

Financial management and local governance

¹ Florin Shelomith Soans, ² Dr. Shripathi Kalluraya KP

¹ Research Scholar, Dept. of Economics, Mangalore University, Mangalagangothri, Mangalore, Karnataka, India

² Professor, Dept. of Economics, Mangalore University, Mangalagangothri, Mangalore, Karnataka, India

Abstract

This paper attempts to present the local governments executives with a number of options to consider as they deal with the complex and ever changing questions of financial management for the local development. The paper provides local government officials quick access to a framework of ideas and suggestions that work within the hierarchy of financial management. Finance is immensely important in the running of organizations or governments. Local governments need financial resources to carry out their constitutional responsibilities as regards providing social services as well as mobilizing available resources for effective rural development and good governance at the grass root level. This paper which deals with efficient financial management in local governments was written to articulate and discuss the instruments that will help the local government to manage their funds adequately and be able to perform their statutory duties accordingly. A thorough adoption and application of approaches will improve financial management of local governments and enhance the quality of service delivery at the grass root based on the source of data and objectives which is discussed.

Keywords: Local government, Financial Management, Tools of financial management, service delivery

1. Introduction

Any organisation with development and welfare objectives requires enough finance and its proper management in order to achieve its objectives. Local bodies with the responsibility of Local Governance, which not only require revenue but it also needs knowledgeable and skilled personnel to manage efficiently. Finance and its prudent management are the bedrock of effective functioning of local government. No one can doubt the need for efficient financial management in any modern system. According to Tonwe, local governments require finance to perform their statutory provisions which border on provision of services and bringing about development in their delimited areas. Availability of adequate fund, coupled with efficient financial management constitutes the required catalyst necessary for timely execution and completion of development projects by local government.

In recent time, lack of funds has often been attributed as the major problem which had hindered effective and successful execution and completion of many public projects at the local government level. However, experience has shown the contrary that poor finance management, rather than inadequate finance is the bane of local governments' inability to achieve substantial development in their domain.

Financial management encompasses many aspects. When working in this field, it is evident that many factors play a role and need to be considered. This guide gives local government officials quick access to a framework of ideas and suggestions that work within the hierarchy of financial management. However, we shall first of all discuss a few preliminaries such as the definition of local government, the role of local government, as well as the financial management.

Objectives

The aim of this paper is to examine the various methods and

techniques that could be applied for effective and efficient finance management in the local government system. In other words, this paper attempts to give decision makers in local government options to consider as they deal with the complex and ever changing questions of financing for the local community. The specific objectives of the paper are;

1. To review the concept of local government.
2. To analyse the role played by local government in development.
3. To examine the financial management of local bodies in study area.

Methodology

The study about local bodies in the present era of governance plays a vital role because grass root level development is very necessary for the overall economic growth. With this perspective the methodology adopted in this paper is empirical study where information is collected from Annual reports of local bodies, journals and by interviewing the representatives of local bodies and the citizens of constituency who reside in that area for data collection as part of Primary source from Urban area local body of India that is Mangalore City Corporation (MCC), Dakshina Kannada the area where lot of developments are seen in both the local bodies like rural and urban area. In Dakshina Kannada there are five taluks and Mangalore has the urban local body with 60 wards and development is analysed by percentage growth in different terms.

The Concept of Local Government

Local government is a government at the grassroots level. According to Ojofeitimi, the word "local" connotes that councils are meant for small communities and the word "government" means that they have certain attributes of government. Thus, local government can therefore be defined

as "... a political sub-division of a nation (or in a federal system, a state) which is constituted by law and has substantial control of local affairs including the power to impose taxes or to demand labour for prescribed purposes. The governing body of such an entity is elected or otherwise locally selected. Thus, an essential feature of local government is autonomy. The essential features of local autonomy are summarized below. There are three separate standards to local autonomy – the amount of responsibility evolved the size and elasticity of resources assigned, and the degree of discretion conferred. The basic *characteristics* of local government include:

- a. It is a tier of government which is subordinate to central or regional government.
- b. It involves both the administrative and political processes of governmental power.
- c. Its area of authority is delimited by the statute establishing it.
- d. It has constitutional or statutorily mandated power to perform certain legislative, administrative and judicial functions.
- e. Its council is made up of elected representatives who are responsible to the electorate in the discharge of the functions assigned to them.
- f. Within the limit of its power it has legal autonomy to make policies, to prepare its own budget, to hire its own staff and to execute its own policies.
- g. It has a corporate personality.

Local governments are usually established to achieve three broad objectives. The first objective has to do with the involvement of local citizens in the management of local affairs. The second objective deals with the promotion of both efficient and speedy delivery of basic needs of local citizens. The third objective is to provide a framework within which local resources, both human and material are effectively mobilized.

The Role of Local Government

Local governments have responsibilities for mobilizing local resources, promoting social and economic improvement and development as well as national unity. They are also expected to carry out regional policies with respect to agriculture and selected industries, thereby helping to ameliorate unemployment.

Local government at work also revolves round revenue generation, budgeting, development planning, provision of services and community mobilization. Specifically, the general *functions* of local governments include but are not limited to the following,

- Establishment and maintenance of cemeteries, burial grounds and homes for the destitute or in firm.
- Construction and maintenance of roads, streets, street lights, drains and other public highways,
- Naming of roads and streets and numbering of houses,
- Provision and maintenance of public conveniences, sewages and refuse disposal,
- Registration of all births, deaths and marriages,
- The provision and maintenance of primary, adult and vocational education,
- The provision and maintenance of health services amongst others,

- Formulation of economic planning and development schemes for the local government area,
- Establishment, maintenance and regulation of slaughter houses, slaughter slabs, markets, motor parks and public conveniences,
- Assessment of privately owned houses or tenements for the purpose of levying such rates as may be prescribed by the Central or State government.
- Control and regulation of outdoor advertising and hoarding; movement and keeping of pets of all descriptions; shops and kiosks,
- Licensing, regulation and control of the sale of liquor,
- Participation in: provision and maintenance of primary, adult and vocational education,
- development of agriculture and natural resources (other than the exploitation of
- minerals),
- Provision and maintenance of health services,
- Any other functions that may be conferred by the state assembly.

The above functions of local government are broad, demanding, critical and crucial for ensuring the overall growth and development of various local areas. These developmental imperatives further reinforce the case for viable and efficient financial management for local governments.

Financial Management

The funds of the local government are managed by the elected representatives of respective area. Financial management has to do with efficient use of funds. It is a method of showing and ascertaining the financial position of government or business from time to time. Financial Management can be envisaged as consisting of a cycle of activities to ensure that resources are allocated and monitored in such a way that they have the greatest beneficial impact on overall service objectives. In order to perform finance functions efficiently, the financial managers of the local government have to,

1. Set the financial objectives of the local government.
2. Prepare plans of action and select policies for achieving the objective.
3. Develop financial plans and incorporate these into the overall plans of the local government.
4. Check the achievement of the objectives and evaluate deviations from the plan.
5. Establish causes for deviations.
6. Take corrective action and/or redesign policy or revise the objectives to start a new cycle of development.

Efficiency in financial management in any organization is always achieved through organizational determination to pursue excellent performance. It entails self-discipline on the part of top, middle, and low level managers in the organization.

In this paper attempt was made to define what is meant by local government and the role of local government and threw more light on the meaning of financial management. Thereafter various financial management methods such as the use of the budget, like their own fund or sources which they have from central and state government inflows. Any kind of development of local bodies can be analysed by their assets and it is shown in table 1.

Table 1: Assets/ Income owned by Mangalore City Corporation (MCC)

Term	Total asset (In Lakhs)	Percentage growth rate	Net asset(In Lakhs)	Percentage growth rate
2006-07	7180.68	-	2116.3	-
2007-08	10272.00	43.05	3072.00	45.15
2010-11	10815.00	5.28	8680.78	182
2011-12	16276.00	11.79	9844.00	16.78
2012-13	18196.56	9.75	44496.30	17.20
2013-14	19971.81	-	13474.44	-

Source: Annual report MCC 2013-14

When we analyse about the assets its necessary to look into how it has got is assets and what are its resources. The main source of revenue or assets or income for the local body i.e. MCC is from taxes, non tax revenue, its own fund and fund from central and state government inflows which is shown in following tables 2,3 and 4.

Table 2: Income of MCC (Tax Revenue)

Term	Tax revenue (in Lakhs)	Percentage growth
2006-07	624.17	-
2007-08	680	8.94
2010-11	1256	84.70
2011-12	1846	46.97
2012-13	2467.09	30.17
2013-14	3224.97	-

Source: Annual report MCC 2013-14

Table 3: Income of MCC (Non tax Revenue)

Term	Non Tax revenue (in Lakhs)	Percentage growth
2006-07	3248.13	-
2007-08	3391	4.39
2010-11	4624	36.36
2011-12	3490	16.17
2012-13	4054.43	52.56
2013-14	6193.70	-

Source: Annual report MCC 2013-14

Table 4: Income of MCC (Own Fund)

Term	Non Tax revenue (in Lakhs)	Percentage growth
2006-07	3248.13	-
2007-08	3391	4.39
2010-11	3391	36.36
2011-12	4624	15.39
2012-13	5336	22.22
2013-14	6522	-

Source: Annual report MCC 2013-14

Local bodies in grass root development even make use of the funds that is flowing from different avenues and it can be like from union government or state fund or sometimes it may be from international institutions. In table 5 transfer of fund from state government is analysed using percentage growth.

Table 5: Transfer of fund from State government for MCC

Term	Fund transfer in lakhs	Percentage growth
2006-07	3643.85	-
2007-08	4997	37.13
2010-11	4255	-14.8
2011-12	5599	-0.19
2012-13	5587.97	-15.8
2013-14	4704.09	-

Source: Annual report MCC 2013-14.

Tax, Central and State government grants and revenue generated by their own assets are the major sources of revenue for the local bodies. Expenditure avenues are expanding and hence local bodies need to be careful to follow fiscal management principles through proper budgeting.

Conclusion

Finance is very important in the running of organizations or governments. Local governments have a number of functions to carry out. As such, its finances need to be efficiently managed and judiciously utilized. Financial management is about efficiency in financial matters. It is about effective use of available financial resources. It is about financial alertness. Efficient financial management is necessary for the successful execution of projects and delivery of quality services at the local level.

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