

Chapter 4

TRENDS IN MUNICIPAL FINANCES IN INDIA

4.1 Overview of Municipal Finances

This chapter presents an overview of municipal finances in India. The first section analyses the pattern and trends in municipal finances using all-India fiscal aggregates obtained from secondary sources³ to provide a macro picture across the country. The second, third and fourth sections provide indepth analysis of the structure of municipal finances of select 35 Municipal Corporations (MCs). The analysis is based on data gathered from the budget documents of these selected MCs, covering the period 1999-2000 to 2003-2004.

4.2 Size of the Municipal Sector

As per the Report of the Twelfth Finance Commission, India has 3,723 ULBs, of which 109 are MCs, 1432 are municipalities and 2182 are Nagar Panchayats.

The total revenue of the municipalities grew from Rs.11,515 crore in 1998-99 to Rs.15,149 crore in 2001-02 at a compounded average growth rate (CAGR) of 9.6 per cent. The total expenditure increased from Rs 12,035 crore to Rs 15,914 crore during the same period, registering a CAGR of 9.8 per cent. In spite of the growth of the municipal sector in the country, it accounts for a very small proportion of both Gross Domestic Product (GDP) (at current prices) as well as revenue and expenditure of the upper tiers of Government.

Total revenue of the municipal sector accounts for about 0.75 per cent of GDP of the country. In contrast, the ratio is 4.5% for Poland, 5% for Brazil and 6% for South Africa [Buckley (2005)]. Similarly, municipal revenue forms a little more than 2 per cent of

³ Data set out in various government reports *viz.*, Twelfth Finance Commission Report, Eleventh Finance Commission Report and Economic Survey, have been used.

Table 13: Revenue Significance of Municipal Sector

Year	Municipal Revenue (Rs. Crore)	Percentage of GDP at Factor Cost	Relative share of Municipal Revenue (as per cent of Total Revenue of)		
			State Govt.	Central Govt.	Combined State & Central Govt.
1998-99	11,515	0.72	4.4	4.1	2.5
1999-00	13,173	0.75	4.2	4.4	2.5
2000-01	14,581	0.77	4.2	4.5	2.4
2001-02	15,149	0.73	4.1	4.2	2.3

Source : (i) Reports of Eleventh and Twelfth Finance Commission, (ii) Economic Survey, GoI 2004-05.

combined revenue of State and Central Governments. Total revenue of ULBs has been growing at a lower rate (9.7 per cent during 1998-99 to 2001-02) than the growth of combined revenue of Central and State Governments (10.8 per cent during 1998-99 to 2001-02). This reflected in a marginal decline in the share of municipal revenue in total government revenues from 2.5 per cent in 1998-99 to 2.3 per cent in 2001-02. Table 13 provides an overview of the relative importance of municipal revenues in relation to revenues of the States and the Centre.

In terms of total expenditure, the municipal sector accounts for about 0.79 per cent of the GDP of the country. While, municipal expenditure accounts for little over 2 per cent of the combined expenditure of State and Central Governments, it declined further between 1999-2000 and 2001-2002. Table 14 provides an overview

Table 14: Expenditure Significance of Municipal Sector

Year	Municipal Expenditure (Rs. Crore)	Percentage of GDP at Factor Cost	Relative share of Municipal Expenditure (as per cent of Total Expenditure of)		
			State Govt.	Central Govt.	Combined State & Central Govt.
1998-99	12035	0.75	4.52	4.31	2.21
1999-00	14452	0.82	4.60	4.85	2.36
2000-01	15743	0.83	4.53	4.84	2.34
2001-02	15914	0.76	4.22	4.39	2.15

Source: (i) Reports of Eleventh and Twelfth Finance Commission (ii) Handbook of Statistics on Indian Economy, RBI 2005-06

of the relative importance of municipal expenditure in relation to the expenditures of the States and Centre.

4.3 Finances of Select Municipal Corporations

This and subsequent sections undertake indepth analysis of municipal finances based on primary data obtained from the budget

Table 15: Study Sample - Cities with more than 1 million population in 2001

S. No.	Name of the City	Name of the State	UA/City Population (2001) (million)	MC Population (2001)
1	Greater Mumbai	Maharashtra	16.37	11914398
2	Kolkata	West Bengal	13.22	4580544
3	Delhi	Delhi	12.79	9817439
4	Chennai	Tamil Nadu	6.42	4216268
5	Bangalore	Karnataka	5.69	4292223
6	Hyderabad	Andhra Pradesh	5.53	3449878
7	Ahmedabad	Gujarat	4.52	3515361
8	Pune	Maharashtra	3.75	2540069
9	Surat	Gujarat	2.81	2433787
10	Kanpur	Uttar Pradesh	2.69	2532148
11	Jaipur	Rajasthan	2.32	2324319
12	Lucknow	Uttar Pradesh	2.27	2207340
13	Nagpur	Maharashtra	2.12	2051320
14	Patna	Bihar	1.71	1376950
15	Indore	Madhya Pradesh	1.64	1597441
16	Vadodara	Gujarat	1.49	1306035
17	Bhopal	Madhya Pradesh	1.45	1433875
18	Coimbatore	Tamil Nadu	1.45	930882
19	Ludhiana	Punjab	1.40	1395053
20	Kochi	Kerala	1.35	596473
21	Visakhapatnam	Andhra Pradesh	1.33	982940
22	Agra	Uttar Pradesh	1.32	1259979
23	Varanasi	Uttar Pradesh	1.21	1100748
24	Madurai	Tamil Nadu	1.19	928869
25	Meerut	Uttar Pradesh	1.17	1074229
26	Nashik	Maharashtra	1.15	1076967
27	Jabalpur	Madhya Pradesh	1.12	951469
28	Jamshedpur	Jharkhand	1.10	570349
29	Asansol	West Bengal	1.09	475439
30	Dhanbad	Jharkhand	1.06	198963
31	Faridabad	Haryana	1.05	1054981
32	Allahabad	Uttar Pradesh	1.05	975393
33	Amritsar	Punjab	1.01	1011327
34	Vijayawada	Andhra Pradesh	1.01	851282
35	Rajkot	Gujarat	1.00	967476

- Source :** (i) <http://urbanindia.nic.in/mud-final-site/programs/urbandevelopment/nurm.htm> Website of MUD (accessed on November 15, 2005);
(ii) <http://www.censusindia.net/results/millioncities.html> Census of India website (last accessed on March 24, 2006)
(iii) Secondary sources, including budget documents of the MCs

documents of 35 major MCs of the country whose population was 1 million and above as per 2001 Census. Table 15 shows the sample of MCs and the States to which they belong.

4.4 Municipal Revenues

4.4.1 Structure of Municipal Revenues

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. Table 16 lists out revenue sources under each major revenue head. It may be mentioned that composition as well as relative importance of revenue sources of MCs varies across the States.

Table 17 sets out the major components of tax revenue of selected MCs in India. While, property tax is the major revenue source in most of the MCs, octroi is the major source in the MCs of Maharashtra and Gujarat. Octroi has been abolished in all other States excepting Maharashtra and Gujarat.

Table 18 illustrates the major user charges and fees levied by the select MCs in India. There is considerable heterogeneity in the levy of user charges by MCs across states.

Table 16: Revenue Sources of Municipal Corporations in India 1998-2002

Revenue Head/Category	Sources of revenue
Tax revenue	Property Tax, Octroi, Advertisement Tax, Tax on Animals, Vacant Land Tax, Taxes on Carriages and Carts
Non-Tax revenue	User Charges, Municipal Fees, Sale & Hire Charges, Lease amounts
Other receipts	Sundry receipts, Law charges costs recovered, Lapsed deposits, Fees, Fines & Forfeitures, Rent on Tools & Plants, Miscellaneous Sales <i>etc.</i>
Assigned (Shared) revenue	Entertainment Tax, Surcharge on Stamp duty, Profession Tax, Motor Vehicles Tax
Grants-in-aid	(i) Plan Grants made available through planned transfers from upper tier of Government under various projects, programmes and schemes (ii) Non-Plan Grants made available to compensate against the loss of income and some specific transfers
Loans	Loans borrowed by the local authorities for capital works <i>etc.</i> – HUDCO, LIC, State and Central Governments, Banks and Municipal Bonds

Source: Budgets of Municipal Corporations.

* Gujarat is reported to have abolished octroi recently.

Table 17: Sources of Major Tax Revenues of Selected Municipal Corporations in India 1998-2002

Name of State	Name of Municipal Corporation	Major Taxes
Andhra Pradesh	Hyderabad	Property Tax, Profession Tax
Bihar	Patna	Property Tax, Profession Tax
Delhi	Delhi	Property Tax, Advertisement Tax
Gujarat	Surat	Property Tax, Octroi
Karnataka	Bangalore	Property Tax, Advertisement Tax
Kerala	Kochi	Property Tax, Profession Tax
Madhya Pradesh	Indore	Property Tax, Advertisement Tax
Maharashtra	Mumbai	Octroi, Property Tax
Punjab	Ludhiana	Octroi, Property Tax
Rajasthan	Jaipur	Octroi, Property Tax
Tamil nadu	Chennai	Property Tax, Profession Tax
Uttar Pradesh	Varanasi	Property Tax, Advertisement Tax
West Bengal	Kolkota	Property Tax, Advertisement Tax

Source: Budgets of Municipal Corporations.

Shared tax revenue, which varies in terms of composition and nature across states, also forms significant proportion of MC resources (Table 19). Entertainment tax is an important tax, not levied by the MCs, but collected and assigned to the MCs by State Governments. In Andhra Pradesh and Tamil Nadu, in addition to entertainment tax, profession tax and surcharge on stamp duty are also assigned to local bodies.

Table 18: Sources of Major User Charges and Fees of Selected Municipal Corporations in India 1998-2002

Name of State	Name of Municipal Corporation	User Charges and Fees
Maharashtra	Greater Mumbai	Water Charges, Sewerage Charges, Building Licence Fees
West Bengal	Kolkata	Planning Fees, Car Parking Fees, Mutation Fees
Karnataka	Bangalore	Betterment Charges, Building Licence Fees, Penalty for Late Tax payment
Orissa	Bhubaneswar	Building Licence Fees, Market Fees
Gujarat	Surat	Water Charges, Building-related Fees, Betterment Charges
Tamil Nadu	Chennai	Building Licence Fees, Market Fees, Other Licence Fees, Parking Fees
Andhra Pradesh	Hyderabad	Dangerous and Offensive Trade Licence Fees, Market Fees, Slaughter House Fees
Uttar Pradesh	Kanpur	Building Licence Fees, Market Fees

Source: Budgets of Municipal Corporations.

Table 19: Sources of Shared Revenues of Selected Municipal Corporations in India 1998-2002

Name of State	Name of Municipal Corporation	Shared Municipal Taxes
Maharashtra	Greater Mumbai	Non-agricultural Assessment Tax, Entertainment Tax
West Bengal	Kolkata	Motor Vehicles Tax, Entertainment Tax
Karnataka	Bangalore	Entertainment Tax, Surcharge on Stamp Duty
Gujarat	Surat	Entertainment Tax
Tamil Nadu	Chennai	Surcharge on Sales Tax, Duty on Transfer of Property, Entertainment Tax
Andhra Pradesh	Hyderabad	Surcharge on Stamp Duty, Profession Tax, Entertainment Tax

Source: Budgets of Municipal Corporations.

Apart from their own revenue sources, *i.e.*, tax and non-tax revenue sources, the MCs depend upon grants from State Governments. These grants are primarily intended to compensate for the mismatch of functions and finance. Most of the MCs receive financial support in the form of revenue grants from State Governments to meet current expenses. Similarly, capital grants are also provided for meeting project related expenditure. Table 20 shows the composition of grants-in-aid in selected MCs.

In addition to own revenues, shared revenues, user charges & fees and grants-in-aid, loans also constitute an important source of municipal revenues in some ULBs.

4.4.2 Composition and Trends of Municipal Revenues

Relative contribution of various components in the total revenue over the years has been presented in Tables 21(a) and 21(b).

Between 1999-00 to 2003-04, while the share of non-tax, assigned revenue, non-plan and plan grants improved, the share of tax revenue in total revenue receipts of MCs declined.

The average shares of major revenue components (average of 2000-04) based on the data of 35 Municipal Corporations are shown

Table 20: Major Sources of Grants-in-Aid of Selected Municipal Corporations in India 1998-2002

Name of State	Name of Municipal Corporation	Grants-in-Aid provided to Municipal Corporations
Maharashtra	Greater Mumbai	Primary Education Grant and Secondary Education Grant
West Bengal	Kolkata	Dearness Allowance Grant, Grant to Implement Recommendations of Pay Commission and Water Supply, Sewerage and Drainage Grants
Karnataka	Bangalore	Octroi Compensation, Motor-Vehicle Tax Compensation and Family Planning Scheme Grants
Orissa	Bhubaneswar	Salary and Dearness Allowance Grants, Road Development Grant, Primary Education Grant and Secondary Education Grant
Gujarat	Surat	Education Grant, Family Planning Grant and Small Savings Grant
Tamil Nadu	Chennai	Revenue Grant, Contributions and Compensation for Toll
Andhra Pradesh	Hyderabad	Property Tax Compensation, Octroi Compensation, Per Capita Grant, Motor Vehicle Tax Compensation and Road Grant
Uttar Pradesh	Kanpur	Octroi Compensation, Salary Grant, Education Grant (Primary & Secondary Education), Medical Grant, Road Grant

Source: Budgets of Municipal Corporations.

in the Figure 2. Among the various revenue sources, tax revenue assumes greater importance in terms of both size and share. The

Table 21(a): Composition of Municipal Revenue and Trends

(Rs.in Lakh)

Sl. No.	Revenue component	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	Average Growth Rate %
1	Tax revenue	458509	554597	461895	573952	599387	8.23
2	Non-Tax revenue	238670	297890	296487	421422	434905	17.42
3	Assigned revenue	87557	115909	110146	132588	131076	11.66
4	Non-Plan grants	26667	34145	33341	54876	50161	20.42
5	Other revenue receipts	98600	86769	48024	64177	63271	-6.11
	Revenue Receipts	910003	1089310	949893	1247015	1278800	10.18
6	Plan grants	16753	15665	31712	30027	49898	39.20
7	Loans	19917	47245	31805	28520	32835	27.33
8	Other capital receipts	11228	18101	18622	25785	33948	33.55
	Capital Receipts	47898	81011	82139	84332	116681	27.89
	Total Receipts	957901	1170321	1032032	1331347	1395481	11.04

Source: Based on the Budgets of Municipal Corporations.

Table 21(b): Composition of Municipal Revenue and Trends

(Per cent to Total)

Sl. No.	Revenue component	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	Average %
1	Tax revenue	47.87	47.39	44.76	43.11	42.95	45.21
2	Non-Tax revenue	24.92	25.45	28.73	31.65	31.17	28.38
3	Assigned revenue	2.78	2.92	3.23	4.12	3.59	3.33
4	Non-Plan grants	9.14	9.90	10.67	9.96	9.39	9.87
5	Other revenue receipts	10.29	7.41	4.65	4.82	4.53	6.34
	Revenue Receipts	95.00	93.08	92.04	93.67	91.64	93.08
6	Plan grants	1.75	1.34	3.07	2.26	3.58	2.40
7	Loans	2.08	4.04	3.08	2.14	2.35	2.74
8	Other capital receipts	1.17	1.55	1.80	1.94	2.43	1.78
	Capital Receipts	5.00	6.92	7.96	6.33	8.36	8.36
	Total Receipts	100.00	100.00	100.00	100.00	100.00	100.00

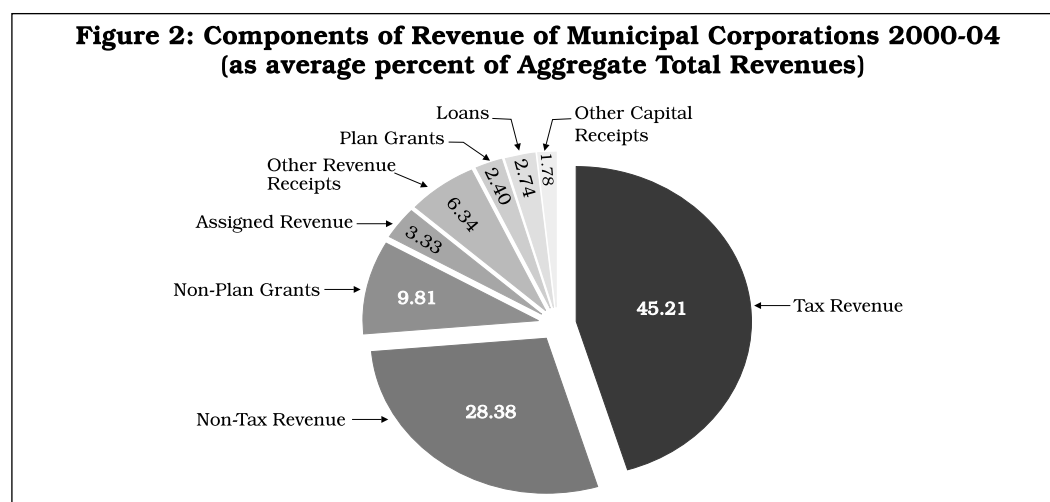
Source: Based on the Budgets of Municipal Corporations.

aggregate tax revenue of the 35 MCs constituted 45 per cent of average aggregate total revenue (total receipts), which was followed by non-tax revenue constituting 28 per cent of the average aggregate.

4.5 Municipal Expenditure

4.5.1 Structure of Municipal Expenditure

The expenditure incurred by the MCs can be broadly categorized into: (a) revenue expenditure and (b) capital expenditure.



Source: Budgets of Municipal Corporations

Table 22: Categorisation of Municipal Expenditures

Expenditure Category	Expenditure Items
Establishment expenditure	Staff salaries, Allowances, wages, Pensions & Retirement benefits <i>etc.</i>
Administrative expenditure	Rents, rates & Taxes, Office maintenance, Communications, Books & periodicals, Printing & stationary, Travel expenditure, Law charges <i>etc.</i>
Operations & Maintenance	Power & fuel, Bulk purchases, Stores, Hire charges, Repairs & expenditure Maintenance and Interest payments made on loans
Capital expenditure	Buildings, Water supply & Sewerage, Energy/lighting, Solid waste management, Roads, Bridges, Culverts, Causeways, Health & sanitation, Parks and recreation spaces, Furniture & fittings, Tools & plant, Equipment <i>etc.</i> , Principal repayments of loans
Other expenditure	Miscellaneous expenses not accounted for in the above

Source: Budgets of Municipal Corporations.

Further, revenue expenditure broadly comprises (i) establishment expenditure, (ii) administrative expenditure, (iii) operations and maintenance expenditure, and (iv) interest payments on loans; the capital expenditure comprises (i) expenditure on capital formation and (ii) principal repayment. The component of these major expenditure categories are shown in table 22.

4.5.2 Composition and Trends of Municipal Expenditure

The composition of aggregate expenditure of the MCs, in terms of the above categories, and trends are shown in Tables 23(a) and 23(b).

Table 23(a): Composition and Trends of Municipal Expenditure

(Rs.in Lakh)

Sl. No	Expenditure component	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004 Rate %	Average Growth
1	Establishment and administration expenditure	279216	330414	329592	411432	402550	10.19
2	Operation and maintenance expenditure	107383	128165	142174	164406	154400	9.96
3	Other revenue expenditure	51830	56120	55954	58190	56265	2.17
4	Revenue Expenditure	438429	514699	527720	634028	613215	9.20
5	Capital Expenditure	96933	105942	119463	124817	150424	11.76
6	Other Expenditure (not classified)	209744	266611	210685	399205	470925	28.40
	Total Expenditure	745106	887252	857868	1158050	1234564	14.34

Source: Budgets of Municipal Corporations.

Table 23(b): Composition and Trends of Municipal Expenditure

(Percent to Total)

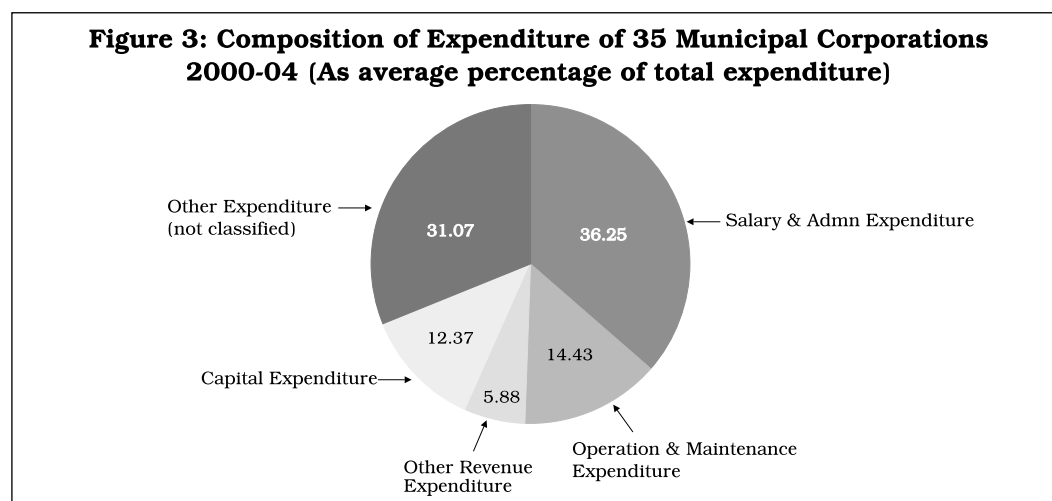
Sl. No	Expenditure component	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	Average%
1	Establishment and administration expenditure	37.47	37.24	38.42	35.53	32.61	36.25
2	Operation and maintenance expenditure	14.41	14.45	16.57	14.20	12.51	14.43
3	Other revenue expenditure	6.96	6.33	6.52	5.02	4.56	5.88
4	Revenue Expenditure	58.84	58.01	61.52	54.75	49.67	56.56
5	Capital Expenditure	13.01	11.94	13.93	10.78	12.18	12.37
6	Other Expenditure (not classified)	28.15	30.05	24.56	34.47	38.15	31.07
	Total Expenditure	100.00	100.00	100.00	100.00	100.00	100.00

Source: Budgets of Municipal Corporations.

The average shares of different components in aggregate expenditure during the period of 2000-04 are shown in Figure 3.

Among all the components of municipal expenditure, the expenditures on capital works, establishment & administration, and operations & maintenance assume importance. The establishment & administrative expenditure constituted 36.25 per cent of the aggregate total expenditure, during 2000-2004. Capital expenditure, which is an important component, constituted less than 13 per cent of the total expenditure, during the same period.

Figure 3: Composition of Expenditure of 35 Municipal Corporations 2000-04 (As average percentage of total expenditure)



Source: Budgets of Municipal Corporations.

The above expenditure pattern indicates that the MCs' spending on capital works has been significantly low which is critical for building civic infrastructure for planned urban development.

The under-investment in public works is reflected in inadequate availability of civic amenities such as water supply, sewerage, transportation networks and storm drainage system as discussed in the next chapter.

4.5.3 Expenditure on Public Works

The expenditure on public works is an important component of the expenditure incurred by the Municipal Corporations. It includes both the expenditure on capital formation as well as the current expenditure incurred on public works by the MCs. The current expenditure comprises expenditure on staff, administration and operations & maintenance. The trends and composition of expenditure on public works are shown in Tables 24(a) and 24(b). The total expenditure on all public works of the MCs accounted for 46.5 per cent of the total expenditure, on an average, during 2000-2004. Among the components, expenditures on health & sanitation and street lighting have grown the fastest, followed by expenditures on roads, education and sewerage. The growth in expenditures

Table 24(a): Composition of Expenditure on Public Works and its Trends

(Rs.in Lakhs)

Public Works	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	Average Growth Rate %
Health & Sanitation	14593	33708	38339	47695	49443	43.20
Water supply	28803	31742	34694	40792	40976	9.38
Roads	58730	85658	83420	92270	97390	14.85
Parks & Playgrounds	72658	77040	83298	88722	90533	5.68
Education	48500	57782	60533	72218	74885	11.72
Sewerage	20963	22742	27783	31013	32860	12.06
Solid waste management	42440	50696	50886	57511	57614	8.26
Energy/lighting	27436	43150	32092	81495	69277	42.65
All Major Works	314123	402518	411046	511716	512977	13.75

Source: Budgets of Municipal Corporations.

Table 24(b): Composition of Expenditure on Public Services and its Trends

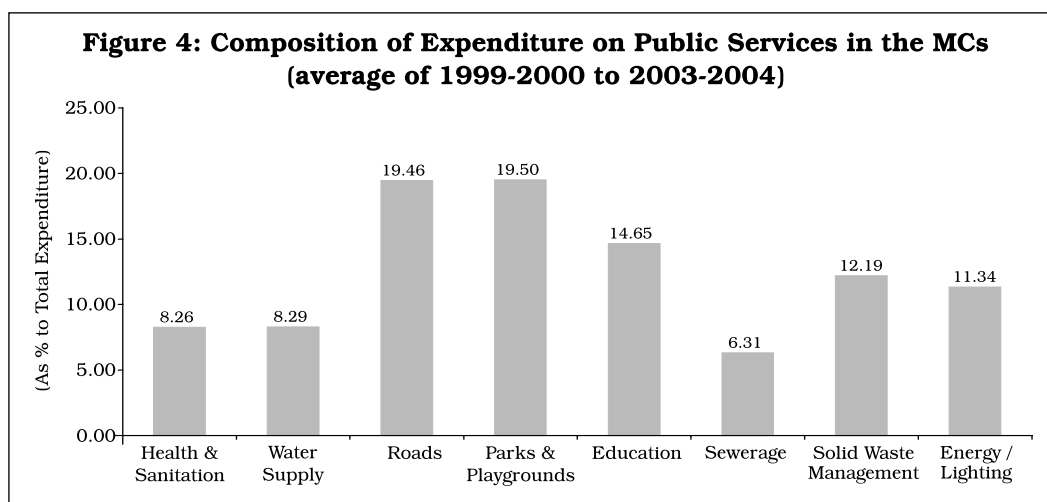
(as Percentage of Total)

Public Works	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	Average Growth
Health & Sanitation	4.65	8.37	9.33	9.32	9.64	8.26
Water supply	9.17	7.89	8.44	7.97	7.99	8.29
Roads	18.70	21.28	20.29	18.03	18.99	19.46
Parks & Playgrounds	23.13	19.14	20.26	17.34	17.65	19.50
Education	15.44	14.36	14.73	14.11	14.60	14.65
Sewerage	6.67	5.65	6.76	6.06	6.41	6.31
Solid waste management	13.51	12.59	12.38	11.24	11.23	12.19
Energy/lighting	8.73	10.72	7.81	15.93	13.50	11.34
All Major Works	100.00	100.00	100.00	100.00	100.00	100.00
As share of Total Expenditure (%)	42.16	45.37	47.91	44.19	41.55	44.24

Source: Budgets of Municipal Corporations.

incurred on water supply, parks and play grounds and solid waste management has been relatively modest.

The MCs have been assigned some of the essential service delivery functions as defined under the respective Municipal legislations. 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 (only primary) health. A disproportionately high spending on non-discretionary items like



Source: Budgets of Municipal Corporations

secondary education or secondary health care may not be desirable, unless an MC has already attained satisfactory levels of services on essential services.

The composition of expenditure on various public services in the MCs (shown in Figure 4) clearly indicates that the expenditure incurred on essential municipal functions (obligatory/non-discretionary items) like provision of water supply, drainage, sewerage, health & sanitation and solid waste management has been comparatively lower than the expenditure incurred on non-essential functions (discretionary items) like provision of education and parks. This calls for rationalising the discretionary spending by MCs through suitable guidelines; and to improve public accountability of expenditure through citizen's charters and social audits which will be discussed in Chapter 6.

Although water supply and sewerage functions are handled by separate boards in some metropolitan cities like Delhi, Hyderabad, Bangalore and Chennai, this fact does not affect the findings on municipal expenditures. In fact, the pattern of expenditure on public works, after deducting the corresponding figures for water supply and sewerage, of the above four metropolitan cities, more or less remains the same.

4.6 Summary Observations

The municipal sector in India has remained small with its total revenue accounting for about 0.75 per cent of GDP. In terms of both revenue and expenditure they account for a little above 2 per cent of the combined revenues and expenditure of Central Government, State Governments and ULBs. Analysis of the data for 35 major MCs indicated higher growth of expenditure (14.3 per cent) during 200-04 compared to the growth of total receipts (11.0 per cent). Component-wise, tax revenue accounted for 45.2 per cent of total revenue, followed by non-tax revenue (28.7 per cent) during 2000-04. Establishment and administration expenditure accounted

for about 36 per cent of total expenditure during 2000-04. Expenditure on public works accounted for about 44 per cent of the total expenditure with expenditure on roads and parks and playgrounds accounting for about 19.5 per cent of the total expenditure.