and respectively over the entire period covered by the study. Both tax-revenue and non-tax revenue also shows a significant increase over the period. Before the abolishment of octroi duty in 1999, relative share of tax-revenue was found more than that of non-tax revenue; while after 1999, shares of non-tax revenue become more than that of tax revenue. However, considering the entire period i.e. 1996-97 to 2009-10 as one entity, than mean % share of tax revenue (52.99) was more than that of non-tax revenue (47.01). It shows that octroi duty used to be one of the major sources

of income of municipality till 1999. Therefore, government should evolve and alternate the abolished tax so as to compensate the local bodies in Haryana.

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