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## *A Study on Municipal Finance in India: Exploring Income and Expenses of the Municipal Corporations*

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*Abstract: The current study was aimed to explore the concept of municipal finance, importance of municipal finance, income and expenditures of the municipal finance in India. The study was based on the secondary data and is a kind of qualitative studies. Secondary data of four municipal corporations was taken in the study namely; Ludhiana, Amritsar, Gurugram, and Faridabad municipal corporations. The data period was from 2013 to 2020. It can be concluded from the study that the finances of municipal corporation are not yet recognized as an integral component of the public finance system of India. To the best of our knowledge, there is a major lack of reliable data regarding the finances of local bodies in India and in particular Municipal corporations. The availability of comparable and countable data regarding Municipal finances in India is conspicuously absent. Therefore, there is a great need to analyze what strengthens urban local bodies such as Municipal corporations in fiscal manner. There are few and far-between comprehensive studies based on Municipal expenditure and revenues in India till now. The urban civil bodies need proper research into the adequate allotment of funds and functions so as to ensure a sustainable provision of basic civic services. The sound fiscal health of municipal corporations is imperative to ensure the efficient operation of these local governance bodies.*

*Keywords: Local Government, Municipal Corporations, Municipal Finance, Taxes, Revenues, Expenditures, Fiscal Stress etc.*

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### I. INTRODUCTION TO MUNICIPAL FINANCE

Municipal finance refers to the fiscal status and policies of the municipal corporations. Any decisions which are taken in the context of revenue or expenditure of municipal corporations while carrying out their duties and responsibilities refer to municipal finance. It refers to the discussions regarding the budget making and resource distribution for providing necessary civic services to the residents of the city or region. This section introduces the significance or importance of municipal finance and why it should be studied. It is followed by a brief overview of the history of municipal finance, and how it has evolved in research and practice. Lastly, this section also shows the structure of municipal finance as adopted in India.

### II. IMPORTANCE OF MUNICIPAL FINANCE

The importance of municipal finance lies in it being an essential component in calculation of the finances of the entire economy. According to Mitlin (2018), merely analysing the finances of State and Central governments will not yield a true picture of the state of finances across the entire national economy, if it does not give an adequate space to the local finance as well. Since India is an increasingly urban economy, where estimates state that nearly half the population in the country will soon reside in urban areas over the next three decades, it is even more imperative to give attention to the state of urban local finances. For this, the fiscal situation of the urban local government bodies, i.e. Municipal corporations, must be accessed.

According to Kelly and Riverbank (2002), the local public finance is also important due to the critical importance of increasing poverty that is being witnessed in the cities. The study provides that there can be more than a quarter of the urban population which is below poverty line in certain states. This trend has also been called as the 'urbanization of rural poverty', where most of the population that lives in newly urbanized areas, which were previously small towns, suffers the problem of poverty (Kitchen and Slack, 2003). Since the alleviation of poverty and development of poorer areas including slums come under the purview of the Municipal corporations, the review of their budgeting and expenditure systems is of much significance.

### III. HISTORY OF MUNICIPAL FINANCE

The history of municipal finance in India is strongly tied to the fiscal decentralisation and empowerment of urban local governance. The first historical milestone towards achieving municipal finance autonomy was through the Lord Rippon's Resolution, which was passed in 1882, and set a specified structure regarding the powers, functions, and finances of local self-bodies (Mathur, 2018; Jariwala, 2016). Later, the promulgation of the 74<sup>th</sup> Constitutional Amendment Act of 1992 led to the specific follow up of the finance aspects of the functioning of municipal corporations. This amendment contained provisions regarding engaging, guiding, and supporting the provincial state governments to initiate the required follow-up. This amendment led to the addition of the schedule XII, which contained a list of eighteen functions. These functions included various domains such as town planning, disaster management, environment, poverty alleviation, land, etc. Furthermore, this amendment also contained the incorporation of the State Finance Commissions (according to Article 243Y). According to the Act, the State Finance Commissions were to be constituted after a period of every five years.

The commissions were given the powers to suggest the following:

- a. The modalities regarding sharing of proceeds from fees/ state taxes;
- b. The way of determining taxes/ fees and grants in aid which had to be assigned to urban local government bodies;
- c. Overall improvement in the management of finances' and,
- d. Other matters which may be falling under the ambit of municipal finances.

Additionally, through the addition of sub-clause (c) under Article 280(3) the municipality resources could be supplemented by Government of India's divisible pool, as per the recommendations and suggestions made by the State Finance Committees. However, according to Bandyopadhyay (2014), the self-sufficiency and balance regarding funds and urban local bodies' functions have not been successfully achieved due to the exercise of the discretionary powers of State Finance Commissions as well as the devolution of functions that are provided under Schedule XII.

### IV. STRUCTURE OF MUNICIPAL FINANCE

The municipal finance structure in India is comprised of taxes, non-taxes, capital receipts and contributors, and fiscal transfers and loans. These can be known as the sources of money for Municipal corporations. The monetary application of Municipal corporations also includes the expenses incurred regarding the establishment, operations and maintenance, and the repayment of debt and their capital projects. In addition to this, Jariwala (2016) states that the powers of levying taxes that have been assigned under the state authority are also not exclusive to the Municipal corporations. Instead, they are limited to powers regarding levying a few taxes only. Generally, several taxes can be levied by Municipal corporations, which includes but is not limited to namely; Property tax, professional tax, advertisement tax, entertainment tax, and taxes on land and buildings. The fiscal powers of Municipal corporations are not inclusive of the VCF, i.e. value capture finance instruments. The instruments of VCF include impact fees, exactions, valorisation, and betterment levy. More than twenty-five taxes are a part of the lists given in respective municipal acts (Jariwala, 2016). Finance management in Municipal corporations includes the practices of auditing, accounting, budgeting, and capacity-building or training.

This shows that the de-jure and the de-facto fiscal powers of Indian urban local governance bodies can vary greatly in respect of one state to another (Sharma, 220; Pethe and Godke, 2001). However, one of the main common elements of municipal finance in India is the Property Tax. The non-taxes levied by Municipal corporations in India are mainly comprised of rents, water, and prices/ charges. These prices/ charges further include charges regarding water, or building licenses, and development charges which are put up by urban local governing bodies. Water rates are not periodically revised, or linked with unit production costs. Merely a part of the operating cost can be recovered through the direct pricing.

In terms of fiscal transfers, the sharing of revenue between provincial and national governments is included. Under the 74<sup>th</sup> constitutional amendment act, the transfers have been rationalised and made more normative and transparent. The fiscal transfers also include the grants ad funds that are given out in relation to the performance, capital projects, or for some specific purposes.

Similarly, the powers regarding the borrowing of funds by Municipal corporations are governed under the Local Authorities Loan Act (1914). Majorly, the financing of loans by Municipal corporations is restricted. It is limited to soft loans and priority sector lending Commercial loans are normally not extended to urban local governing bodies. The reasons behind this are mainly lack of creditworthiness, and absence of financial discipline in the Municipal corporations. Additionally, the Municipal corporations also carry a reputation regarding their weakness in implementation of bankable projects. This has led to the emergence of market borrowing among Municipal corporations, which is accordingly emerging as per the rise in applications of DEAS- Double Entry Accounting System. In 2001, the government of India issued Municipal corporations' guidelines regarding the tax-free municipal bonds. These bonds defined the conditions, concessions, exemptions, credit rating etc. It also included guidelines regarding the process of approving, listing, and monitoring the bonds. These guidelines were further elaborated by the government of India in 2017 (Sharma, 2020; Ahluwalia et al., 2019).

#### **V. SOURCE OF INCOME OF MUNICIPAL CORPORATIONS IN INDIA**

Like all public organizations, municipal organizations also have budgetary and non-budgetary sources of income through which enough funds are collected so as to carry out the functions that are allotted to municipal corporations. Municipal corporations can have many different sources of income. This section discusses the various sources of incomes of municipal corporations in India. This section has two broad subsections; first, a brief discussion regarding the theoretical background on research regarding the income sources adopted by municipal corporations, and secondly; the actual sources of income of municipal corporations in India.

#### **VI. SOURCE OF INCOME FOR MUNICIPAL CORPORATIONS IN INDIA**

The sources of income for Municipal corporations and municipality are important for a sound fiscal health of the institutions. The sound fiscal health of municipal corporations is necessary in order to ensure that there is effective operation and functioning of the local government. The sources of income for Municipal Corporation can be divided into three parts namely, taxes, fines and fees, and earnings from various Municipal enterprises such as shops, land, markets, etc. Additionally, another source of income is also intergovernmental transfer such as state grants. This subsection throws light on the nature and scope of different types of income among the municipal corporations of India, namely; tax receipts, non-tax receipts such as fees and fines, and intergovernmental grants.

**Table 1: Descriptive analysis for Total income of selected municipal corporations (2013 to 2020)**

	Ludhiana	Amritsar	Faridabad	Gurugram
Mean	71179.05857	26142.329	62783.853	65858.22429
Standard Error	5505.539742	3808.4537	4706.3079	7052.912979
Median	74086.78	22665.87	57723.62	73125.53
Standard Deviation	14566.28899	10076.221	12451.72	18660.25376
Kurtosis	0.224881986	6.1685869	-1.8730006	-0.256880743
Skewness	0.245500245	2.4448037	0.3941985	-1.095431188
Range	44982.86	28998	31234.97	50420.97
Minimum	49982.14	19562	49451.28	34256.12
Maximum	94965	48560	80686.25	84677.09
Sum	498253.41	182996.3	439486.97	461007.57
Count	7	7	7	7

Total income of the four selected municipal corporation was analysed using descriptive method. Count shows the total number of observations, here the data period was from 2013-14 to 2019-20. Ludhiana municipal corporation has made an average of 71179 lakh rupees total income during the period of 2013 to 2020. The highest amount of total income was 94965 during last seven years while the minimum total income was 49982. Similarly; Amritsar municipal corporation has made an average of 26142 lakh rupees total income during the period of 2013 to 2020. The highest amount of total income was 48560 during last seven years while the minimum total income was 19562. Faridabad municipal corporation has made an average of 62783 lakh rupees total income during the period of 2013 to 2020. The highest amount of total income was 80686 during last seven years while the minimum total income was 49451. Gurugram municipal corporation has made an average of 65858 lakh rupees total income during the period of 2013 to 2020. The highest amount of total income was 84677 during last seven years while the minimum total income was 34256. Out of four selected municipal corporations, Ludhiana MC has highest mean value for total income during the data period of seven years, followed by Gurugram MC while the least mean value of total income was of Amritsar MC.

**Table 2: CAGR of Total income of selected municipal corporations (2013 to 2020)**

Income	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	CAGR
Ludhiana	74086.78	63821.54	74250.91	60950.04	49982.14	80197	94965	3.61%
Amritsar	19562	21325	22985	22665.87	21893.97	26004.46	48560	13.87%
Faridabad	57723.62	49451.28	50871.95	80686.25	55130.39	71258.23	74365.25	3.69%
Gurugram	34256.12	45253.23	84677.09	73125.53	70152.12	75685.23	77858.25	12.44%

From the CAGR analysis of the total income of four municipal corporations, it can be inferred that the highest CAGR of total income was 13.87 percent of Amritsar municipal corporation, followed by the Gurugram municipal corporation which was having a CAGR of 12.44 percent for total income. The least CAGR for total income was 3.61 percent for the Ludhiana municipal corporation. Hence, overall the Amritsar and Gurugram municipal corporations have performed well, and have shown significant growth in the total income during last seven years. While, Ludhiana and Faridabad municipal corporations have shown worst performance as the growth in their total income was noticed to be least during last seven years.

## VII. APPLICATION OR USAGE OF FUNDS/EXPENDITURES OF MUNICIPAL CORPORATIONS IN INDIA

The incomes received by municipal corporations are then allotted to different heads for carrying out the functions necessary for the municipal corporations. The expenditures that are incurred by Municipal corporations can be majorly divided into two categories namely capital expenditure and revenue expenditure. The further categorization of municipal expenditures can include expenditure related to the administration establishment, maintenance and operations or loan repayments formation of capital etc. It also includes the expenditure that is related to public works. In the following section, three broad kinds of

public expenditure as incurred by municipal corporations in India have been discussed, namely' revenue expenditure, capital expenditure, and expenditure on public works.

**Table 3: Descriptive analysis for Total expenses of selected municipal corporations (2013 to 2020)**

	Ludhiana	Amritsar	Faridabad	Gurugram
Mean	71452.741	25399.771	59489.657	40053.523
Standard Error	5498.7871	3849.7289	4494.0248	5840.7554
Median	71236.66	22672.44	53245.66	47116.15
Standard Deviation	14548.423	10185.425	11890.072	15453.186
Kurtosis	0.9139334	5.7210308	-2.0704439	-1.62624
Skewness	0.0381968	2.3062293	0.3349261	-0.5179032
Range	46670.05	30274.32	30187.41	39031.03
Minimum	48294.95	17510.8	45676.06	17727.97
Maximum	94965	47785.12	75863.47	56759
Sum	500169.19	177798.4	416427.6	280374.66
Count	7	7	7	7

Total expenses of the four selected municipal corporation was analysed using descriptive method. Count shows the total number of observations, here the data period was from 2013-14 to 2019-20. Ludhiana municipal corporation has made an average of 71452 lakh rupees total expenses during the period of 2013 to 2020. The highest amount of total expenses was 94965 during last seven years while the minimum total expenses was 48294. Similarly; Amritsar municipal corporation has made an average of 25399 lakh rupees total expenses during the period of 2013 to 2020. The highest amount of total expenses was 47785 during last seven years while the minimum total expenses was 17510. Faridabad municipal corporation has made an average of 59489 lakh rupees total expenses during the period of 2013 to 2020. The highest amount of total expenses was 75863 during last seven years while the minimum total expenses was 45676. Gurugram municipal corporation has made an average of 40053 lakh rupees total expenses during the period of 2013 to 2020. The highest amount of total expenses was 56759 during last seven years while the minimum total expenses was 17727. Out of four selected municipal corporations, Ludhiana MC has highest mean value for total expenses during the data period of seven years, followed by Faridabad MC while the least mean value of total expenses was of Amritsar MC.

**Table 4: CAGR of expenses of selected municipal corporations (2013 to 2020)**

Expenses	Ludhiana	Amritsar	Faridabad	Gurugram
Establishment Expenses	0.071172	0.099546	0.118347	0.164514
Contingency expenses	-0.00999	0.063186	0.055941	-0.05293
General	0.061826	0.098054	0.116517	0.15172
O & M cell	-0.00115	0.154262	-0.01749	0.384496
Development expenditures	0.037512	0.365671	0.019201	0.145945
Other committed	0.087122	0.152636	0.099827	0.036325
Total Expenses	0.048304	0.154207	0.051875	0.180855

From the CAGR analysis of the total expenditures of four municipal corporations, it can be inferred that the highest CAGR of total expenditures was 18.08 percent of Gurugram municipal corporation, followed by the Amritsar municipal corporation which was having a CAGR of 15.42 percent for total expenditures. The least CAGR for total expenditures was 4.83 percent for the Ludhiana municipal corporation. Hence, overall the Amritsar and Gurugram municipal corporations have increased their total expenses, and have shown significant growth in the total expenditures during last seven years. While, Ludhiana and Faridabad municipal corporations have shown least growth in their total expenditures during last seven years. 16.45 percent growth in establishment expenses was noticed for the Gurugram and the growth in establishment expenses was least for Ludhiana municipal corporation. Highest growth rate in development expenses was 36.56 percent incurred by Amritsar

municipal corporation. Operational and maintenance expenses have incurred significantly by the Gurugram municipal corporation with a growth rate of 38.44 percent. Overall general expenses of Gurugram municipal corporation shown a growth rate of 15.17 percent. While, other committed expenses and contingency expenses had highest growth rate for Amritsar municipal corporation.

### VIII. CONCLUSION

In order to relieve the burdens of urban development and issues, the municipal corporations need to have a proper budgetary planning. However, due to topic and a severe paucity of data, local public finance in India is a difficult topic of research. The amount of studies on this topic is negligible despite there being a huge and urgent gap in this regard. The finances of municipal corporation are not yet recognized as an integral component of the public finance system of India. To the best of our knowledge, there is a major lack of reliable data regarding the finances of local bodies in India and in particular Municipal corporations. The availability of comparable and countable data regarding Municipal finances in India is conspicuously absent. Therefore, there is a great need to analyze what strengthens urban local bodies such as Municipal corporations in fiscal manner. There are few and far-between comprehensive studies based on Municipal expenditure and revenues in India till now. The urban civil bodies need proper research into the adequate allotment of funds and functions so as to ensure a sustainable provision of basic civic services. The sound fiscal health of municipal corporations is imperative to ensure the efficient operation of these local governance bodies.

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