

Financial performance of Selected city municipal corporations in karnataka

By Dr. N. M. Makandar^[a]

Abstract

Like many other developing countries, India is undergoing rapid and extensive urbanization over the last few decades. The role of urban areas as engines of growth has increased much significantly as compared to the population. The municipal financial structure in India primarily consists of tax and non-tax sources of revenue. They also receive funds from the State Government in the form of grants-in-aid as also share in taxes collected by the State Government. On the other hand Municipal expenditure can be categorized into three main components: Wages & Salaries; Operations and Maintenance; and Interest on Payments. It is observed that the revenue structure of municipalities shows that the relative share of own sources of revenue to transfers has declined. A study conducted by the National Institute of Public Finance & Policy (2001) reveals that most of the urban Local Bodies are constrained in discharging their obligatory functions due to a limited resource base. The low per capita receipts of municipal governments do not enable them to meet the minimum standards of services. Improved financial management is required to increase efficiency in revenue collection and expenditure control. Therefore the financial health of an urban local body (ULB) is indicated by a set of closely interrelated factors and not merely income-expenditure balance. The main objective of this paper is to evaluate the financial health of the selected Municipal Corporation for the period of five years

Key words: financial health, municipal corporation, urbanization, funds

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1. Introduction:

Like many other developing countries, India is undergoing rapid and extensive urbanization over the last few decades. The role of urban areas as engines of growth has increased much significantly as compared to the population. India has the world's second largest urban population. As per census estimates, India's urban population has grown from 290 million in 2001 to 377 million in 2011; accounting for over 30 percent of the country's population. Urban India accounted for 62 to 63 percent of the country's GDP in 2009–10. This growth in urban areas also creates opportunities for the rural economy and helps improve its productivity, especially in rural areas adjacent to urban centers. Local Self-Government Institutions or Local Bodies directly influence the welfare of the people by providing civic, social and economic infrastructure services and facilities in both urban and rural areas. Given their strategic position in delivering services in the hierarchy of Government set up, following the Constitution (73rd & 74th) Amendment Acts, more functions, powers and resources have been provided to them. However, over a period of time, the functions and responsibilities of LBs have increased considerably without commensurate enhancement of their resource base.

Municipal financial management involves very important activities of planning, sourcing, utilizing & disbursing, controlling and reporting. Municipalities require a substantial amount of money to execute their functions. They derive this money from various internal and external sources. Internal sources comprise income generated from various taxes and non-taxes levied by the municipality. External sources include funds obtained (in the form of grants, loans, etc.) from the Central government, State government, domestic institutions, financial intermediaries, capital markets, and bilateral and multi-lateral donor agencies. In the era of globalization, privatization and decentralization, the financial management of ULBs has assumed many new dimensions. Funds for meeting the cost of new infrastructure projects identified by municipal governments are arranged from various sources. In recent years, there is an emphasis on strengthening the municipal financial practices, so that the costs required for project implementation are met from their internal (or own) sources, viz., taxes, and non-taxes. However, due to the persistent weak financial condition of municipal governments, there exists a practice of funds being transferred from a number of external sources.

2. Need for the Study:

Municipal governments in India are vested with the statutory responsibility for the provision and maintenance of basic infrastructure and services in cities and towns. Additionally they have been assigned a range of planning functions through the state legislature and other administrative orders. The urban population is expected to rise to around 38 percent by 2026. India has to improve its urban areas to achieve objectives of economic development. Huge investment is required in India's urban sector. Since public funds for these services are inadequate, urban local bodies (ULBs) have to look for innovative approaches for financing and management of urban services. Urban local governments in India are among the weakest in the world both in terms of capacity to raise resources and financial autonomy. While transfers from state governments and the Government of India have increased in recent years, the tax bases of ULBs are narrow and inflexible and lack buoyancy, and they have also not been able to levy rational user charges for the services they deliver. A study conducted by the National Institute of Public Finance & Policy (2001) reveals that most of the urban Local Bodies are constrained in discharging their obligatory functions due to a limited resource base. The low per capita receipts of municipal governments do not enable them to meet the minimum standards of services. The study also shows that the finances of municipal bodies are in a mess; a majority of them are not able to raise adequate resources from their own sources to meet increasing expenditure on services. On the whole, the status of municipal finance in India suggests that the present revenues are insufficient to meet the growing expenditure needs of urban areas and the local municipal bodies are in a state of constant financial stress.

3. Profile of Sample Units

The Directorate of municipal administration was established in the year 1984 to act as a nodal agency to control and monitor administrative, development and financial activities of the urban local bodies and act as an interface in the compilation and dissemination of information from local bodies of government. In accordance with the powers conferred upon by the Karnataka municipalities Act, 1964, the Directorate of Municipal Administration oversees the administration of 9 City Corporations, 44 City municipal councils (CMCs), 94 Town municipal councils (TMCs), 68 Town Panchayats (TPs). The DMA monitors these urban local bodies through a network of District Urban Development cells (DUDCs) headed by a Project Director which reports to the Deputy Commissioner of the said district on a day to day basis. Following are the city municipal corporations in Karnataka. Considering the geographical area and structure of urbanization so as to evaluate their financial performance the following city municipal corporations has been selected.

1. Belgaum City Municipal Corporation
2. Bellary City Municipal Corporation
3. Mangalore City Municipal Corporation

4. Review of Literature:

A comprehensive literature review was conducted to obtain the information needed for pursuing the objectives of this research. Information was obtained from books, academic journals, government and institutional reports. **Athanassopoulos and Triantis (1998)** have analyzed the efficiency of large Greek municipalities on the basis of cash accounting data. Their conclusion shows that efficient municipalities have a higher tax base, income level, and public investment share on total expenditure and inefficiency is related to high share of grants in total municipal expenditure and population density. **R.K. Bhardwaj** in his "The Municipal Administration in India (A Sociological Analysis of Rural and Urban India)," discuss the causes of backwardness of municipal bodies In India. He expresses his dissatisfaction in the following words. The way in which the people have dealt with the local bodies in India does not bring credit to the smooth functioning of municipal administration. **Om Prie Srivastava's** 'Municipal Government and Administration in India' is based on her research thesis of 1976 entitled "State Control over Municipal-Corporations." She explains the various kinds of state control and suggests remedial measures that need to be taken. She has felt that government should reorient its attitude in regard to municipal corporations, providing constructive guidance and adequate assistance to them, as an active partner in the common cause of city administration.

5. Objectives:

Improved financial management is required to increase efficiency in revenue collection and expenditure control. Therefore the financial health of an urban local body (ULB) is indicated by a set of closely interrelated factors and not merely income-expenditure balance. The main objective of this paper is to evaluate the financial health of the selected Municipal Corporation for the period of five years. The specific objectives of the present paper are:

1. To examine the trends in major revenue sources and expenditures of municipalities and assess their fiscal position.
2. To analyze the growth rate of total income and total expenses
3. To analyze the growth rate of income over expenditure
4. To offer useful suggestions

6. Data Base & Research Methodology:

This paper is based on published secondary data and research materials, budgets of relevant urban governments, various reports, and discussion with concerned people in the municipal governments. People doing research have also been discussed. Publications of the Government of India, the State Government, and other publications have been reviewed. Important among these are the: Karnataka State Municipal Acts, that contain information on legal provisions for municipalities; and the State Finance Commission Reports, which describe the municipal finance practices and the financial performance of municipalities at different time periods. Data maintained by the selected municipal corporations a complete.

7. Analysis and Interpretation of Data:

The present paper intends to diagnose the financial health of the selected city Municipal Corporation in Karnataka. Following parameters have been identified.

1. Per Capita Income
2. Per Capita Expenditure
3. Ratio Income over Expenditure
4. Ratio Percentage of Expenditure by Income
5. Ratio Percentage of Establishment Expenditure by total Revenue Income
6. Ratio Percentage of Administrative Expense by total Revenue Income
7. Ratio Percentage of Direct Expense by Total Revenue Income
8. Ratio Percentage of Financial Expense by Total Revenue Income
9. Ratio Percentage of Salary, Wages & allowances by Total Income
10. Ratio Percentage of Property Tax by Income from Tax

Table - 1
Per Capita Income

Rs. in lakhs

Year	Belgaum			Bellary			Mangalore		
	Rs.	Growth Rs.	Growth %	Rs.	Growth Rs.	Growth %	Rs.	Growth Rs.	Growth %
2006-07	908.90	-	-	496.17	-	-	1702.92	-	-
2007-08	1378.43	469.54	51.66	901.08	404.91	81.61	2132.95	430.03	25.25
2008-09	1462.53	84.10	6.10	862.47	-38.61	-4.29	2419.69	286.74	13.44
2009-10	1680.11	217.58	14.88	993.94	131.48	15.24	2623.51	203.82	8.42
2010-11	2651.83	971.71	57.84	947.21	-46.73	-4.70	2645.55	22.04	0.84
Average	1616.36	435.73	32.62	840.17	112.76	21.97	2304.92	235.66	11.99
SD			22.45			35.36			8.87
CV			68.83			161.00			74.02

Source: Computed from Annual financial statements of sample units.

The perusal of table 1 reflects the per capita income of sample units for the period under the study which is a measure of efficiency. The per capita income is found to be positive and highest 32.62, 21.97 & 11.99 percentage in case of Belgaum, Bellary & Mangalore City Corporations respectively. The growth rate found as fluctuating indicating the city corporation has no fixed amount of revenues. The table also indicates SD and CV of all the sample units on par with Mean.

Table- 2

Per Capita Expenditure

Rs. in lakhs

Year	Belgaum			Bellary			Mangalore		
	Rs.	Growth Rs.	Growth %	Rs.	Growth Rs.	Growth %	Rs.	Growth Rs.	Growth %
2006-07	721.16	-	-	246.75	-	-	910.15	-	-
2007-08	1044.01	322.85	44.77	445.99	199.24	80.74	1231.12	320.97	35.27
2008-09	1088.65	44.64	4.28	599.05	153.07	34.32	978.05	-253.07	-20.56
2009-10	1258.65	170.00	15.62	799.68	200.63	33.49	1717.73	739.68	75.63
2010-11	1649.43	390.78	31.05	823.68	24.01	3.00	1811.26	93.53	5.45
Average	1152.38	232.07	23.93	583.03	144.23	37.89	1329.66	225.28	23.95
SD			15.33			27.77			35.78
CV			64.08			73.30			149.44

Source: Computed from Annual financial statements of sample units.

In the above table 2 shows the per capita expenditure of sample units for the period under the study. This growth rate measure the level of expenditure incurred by the corporation based on the amount of revenue received during the period under the study. The per capita expenditure is found to be positive and highest 23.93, 27.77 & 35.78 percent in case of Belgaum, Bellary & Mangalore City Corporations respectively. The table also indicates SD and CV of all the sample units on par with Mean.

Table -3

Ratio Income over Expenditure

Rs. in lakhs

Year	Belgaum			Bellary			Mangalore		
	Rs.	Growth Rs.	Growth %	Rs.	Growth Rs.	Growth %	Rs.	Growth Rs.	Growth %
2006-07	481.02	-	-	285.60	-	-	2786.33	-	-
2007-08	796.34	315.33	65.55	1240.16	954.57	334.23	2559.82	-226.51	-8.13
2008-09	108.82	-687.53	-86.34	439.45	-800.71	-64.57	4329.77	1769.95	69.14
2009-10	927.03	818.21	751.91	-130.40	-569.85	-129.67	2354.21	-1975.56	-45.63
2010-11	3259.59	2332.57	251.62	-1237.23	-1106.83	848.81	1479.30	-874.90	-37.16
Average			245.69			247.20			-5.44
SD			315.83			390.11			45.25
CV			128.55			157.81			-831.22

Source: Computed from Annual financial statements of sample units.

From the above table 3 explain the Ratio of Income over Expenditure of sample units for the period under the study. This ratio helps to know the excess of income over expenditures of sample Municipal corporations. Endorsing the table-1& table-2 the growth rate is negative indicating they are unable to generate sufficient revenues? The ratio of Income over Expenditure is found to be positive and highest 245.69, & 247.20 per cent in the case of Belgaum & Bellary City Municipal Corporation whereas Mangalore City Corporations indicates -5.44 percent. The table also indicates SD and CV of all the sample units on par with Mean.

The perusal of table 4 shows that the Ratio Percentage of Expenditure by Income of sample units for the period under the study. The Ratio Percentage of Expenditure by Income is found to be positive and highest 73.33, 67.22 & 57.11 per cent in the case of Belgaum, Bellary & Mangalore City Corporations respectively. The table also indicates SD and CV of all the sample units on par with Mean.

Table- 4

Ratio Percentage of Expenditure by Income

Rs. in lakhs

Year	Belgaum			Bellary			Mangalore		
	Expenditure Rs.	Income Rs.	Ratio %	Expenditure Rs.	Income Rs.	Ratio %	Expenditure Rs.	Income Rs.	Ratio %
2006-07	3204.63	4038.88	79.34	1012.77	2036.50	49.73	3873.99	7248.33	53.45
2007-08	4639.28	6125.36	75.74	1830.53	3698.44	49.49	5240.18	9078.74	57.72
2008-09	4837.66	6499.07	74.44	2458.78	3539.95	69.46	4163.00	10299.22	40.42
2009-10	5593.10	7465.94	74.91	3282.24	4079.60	80.45	7311.38	11166.76	65.47
2010-11	7329.60	11783.96	62.20	3380.77	3887.78	86.96	7709.49	11260.55	68.46
Average			73.33			67.22			57.11
SD			5.82			15.43			9.91
CV			7.94			22.95			17.36

Source: Computed from Annual financial statements of sample units.

Table- 5

Ratio Percentage of Establishment Expenditure by total Revenue Income

Rs. in lakhs

Year	Belgaum			Bellary			Mangalore		
	Establishment Expenditure Rs.	Revenue Income Rs.	Ratio %	Establishment Expenditure Rs.	Revenue Income Rs.	Ratio %	Establishment Expenditure Rs.	Revenue Income Rs.	Ratio %
2006-07	1421.67	507.00	35.66	473.95	266.96	56.33	932.03	664.95	71.34
2007-08	1698.93	637.19	37.51	605.68	286.98	47.38	1142.84	680.53	59.55
2008-09	1872.45	862.00	46.04	662.31	377.16	56.95	1203.60	1420.35	118.01
2009-10	1763.73	901.25	51.10	663.47	607.79	91.61	1328.82	2050.74	154.33
2010-11	1879.44	910.04	48.42	746.24	801.26	107.37	1367.65	2543.09	185.95
Average			43.74			71.93			117.84
SD			6.09			23.30			48.02
CV			13.92			32.39			40.75

Source: Computed from Annual financial statements of sample units.

In the above Table 5 shows the Ratio Percentage of Establishment Expenditure by total Revenue Income of sample units for the period under the study. The Ratio Percentage of Establishment Expenditure by total Revenue Income is found to be positive and highest 43.74, 71.93 & 117.84 per cent in the case of Belgaum, Bellary & Mangalore City Corporations respectively. The table also indicates SD and CV of all the sample units on par with Mean.

The Perusal of table 6 shows the Ratio Percentage of Administrative Expense by total Revenue Income of sample units for the period under the study. The Ratio Percentage of Administrative Expense by total Revenue Income is found to be positive and highest 39.01, 59.48 & 97.60 per cent in the case of Belgaum, Bellary & Mangalore City Corporations respectively. The table also indicates SD and CV of all the sample units on par with Mean.

Table- 6

Ratio Percentage of Administrative Expense by total Revenue Income

Rs. in lakhs

Year	Belgaum			Bellary			Mangalore		
	Revenue Income Rs.	Administrative Expenditure Rs.	Ratio %	Revenue Income Rs.	Administrative Expenditure Rs.	Ratio %	Revenue Income Rs.	Administrative Expenditure Rs.	Ratio %
2006-07	507.00	1503.84	33.71	266.96	560.52	47.63	664.95	1177.30	56.48
2007-08	637.19	1923.76	33.12	286.98	651.65	44.04	680.53	1344.39	50.62
2008-09	862.00	2081.12	41.42	377.16	823.09	45.82	1420.35	1483.42	95.75
2009-10	901.25	2027.27	44.46	607.79	782.50	77.67	2050.74	1567.01	130.87
2010-11	910.04	2149.93	42.33	801.26	974.32	82.24	2543.09	1648.40	154.28
Average			39.01			59.48			97.60
SD			4.67			16.82			40.55
CV			11.98			28.28			41.54

Source: Computed from Annual financial statements of sample units.

The perusal of table 7 indicates the Ratio of Percentage of Direct Expense by Total Revenue Income of sample units for the period under the study. The Ratio of Percentage of Direct Expense by Total Revenue Income is found to be positive and highest 26.13, 62.26 & 3.98 per cent in the case of Belgaum, Bellary & Mangalore City Corporations respectively. The table also indicates SD and CV of all the sample units on par with Mean.

Table- 7

Ratio Percentage of Direct Expense by Total Revenue Income

Rs. in lakhs

Year	Belgaum			Bellary			Mangalore		
	Direct Expenses Rs.	Revenue Income Rs.	Ratio %	Direct Expenses Rs.	Revenue Income Rs.	Ratio %	Direct Expenses Rs.	Revenue Income Rs.	Ratio %
2006-07	159.18	507.00	31.40	34.34	266.96	17.83	17.83	664.95	2.68
2007-08	275.28	637.19	43.20	47.15	286.98	36.74	36.74	680.53	5.40
2008-09	63.22	862.00	7.33	445.48	377.16	33.42	33.42	1420.35	2.35
2009-10	321.57	901.25	35.68	214.31	607.79	74.86	74.86	2050.74	3.65
2010-11	118.46	910.04	13.02	186.04	801.26	148.46	148.46	2543.09	5.84
Average			26.13			62.26			3.98
SD			13.68			47.00			1.41
CV			52.36			75.49			35.33

Source: Computed from Annual financial statements of sample units.

Table- 8

Ratio Percentage of Financial Expense by Total Revenue Income

Rs. in lakhs

Year	Belgaum			Bellary			Mangalore		
	Direct Expenses Rs.	Revenue Income Rs.	Ratio %	Direct Expenses Rs.	Revenue Income Rs.	Ratio %	Direct Expenses Rs.	Revenue Income Rs.	Ratio %
2006-07	0.58	507.00	0.12	0.77	266.96	0.29	17.83	664.95	2.68
2007-08	0.41	637.19	0.06	1.33	286.98	0.46	1.46	680.53	0.21
2008-09	0.28	862.00	0.03	2.66	377.16	0.71	0.99	1420.35	0.07
2009-10	2.23	901.25	0.25	4.77	607.79	0.78	8.03	2050.74	0.39
2010-11	2.55	910.04	0.28	1.04	801.26	0.13	4.73	2543.09	0.19
Average			0.15			0.47			0.71
SD			0.10			0.25			0.99
CV			66.89			51.81			139.95

Source: Computed from Annual financial statements of sample units.

Table 8 indicates the Ratio of Percentage of Financial Expense by Total Revenue Income of sample units for the period under the study. The Percentage of Financial Expense by Total Revenue Income is found to be positive and highest 0.15, 0.47 & 0.71 per cent in the case of Belgaum, Bellary & Mangalore City Corporations respectively. The table also indicates SD and CV of all the sample units on par with Mean.

Table- 9

Ratio Percentage of Salary, Wages & Allowances by Total Income

Rs. in lakhs

Year	Belgaum			Bellary			Mangalore		
	Salary & Allowance Rs.	Total Income Rs.	Ratio %	Salary & Allowance Rs.	Total Income Rs.	Ratio %	Salary & Allowance Rs.	Total Income Rs.	Ratio %
2006-07	1503.84	4038.88	37.23	560.52	2036.50	27.52	1177.30	7248.33	16.24
2007-08	1923.76	6125.36	31.41	651.65	3698.44	17.62	1344.39	9078.74	14.81
2008-09	2081.12	6499.07	32.02	823.09	3539.95	23.25	1483.42	10299.22	14.40
2009-10	2027.27	7465.94	27.15	782.50	4079.60	19.18	1567.01	11166.76	14.03
2010-11	2149.93	11783.96	18.24	974.32	3887.78	25.06	1648.40	11260.55	14.64
Average			29.21			22.53			14.83
SD			6.35			3.67			0.75
CV			21.74			16.27			5.09

Source: Computed from Annual financial statements of sample units.

Table 9 indicates the Ratio Percentage of Salary, Wages & Allowances by Total Income of sample units for the period under the study. The Ratio Percentage of Salary, Wages & Allowances by Total Income is found to be positive and highest 29.21, 22.53 & 14.83 per cent in the case of Belgaum, Bellary & Mangalore City Corporations respectively. The table also indicates SD and CV of all the sample units on par with Mean.

Table- 10
Ratio Percentage of Property Tax by Income from Tax
 Rs. in lakhs

Year	Belgaum			Bellary			Mangalore		
	Property Tax Rs.	Income from Tax Rs.	Ratio %	Property Tax Rs.	Income from Tax Rs.	Ratio %	Property Tax Rs.	Income from Tax Rs.	Ratio %
2006-07	500.00	507.00	98.62	256.45	258.49	99.21	619.17	664.95	93.12
2007-08	626.70	637.19	98.35	266.13	279.99	95.05	619.17	680.09	91.04
2008-09	850.00	862.00	98.61	370.97	377.14	98.36	1182.39	1255.70	94.16
2009-10	880.00	901.25	97.64	573.15	576.68	99.39	1778.29	1845.61	96.35
2010-11	890.00	910.04	97.80	778.54	791.15	98.41	2396.33	2467.09	97.13
Average			98.20			98.08			94.36
SD			0.41			1.57			2.20
CV			0.42			1.60			2.33

Source: Computed from Annual financial statements of sample units.

Table10 present the Ratio Percentage of Property Tax by Income from Tax of sample units for the period under the study. The Ratio Percentage of Property Tax by Income from Tax is found to be positive and highest 98.20, 98.08 & 94.36 percent in case of Belgaum, Bellary & Mangalore City Corporations respectively. The table also indicates SD and CV of all the sample units on par with Mean.

8. Conclusion:

The analysis of the income and expenditure of the local bodies for the past five years under Revenue, (Taxes, rents, fees, fines etc. and grants) and expenditure (Salaries, wages, electricity charges, fuel charges, street lighting etc.) reveal that the expenditure is increasing considerably. The scale and size of investment requirements cannot be met from government budgetary resources and hence multiple sources of funding are needed. This pace of transition in amalgamation with degradation of natural resources, has posed a huge challenge for city governing bodies. These bodies need to build their capacities to tackle the emerging issues and problems which are resulting in undesirable levels of service delivery and insufficient utilization of available resources; largely due to information gaps, inadequate resource mobilization and lack of effective planning, management and monitoring. The measures to bring about this includes, Overall expenditure control, Private sector participation in projects & service delivery, Debt management and Maximization of equity and efficiency. Local governments are unable to perform well due to various reasons. Self-assessment should be made mandatory which should be publicized through public notice etc. This will also avoid unnecessary defaults by property owners

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