

AN OVERVIEW OF MUNICIPAL FINANCE : A STUDY OF SONIPAT MUNICIPAL COUNCIL (HARYANA)

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Introduction

In a decentralized economy, local government bears the responsibility of providing the local services to its residents. These services are financed with the help of local taxes and grants. The distribution of functional responsibilities and revenue sources between the centre and state is made as per the constitutional provisions. The state government transferred some of its powers to local units to render public services to their residents. While due to the fact that it is the welfare state in which function of local governments gave increased after the implementation of the 74th constitutional Amendment Act 1992. This leads to the serious problems of imbalance between their expenditure and revenue. The municipal governments are supposed to provide more and more services to their residents while, on the contrary, the state governments impress upon the local governments to raise the revenue resources, viz, restriction on property tax rates and restriction on the raising of debts.

Municipal government's finances are characterized by above mentioned features. It is equally true that municipal body functions under special circumstances and environmental conditions and the methods used by them to meet the financial stringency also differ from case to case. Therefore, it becomes essential to study individually the finances of municipalities to know as to whether they are providing services sufficiently.

In this paper, an attempt is made to study the municipal finances of Sonipat Municipal Council which is a rapidly growing city with the historical perspective.

The problems of Municipal bodies

No doubt, the urban governments revamping efforts through 74th Constitutional Amendment Act (1992) reflect the genuine concern of the governments, both centre and states, about the democracy at grass-root level. But it is disheartening to see the dismal performance of

the local bodies institutions even after structural changes and providing these bodies a Constitutional status. Several studies and reports make us feel that the urban local bodies have failed to achieve the desired objectives of tuning the municipal governments into genuine democratic institutions and rendering them into effective instruments for making the cities worthy of decent living and fulfilling the hopes and aspirations of the urbanites.

In the present study financial health of the Municipal Council, Rohtak has been examined. Suggestions to improve the financial position of municipal bodies have been given. Though municipal government in Haryana has come of age and is continuously trying to fulfill the aspirations of urban people, yet the image of municipal government in the public mind has been unfortunately that of inefficiency, mal-administration and general stagnation. It is necessary that municipal bodies should be equipped with adequate finances. The Haryana government constituted the state Finance Commission in accordance with the provisions of the Act.

Scenario of Municipal Bodies in Haryana

The State of Haryana came into existence on November 1, 1966. Prior to that, it was a part of the state of Punjab. As such the development of municipal institution in Haryana is a part of the evolution of municipal government in the Punjab as a whole. It may be noted that a part of the present state of Haryana had been annexed by the East India Company as early as in 1803.

On November 1, 1996, the state of Punjab was bifurcated into two states namely Haryana and Punjab. Even after the bifurcation, the government of Haryana did not enact a new municipal law and municipal local bodies in the state continued to be governed by the Punjab Municipal Act of 1911.

In 1971, a committee was appointed to study the problems of urban local bodies in Haryana and to suggest measures to solve the difficulties thereof, if any. The said committee recommended radical changes in the Act of 1911. As a result, a Municipal Bill was drafted which was passed in March 1973. It came into force in July 1973 as the Haryana Municipal Act, 1973.

On the bases of 74th Constitutional Amendment Act 1992, in each state, Municipal Acts were passed. According, state legislature of Haryana passed Haryana Municipal (Amendment) Act 1994. At present there are 31 municipal committees, 21 municipal councils and one municipal corporation in Haryana.

Trends and Structure of Municipal Revenue and Expenditure

Finance constitutes the backbone of the government and provides fuel to the administration, the letter and spirit of the 74th Amendment to the Constitution demands that the local bodies be endowed with sufficient powers and resources so as to enable them to function as effective units of self-government. The inadequate delegated of functions and insufficient financial resources available to them to effectively shoulder their responsibilities was perceived as a major bottleneck in the way of their smooth functioning. The Sate Finance Commission was accordingly conceived as instrument for devolving the necessary funds from the State level to these local bodies so as to place them on a sound financial footing.

The Act provided for the constitution of a State Finance Commission within one year from the commencement of the Act and thereafter every five years to make recommendations for strengthening the finances of urban local bodies.

Revenue of Municipal Council, Sonipat

The revenue position of Municipal Council, Sonipat is given in Table below :

Table 1.1
Revenue position of Municipal Council, Sonipat (2014-19)

S.No.	Year	Revenue in (Rs.)
1.	2014-15	2,67,12,672
2.	2015-16	2,56,10,560
3.	2016-17	2,86,17,643
4.	2017-18	3,25,02,720
5.	2018-19	2,65,80,472

Source : Annual Accounts Statements of M.C. Sonipat

It is evident from the table 1.1 that total revenue of the Municipal Council, Sonipat has remained fluctuating during the period under study as in 2014-15 total revenue of the Council was 2,67,12,672 which came down to Rs. 2,56,10,560 in 205-16. This however, increased to Rs. 2,86,17,643 in and again increased to Rs. 3,25,02,720 in 2017-18 and Rs. 2,65,80,472 in 2018-19. This is not a healthy sign, Therefore, necessary steps should be taken for enhancing the revenue of the municipal council.

The record reveals that there has been fluctuating trend in revenue collection from house tax and octroi. However, revenue from rent was Rs. 24,77,781 in 2014-15 which increased in successive years up-to 2015-16. But thereafter, it showed a decreasing trend til 2017-18. The revenue of Tehbazari has also been increasing from 2014-15 to 2017-18, whereas in 2018-19 it has decreased slightly.

Municipal Expenditure

The term local expenditure refers to all expenditure incurred by local governments for providing directly or indirectly the local services and civic amenities. Local expenditure is controlled by the State government. The scope of the activities of municipal bodies is limited to specific area functions for providing social serviced and civic amenities to the population living within its jurisdiction. In order to examine the adequacy and quality of civic services provided by the municipal bodies, a study of the expenditure pattern is inevitable. Municipal bodies incur expenditure on various services and public utilities for healthy environment for the society as a whole.

Table 1.2
Expenditure of Municipal Council, Sonipat

Year	Expenditure in (Rs.)
2014-15	14432647
2015-16	14846472
2016-17	20347072
2017-18	20176885
2018-19	20697788

Source : Annual Accounts Statement of Municipal Council, Sonipat

Table 1.2 reflects that there have been fluctuating trends in expenditure of the Council during the last five years. It is evident from the data given in the table that in 2014-15 the total expenditure incurred by municipal council, Sonipat was to the tune of Rs. 14432647 which increased to Rs14846472 in 2015-16 and again rose to Rs. 20347072 in 2016-17 however it came down to Rs. 20176885 in 2017-18 followed by steep increase in 2018-19 and was in the order of Rs. 20697788.

Table 1.3
Heads of Expenditure of Municipal council, Sonipat (2015-16)

Sr. No.	Year	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Establishment	10151334	10362530	14917611	14270878	11511205
2.	Contingency	797946	1067045	1135393	916435	589000
3.	Development Works	1584349	1498920	4333461	6046874	3651720
4.	Repayment of Loans	-----	----	-----	-----	----
5.	Grants	2783220	1525921	1881881	0	0
6.	Building/scooter/ Marriage loan	----	65000	----	179350	85650
7.	Misc.	115638	137066	179529	163461	160303
	Total Expenditure	15432547	14656482	22448275	21576998	15997878

Source : Annual Accounts statement of municipal council, Sonipat

An analysis of the data presented in Table 1.3 reveals that expenditure on establishment was Rs. 10151334 in 2009-10 which increased to Rs. 10362530 in 2010-11 Rs. 14917611 in 2011-12 and came down to 14270878 in 2012-13 and further declined to Rs. 10151334 in 2013-14 on establishment. This shows that expenditure on establishment is decreasing which is a good sign. Further expenditure on contingency has also increased from Rs. 777946 in 2009-10 to Rs. 1135743 in 2011-12 but decreased in the next two years. The expenditure on development works was worked out to Rs. 1584349 in 2009-10 which increased to Rs. 3651720 in 2013-14. Similar trend can also be seen in other heads of expenditures.

Recommendation of State Finance Commission, Haryana

The First State Finance Commission in Haryana was constituted by the government on 31st May, 1994. Sh. Rajinder Singh Bisla, MLA was appointed as chairman of the commission and the Haryana govt. has constituted second State Finance Commissioner under the chairmanship of Mr. SurajBhanKajal. The following are the recommendations made by the first State Finance Commission of Haryana.

Property Tax

The commission has also recommended change over from the present system of house tax assessment on the basis of annual rent value of the “area linked scheme” all its ramifications have been indicated in the report. In any case, the present system of levying house-tax must be streamlined and arrears should be recovered on an urgent basis till such time that the new system is put into operation.

Fees & Fines

The fees and fines rates are out-dated and have not been revised over the decades. Some revisions in respect of dangerous and offensive trades has taken place recently. There has to be a through revision covering a number of other items. The revision is likely to generate considerable income over the present realization.

Other Recommendations

- i) Taxation of Central and State government properties.
- ii) Sectioning of Budget, etc.

Acceptance of the Recommendations of the State Finance Commission by the State Government:

The Haryana government announced a number of measures to boost the financial health of the municipal bodies by accepting the recommendations of the ministerial sub-committee constituted for examining the suggestions of the State Finance Commission (SFC) regarding the devolution of funds to the local bodies. The acceptance of the recommendations would mean that they would provide additional resources to the tune of more than Rs. 99 corers to the municipal bodies for the former. The devolution would further increase during the current financial year as a result of the recommendations of the 11th Finance Commission for supplementing resources of urban local bodies to be effective from April 1, 2000. Besides, it is desire that the municipal council, Rohtak in particular and the municipal bodies in general should observe or follow efficiency, effectiveness and economy in the interest of the urban masses.

On the basis of the examination of the trends in municipal finance, it is clear that the Municipal Council, Bhiwani particular and municipalities in general suffer from inadequacy of funds which has resulted in rendering them incapable of acting as an important instrument of urban change. It is necessary to strengthen them financially. Following suggestions are relevant in this regard :

Suggestions

In the present study financial health of the municipal council, Bhiwani has been highlighted. Municipal bodies all over the county are in great financial crises. Municipal finances therefore need to be improved urgently to enable the urban local bodies to perform their multifarious duties and functions effectively. Finance being the effective instrument for the better functioning of municipalities. It is but essential that the mobilization of financial resources must be efficient. Moreover, these bodies should be given somewhat autonomous status particularly in financial matters. The following are the major suggestions for strengthening of financial position and the efficient functioning of the Municipal Council:

- i) There is an urgent and consistent need to launch a special campaign to recover the arrears of various taxes and other dues. In order to collect the huge arrears and dues, it is suggested that rigorous administrative measures would be adopted by the Municipal Councils against the defaulters, that is why these bodies should be armed with sufficient powers. Further, some special incentives may be given to those municipal personnel who take keen interest in persuading the defaulters for clearing their dues.
- ii) The political intervention in the municipal affairs is another serious problem which is directly or indirectly responsible for its downgraded financial position of the municipal bodies due to the assistance extended by the political leaders to the tax defaulters. The suggestion forwarded in this regard may be that efforts should be made to minimize it. The attitudinal change of powerful politicians can prove helpful in curbing the tendencies of local tax avoidance and evasion.
- iii) As octroi is a very reliable source of tax revenue, as such the octroi abolished should be reintroduced. Beside, the municipal administration must see to it that the revenue is collected very efficiently and economically.
- iv) The active participation and cooperation of the local people may further prove helpful in making its functioning efficient and fruitful. In this regard, it may be proposed that the municipal authorities should try to establish harmonious relations with citizens to motivate them to become honest tax payers.

- v) Municipal bodies should take up remunerative enterprises which would create permanent assets, yielding perennial non-tax revenue. For this purpose, they should be given liberal loan assistance on low interest rates, and rendered necessary technical assistance free of cost.
- vi) It is also suggested that the state governments should seriously consider the setting up of revolving fund to assist local government in financing programmers of urban development such as acquisition and development of land, roads, supply of utility services, etc.
- vii) The State government should make use of punitive steps like dissolution and suppression very wisely and stirringly and these should be imposed for a reasonably short period of time. In fact, suppression should not be looked at an isolated step.
- viii) The State government, therefore, should first try with initial controlling measures as laid down in the municipal Act. Moreover, this Act of the State government should be open to scrutiny of the state legislature.
- ix) The grants provided by the State government are also very limited that too under certain selected scheme. It is suggested that sufficient grants for bettering the municipal services should be ensured and these grants should be economically utilized to overcome the problem the usefull expenditure.
- x) Recommendations made by the State Finance Commission for strengthening the financial position of urban local bodies should be implemented in toto. It is also suggested that the necessary sanction with regard to the release of funds must be in time.

Last but not the least, it is suggested that each municipal body must reduce its expenditure on establishment. Some steps should be required in doing so. It is hoped that strong political will may improve the financial position of municipal bodies.

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