

**A COMPARATIVE STUDY OF
MUNICIPAL FINANCES IN MAHARASHTRA:
PATTERNS, PROBLEMS AND PROSPECTS**

**ABHAY PETHE
MALA LALVANI**



**DEPARTMENT OF ECONOMICS
UNIVERSITY OF MUMBAI**

**Dr. Vibhooti Shukla Unit in Urban Economics
& Regional Development**

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Abhay Pethe and Mala Lalvani²

ABSTRACT

The main thrust of this paper is to examine the patterns of finances in Urban Local Bodies (ULBs) in Maharashtra and present a comparative picture thereof. We also point out some problems especially related to data and suggest ways for remedying the situation. This is contextualized within the parameters set by the devolution patterns to local bodies that have been envisaged by Central and State Finance Commissions on one hand and the 74th Constitution Amendment on the other. We begin with a prologue that provides a backdrop with information about the ULBs in Maharashtra along with some regulatory and conceptual features. The major section or the core of this paper is divided into various subsections and deals with data analysis and comments about the expenditure and revenue patterns of Municipal Corporations, and Municipal Councils. The last section (Epilogue) contains observations about the data gaps and finally we provide concluding reflections on what needs to be done.

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² Dr. Abhay Pethe is a Professor, Dr. Vibhooti Shukla Unit in Urban Economics & Regional Development, Department of Economics, University of Mumbai and Dr. Mala Lalvani is a Reader, Department of Economics, University of Mumbai. They can be reached at apethe@economics.mu.ac.in and mlavani@economics.mu.ac.in, respectively.

A COMPARATIVE STUDY OF MUNICIPAL FINANCES IN MAHARASHTRA: PATTERNS, PROBLEMS AND PROSPECTS

1. INTRODUCTION

The main thrust of this paper – as the title suggests – is to examine the patterns of finances in ULBs in Maharashtra and present a comparative picture thereof. We also point out some problems (data problems included) and suggest some ways for remedying the situation. This is contextualized within the parameters set by the devolution patterns to local bodies that have been envisaged by Central and State Finance Commissions on one hand and the 74th Constitution Amendment on the other. Given the domestic macroeconomic situation that Indian economy is faced with (partly due to external events and partly policy induced) the scarcity of resources at all levels of government has to be recognized as a stark reality. Of course, the funds flowing from higher level governments are not the only ones available to Urban Local Bodies (ULBs). ULBs have revenue generation powers of their own and a measure of sustainability and efficiency of local bodies is how well these match up with their functions. Without this, the *de jure* transfer of functions to ULBs will be a vacuous exercise with no *de facto* change. In this paper however, we will not be discussing the important issues connected with the devolution formulae (See Karnik and Pethe 2001 for details specific to Maharashtra) or alternative sources of resource raising effort except perhaps tangentially. Such a discussion will take us far afield and be a subject fit for a separate paper. Comprehensive treatment of these matters is available to the interested reader in our UNDP/UNCHS study (Karnik et al 2002a) as well as some of the other work listed in the references.

Here we look at the revenue and expenditure patterns of ULBs in Maharashtra. This is meant to be a status report and contains also a proto type exercise in data organisation that we believe is insightful and may be gainfully replicated for other states. While the aggregate picture has its own charm and importance, it is important to have a comparative picture as well as to disaggregated look at select ULBs. Elsewhere, we have studied the finances of three MCs in Maharashtra – Navi Mumbai, Pimpri-Chinchwad and Thane as case studies. (see Karnik et al 2002a).`

The treatment of data tables in this paper is inconveniently hapazard, testing the limits of *avant garde* style. Whilst admitting it, it must be put down not to our intent but to the constraints imposed by availability (or indeed non-availability) of –

especially uniform – data. The data sources have temporarily varied. Some of it was taken directly from ministries of the State Government (when we were doing the UNDP/State Finance Commission work) some of it from Bureau of Economics and Statistics and some from the ULBs themselves. Thus, whereas the magnitude of data available is huge, it is often incomparable in several ways.

The paper is organised in four sections including the introduction. The second section is by way of a prologue and provides a backdrop with information about the ULBs in Maharashtra along with some regulatory and conceptual features. The third section is the major section or the core of this paper. It is divided into various sub-sections and deals with data and comments about the expenditure and revenue patterns of Municipal Corporations, and then Municipal Councils. It also provides a brief sub-section containing data table updates. Section 4 contains observations about the data gaps and finally we provide concluding reflections.

2. PROLOGUE: URBAN LOCAL BODIES IN MAHARASHTRA

The heterogeneity among the ULBs in Maharashtra begins from the variety of Acts that govern. Unlike other States, where all the ULBs are governed by an uniform act, ULBs in Maharashtra are governed by the following four Acts:

- Bombay Municipal Corporation Act, 1888,
- City of Nagpur Corporation Act, 1948,
- Bombay Provincial Municipal Corporations Act, 1949,
- Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965.

Even though the above Acts have gradually evolved in response to felt needs, it is only now that a need to have an uniform Act governing all the ULBs in the State is being recognized. This is especially true in the light of the 74th Constitutional Amendment Act, Schedule 12 which lists out numerous functional responsibilities for ULBs in addition to those which were already being performed. Consequently, State Acts, particularly those aspects relating to obligatory and discretionary functions, need to be appropriately modified to reflect the spirit of the Constitutional Amendments. For details on broad divisions as well as heterogeneity in terms of area, population et al., between ULBs within each class, again see Pethe et al 2002a. Also to be found in the same paper are the details regarding the *de jure* powers and responsibilities of the ULBs in Maharashtra. This would form the backdrop against which we shall be evaluating the functioning of the ULBs with respect to their revenue-expenditure patterns and service delivery performance.

Revenues of ULBs in Maharashtra

The operations of ULBs are governed by various provisions in the State Acts which are the fountainhead of the powers of local bodies. The sources of revenue are mandated by such provisions and their autonomy in taxation is circumscribed by these. Also, their autonomy for deciding expenditure priorities is similarly limited. Hence it is essential to understand the provisions in the State Acts regarding the revenues and expenditure powers of the ULBs, again for details see Pethe et al., 2002a.

Revenues of ULBs can be broadly classified as revenues from *own sources* and those from *external sources*, such as grants from the State and loans. Again, own sources of revenues can be categorized as *tax revenues* and *non tax revenues*. There are specific provisions in the State Acts, regarding taxation powers of the ULBs. Article 243X of the Constitution, inserted after the 74th Constitutional Amendment Act (CAA) envisages, that States should devolve additional taxation powers to ULBs, so as to make them financially competent for discharging the added functional responsibilities, mandated by the succeeding Article 243W. However, *in Maharashtra, there has been no such devolution of taxation powers*, which would have been expected since it would have been in consonance with the process of decentralization. Instead, we have seen that taxation powers of small ULBs regarding octroi have been withdrawn by the State in March 1999. Hence, the taxation powers of the ULBs are limited to its traditional sphere and have not gone beyond various existing provisions in the State Acts. Section 139 of the BMC Act 1888, Section 127 of the BPMC Act 1949 and Section 108 of the Councils Act 1965, provides taxation powers of the ULBs regarding various items. Further, even within this list there are provisions in the State Acts that further reduce the flexibility of the ULBs. This can be illustrated by property tax, where Municipal Corporations (MCs) in Maharashtra can levy property tax as a percentage of annual ratable value of the property, and ceilings for such percentages are laid down by different State Acts.

It can be seen that BMC has no autonomy regarding the components and rate for each component of the tax, while Nagpur has limited autonomy. All other MCs (governed by BPMC Act) have autonomy regarding the rate of tax in case of components related to water supply and sewerage only. However, there is no freedom to any MC regarding inclusion of any new component or changing the tax base to some other, say, area. In the case of Municipal Councils, property tax is

levied as a *consolidated* property tax, but different ceilings for tax rate, as a percentage of the annual ratable value, are similarly prescribed by the State wide provisions in Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965. For detailed information the interested reader may see Pethe et al 2002a.

It is clear from the above discussion, that ULBs have a very limited choice regarding taxation, which is further restricted by various regulating principles decided by the State. Whilst it can be granted that the higher level government should play a supervising and controlling role, the restrictions imposed on ULBs seem to be suffocating them. The important point being made here is, that ULBs have a very limited autonomy vis-à-vis sources of their revenues, and hence the entire revenue-expenditure process needs to be assessed bearing this in mind. Like taxation, the non tax revenues of the ULBs are also limited to conventional sources. The power of ULBs in Maharashtra appear to be highly restricted with respect to both, the tax and the non tax sources of revenues, which constitute their *own* sources. This has forced the ULBs to be dependent on the State for their finances. These constitute external sources of finance, which complement the own sources of ULBs.

The external sources of revenues for the ULBs are grants from the State. There are about thirty types of grants flowing towards the ULBs under different major and minor heads in the State budget.

- Many grants (octroi, profession tax, pilgrim, road etc.) are *compensatory* in nature. Those grants are given subsequent to withdrawal of respective taxation powers of the ULBs, indicating the centralizing tendencies of the State.
- The distributive principles are not uniform. It is not the case that all ULBs receive all types of grants and each type of grant is often disbursed at varying rates to different ULBs.
- The nature of disbursements grants is purely *ad hoc* without any legitimate right of the ULB. The underlying uncertainty clearly affects the planning of expenditure strategies by the ULBs.

Thus, we might state that grants from the State do not really help the ULBs in major developmental works, but merely support their day-to-day functioning. More generally, revenues of the ULBs have been throttled by such inherent structural bottlenecks like, small bandwidth for non tax revenues, and unpredictable nature of funds flowing from the State.

Expenditures of ULBs in Maharashtra

Expenditures by ULBs are basically for providing various services to citizens. The 74th CAA has added a list of 18 services to be performed by local bodies. However, since *Maharashtra has a long tradition of ULBs, even before its Constitutional recognition by the 74th CAA, many of the functions listed in the Twelfth Schedule were already being performed by them, and ULBs were incurring expenses on these.*

As stated previously, there are four State Acts governing ULBs in Maharashtra. Sections in those Acts, describe the duties and responsibilities of the ULBs, or the items on which the ULBs are expected to spend. What is important to note is that functional devolution to the ULBs has not been matched by supporting financial devolution. This has led to *too many responsibilities chasing a narrow resource base.* Problems for ULBs have been further aggravated by the stipulation in the Municipal Acts that ULBs *must* balance their budgets. *The plethora of constraints on the ULBs has made it difficult to establish whether non-performance represents dereliction of duty or inability to perform due to lack of funds.*

It is well accepted that the main economic argument in favour of decentralisation is in terms of allocative efficiency. The public sector is best suited to provide goods and services, which have 'public goods' characteristics that are characterised by non-excludability (NE - Difficulty of excluding a person who does not pay for the benefits of the good or service) and joint consumption (JC - The availability of the benefits of the good to more than one individual at the same time).

In order to analyse the expenditure pattern we have used one classification as what the Eleventh Finance Commission has defined as 'core services' While provision of core services is a useful way of looking at the performance of MCs, the term 'core services' does not have a precise connotation in economics. A more precise and sound theoretical concept is that of *local public goods* (LPG). The benefits of such public goods that are spatially restricted are known as LPG. Our definition of *Local Public Goods* has been modified to exclude water (which can be metered and hence charged) and include fire brigade. The definition of *Local Public Goods* was also *extended* to include Education, Sanitation, Fire Brigade, Water, Roads and Street Lighting. This was done to include some essential merit goods that have traditionally been considered as falling within the purview of ULBs' service delivery. Expenditures on *general administration and salaries* are an essential part of the expenses being incurred by all ULBs. However, burgeoning expenses on this

head implies that less remains for spending on public goods. With larger expenditures on this front being at the expense of public goods provision, any effort to reduce expenditures on general administration and salaries is seen to be an indicator of improvement in performance.

3. EXAMINATION OF EXPENDITURE AND REVENUE PATTERN OF ULBs IN MAHARASHTRA¹

This section is organised as follows: in the first sub-section, we look at the Municipal Corporations and the subsequent subsection looks at the Municipal Councils. Within each subsection we first look at the expenditure side and then the revenue side performance.

3.1. An Examination of Expenditure and Revenue Patterns of *Municipal Corporations* in Maharashtra

This section looks at the financial performance of all Municipal Corporations in the state of Maharashtra. Whilst we would have liked to take a view on the quality of service delivery by the corporations, devoid of any direct data this has to be done by examining the finances of the corporations and trying to identify patterns with respect to various expenditure heads. We do this specifically to isolate expenditures on provision of important services to citizens within the jurisdiction of the corporations.

Expenditure Patterns

As explained earlier we look at the expenditure pattern over time with the help of a summary table (Table 1) which is self-explanatory. This is followed by comments on the trends.

- A very gradually *increasing* trend is noticed in the proportion of expenditure being incurred on the core services with the exception of a 0.1 percentage point reduction in 1998-9. In 1999-2000 the ratio stood at 39.18 percent.
- We find that the proportion of expenditure being incurred on LPG-services is *lower* than the ratio obtained for the EFC core services. The increasing trend is less pronounced than in the case of EFC.
- With the extended definition of LPG the ratio of expenditure on these services is obviously higher than the other two cases, with the expected trend pattern.

¹ This section draws heavily on Pethe, Karnik and Karmarkar (2001) where a more detailed analysis in per capita terms, growth rates etc. have been worked out. The paper also makes a comparison by building 3 different scenarios which include/exclude major corporations.

- Of the expenditure categories, the highest proportion of expenditure was incurred on general administration, pensions etc. It does, however, show a gradually declining trend. It fluctuated by about one percentage point over the four years.
- Education is a public good with considerable 'merit'. Hence, higher the expenditure on education, the better the performance. The proportion of expenditure on *education, free reading halls etc.*, shows a steady decline.
- Expenditure on Water Supply as percent of total expenditure has shown a steady increase, whether it has resulted in improvement in quality or increase in magnitude is a moot point.
- Expenditure on *epidemics and public health* has fluctuated around the 5 percent mark in the following four years and it is a safe bet to say that there is considerable scope for improvement here.

Maharashtra, is a highly urbanized State, and within the urban population of Maharashtra, the majority is from a selected few towns, declared as MCs by the State Government. This makes MCS a distinguished set of ULBs.

Income Pattern

Good governance involves not only adequate provision of services to citizens, but also generating sufficient revenues to cover the cost of providing these services. In the previous section we have examined the expenditure patterns of all MCs with respect to various budget heads. In this section we now look at the other side of the budget and examine the income patterns of MCs. Different sources of income as ratios to total income and own income (Table 2). The salient points to emerge are the following:

- Grants from State government as a ratio to total income have *declined slightly*.
- The share of loans in total income has *increased significantly*.
- Of the own sources of income, the share of octroi has been the highest but it has registered a *gradual decline*.
- The share of property tax has risen gradually but there is *much scope* here.
- Water charges represent another source of *significant untapped potential*.

- The same may be said about the 'Licence fees and Entertainment' as well as 'Building Rents' that have remained rather insignificant proportion of the overall income.
- Own income as a whole as percent of total income has shown a steady decline.

3.2 An Examination of Expenditure Patterns of All *Municipal Councils* in Maharashtra

This section looks at the financial performance of all Municipal Councils in the state of Maharashtra. This can be done by examining the finances of the Councils, the treatment following similar pattern to that in case of Municipal Corporations.

Expenditure Patterns

As explained earlier we try to identify patterns with respect to various expenditure heads. We do this specifically to isolate expenditures on provision of important services to citizens within the jurisdiction of the councils. (Table 3).

- In case of EFC core services we find that A class councils performed the best between 1995-6 and 1998-9. Both B and C Class councils were very close. Finally in 1999-2000 B class councils out performed the other two and A class councils registered the lowest ratio of 24.6 percent.
- For local public goods too A class continues to be the best between 1995-6 and 1998-9 and C continues to be the worst. In 1999-00 A class has the lowest ratio while B class had the highest ratio.
- For extended Local Public Goods too A class continues to be the best between 1995-6 and 1998-9 and C the worst. However, in 1999-2000 we find B class to be the best performer and A class the worst as was observed with the EFC definition.
- In 1995-6 B class councils fared the best with the largest proportion of total expenditure being spent on education. A class councils performed the worst with the lowest proportion. In 1996-7 while A class councils continued to fare the worst, the expenditure proportion of C class councils just marginally surpassed that of B class. In 1999-2000 A class councils, which had been the worst performers suddenly, outperformed the others.

- In 1995-6 A class councils have continued to incur the highest expenditures on water supply and C class councils the lowest of 10.58 percent. Since 1996-7, however, the proportion of expenditure on water supply has been the highest for B class councils. C class councils have consistently remained in third position.
- In case of Health, in 1995-6 A class councils were the best performers and C class the worst. In 1996-7 B class councils outperformed A class, while C class continued to fare the worst. In 1997-8 once again A class councils reverted to being on top and C class were at the bottom. In 1998-9 while C class councils continued to remain at the bottom of the list, the first position was again that of B class. In 1999-2000 there was a complete turnaround with C class, the worst performers so far, topping the list.
- As mentioned in case of the discussion on corporations, expenditures on general administration and salaries appear to be incurred at the cost of public goods provision. Hence, those councils which incur the lowest expenditures on this category of expenditure can be deemed to be the best performers. In each of the years between 1995-6 and 1999-2000 A class councils have been the best performers with the lowest proportion of total expenditures of being incurred on general administration and salaries. Not only have the A class councils outperformed the other categories, but they have also bettered their own performance by reducing the proportion of their expenditure going to general administration and salaries. Although C class councils performed better than B class in 1995-6, since 1996-7 B class councils have consistently fared better than C class.

Income Patterns

We now look at the other side of the budget and examine the income patterns of Municipal Councils (Table 4).

- The share of grants in total income has been the largest for C class councils and the lowest for A class councils in each of the years. The year 1999-2000 has witnessed a sharp increase in the share of grants for each of the council categories. The increase is probably due to compensation for octroi.
- The share of loans in total income has been the largest for A class councils and the lowest for B class councils (tragedy of the middle). The share of the loan component for A class councils in their total income shows an increasing

trend while the share of loans in their total income for B and C class councils shows a declining trend.

- The share of own income in total income is seen to be the largest for A class councils and the lowest for C class councils in each of the years between 1995-6 and 1998-9. In the last year 1999-2000 a sharp decline in the share of own income is registered for all categories of councils.
- The share of Octroi in own income has been the largest for A class councils for all the years. C class councils recorded the lowest share in 1995-6 and 1996-7. Since then its performance has been marginally better than B class councils. In the year 1999-2000 a sharp decline was registered for all council categories.
- In case of Property Tax, A class councils have consistently been the worst performers although its own performance has improved in 1997-8 and again in 1999-2000. B councils have fared the best in each of the years and its own performance too has steadily improved.

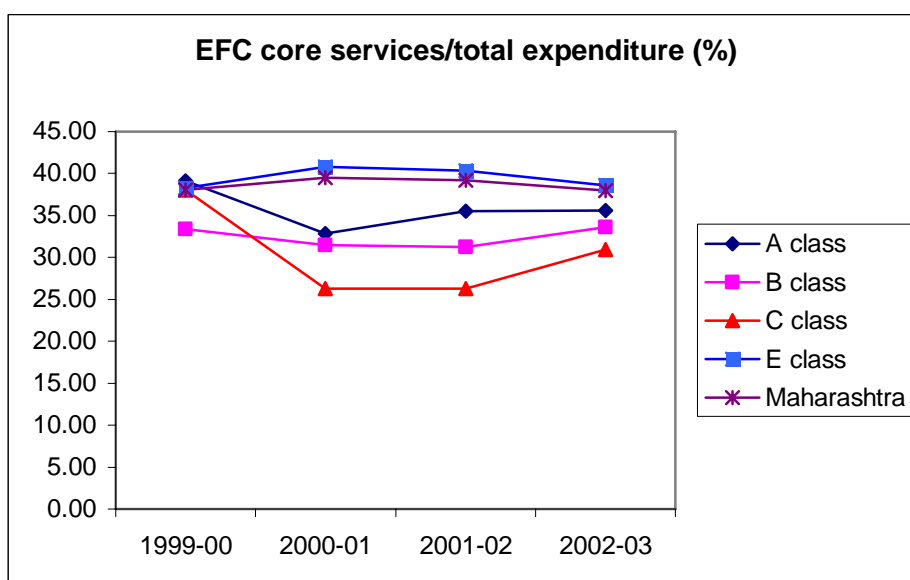
Having looked at the statistics relating to revenue expenditure patterns in the Municipal Councils in Maharashtra, let us extend this – albeit briefly – to later years.

3.3 A Brief Update: Twist in the Tail

We now look briefly at the Municipal Corporations and Municipal Councils data for some later years. This data represented in the following table refers to the number of Municipal bodies as they exist now. Thus there are 22 Municipal Corporations (referred to as E – class). Thus there are problems of data reconciliation on account of coverage as well as definitions. Hence the broad picture that emerges from more recent data (in the table below) is not strictly comparable with the discussion in sections 3.1 and 3.2 above. However, the broader picture that seems to emerge is very similar from both data sets. An important point to keep in mind is that we are talking about *proportions*. We are also aware that what we need to be concerned with is the *actual service delivery* (quality and magnitude) and not just the expenditure incurred.

EFC CORE SERVICES (water, sanitation, public Light, roads)					
	A class	B class	C class	E class	Maharashtra
1999-00	39.08	33.38	38.06	38.25	38.06
2000-01	32.84	31.50	26.31	40.79	40.46
2001-02	35.56	31.21	26.30	40.32	40.00
2002-03	35.59	33.64	30.97	38.58	38.42

A class councils were the best performers in 1999/00, even better than the State average and Municipal Corporations (E class). While it has maintained its first position among council categories, it has fallen behind Corporations since 2000/01. The graph below shows the pattern over the four years under consideration:



Clearly C class councils have been the worst performers although it has bettered its own performance in recent years.

Local PUG (sanitation, public Light, roads)					
	A class	B class	C class	E class	Maharashtra
1999-00	21.52	20.48	23.20	23.26	23.20
2000-01	18.23	19.18	16.76	26.07	25.12
2001-02	19.57	18.23	15.99	24.97	24.14
2002-03	20.35	19.33	18.49	25.42	24.78

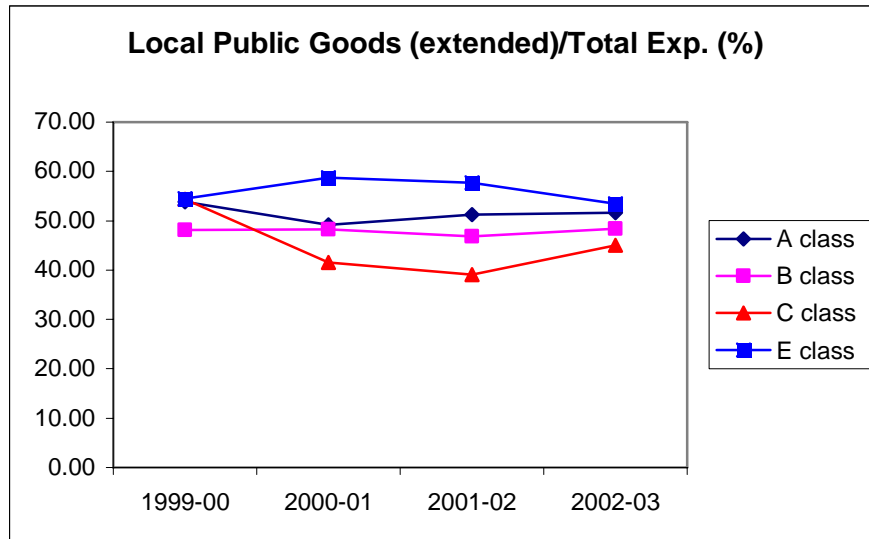


In case of LPG, Corporations have clearly performed better than the Councils. From among councils, surprisingly C class councils were the best in 1999/00 but since then they have fallen behind A and B in subsequent years.

When the EFC core services are extended to a broad definition of Local Public Goods which also includes education and health a similar pattern emerges.

Local PUG extended (sanitation, public light, water, roads +education + health)					
	A class	B class	C class	E class	Maharashtra
1999-00	53.85	48.08	54.34	54.51	54.34
2000-01	49.21	48.28	41.55	58.68	57.27
2001-02	51.30	46.80	39.05	57.64	56.25
2002-03	51.61	48.45	45.02	53.45	52.92

C class Councils are seen to be the best among the council categories in 1999/00. Since then it has ranked last among council categories. A class councils have been the best among councils but far short of corporations.

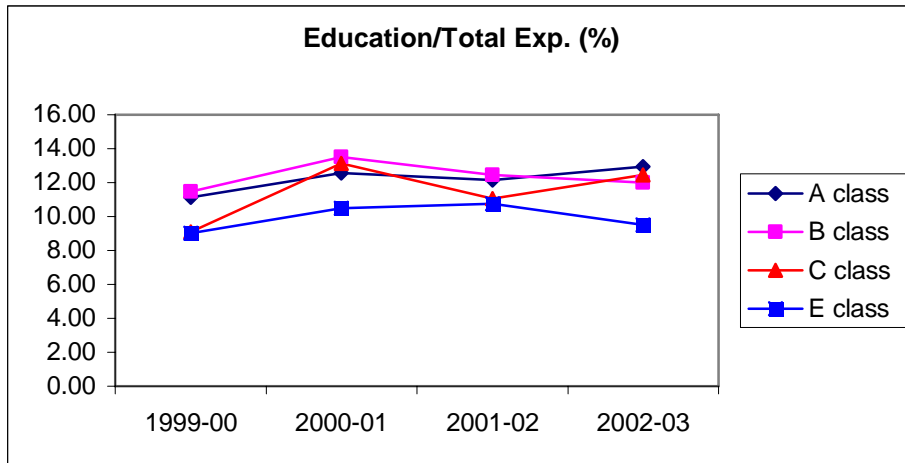


Two interesting observations from two of the three graphs above are:

- Corporations have outperformed the Councils, as is to be expected, given that they have larger resource base.
- The proportion of expenditure by Corporations on EFC core service, LPG and Extended LPG shows a declining trend while that of Councils shows a generally rising trend.

From the broad categories examined above we ventured to delve a little into specific heads of expenditure and came up with some interesting results:

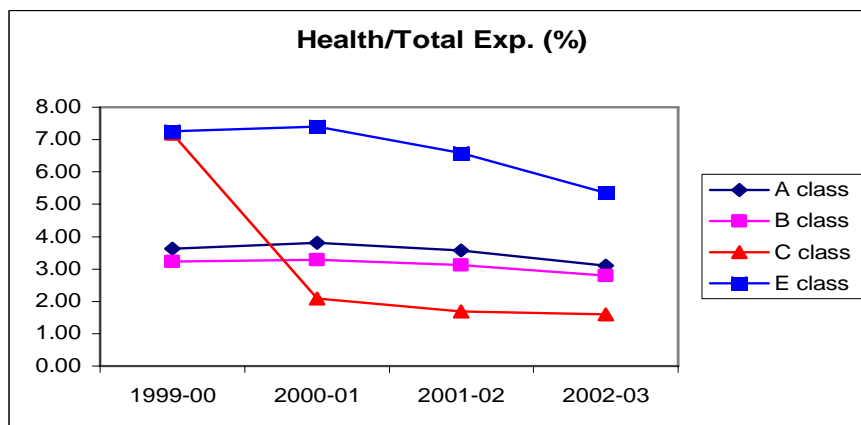
EDUCATION/Total Exp. (%)					
	A class	B class	C class	E class	Maharashtra
1999-00	11.14	11.47	9.09	9.00	9.09
2000-01	12.57	13.49	13.15	10.49	10.56
2001-02	12.15	12.47	11.07	10.74	10.76
2002-03	12.92	12.01	12.44	9.51	9.57



The graph above paints a somewhat surprising picture. All three council categories record higher proportions being spent on education than Municipal Corporations. However, this result corroborates the finding in the previous time period. Thus nothing much appears to have changed with respect to allocations made towards education in the last decade.

The case of expenditure on health is a cause for worry. Across the board, one finds a declining trend and one fears that the reduction is not on wasteful expenditure!

Health/Total Exp. (%)					
	A class	B class	C class	E class	Maharashtra
1999-00	3.63	3.22	7.18	7.26	7.18
2000-01	3.81	3.29	2.08	7.40	7.31
2001-02	3.58	3.12	1.69	6.58	6.49
2002-03	3.10	2.80	1.60	5.36	5.31

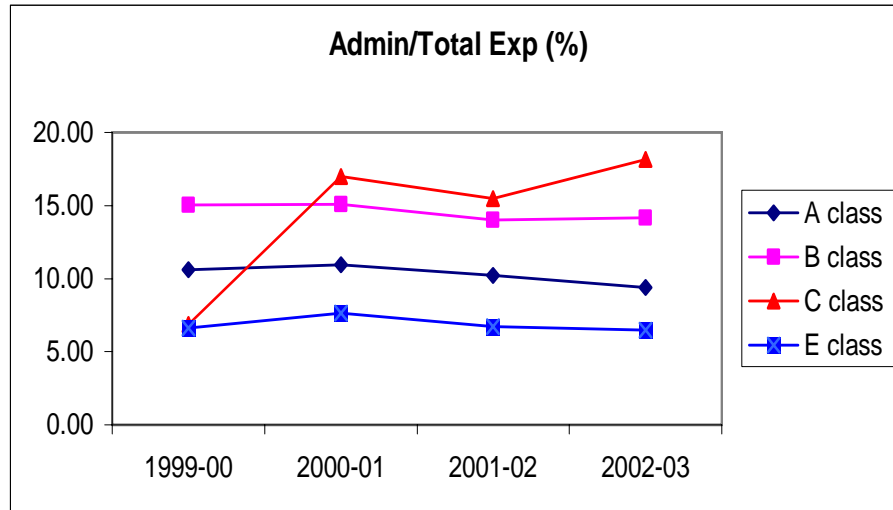


In case of expenditure on administration, we would like to draw attention to the fact that the General Administration expenditure category referred to here excludes salaries and pensions and hence the pattern observed here is not strictly comparable with the discussion on this category in the previous section. However, *one can observe that across board there is no real sign of significant reduction of expenditure under this head. Given the committed nature of Salaries and Pensions as well as the inherent increasing trend thereof, the same must be true of the broader category.* Considerable thought and effort in this regard is called for if the ULBs have to be left with greater resources to perform their core functions.

ADMIN/Total Exp. (%)					
	A class	B class	C class	E class	Maharashtra
1999-00	10.62	15.05	6.84	6.84	6.84
2000-01	10.95	15.07	7.85	16.97	7.85
2001-02	10.20	14.02	6.90	15.45	6.90
2002-03	9.41	14.17	6.67	18.17	6.67

E class Councils i.e. Municipal Corporations have consistently been the best performers – spending the lowest proportion on administration expenditure. All Councils spend larger proportions. This finding is no surprise at all since we are looking at the ratio of administrative expenditure to total expenditures. The denominator (i.e total expenditures) of Councils are heavily dependent on funding from state and central government. Given the fiscal stress that the state government total expenditures of councils have not grown significantly. The numerator, on the other hand, i.e. administration expenditures are largely mandatory (even though our definition here excludes salaries and pensions) hence need to be maintained. This explains the councils performing worse than Corporations which have greater resource base.

From among the Councils the C class councils, the smallest category, have been the worst performers since 2000/01 although they were spending a much smaller proportion in 1999/00 probably suggesting a reduction in the growth of devolution of funds in more recent years.



Thus the broad picture that emerges from the Expenditure side is

- (a) Corporations have outperformed the Councils: They spend a larger proportion of their total expenditure on education, health and other local public goods.
- (b) It is, however, a matter of concern that Corporations show a declining trend for all the 'desirable' expenditure categories.
- (c) The pattern regarding expenditure on Hospitals, Dispensary and Vaccinations (Health), in particular, is worrisome as all ULBs show a declining trend.
- (d) With restricted revenue raising powers, Councils are compelled to spend larger proportions on administrative expenditures, which are mandatory, leaving them with little elbow room to spend on public goods.

After a detailed look at the expenditure patterns across ULBs, we now turn our attention to the income side of the story.

		Income Categories as % of total income			
		own source income	govt. grants	octroi	Taxes on Houses and Land
A CLASS	1999-00	35.38	41.08	18.87	10.79
	2000-01	23.98	41.32	5.98	12.78
	2001-02	24.42	38.61	6.34	12.04
	2002-03	23.09	45.00	5.21	13.21
B CLASS	1999-00	31.43	47.03	11.83	12.57
	2000-01	24.22	48.83	4.69	13.44
	2001-02	23.95	47.68	3.32	13.59
	2002-03	26.24	50.39	4.44	13.77
C CLASS	1999-00	25.53	43.88	10.63	9.60
	2000-01	21.65	43.52	5.81	10.13
	2001-02	21.33	43.19	5.03	10.09
	2002-03	23.72	46.12	5.70	11.33
E CLASS	1999-00	59.74	5.98	39.84	16.11
	2000-01	60.00	6.34	38.75	17.19
	2001-02	57.03	5.23	33.85	17.24
	2002-03	52.37	3.92	34.35	13.12
Maharashtra state	1999-00	55.86	11.14	36.25	15.40
	2000-01	55.17	11.28	34.88	16.19
	2001-02	52.66	10.15	30.08	16.52
	2002-03	49.05	9.06	30.88	13.08

- The own source revenues show a marked depletion for A and B type of Councils. Clearly taking away of significant taxation powers like Octroi by the state government is the reason for it. C type councils are the smallest and have the smallest resource base. What is a cause for concern is the performance of Municipal Corporations (E class councils). Despite the fact that Corporations continue to have the right to impose Octroi, their reduction in own source revenues is on account of bottlenecks to improve their performance on Property tax front as will be discussed in a subsequent paragraph.
- It must be said that while the government grants have been declining on the whole, the A, B and C type councils have witnessed a modest rise in the 2002/03. Given that the resource raising powers of Councils is restricted, this increase in the share of grants is welcome. However, one is not sure if this is a welcome sign from the point of view of governance in the context of move towards greater

decentralisation which must aim at strengthening the local bodies to stand on their own feet.

- As a move towards simplification of the tax structure the power to impose Octroi has been taken away from Councils, which now avail of a grant in lieu of Octroi. Corporations, on the other hand continue to retain this power. This move has further served to increase the dependence of the already dependent local bodies on higher levels of government.
- The revenue from Taxes on Housing and Land has not shown any significant increase over the years as it should. In fact Corporations show a reduction in the share of this category in their total income. Clearly the Rent Control Act and other bottlenecks as regards the Annual Rental Value method currently used has acted as an impediment to tapping this revenue source to its potential (Karnik et. al. 2004)

The broad story on the income side is that revenue decentralisation has failed to keep pace with expenditure decentralisation. For *de facto* decentralisation to happen it is important that resource raising powers of ULBs be strengthened. It is in this context that we have, elsewhere, suggested a possible strategy for enabling ULBs to access credit markets. The methodology suggested by us provides us with yet another way of comparing the ULBs. In the section that follows we briefly discuss the extension of Pooled Fund strategy that we advocate (Pethe and Lalvani, 2004).

4. EPILOGUE: On Data Gaps

The ULBs have been examined and compared from the perspective of both, financial and physical performance, wherein data gaps were discerned on both fronts. The importance of identifying and rectifying these cannot be overemphasised in the context of system design for better governance and delivery of services.

- From the point of view of financial performance indicators there does not exist uniformity in the data available under various budget heads, which would make comparisons possible and meaningful. This is especially true when substantive definitions of budget heads undergo a change temporally.
- It is only for a few categories like water supply, conservancy and sanitation, licence fees and entertainment that we had the relevant information on both, income from that service and expenditure on it. For other categories of expenditure like education, roads, public health we did not find data on income from these services. Availability of data on both, income and expenditure from

these various services would have enabled us to evaluate the performance of each of these services.

- It may be pertinent here to mention that it has often been observed that efficiency of local bodies is evaluated on a purely financial basis with very little attention being paid to the quality of the utilisation of funds. Also, as regards data on expenditure for each of these services, availability of data at a greater level of disaggregation, specifically relating to the amount of expense being incurred on salaries of staff etc. would have enabled us substantially to carry the analysis forward. It was also felt that the category of expenditure on General administration, salaries etc., is too broad. For example, in case of health services, a distinction between salaries of doctors and paramedics and 'others' would have helped. Thus, a further sub-division of this broad category into the salaries of various categories of employees would enable us to pinpoint the areas that are unproductive and/or wasteful.
- On the front of physical performance and comparison of service delivery, it was found that getting information required by us involved considerable effort on the part of the personnel to cull out the relevant statistics. It should be made binding on the ULBs to maintain records of such data in a uniform and standardised format. It is only then that accurate comparisons would become possible. Indeed, an exercise is already underway to bring about a standardised and uniform (from the audit and accounts point of view) accounting system across ULBs in India.
- It was observed that some relevant details of physical data pertaining to crucial services were missing. For instance, we were unable to obtain information separately on domestic and commercial use of water. Such a distinction would have made it possible for us to see if the requirements of citizens were being met or not. A severe shortcoming of the data being collected and currently available is that the quality aspect has not received due attention. In fact there does not seem to be any mechanism in place to monitor the continued quality (maintenance aspect) of services provided. The only – even if welcome – innovation seems to be with respect to the efficient rectification vis-à-vis the complaints. It is because of this lack of data pertaining to the quality of existing services and the continuation thereof, that this aspect has had to be largely ignored in any empirical exercise
- It is only when both, physical and financial data are available can we get the broad picture to become clear. For instance, merely the information that 66

percent of total expenditure is being incurred on education is inadequate. It is not possible to judge from this the actual achievement of a particular ULB in promotion of education. For such an analysis we would require information on how many children completed schooling and how many actually received education. It is only with availability of such information that we will be able to comment on the efficiency in the actual delivery of the service and hence properly incorporate it in the principles prescribed for rewards and penalties.

- The ideal situation for targeting disbursements is the availability of detailed data at the level of the Local Body. This will include, apart from information on the financial performance of the Local Body, other “real” data, such as total income generated, population, area, poverty ratios, level of backwardness, quality of infrastructure (separately for water supply, sanitation, street lighting, etc). However, as we have found out during the course of our exercises, much of such “real” data are available only at the level of the districts while at the level of Local Bodies only financial data are available in detail. As far as some Local Bodies were concerned there were data gaps even with respect to availability of financial data. This was more likely to be the case at the level of Category ‘C’ Class Councils.
- The next step in the decentralisation process is one where we go beyond the level of the ULB, i.e., beyond the MCs, Councils A, B and C. This would imply going to the level of wards within each ULB. While the concept of decentralisation could logically extend to the ultimate unit in the jurisdiction, i.e., the citizen, practically we need to set some limits. These practical limits will have to be set by constitutional provisions relating to the decentralised unit. At the moment such provisions have been put in place up to ULBs only. Further, there are no provisions at the level of the state Acts which extend decentralisation below the level of ULBs.
- In spite of this, it remains a fact that functions of the ULB get decentralised to the ward level. Hence, we can say that actual service delivery takes place at the ward level and consequently the functioning of the wards should be a matter of concern to us. However, it needs to be borne in mind that wards or ward committees do not have functional autonomy and more importantly do not have financial autonomy. Wards have to function as per the dictates of the Chief Officer and Standing Committee of the ULB.

- Despite the above, since actual service delivery takes place at the level of the wards and hence citizens' welfare is crucially determined at this level, it would be important to assess the functioning of the wards. Naturally, for such a task to be undertaken far more detailed data would have to be available. This, however, is likely to be a formidable task. To undertake the task of data collection at the ward level will be gigantic, however desirable the objective may be. We have not been able to get any information beyond the level of the ULB.
- Bearing in mind the data gaps that we have discussed above, we would like to see a technologically empowered, autonomous agency for collection, analysis and updating of a variety of standardized data across ULBs to be in place. Whilst there should be local operational branches they need to be conceptually integrated at the central level so as to ensure that 'they all speak the same language'. Such urban observatories could be of tremendous value not only for 'official' use but will also serve 'academic' or 'scholarly' needs for meaningful and comparable data. This will also serve to strengthen the *civil society* intervention.

Concluding Reflections

The time has now come to conclude this paper. Some broad reflections/ observations are in order:

- Sans all rhetoric and political posturing it is incontrovertible that the future of India is decidedly Urban. This implies that substantively greater resources must be devolved to the urban sector than has been the case in the past. The needs of urban infrastructure (even restricted to consideration of basic services we have considered) are huge and there is an accelerating divergence between the revenues and expenditures of the ULBs across board. Greater resources must simply be forthcoming (devolved or raised).
- To meaningfully operationalize the spirit and letter of 74th CAA, it is necessary that ULBs come out with a serious and innovative action plan to increase their resources. There is an obvious limit to the extent of devolution from above. While we have already said that we cannot go into the detailed discussion of alternative ways of tapping such resources a mention here would perchance, not be out of place.
 1. Property tax rationalisation represents a huge avenue of improving the revenue position of many ULBs. However, given the dearth of reliable information and the lack of political will, the ULBs will have to (cutting across

party lines) make concerted effort for this potential to be effectively tapped (Karnik et. al., 2001).

2. Creation of Pooled fund bank like institutional arrangement is the way to go in an era of market driven economy. Again, regulatory changes will have to be brought about in the financial sector (especially in the mandate and conduct of Bank and Fis) for this to materialize (Pethe and Ghodke, 2001).
 3. Getting the ULBs rated and floating of Muni Bonds is another modern method of raising resources. Efficiency and accountability as well as transparency in terms of maintaining accounts (in conformity with uniform and best established practices) is essential. For this to be successful, there is also a need for macro level policy initiative by way of facilitating existence of deep, thick and hence vibrant secondary market in such paper (muni bonds) (Pethe and Ghodke, 2002).
- These are only some of the ways that one can think of. Again, for details in this regard interested readers are referred to Karnik et al (2002a) and Pethe & Lalvani (2004)
 - ***Finally and most importantly, the one thing that needs urgent and serious attention is the data gaps especially with reference to quality of service delivery as well as the unavailability of dis-aggregate data on many items. These need to be collected uniformly for all ULBs as a matter of standard practice to facilitate analysis, prognosis, diagnosis and hence policy recommendations. For this setting up of well funded, techno-savvy and autonomous urban observatories must be set up.***

In the end, we believe that, we have provided a fairly comprehensive status report on the different aspects related to – revenue expenditure patterns – ULBs in Maharashtra. For the purposes of evolving objective and transparent criteria for devolution of funds from centre to the states as well as further down to the ward levels and conducting a comparative analysis between states, such an exercise is useful as a foundational building block. Hence, this needs to be replicated across states. This involves a major exercise especially in terms of major data gaps that we have pointed out in the body of the text. With much hope we sign off!

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