FINANCIAL ANALYSIS OF URBAN LOCAL BODIES OF INDIA–A STUDY OF SELECTED MUNICIPAL CORPORATIONS OF PUNJAB

DR. HITESH KATYAL**; RAJ KUMARI*

**PRINCIPAL, CBS, LANDRAN.

*ASSOCIATE PROFESSOR,
SGGS KHALSA COLLEGE,
MAHILPUR.

ABSTRACT
In the democratic set-up of government, The Municipalities / Corporations also play an important role in the development of the urban areas. This paper deals with the status of Municipal Finances in selected municipal corporations of Punjab in India. An attempt has been made to: define urban local governments; present a brief historical perspective; and assess main sources income and expenditure of selected municipal corporations in Punjab.

KEY WORDS: Local bodies, municipal, urban, finance.

Introduction
A local government is a statutory authority in a specified local area (village, or town or city) having the power to raise revenue through taxes for the performance of local services like sanitation, education water supply etc. It is constituted by the elected representatives of local people and enjoys autonomy from state or central control sufficient to enable it to perform its service adequately. In the context of the Indian Constitution, local government bodies are the subject of the State List and are thereby governed by State Statutes, or in the case of Union Territories, by the Union Parliament. Federal recognition of local government was substantively expressed in the 74th and 73rd Constitution Amendment Acts of 1992. The former pertains to urban local government and the latter to rural local governance

According to the 74th Amendment of the constitution of India urban local government has been classified into three categories:-Nagar Panchayats, Muncipal councils and Muncipal corporations.

Municipal Corporation is a local government body that administers the city. Under the panchayati raj system, it interacts directly with the state government, though it is administratively part of the district it is located in. The Municipal Corporation consists of members elected from the wards of the city. The Mayor and Deputy Mayor are elected by the members among themselves. A Municipal Commissioner, who is from the Indian Administrative Service is appointed to head the administrative staff of the Municipal Corporation, implement the decisions of the Corporation and prepare its annual budget. The Municipal Corporation is responsible for roads, public transportation, water supply, records of births and deaths (delegated from Central Govt Birth and Death Registration Act), sanitation that includes waste management, sewage, drainage and flood control, public safety services like fire and ambulance services, gardens and maintenance of buildings. The sources of income of the Corporation are property tax, entertainment tax, octroi (now abolished from many cities) and usage fees for utilities.
URBAN LOCAL GOVERNMENT DEFINED
A number of authors have attempted to define local government in their own ways. According to Encyclopedia Britannica, the local government is, “an authority to determine and execute measures within a restricted area inside and smaller than the whole state. The variant local self government is important for its emphasis on freedom to decide and act.” In the words of V. Vankata Rao, “local government is that part of the government which deals mainly with local affairs, administered by authorities subordinate to the state government but elected independently of the state authority by the qualified residents.” According to P. Stones, “Local Government is that part of the government of a country which deals with those matters which concern the people in a particular locality.” G. Montagu Harries defines local government as government by the people themselves. Though freely elected representatives. Thus, it is clear from the above definitions that the authors have not given a uniform pattern of definition of local government. But a local government has many attributes. It possesses a fixed territory and population and also has a governmental organisation which is responsible to the needs and wishes of local community.

Urban Local Bodies (ULB)s in India are classified into three major categories:

1. Mahanagar Nigam (Municipal corporation)
2. Nagar palika (Municipality)
3. Nagar Panchayat (Notified Area Council)

Municipal Corporations in India
The earliest evidence of local management of civic administration in India can be traced to Indus Valley civilization (around 2300 B.C) which was essentially an urban civilization. The first Municipal Corporation in modern India was set up in the former Presidency town of Madras in 1688. This was followed by Municipal Corporations of Calcutta in 1876 and Bombay in 1888. Lord Ripon (1880-84), the Viceroy of India introduced an element of elections in the Municipal Corporation and is known as “father of Local Self-government in India” for his pioneering work in this direction. The reforms introduced by Lord Ripon continue to have its traces in the existing local self government.

Municipal Corporations in India or Mahanagar Palika or Mahanagar Nigam are urban local government that works for the development of a Metropolitan City, which has a population of more than one million. The growing population and urbanization in various cities of India were in need of a local governing body that can work for providing necessary community services like health care, educational institution, housing, transport etc. by collecting property tax and fixed grant from the State Government.

Each Municipal Corporation has a committee consisting of a Mayor with Councillors. They are formed under the Corporations Act of 1835 of Panchayati Raj system which mainly deals in providing essential services in Metropolitan Cities. The no. of councillors depend upon the area and population of the city that minimum of 3,00,000. Municipal Corporation members are elected from the several wards of the specific city on the basis of adult franchise for a term of five years. There are seats reserved for Scheduled Castes, Scheduled Tribes, backward classes and women. The Councillors are chosen by direct election from electoral wards in the Municipal Corporation. The Mayor and Deputy Mayor are elected by the public. A Municipal Commissioner, who is from the Indian Administrative Services is appointed to head of the administrative staff of the Municipal Corporation, implement the decisions of the corporation and prepare the annual budget. The Municipal Corporation is responsible for roads, Public transportation, water supply, records of birth and deaths, sanitation that includes waste management, sewage, drainage and flood control, public safety services like fire and ambulance services and maintenance of buildings. The sources of income of the corporation...
are property tax, entertainment tax and usage fees for utilities. The largest corporations are in the four metropolitan cities of India; Delhi, Mumbai, Kolkata and Chennai and among these Mumbai is the most populous and largest metropolitan city of India. These cities not only have a large population, but are also the administrative as well as commercial centres of the country.

History of Municipal corporations in Punjab
Punjab is located in northwestern India, and has an area of 50,362 km. In Punjab, the municipalities have been organized into three categories, namely, nagar panchayats for transitional areas, municipal councils for smaller urban areas (further classified in to class A, class B, and class C municipalities on the basis of their population and revenue generation capacity), and municipal corporations. The Constitution of India inserted the subject of local self-government in the Seventh Schedule, which gave autonomy to state governments to decide functional and fiscal jurisdictions of the local government institutions. Many initiatives such as the Local Finance Enquiry Committee, 1951; the Taxation Enquiry Commission, 1955; the Rural Urban Relations Committee, 1963; and the Committee on Augmentation of Resources of Local Bodies, were taken in Punjab to have a close look at the problems of local government institutions.

Municipal corporations are the large urban area with a population of three lakhs or more and a minimum revenue generation capacity as specified by the state government from time to time. The Punjab Municipal Act 1911 and Punjab Municipal Corporation Act 1976 govern the functioning of nagar panchayats, municipal councils and Municipal Corporation. Prior to 1994 elections were extremely irregular in local self institutions in Punjab. The elections to municipal corporations was first time held in 1991. Ludhiana, Jalandhar, Amritsar, and Patiala are the most urbanized districts of Punjab.

The Municipal corporation of Ludhiana is the largest corporation in Punjab and boasts of 75 wards and a budget touching almost 800 crores. The population of the city is 1,613,878 according to population census 2011. Set up in 1978, the Ludhiana corporation is also among the oldest in Punjab. The first election to the corporation were held in 1992.

Municipal corporation Amritsar was declared city on 29th March 1977 under the Punjab Municipal Corporation Act 1976 and the municipal corporation was constituted instead of Municipal Committee. The first elections to the Municipal Corporation were held in 1991 and the city was divided into 50 wards. According to population census 2011 the population of Amritsar city is 873725 lakhs, and the city is divided into 65 wards.

The Municipal committee Jalandhar was formed on 1867 and raised to class-1 in 1950 under the Punjab Municipal Act 1911. under the Municipal corporation act 1976. It was further elevated to Municipal corporation by Punjab government on 5th July 1977. The population of Jalandhar city is 873725 according to population census 2011. There are 60 wards in municipal corporation of Jalandhar.

The Municipal corporation Patiala got its present elevated status on 24 september 1997. The democratic was set up in June 2002 when elections of the corporation was held and 50 Municipal councilors were elected. According to census 2011 the population of Patiala city is 445196 lakhs, and it is having 60 wards at present.

Review of literature
Ramakrishna Nallathiga (2008), ‘Trends and Perspectives of Urban Public Finance in Select Countries and India’ This paper attempt to provide an outline of urban public finances in select countries of the West in comparison to that in India. According to this paper In advanced countries like the European nations and America, the systems of public finances are well structured and the roots of the same are well laid down within the administrative
structures. However, there is a wider range of financial structures – both revenue and expenditure - that can be seen in these countries. This study reveals that Local government finances of cities – both on revenue and expenditure side

**Sujatha Srinivasan (2009),** “Financial Disclosure in Local Government” A Comparative study, This paper attempts to the financial reporting and disclosure practices in the public sector across the world. The paper also examines the accounting and financial reporting reforms that have taken place in the public sector of certain European and Asian countries. This paper also examines the significant reforms being introduced in the public accounting system in India. The findings of the study shows that countries like United States, United Kingdom, Canada, Australia and New Zealand have comparatively better and more transparent disclosure practices. Further the study reveals that Indian government has taken number of steps to introduce transparency into local operations as e-governance, accrual accounting model financial statements etc.

**Deepak Sharma (2011)**- “An evaluation of 74th amendment act a case study of Chandigarh –the study analysed various institutions of governance and focused on working of urban local government. the findings of the study were that the functions of 74th amendment act of the constitution were partly incorporated. The role of Mayor is very weak. There is lack of unity among ward committees and councilors. The funding grant is in the hands of Chandigarh administration. The attitude of the Chandigarh administration in negative towards empowering local bodies.

**Ali Ashraf in his "Government and Politics of Big cities —An Indian Case Study"** focuses on three big namely, Calcutta, Kanpur and Ahmedabad. The main objective of this study was to understand the nature of local government in these three cities and their capacity to manage civil problems. The major focus of the study is on the political questions, the recruitment of civil leaders and municipal employees. The local political systems in these three cities, can be seen to represent values and interests that affect the management of civil problems differently in different cities, Ashraf concludes, garbage the morale and service conditions of the employees, the performance on each of these items is satisfactory in Ahmedabad unsatisfactory in Kanpur.

**Mohanty, Mishra, Goyal and Jeromi (2007),** made a study entitled “Municipal Finance in India – An Assessment”, undertaken for the Development Research Group (DRG), Reserve Bank of India examines the performance of Urban Local Bodies (ULBs) in India. Using data from 35 Metropolitan Municipal Corporations, the study attempts to analyze the reasons for their differential performance with respect to fiscal parameters and provision of civic amenities. In the light of the findings of the study and international experience in this regard, the study makes suggestions for improving the municipal financial system and Transparency and Accountability in Municipal Governance in Calcutta and Kanpur”

**Abhay Pethe and Mala Lalvani (2013)** A Working Paper entitled “A Comparative Study of Municipal Finances in Maharashtra: Patterns, Problems and Prospects” (to examine the patterns of finances in Urban Local Bodies (ULBs) in Maharashtra and present a comparative picture thereof. They also point out some problems especially related to data and suggest ways for remedying the situation. devolution patterns to local bodies that have been envisaged by Central and State Finance Commissions on one hand and the 74th Constitution Amendment on the other

**The need of the study.**

In the present period all the problems related with the welfare of the citizens cannot be solved by the central or state government. It is the local self government that helps the state government to look into the welfare of the people of the state. In big cities Municipal corporations have taken this charge. It is present in peoples mind that funds which
are collected from them in the form of various taxes, grants taken by different municipal corporations should be used for their welfare. Hence the need of the study of Municipal corporations has become essential. The present study is an modest attempt to undertake a comparative study of financial analysis of Municipal Corporation in Punjab State with reference to Ludhiana Municipal corporation, Amritsar Municipal Corporation and Jalandhar Municipal corporation and Patiala Municipal corporation in order to suggest the suitable strategies to sustain and/or improve their financial position. The cities selected are on the basis of region-Ludhiana from Malwa, Jalandhar from doaba and Amritsar from Majha region. As these are industrial cities and crores of rupees are spent by the government through them and as these are highest populated cities of Punjab the revenues and expenditure of these municipal corporations is very large, it is important to manage the financial matters properly. This study will definitely will be useful for future development and management of funds in future.

**Objectives of the study:** The study consists of following objectives:-
1. To study the financial performance of Municipal corporations of Punjab,
2. To compare and analyze the financial performance in terms of revenue and expenditure of Municipal corporations of Punjab.

**Tools used for Study**
To analyze the financial performance, ratio analysis and percentage method is to be used.

**Sources of revenue and expenditure in Punjab Municipal corporations**

The revenue base of MCs can be broadly categorized into: (a) tax revenues, (b) non-tax revenues, (c) assigned (shared) revenue, (c) grants-in-aid, (d) loans and (e) other receipts. Tax Revenue: Tax revenue is classified into direct and indirect taxes. Direct taxes are levied by public authorities at regular intervals on income form employment, property, capital, gains, etc. and on financial assets and the net or total worth of enterprises non-profit institution or households. Taxes falling under this category of Municipal Committees/Corporations are profession and trade tax, servant taxes on house and lands, taxes on goods and services that the chargeable to business expenses and taxes on the possession or use of goods and services by households are treated as indirect taxes. The main categories in the Municipal Committees/Corporations Budgets are octroi, terminal tax, taxes on vehicles and animals, fees for vehicle licenses, dangerous and offensive trade license fees, licence fees for job porters, tolls on vehicles and animals, local rates, advertisement tax, miscellaneous other taxes and duties.

Income form property and entrepreneurship: - This records the income receivable by the Municipal Committees/Corporations from departmental Commercial Undertakings as well as the net rent, interest and dividend accruing to them from the ownership of building or financial assets.

Miscellaneous Receipts: - This item includes fines and penalties, births and deaths registration fees, copying fees etc.

Revenue Grants, Contributions and Recoveries: - These are current receipts accruing from the State Government and various Committees and Boards.

Expenditure: - Expenditure includes establishment expenditure, administrative expenditure operations and maintenance and capital expenditure. Expenditure may be of following types:-

- Establishment expenditure:- Staff salaries, Allowances, wages, Pensions & Retirement benefits etc
- Administrative expenditure:- Rents, rates & Taxes, Office maintenance, Communications, Books & periodicals, Printing & stationary, Travel expenditure, Law charges etc.
Operations & Maintenance: Power & fuel, Bulk purchases, Stores, Hire charges, Repairs & expenditure Maintenance and Interest payments made on loans

Income and Expenditure of selected Municipal corporations of Punjab state

Ludhiana Municipal corporation

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Income</th>
<th>Expenditure</th>
<th>profit</th>
<th>Profit%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>3738435</td>
<td>3622475</td>
<td>115960</td>
<td>3.1%</td>
</tr>
<tr>
<td>2009-10</td>
<td>4583417</td>
<td>4023646</td>
<td>559771</td>
<td>12.2%</td>
</tr>
<tr>
<td>2010-11</td>
<td>5551215</td>
<td>5681806</td>
<td>-130591</td>
<td>-2.35%</td>
</tr>
<tr>
<td>2011-12</td>
<td>5974285</td>
<td>5807848</td>
<td>166437</td>
<td>2.78%</td>
</tr>
</tbody>
</table>

Source: Municipal Book of Punjab

Financial comparison of four years of income and expenditure reveal that in 2009-10, the municipal corporation earned maximum profit of 55.977cr. and in 2010-11 the municipal corporations expenditure exceeded the income and corporation suffered a loss of suffered a loss of 2.35%. The main reason is to increase the unplanned expenditures and lesser sources of generating incomes.

Amritsar

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Income</th>
<th>Expenditure</th>
<th>profit</th>
<th>Profit%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>2609688</td>
<td>1692581</td>
<td>917107</td>
<td>35%</td>
</tr>
<tr>
<td>2009-10</td>
<td>1545888</td>
<td>1527467</td>
<td>18421</td>
<td>1.19%</td>
</tr>
<tr>
<td>2010-11</td>
<td>1925432</td>
<td>1658973</td>
<td>266459</td>
<td>13.8%</td>
</tr>
<tr>
<td>2011-12</td>
<td>2052537</td>
<td>1730282</td>
<td>322255</td>
<td>15.7%</td>
</tr>
</tbody>
</table>

Source: Municipal Book of Punjab

Financial comparison of four years of income and expenditure reveal that in 2009-10, the municipal corporation earned maximum profit of 91.7107cr. and in 2008-09 and profit % was also maximum in 2008-09 and lowest in 2010.

Jalandhar

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Income</th>
<th>Expenditure</th>
<th>profit</th>
<th>Profit%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>2963578</td>
<td>1628790</td>
<td>1334788</td>
<td>45%</td>
</tr>
<tr>
<td>2009-10</td>
<td>4640305</td>
<td>1839487</td>
<td>2800818</td>
<td>60%</td>
</tr>
<tr>
<td>2010-11</td>
<td>2848037</td>
<td>2177481</td>
<td>670556</td>
<td>23.5%</td>
</tr>
<tr>
<td>2011-12</td>
<td>2948037</td>
<td>2177481</td>
<td>770556</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: Municipal book of Punjab

Jalandhar municipal corporation earned maximum profit 2009-10 during the four years and profit % was also 60% which the highest during four years.
Patiala Municipal Corporation

(000)

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Income</th>
<th>Expenditure</th>
<th>Profit</th>
<th>Profit%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>824665</td>
<td>617321</td>
<td>207344</td>
<td>25%</td>
</tr>
<tr>
<td>2009-10</td>
<td>968551</td>
<td>817546</td>
<td>151005</td>
<td>15.5%</td>
</tr>
<tr>
<td>2010-11</td>
<td>643000</td>
<td>570105</td>
<td>72895</td>
<td>11.3%</td>
</tr>
<tr>
<td>2011-12</td>
<td>765253</td>
<td>722470</td>
<td>42783</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Source: Municipal book of Punjab

Patiala Municipal Corporation earned maximum income 96.8551cr. in 2009-10 and maximum profit in 2008-09 of 20.7344cr. Profit % was maximum in 2008-09 (25%) and minimum in 2011-12 (5.5%).

Income and Expenditure of local government Punjab state

(000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Income</th>
<th>Expenditure</th>
<th>Profit</th>
<th>Profit%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>12963422</td>
<td>12249926</td>
<td>713496</td>
<td>5.50%</td>
</tr>
<tr>
<td>2009-10</td>
<td>15000506</td>
<td>13748013</td>
<td>1252493</td>
<td>8.34%</td>
</tr>
<tr>
<td>2010-11</td>
<td>19758820</td>
<td>17737201</td>
<td>2021619</td>
<td>10.23%</td>
</tr>
<tr>
<td>2011-12</td>
<td>11453724</td>
<td>20538260</td>
<td>-94015464</td>
<td>-8.21%</td>
</tr>
</tbody>
</table>

Source: Statistical Abstract of Punjab

Overall income and expenditure of Punjab local government in these four years reveal that profit percentage was maximum in 2010-11(10.23%) and the municipal corporations in Punjab suffered a loss of 8.21% in 2011-12 due to increase in unplanned expenditures in this period.
Graphical presentation of Income and Expenditure of local government Punjab state

Conclusion
Over the past couple of decades, India has seen the implementation and framing of efforts to modernise local government and has also revealed in the course of these efforts a commitment to local government. In Punjab also sources of revenue shows that efforts are being made very seriously by the state and central governments to upgrade the standard of municipal corporations by allocating them various sources of revenue. The amount of income and expenditure reveal that Ludhiana Municipal Corporation is at number one followed by Amritsar, Jalandhar and then Patiala.

References