

**Analysing the Finances of Urban Local Bodies in India:  
A Cross-sectional Study**

Ramakrishna Nallathiga<sup>1</sup>

Knowledge Manager (Infrastructure & Environment)

Centre for Good Governance

Dr MCR HRD IOAP Campus,

Road No. 25, Jubilee Hills,

Hyderabad – 500 033 (AP)

Tel: 040 2354 1907 extn 147 Fax: 040 2354 1953

e-mail: [ramanallathiga@yahoo.co.uk](mailto:ramanallathiga@yahoo.co.uk)

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## **Analysing the Finances of Urban Local Bodies in India: A Cross-sectional Study**

### ***Abstract:***

With rapid urbanisation and the pressure on urban areas for service delivery, the role of urban local governments is undoubtedly becoming important and, here, their financial capacity can hold the key. At the same time, there are several issues in urban governance that need to be addressed yet. Delegation of decision making powers to urban local bodies (ULBs), which are traditionally considered as a part of the system of State government and acting on behalf of it, is one of them. The constitutional mechanisms like inter-governmental fiscal transfers were an attempt to reduce the fiscal gap of ULBs, but they were not effective in translation/implementation at ground. It has become imperative now to understand the financial position of ULBs in order to move forward with the new means of fund flow. This paper presents a cross-sectional analysis of the finances of 35 ULBs in India in terms of their financial base and its adequacy vis-à-vis norms, and their revenue and expenditure performance. Using certain ratios, the relative performance of municipalities on decentralisation and dependency measures was also assessed. The implications to the finances of ULBs, in terms of raising resources, improving inter-governmental transfers and charting new mechanisms are also discussed.

**Key Words:** Urban local bodies, municipal finance, inter-government transfers, revenue and expenditure

### **1. Introduction**

India has been experiencing a rapid growth of urban areas and an increasing level as well as pace of urbanization in the last few decades. Mohan and Dasgupta (2004) assert that this led to the world looking at Asia and its two main pillars India and China with rather greater attention. The urban population has been growing at a rate of 30-40% per decade since after 1961, which is well above the rural population growth rate of 20%. The level of urban population has also been increasing from a fairly stable level of 10% of total population at the beginning of the 20<sup>th</sup> Century to a current level of around 30%<sup>2</sup>. With increasing levels of population and its growth, the demand for urban civic infrastructure services also rises, which is expected to be catered through adequate supply of it. Yet, the performance of urban local governments are far from satisfactory – the production of these service is insufficient and inefficient, the service quality is very poor and the municipal organizations are not geared to delivering them in a professional manner.

Increasing level and pace of urbanization calls for the gearing up of municipal service delivery on one hand, and the emergence of growth opportunities would require efficient supply of civic infrastructure – water supply, drainage, solid waste management, roads and street lights – on the other. As pointed out in Government of India (1996) (Rakeshmohan committee), infrastructural investment requirements are

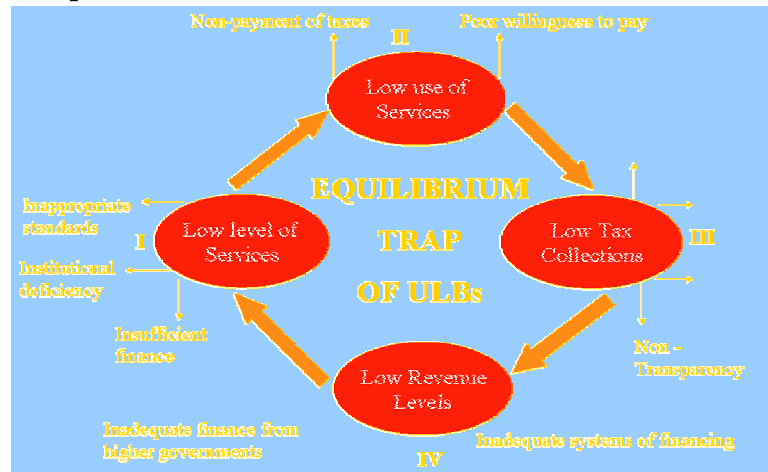
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<sup>2</sup> Census of India (1993) gives a distilled picture of growth of cities; further details and analysis on urbanization patterns and trends can be found in Kundu (2006)

very large in a rapidly growing country like India. Besides the delivery efficiency, the supply of civic infrastructure is dependent, to a good extent, on the amount of financial resources available for undertaking various development projects of civic infrastructure services. Here, municipal finances hold an important key to the production and delivery of these civic infrastructure services.

### 1.1 Financial equilibrium trap

Municipal finances hold the key to the overall status and progress of service delivery in right direction. Poor finances of municipality results in ->poor basic services, ->low capital investment, ->low credibility of municipality, -> poor revenue collection efficiency, ->



corruption and the lack of innovation in resource mobilization. This vicious cycle (as shown in the figure) leads to poor delivery and low quality of services, which will hamper the growth potential of the MC. Here, understanding the structure/pattern of finances of MCs and its growth holds greater promise in the move towards improving the municipal revenue.

It is well evident from literature that there is a significant pressure on the amenities and services in cities and yet the city finances are woefully inadequate in terms of meeting the pressure: Bahl and Linn (1992) discuss it in analytical context and Mathur and Thakur (2004) show it empirically. The quantum of financial resources available to several municipal corporations is less than what is required for the delivery of core urban civic services, which are defined under respective municipal legislations. The result is the lack of incompatibility between the investment requirements of civic infrastructure for economic growth and that of the pool of resources available for expenditure on various municipal services. The existing literature suggests that the causes for this state of affairs could be traced to both the inadequacy of available resources on one hand and gross inefficiency in the spending by urban local bodies on the other (Bahl and Linn 1992).

In this context, it is useful to take a stock of the finances of urban local governments and analyse their performance on the set measures to get hold of where they are heading and how well do they measure. For example, dependence on one type of revenue source and stagnant revenue do not go well with any MC. At the same time, the lack of adequate resources, which affects the municipal performance, can be on account of several reasons – poor tax base and levy, incomplete exploitation of user charges and low amount of transfers from upper tiers of government. Incomplete decentralisation both in finances and functions can also result in imbalance of resources vis-à-vis functions (Shah 1999). Inefficient spending could also occur on

account of resource crunch, organization structure and systemic problems, over-staffing and inadequacy of appropriate manpower. The resource gap would make the municipal bodies resort to borrowings, which needs to be backed up by user charges. It needs to be mentioned that there have been few attempts made to analyse the finances of local bodies: Jha (2002) examined it in the context of rural local bodies, Mathur and Thakur (2004) did it in the urban context. There were few isolated attempts e.g., Pethe and Lalvani (2006), Bagchi and Chattopadhyay (2004), but are limited either in their scope or in their approach.

Municipal corporations, as institutions of local government, are constituents of the third tier that play an important role in local economic development; they have a sizeable proportion of overall public financial resources but are nevertheless subject to the scrutiny in terms of physical and financial performance. Normally, an analysis of municipal finance begins with taking stock of their revenue and expenditure in terms of the composition, trends and balance. Here, we undertake analysing the finances of the 35 MCs in order to get an understanding of how well they are organized in meeting their functions. The structure of finances is discussed in another paper i.e., Nallathiga (2008). The next section provides an overview of the methodology adopted in the study. The analysis of municipal finances is made and presented thereafter successively in terms of the identified parameters and their measures. We will then conclude the results and discuss the implications of the same.

## **2 Methodology of the Study**

The analysis of municipal finances first looks at the current financial status of municipal bodies in providing civic amenities, which is carried out in terms of current spending vis-à-vis the standard/norm. The revenue and expenditure sides of municipal finance are then analysed in terms of the growth and their normalised indicators are used to benchmark the cities. The performance is also measured through relative ranking/grading of the MCs in a cross section in terms of absolute figures and their growth. Although, the debt/borrowed funds can play an important role, it is not examined here as only few of them actually have gone to market and made borrowings. Therefore, debt sustainability of the local governments is not looked upon in this study.

### **a) Availability of Civic Amenities**

Urban local bodies are expected to render a minimum level of services to the citizens in order to ensure providing a minimum standard of living to the citizens. The performance of urban local bodies on this aspect is gauged by comparing their levels of revenue expenditure on water supply, roads, sewerage and street lighting against that of the norms established by Zakaria Committee set up as early as in 1960-61.

After ascertaining the lack of required civic amenities, the per capita revenue and expenditure are compared with growth in total receipts and expenditures to see whether there are any inherent constraints to the provision of services before the urban local bodies. This needs to be further extended by identifying the constraints to

the local bodies in meeting the norms of service provision in the revenue sources – tax, non-tax and transfers.

### **b) Revenue Performance**

The ability of a municipality to generate revenue depends upon an array of factors: (i) the level of economic activity in the region; (ii) fiscal powers delegated to local government; (iii) tax efforts of municipal government itself; and (iv) transfers out of sharable pool of revenue by the state government to local government. The revenue performance of the municipality/ municipal corporation can be gauged by computing following two groups of indicators:

<b>Group I</b>	<b>Group II</b>
Growth of per capita total tax revenue	Shared tax /Gross tax revenue ( <i>Decentralisation Ratio</i> )
Growth of total revenue receipts	Grants /Total expenditure ( <i>Dependency Ratio</i> )
Composition of tax and non-tax revenue of top performers	

The rise/ fall in the first group of indicators would indicate either rise/ fall in fiscal powers delegated to local government or the improvement / deterioration in the tax effort or administration of local government. Movement in second group of ratios would on the other hand, would reveal the trend in level of dependency and decentralization.

### **c) Expenditure Performance**

The level of expenditure is, to some extent, reflective of the level of services rendered by an urban local body. While the trend in per capita expenditure would provide first approximation of the level of services rendered by a municipal government, a further segregation into discretionary and non-discretionary components, relative share of revenue and capital expenditure, share of establishment/ administrative/ wages-salaries as a proportion of total/ revenue expenditure would reveal the quality of expenditure and ability of the local bodies to meet its stated objectives.

## **3. Results**

### **3.1 Availability of Civic Amenities**

Urban local bodies are expected to provide certain minimum levels of services to the citizens. However, the availability of civic amenities in an MC is directly influenced by: (a) expenditure on services (b) per capita income and expenditure (c) growth of income and expenditure. We attempt to gaze the performance of ULBs in this section.

**a) Expenditure on Services**

The adequacy of services provided by the municipal corporations is assessed through comparing the expenditure incurred on major / core services, namely, water supply, sewerage, solid waste management, roads, street lighting, public health and sanitation with Zakaria Committee norms. Although, Zakaria Committee was established as early as in 1960-61, the norms were revised to 1997-98 and projected to 2000-01. This comparison has also been extended to include all other major services i.e., education and recreation (play grounds), in addition to the core services, that form the expenditure on all services.

The results shown in Table 1 indicate that only a few MCs like Mumbai, Nashik and Asansol have met both the expenditure norms of public works in 2001. Among other cities, Surat, Bangalore, Nagpur, and Jaipur could only meet the expenditure norms on core works, whereas several others failed to meet the same. Even the average per capita expenditure on public works for all MCs at Rs 384.64 per capita on core public works and at Rs 556.92 per capita on all public works during 2000-01 were well below the normative levels of Rs 369.48 and Rs 415.86 respectively.

**Table 1: Adequacy of Services in Municipal Corporations**

S No.	Municipal Corporation	Per capita expenditure incurred on public works (2000-01)		Zakaria Committee Norm per capita expenditure (2000-01)	
		Core services	All services	Core services	All services
1	Hyderabad	460.80	460.80	562.51	858.57
2	Visakhapatnam	352.53	352.53	535.86	770.34
3	Vijaywada	251.95	251.95	535.86	770.34
4	Patna	0.00	0.00	535.86	770.34
5	Delhi	337.06	337.06	562.51	858.57
6	Ahmedabad	0.00	0.00	562.51	858.57
7	Surat	754.60	754.60	562.51	858.57
8	Vadodara	0.00	0.00	535.86	770.34
9	Rajkot	0.00	0.00	535.86	770.34
10	Jamshedpur	0.00	0.00	535.86	770.34
11	Dhanbad	0.00	0.00	400.05	536.62
12	Bangalore	660.55	686.53	562.51	858.57
13	Kochi	412.99	421.65	535.86	770.34
14	Indore	0.00	0.00	535.86	770.34
15	Bhopal	206.82	223.49	535.86	770.34
16	Jabalpur	245.69	266.24	535.86	770.34
17	Greater Mumbai	635.27	1622.36	562.51	858.57
18	Pune	284.56	516.46	562.51	858.57
19	Nagpur	605.55	751.96	562.51	858.57
20	Nashik	1126.07	1252.98	535.86	770.34
21	Ludhiana	0.00	0.00	535.86	770.34
22	Jaipur	667.34	682.53	535.86	770.34

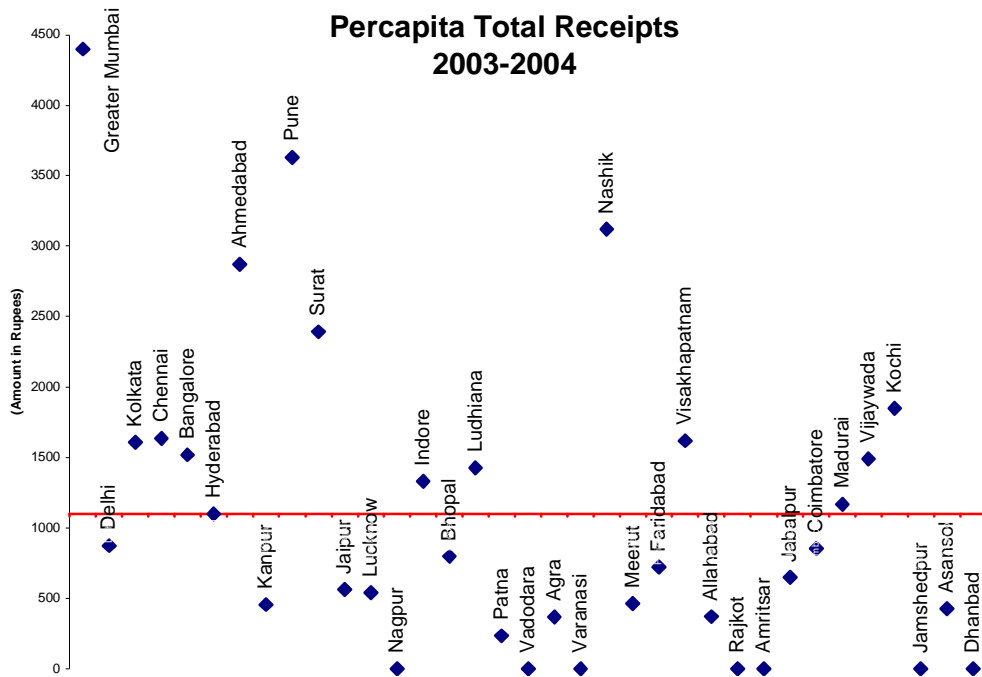
23	Chennai	272.43	279.41	562.51	858.57
24	Coimbatore	164.37	169.47	562.51	858.57
25	Madurai	215.75	215.77	535.86	770.34
26	Lucknow	270.16	320.17	535.86	770.34
27	Kanpur	85.07	102.15	562.51	858.57
28	Allahabad	111.23	144.39	562.51	858.57
29	Agra	130.75	138.92	535.86	770.34
30	Varanasi	64.44	65.89	535.86	770.34
31	Meerut	0.00	0.00	535.86	770.34
32	Faridabad	99.51	102.25	535.86	770.34
33	Kolkata	362.92	399.21	535.86	770.34
34	Asansol	941.41	983.39	562.51	858.57

Source: 1. Budgets of Municipal Corporations  
2. Mathur and Thakur (2004)

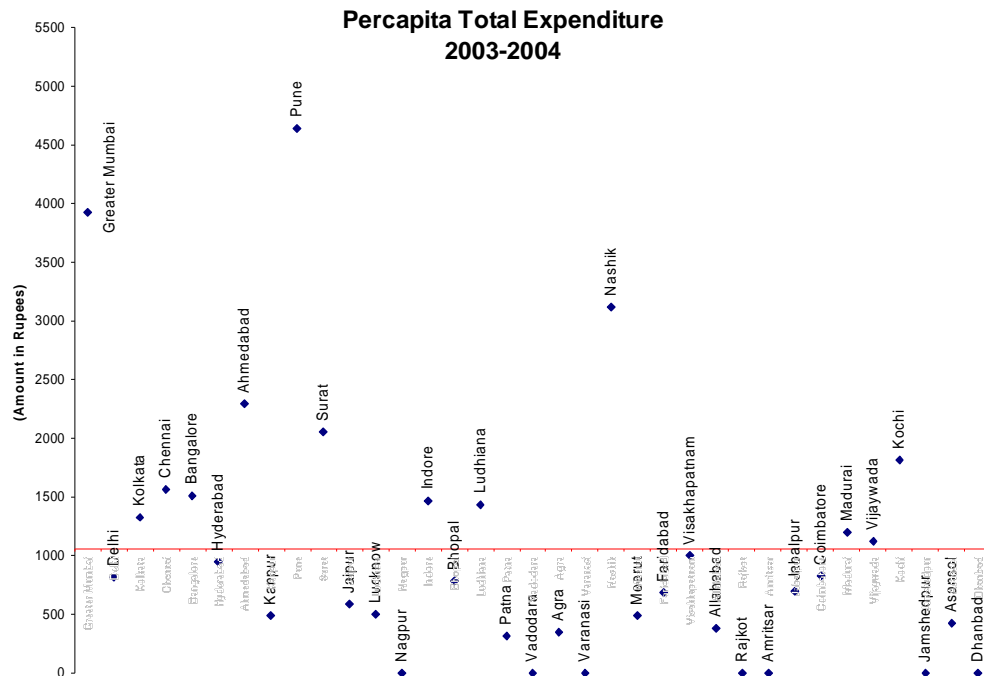
**b) Per capita income and expenditure**

The per capita income and expenditure of an urban local body (ULB) are important parameters that determine the availability of civic services and, thereby, the municipal performance, therefore it is interesting to observe the relative performance of ULBs within the group on these parameters. This is shown in figures 1 and 2.

**Figure 1 Per capita Total Receipts of ULBs**



**Figure 2: Per capita Total Expenditure of ULBs**



It is evident that Mumbai, Ahmedabad, Surat, and Nashik have fared very well in terms of per capita revenue while Patna, Agra, Kanpur and Meerut fared at the bottom. Likewise, Pune, Mumbai and Nashik have had a high per capita total expenditure in the group, and Patna, Agra, Kanpur and Meerut have fared at the bottom. While Mumbai and Nashik have consistently performed well on both the parameters, Patna, Agra, Kanpur and Meerut have consistently remained at bottom. Pune is an anomaly with high per capita expenditure relative to per capita revenue, suggesting not a very healthy status.

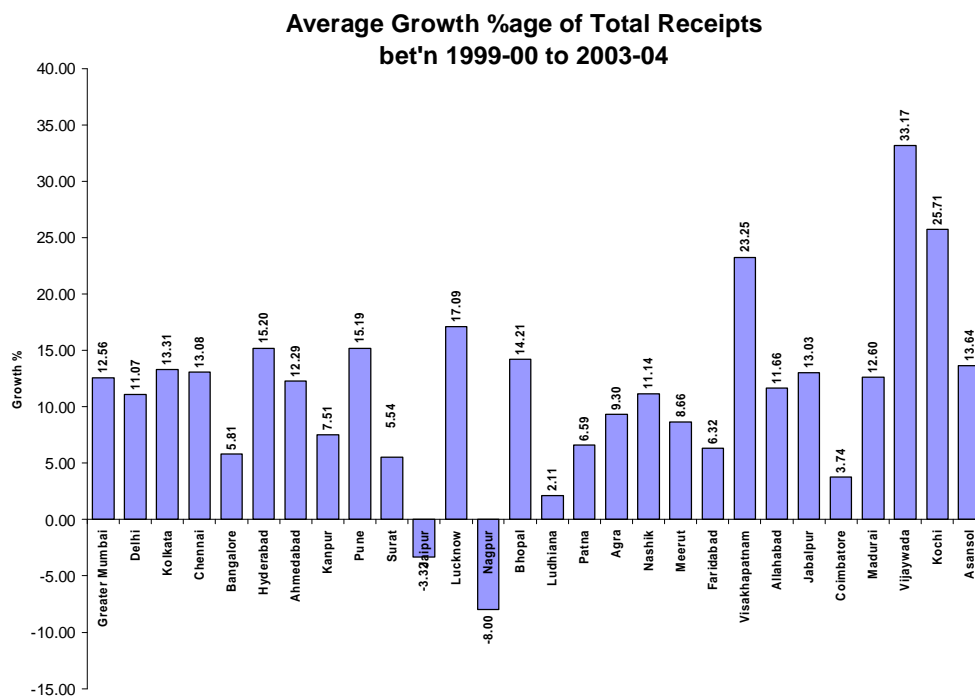
Good level of per capita income is essential for the provision of core (basic) services by an MC as laid down by the Zakaria committee norms. In the absence of strong income from internal sources, the poorly performing ULBs have to augment their revenue by improving the levy and collection of taxes and utilize new taxes to strengthen the same, some of which we discuss in the next chapter. At the same time, it is also necessary to ensure that the per capita expenditure also high but should also ensure that most of the spending goes into productive capital assets, which we also discuss in the section on expenditure performance.

**c) Growth of income and expenditure**

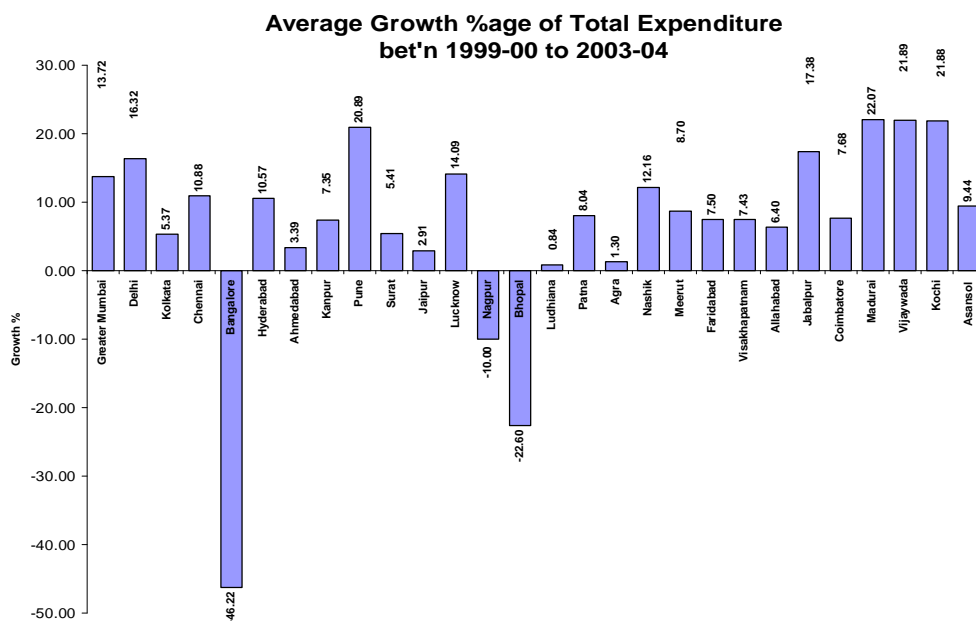
Apart from the levels of income and expenditure, for a progressive ULB, it is also essential to sustain the performance by showing good growth. The categorization of above MCs based on the growth shall indicate which of them are growing fast on both the parameters. Therefore, the average growth rates of total income and expenditure were calculated for all 35 ULBs during 2000-2004 and they are shown in Figure 3 and 4 respectively.

Most of the MCs have income and expenditure growth in the range of 5-10 per cent during this period. It is evident that Vijaywada, Kochi and Visakhapatnam have performed well on both the parameters. Only Nagpur and Jaipur have shown an unhealthy pattern - decline on both parameters in the former and decline in income but no corresponding decline in expenditure in the latter, whereas Bangalore and Bhopal are anomalies in the group with respect to expenditure growth.

**Figure 3: Average Growth Percentage of Total Receipts**



**Figure 4: Average Growth Percentage of Total Expenditure**



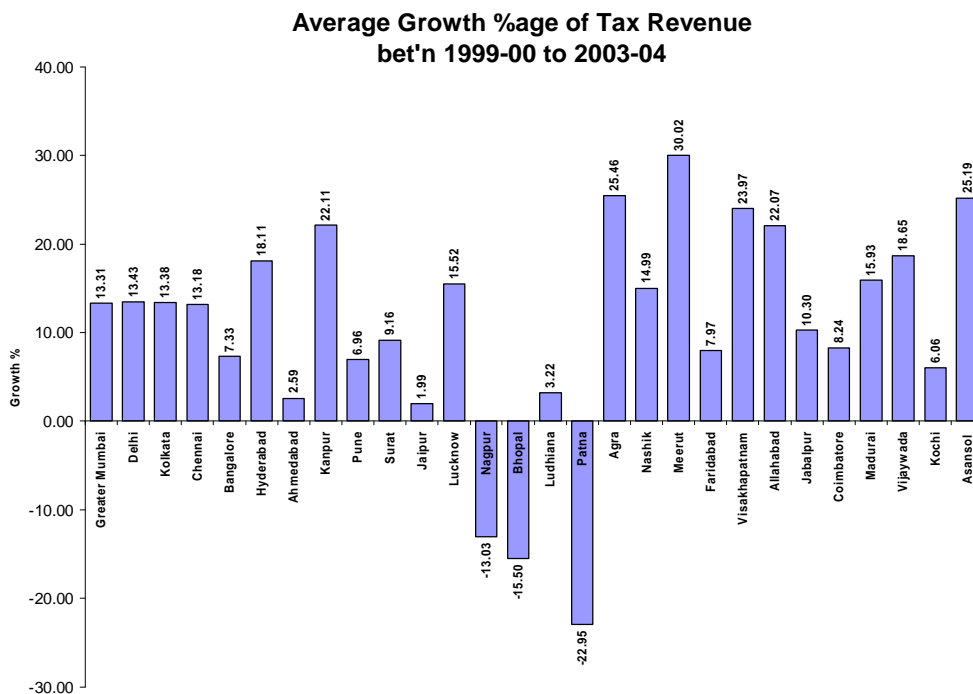
### 3.2 Revenue Performance

The revenue performance of a municipal corporation can be observed in terms of: (a) growth of tax revenue (b) growth of total (tax as well as non-tax) revenue, (c) composition of tax and non-tax of top performers among the municipal corporations, (d) shared revenue to total revenue (decentralization) and (e) transfers from state government to total revenue receipts (dependency). In the following sections, we provide how each of the municipal corporations has fared on each of the above parameters in the group.

#### a) Growth of Tax Revenue

Good growth of tax revenue is an important indicator which reflects the strength of a municipal corporation to undertake service provisioning responsibilities. Figure 5 shows the performance of each MC in terms of the average growth of tax revenue receipts of the MCs during 2000-2004. It is evident that while most of the MCs have fared well with an above average growth of tax revenue receipts (which is equal to 13 per cent for the group of 35 MCs), only Nagpur, Bhopal and Patna have shown a decline in tax revenue, which is a serious matter of concern. Interestingly, high growth rates were registered by the medium sized MCs like Agra, Meerut, Allahabad and Visakhapatnam.

**Figure 5: Average Growth Percentage of Tax Revenue**

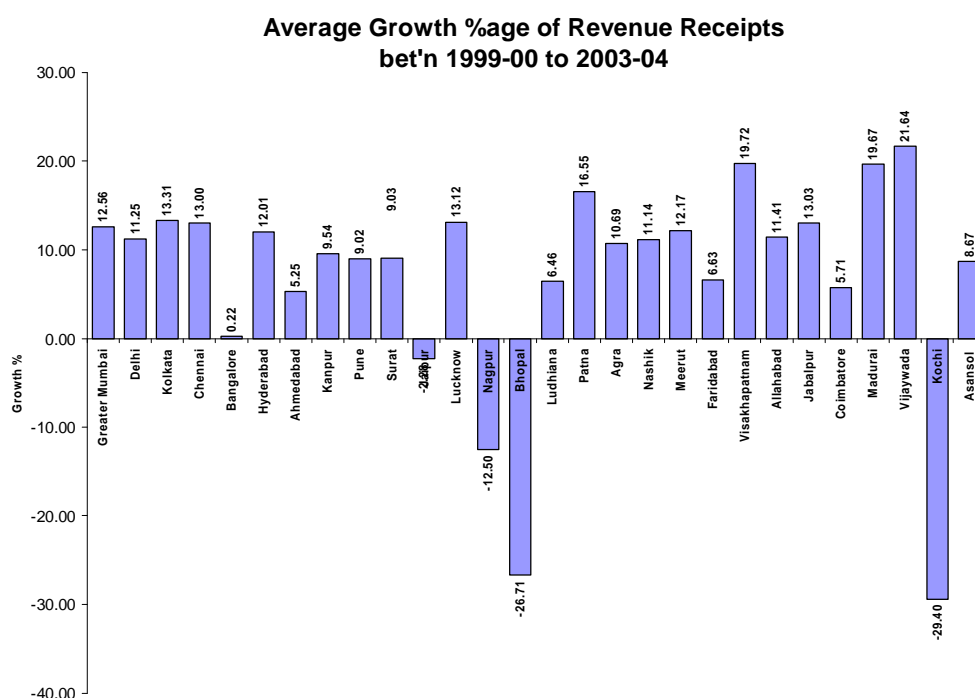


Since some of the MCs have shown a low tax revenue growth and some of them have shown even a decline, it is imperative that the MCs take a comprehensive evaluation of their tax avenues/ sources, levy methods and collection efficiency. The MCs have to strive to perform well on all these counts in order to provide a sustained financial performance and improved service delivery. In the Chapter 6, we will make some suggestions on how to improve the tax revenue and provide examples of how some such experiments have yielded success in the past.

### ***b) Growth of Revenue Receipts***

The growth of total revenue receipts is an indication of healthy state of the finances of a ULB. Most of the ULBs have, however, shown below average growth of revenue receipts (which is equal to 13 per cent for the group), suggesting the decline of non-tax revenue and/or non-plan grants in the overall growth of revenue receipts (see figure 6). Only Vishakhapatnam, Vijayawada and Madhurai have shown good growth of revenue receipts. Jaipur, Nagpur, Bhopal and Kochi have shown a declining trend of revenue receipts, which might be related to either their inability to raise own tax revenue and/or their receiving lesser and lesser grants.

**Figure 6: Average Growth Percentage of Revenue Receipts**



The reasons for the poor revenue receipts of certain MCs need to be explored further. While higher dependence on grants is not recommended, a declining share of grants to the MCs, if found to be the case, warrants reconciliation of grant system (particularly, revenue grants) in tune with the rising gaps in local finances (due to rise of population, economic growth and responsibilities). We have also found this as the case in the scenario of abolition of Octroi. However, the MCs have to augment their revenues by resorting to all means such as: i) improving the tax revenue, particularly

property tax, through better levy methods and collection procedures, ii) enhancing the tax base through proper assessments, iii) revising tax rates in tune with rise of property value/ local economic development and financial requirements of civic bodies. This essentially means that the MCs need to be on reform and innovation path for sustained performance.

**c) Composition of Tax and Non-tax Revenue**

Achieving a good proportion of own revenue to total revenue receipts is one way of establishing creditworthiness, and a greater share of tax revenue in it is desirable as it is a reliable revenue source. A proportion of more than 50 per cent is considered to be good and that more than 70 per cent is considered to be favourable from the viewpoint of creditworthiness (Mathur and Ray 2003). Though there are no provisions, a normative proportion of tax and non-tax revenue at 40-30 and 30-20 per cent of total revenue could be considered as attainable by the MCs. The composition of revenues of top five MCs on each of the respective parameters indicates property tax share at 38% and shared tax (profession and entertainment taxes) proportion at 12% of total revenue has been the case with a lower reliance on non-tax revenues, whereas those that stood at bottom on each of the parameter have a high reliance on non-tax revenue and low reliance on shared tax (but they rely well on property tax). The ULBs shall strive to improve their tax share, particularly that of property tax, by improving revenue mobilization.

**Table 2: Composition of Revenues of Municipal Corporations (2003-04)**

<b>Share of the component in total Revenue Receipts</b>	<b>Top 5 MCs (combined)</b>	<b>Bottom 5 MCs (combined)</b>
<i>Own taxes</i>		
i) Property Tax	37.86%	23.96%
ii) Profession Tax	8.47%	0.14%
iii) Entertainment Tax	4.01%	0.5%
<i>Non-Tax Revenue</i>		
i) User Charges & fees	17.10%	48.32%

**d) Decentralisation**

Apart from the measures of revenue growth and composition, the revenue performance of ULBs can be gauged through decentralisation and dependency. Decentralisation measure is defined as the proportion of shared tax in the tax revenue, which underscores the importance of share revenue as opposed to own revenue. Table 3 provides the measure of the MCs on this parameter. Most of the ULBs demonstrate a low measure of decentralization, which is desirable. Vijayawada, Hyderabad, Visakhapatnam, Coimbatore and Chennai have shown a higher decentralisation, while Ahmedabad, Surat, Allahabad, Ludhiana and Jaipur have shown almost zero decentralisation.

**Table 3: Categorization of Municipal Corporations as per Decentralisation Ratio (2002-03)**

<b>Parameter</b>	<b>Municipal Corporations</b>	<b>Top 5 Municipal Corporations</b>
<i>At or Above Average (Highly decentralized)</i>	Asansol Chennai Coimbatore Faridabad Hyderabad Kochi Madurai Meerut Vijayawada Vishakhapatnam	Vijayawada (0.83) Hyderabad (0.728) Vishakhapatnam (0.728) Coimbatore (0.52) Chennai (0.48)
		<b>Bottom 5 Municipal Corporations</b>
<i>Below Average (Lowly decentralized)</i>	Agra Ahmedabad Allahabad Bangalore Bhopal Delhi Greater Mumbai Indore Jabalpur Jaipur Kanpur Kochi Kolkata Lucknow Ludhiana Nashik Patna Pune Surat	Ahmedabad (0.000) Surat (0.000) Allahabad (0.0002) Ludhiana (0.0005) Jabalpur (0.0006)

High decentralization makes the states to rely of the state governments to some extent in sharing the revenues, particularly in the absence of well established sharing formulas and strict adherence made to them by the State governments. Therefore, complete devolution of tax resources should be done by corresponding States in order to make the MCs more independent, as emphasized in the 74<sup>th</sup> constitutional amendment.

***e) Dependency***

The dependency measure is the proportion of total grants in aid in total expenditure. Table 4 provides the measure of all ULBs on this parameter. They are, however,

divided on this measure. The MCs of medium sized cities like Agra, Meerut, Lucknow, Allahabad, and Kanpur demonstrate a high dependency on grants/ external support, which reflects their weak base of own revenues. The cause of such high dependency needs a detailed study, but it appears that they have been inefficient in mobilizing tax revenues and lack the buoyant tax sources. They need to exploit the main sources of municipal revenue –property tax - and start making the levy of few other taxes like vacant land tax. Ludhiana, Greater Mumbai, Hyderabad and Chennai show low dependency on the support of grants to meet their expenditures.

**Table 4: Categorization of Municipal Corporations as per Dependency Ratio (2003-04)**

<b>Parameter</b>	<b>Municipal Corporations</b>	<b>Top 5 Municipal Corporations</b>
<i>At or Above Average (High dependency)</i>	Agra Ahmedabad Allahabad Asansol Bhopal Indore Jabalpur Kanpur Kolkata Lucknow Meerut	Agra (0.690) Meerut (0.652) Lucknow (0.635) Allahabad (0.617) Kanpur (0.576)
		<b>Bottom 5 Municipal Corporations</b>
<i>Below Average (Low dependency)</i>	Bangalore Chennai Coimbatore Delhi Faridabad Greater Mumbai Hyderabad Jaipur Kochi Ludhiana Madurai Nashik Patna Surat Vijayawada Vishakhapatnam	Ludhiana (0.001) Greater Mumbai (0.010) Hyderabad (0.013) Delhi (0.036) Coimbatore (0.038)

### 3.3 Expenditure Performance

Expenditure performance of the MCs can be analysed from the broad indicators of: (a) level of revenue expenditure, (b) share of expenditure components - capital, maintenance and establishment, (c) the quality of expenditure (share of spending on discretionary vis-à-vis non-discretionary services), and (d) the extent of cost recovery.

**(a) Revenue expenditure**

The level and structure of expenditure has some major implications to the finances of the MCs. The revenue expenditure, comprising expenditures on establishment (staff salaries and administration) and maintenance, assumes importance, as it relates to the provision of civic services and their maintenance. However, very high proportion of revenue expenditure in total expenditure can be detrimental to the expansion of capital assets and generation of future revenue streams. Table 5 shows how each of the MCs fare on this parameter. It indicates that many of them actually have very high revenue expenditures as compared to the average of 25 per cent. Patna, Bangalore, Jabalpur, Greater Mumbai and Faridabad have shown revenue expenditure constituting almost 100 per cent of total expenditure, while Vijayawada, Nashik, and Kochi have shown it at less than 50 per cent of total expenditure. The MCs with very high proportion of revenue expenditure have to streamline their expenditure by either restructuring staffing pattern or outsourcing some non-core functions to third parties.

**Table 5: Categorization of Municipal Corporations as per Revenue Expenditure to Total Expenditure Ratio (2003-04)**

<b>Parameter</b>	<b>Municipalities</b>	<b>Top 5 Municipalities</b>
<i>At or Above Average</i>	Agra Allahabad Bangalore Delhi Faridabad Greater Mumbai Jabalpur Kanpur Kolkata Ludhiana Meerut Patna	Patna (100%) Bangalore (100%) Jabalpur (100%) Greater Mumbai (100%) Faridabad (100%)
		<b>Bottom 5 Municipalities</b>
<i>Below Average</i>	Asansol Chennai Coimbatore Hyderabad Indore Jaipur Kochi Lucknow Madhurai Nashik	Vijayawada (42.57%) Nashik (46.67%) Kochi (49.04%) Hyderabad (51.87%) Asansol (53.93%)

	Pune Surat Vijayawada Vishakhapatnam	
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***b) Relative shares of Expenditures***

The expenditure structure of municipal corporations also throws some lights on the relative importance assigned to each component in the total expenditure and it has a bearing on the financial position and service delivery. While a low proportion of spending on establishment is desirable, too low proportion may hamper its service delivery; likewise, expenditure on capital works is important as it provides future sources of revenue, but very high expenditure on it would have a bearing on the finances and even necessitate external support in the form of either grants or borrowings. Table 6 presents the relative share of expenditure components of the MCs. It indicates that some of the MCs have an unsustainably high proportion of (more than 50 per cent) total expenditure on establishment, which affects the finances and service delivery capacity. Likewise, some of MCs have an abysmally low capital expenditure (less than 10 per cent to almost zero), which is equally detrimental to the health of civic finances and its long term sustainability. It is therefore necessary to develop certain guidelines/norms for the MCs towards spending on capital and its maintenance and reforming the staffing pattern.

**Table 6: Relative shares of Expenditure components of the MCs (2003-04)**

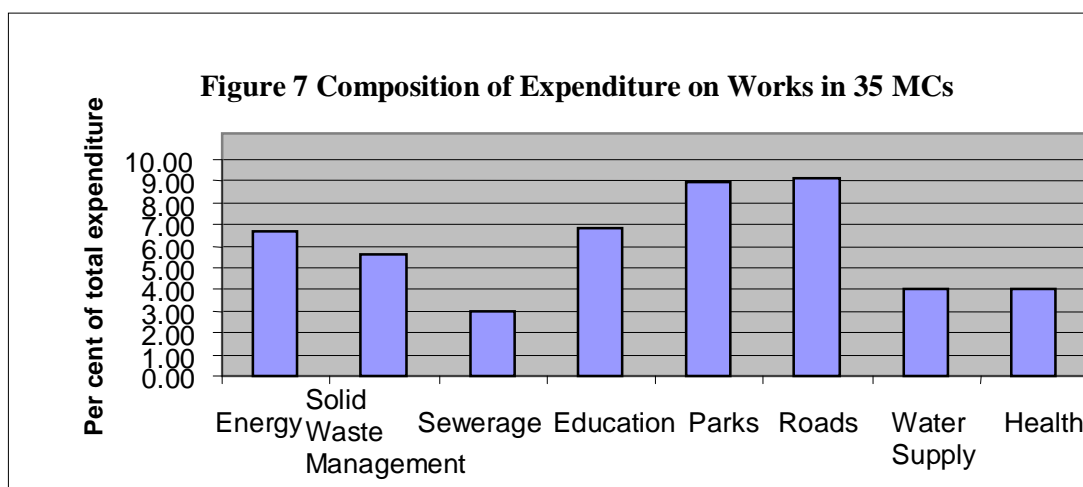
<b>Municipal Corporation</b>	<b>Share of Establishment Expenditure in Total Expenditure (%)</b>	<b>Share of Maintenance Expenditure in Total Expenditure (%)</b>	<b>Share of Capital Expenditure in Total Expenditure (%)</b>
Greater Mumbai	30.91	7.11	0.04
Delhi	35.91	4.36	6.87
Kolkata	68.53	4.83	6.30
Chennai	32.90	6.16	24.68
Bangalore	42.25	3.76	0.00
Hyderabad	48.89	22.77	26.30
Ahmedabad	0.00	0.00	30.20
Kanpur	61.20	11.64	0.01
Pune	19.45	0.00	27.35
Surat	38.17	8.02	34.56
Jaipur	31.25	6.83	33.03
Lucknow	47.56	17.26	23.37
Nagpur	-	-	-
Indore	26.81	10.88	33.03
Bhopal	17.24	10.81	6.54
Ludhiana	43.61	17.27	1.28
Patna	48.40	21.95	0.00

Vadodara	-	-	-
Agra	48.26	6.97	10.12
Varanasi	-	-	-
Nashik	28.59	0.00	40.60
Meerut	42.28	16.03	13.70
Faridabad	49.32	0.00	0.00
Visakhapatnam	55.15	28.54	15.67
Allahabad	56.95	14.96	0.00
Rajkot	-	-	-
Amritsar	-	-	-
Jabalpur	52.48	7.97	0.00
Coimbatore	43.18	2.00	33.75
Madurai	47.33	1.49	37.93
Vijayawada	40.63	24.89	21.75
Kochi	9.95	16.71	0.70
Jamshedpur	-	-	-
Asansol	32.58	12.42	34.21
Dhanbad	-	-	-
Total	32.66	6.52	12.21

**Source:** Budgets of Municipal Corporations

### *c) Quality of Expenditure*

The MCs have been assigned some of the essential functions as defined under the respective municipal legislation. Here, it was laid down that they shall give primary attention to providing essential services like water supply, sewerage, street lights, solid waste management and public (primary) health. A disproportionately high spending on non-discretionary items like education, parks and roads is not highly desirable unless the MC has already attained satisfactory levels of services on discretionary items. The composition of expenditure on works in all 35 MCs shown in Figure 7 clearly indicates that the expenditure incurred on important municipal functions (or, discretionary items) like provision of water supply, drainage, sewerage and solid waste management has been comparatively less than the expenditure incurred on non-essential functions (or, non-discretionary items) like provision of parks, roads and education. This implies the need to rationalize the discretionary spending by the MCs through some kind of guidelines, or to improve public accountability of expenditure through citizen charters and social audits which we will discuss in next chapter. Although water supply and sewerage functions are handled by water supply and sewerage boards in some metropolitan cities like Delhi, Hyderabad, Bangalore and Chennai, it does not affect the finding. In fact, the pattern of expenditure on works, after deducting the corresponding figures of the above four metropolitan cities, more or less remains the same.



**Source:** Budgets of Municipal Corporations

#### ***d) Recovery of Cost***

Cost recovery of services is an important integral measure of the municipal finances and it is linked to the self-sustainability of the MCs. It can be broadly measured as a ratio of municipal fees & user charges to revenue expenditure incurred for the provision of respective services viz., water supply, health services, education and electricity. As the data on service-wise user charges and fees are not available, we use the broad indicator of ratio of municipal fees and user charges to the aggregate revenue expenditure, which is shown in Table 7. However, barring Delhi and Visakhapatnam, none of them show a very high proportion and it is almost zero in Nashik, Pune and Patna. Cost recovery has to be an integral part of the service provision, especially when the service costs can be measured and beneficiaries can be identified, such as in the case of water supply, roads, education and health care facilities. The other alternatives of public-private partnerships could be explored for overcoming some of the costs, which requires a particular mention. Public private partnerships ensure that the operating costs of services are recovered and users pay for utilising these services.

**Table 7: Cost Recovery in Municipal Corporations (2003-04)**

S. No.	Municipal Corporation	Cost recovery ratio (as %)
1	Hyderabad	14.01
2	Visakhapatnam	72.03
3	Vijayawada	28.10
4	Patna	0.62
5	Delhi	87.66
6	Ahmedabad	-
7	Surat	8.90
8	Vadodara	-
9	Rajkot	-
10	Jamshedpur	-
11	Dhanbad	-

12	Bangalore	8.37
13	Kochi	5.48
14	Indore	20.70
15	Bhopal	22.14
16	Jabalpur	3.62
17	Greater Mumbai	4.48
18	Pune	0.00
19	Nagpur	-
20	Nashik	0.00
21	Ludhiana	3.39
23	Jaipur	16.06
24	Chennai	4.19
25	Coimbatore	5.98
26	Madurai	4.34
27	Lucknow	7.17
28	Kanpur	1.78
29	Allahabad	6.11
30	Agra	17.28
31	Varanasi	-
32	Meerut	8.36
33	Faridabad	32.24
34	Kolkata	16.36
35	Asansol	14.32
	<b>Total</b>	12.88

**Source:** Budgets of Municipal Corporations.

#### 4. Discussion

The analysis of municipal finances reveals that most of the ULBs are generating small revenue surplus with low resource gaps. More than that, they are spending lower than that required for providing a minimum level of civic amenities. This apparent contradiction is on account of some of the design issues of inter-governmental system under which the ULBs are not independent in functioning and decision making e.g., control over staff, raising of revenue and expenditure, and accessing debt, which points to the decentralisation yet to come in true sense as pointed out by some authors e.g., Mohanty (1995), Bagchi and Chattopadhyay (2004).

There are also regional disparities in financial performance: ULBs belonging to states like Bihar/ Uttar Pradesh fare worse as compared to those belonging to Maharashtra/ Gujarat. The design of inter-governmental transfers may attempt to address it partly. But, there is scope for improving own performance by improving tax collection and raising user charges in the ULBs, which also paves the way for public-private partnerships and accessing of market funds for financing their projects as pointed out by Ghodke (2004) and Vaidya and Johnson (2001).

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