

LOCAL BODY FINANCE - FISCAL PROJECTION AND RESOURCE GAP

5.4.1. In this chapter, we endeavour to present a picture about the financial status of the local bodies for three years ending with 1993-94. We also present a projection on revenue growth and expenditure upto 2002 of all the three types of Urban Local Bodies i.e. Municipal Corporations, Municipalities and Town Panchayats and of Rural Bodies i.e. Panchayat Unions and Village Panchayats.

Revenue Position:

5.4.2. A study of the per capita revenues of the urban local bodies reveals a wide disparity among them. The highest for the Municipalities is Rs.1629.41 and the lowest is Rs.79.23. In the case of Town Panchayats the spread is even more wide with the highest reporting a percapita revenue of Rs.3044.34 and the lowest reporting a per capita revenue of Rs.0.78.

5.4.3. The following Table gives details:

Table 5.20 Per Capita Revenues of Urban Local Bodies (Per Capita in Rs.)

Revenue	MCs	MPs	TPs
Highest	455.46	1,629.41	3,044.34
Lowest	152.01	79.23	0.78
Median	219.87	197.23	80.03
Mean	272.34	226.50	308.80
Standard Deviation	111.18	166.11	378.25

5.4.4. The Town Panchayats have the widest spread with the maximum standard deviation of Rs.378.25, which is four and a half times the size of the mean. Out of the rest, the Municipalities show a larger spread than the Corporations. The most startling finding is that the lowest for the Town Panchayats is Rs.0.78.

5.4.5. The total number of urban local bodies getting less than Rs.100 percapita revenues is 430, out of which 5 are Municipalities and 425 are Town Panchayats.

Rural

5.4.6. The per capita revenues of Rural Local Bodies also reveals a wide disparity among the various categories. They are indicated below:-

Table 5.21 Per Capita Revenue Receipts - Panchayat Unions

Measures/Category	Catgry.1	Catgry.2	Catgry.3	Catgry.4	Catgry.5	Catgry.6
Per Capita Revenue Receipts:						
Mean	119.07	95.52	99.53	88.14	96.83	83.71
Standard Deviation	72.21	39.23	35.15	37.73	77.93	38.04
Minimum	56.80	35.54	49.56	18.91	32.86	18.44
Maximum	436.30	197.69	223.96	254.41	536.88	212.65
Coef. of Variation	60.64	41.07	35.32	42.81	80.48	45.44
PU's >= Average	12	14	29	47	13	28.00

Note: Mean, Standard Deviation, Minimum and Maximum Values are in Rs.

5.4.7. Similarly, the variation in Revenue receipts among the Village Panchayats may be seen in the Table below:

Table 5.22 Per Capita Revenue Receipts - Village Panchayats

Population Range	Mean	Standard Deviation	Minimum	Maximum	Co.of Variation	VPs>= Avg.	Population
Upto 1000	53.88	58.99	0	926	109.49	431	1310
1001 - 2000	41.32	39.1	0	822	94.63	1645	4811
2001 - 3000	35.46	26.92	0	277	81.57	982	2818
3001 - 4000	32.21	25.74	0	200	79.94	570	1583
4001 - 5000	31.33	25.16	0	205	80.3	309	884
Above 5000	30.63	23.97	0	237	78.28	425	1177

Note: Mean, Standard Deviation, Minimum and Maximum Values are in Rs.

Tables (5.20, 5.21 and 5.22) reveal, wide inter se disparity on account of variations in population, resource endowment, tax capacity and tax effort. Any sound system of resource transfer from higher tier to the Local Body will have to take into consideration the inter institutional disparity.

Fiscal Gap

5.4.8. Fiscal Gap of a local body is usually defined as the gap between its 'fiscal needs' and revenue availability. Fiscal needs in actual expenditure terms should reflect the expenditure needed for providing 'normative levels' of service. Therefore, in quantitative terms, the gap is equal to the cost of filling the gap in the actual physical levels of services provided and the normative levels of services needed. Efforts have been made to workout normative levels and the resource needed for the period of recommendations and gap in resources expected. The low percapita expenditure levels indicate that the fiscal gap is likely to be very large.

5.4.9. With the actual total revenue and expenditure figures, we can define a 'Perceived Fiscal Gap' as follows (the actual gap of units is likely to be much larger):

$$\begin{aligned}
 \text{Perceived Fiscal Gap} &= \text{Total Expenditure} - \text{Total Own Revenues} \\
 \text{Total Expenditure} &= \text{Total Revenue Expenditure} + \text{Total Capital Expenditure} \\
 &\quad \text{(excluding expenditure on central schemes and special state schemes)} \\
 \text{Total Own Revenues} &= \text{Own Tax Revenues} \\
 &\quad \text{(excluding assigned \& shared Taxes and Grants) + Own Non-Tax Revenues}
 \end{aligned}$$

5.4.10. The Perceived Fiscal gaps of the Municipal Corporations, Municipalities, Town Panchayats, Panchayat Unions and the Village Panchayats are presented below.

Table 5.23 Perceived Fiscal Gap+ (Rs. Crores)

Local Body	1991-92	1992-93	1993-94
Urban			
Municipal Corporations	-72.71	-79.47	-124.07
Municipalities	-62.03	-64.57	- 55.42
Town Panchayats	-16.72	-13.98	- 9.85
Total	-151.46	-158.02	-189.34
Rural			
Panchayat Unions	-54.87	-53.65	-53.66
Village Panchayats	-24.90	-8.04	+7.77

Note+: Figures under Rural, exclude Centrally Sponsored Schemes.

5.4.11. It is clear from the table given above that the total fiscal gap of all the ULBs put together is very large and is growing. The total fiscal gap in 1993-94 works out to 71% of the total own tax and non-tax revenues of all the ULBs put together. The gap is partially filled with devolution of funds from the State in the form of assigned taxes, shared taxes, grants on the revenue and capital accounts and loans.

5.4.12. The influence of urbanization and increasing population continues to place greater demands on the local government's budget and under these circumstances, any existing fiscal gap will tend to widen. A World Bank Study estimates that for the rest of this century, the rate of urban population growth in developing countries will be 3.5%, which is three times that projected for the growth of rural population (Bahl and Linn, 1992).

5.4.13. The demand and cost factors also increase local public expenditure, both actual and required, for urban services. Public expenditure requirements at the local level increase with urbanization in absolute terms and very likely in per capita terms as well.

5.4.14. On the revenue side, the growth in the population and percapita income lead to an enlarging revenue capacity. But, the enlarging capacity should be tapped adequately so that the actual revenue position improve.

5.4.15. In the Rural Local Bodies, the Fiscal Gap in Panchayat Unions needs greater devolution since the local resource generation is a limited phenomenon. Village Panchayats have on the other hand, scope to bridge the gap with revenue generation combined with devolutions.

Perceived Revenue Gap

5.4.16. Analogous to the Perceived Fiscal Gap, we can define a Perceived Revenue Gap. In this case, it is the revenue deficit that is actually reported as opposed to the revenue deficit that might have arisen if maintenance expenditure was based on norms. Again, as in the case of the Fiscal gap, the Perceived Revenue Gap is likely to be smaller than the actual in individual units.

$$\text{Perceived Revenue Gap} = \text{Total Revenue Expenditure} - \text{Total Own Revenues Perceived}$$

Table 5.24 Revenue Gap

(Rs. Crores)

Local Body	1991-92	1992-93	1993-94
Urban			
Municipal Corporations	-86.89	-37.27	-19.04
Municipalities	-39.23	-42.81	-31.48
Town Panchayats	-10.51	- 6.22	- 1.11
Sub Total	-136.63	-86.30	-51.63
Rural			
Panchayat Unions	-39.98	-38.50	-35.17
Village Panchayats	-24.90	-8.04	+7.77
Sub Total	-64.88	-46.54	-27.40

Note: Figures exclude receipts and expenditure on Centrally Sponsored Schemes.
 (-) Negatives Indicate deficits

5.4.17. Contrary to the fiscal gap, the revenue gaps, though large have shown a declining trend. In 1993-94, the revenue gap as a percentage of the total own revenues in urban was 18% while it was 68.5% in 1991-92. The impressive decline in the revenue gap is an indication of increased own revenue collections in the intervening two years. But the persistence of the gap to the tune of Rs.52 crores indicates that the local bodies need devolved revenues to meet their basic revenue needs. However, the scope for Own Resources in Panchayat Unions is limited in view of the non availability of sources.

5.4.18. In the past, revenue growth has been hampered by a combination of three factors:

- i) insufficient taxing authority,
- ii) lack in revenue efforts and
- iii) restrictins on revision of tax rates, especially property tax rates, periodically. These factors have contributed to a stagnation in the real revenues of the local bodies.

5.4.19. While the revenues stagnated, expenditure has grown steadily, both in real and nominal terms. For example, the salary bill which accounts for a major share in the revenue expenditure increases by an average of 25% every year due to the D.A. payments and other increments, according to the State rules. Similarly, inflation has also led to escalation of costs without a corresponding growth in the revenues because none of the taxes and non-tax revenues are indexed to inflation.

5.4.20. Since assistance from the State Government has also been insufficient, the provision of services has suffered as a direct consequence. Several Town Panchayats

are struggling to meet even their establishment costs and they have very little revenues left to spend on maintenance of the assets and other obligatory services.

5.4.21. The task before the local bodies is therefore two-fold:

- (1) to improve the service levels up to acceptable standards and
- (2) to maintain and enhance the acceptable standards in the future for a larger population.

Addressing the Fiscal Gap.

5.4.22. The problem of urban fiscal gap can be addressed, in principle, in four different ways.

- a) increased local revenue effort;
- b) increased local revenue authority;
- c) increased transfers from higher levels of Government; and,
- d) reduced local expenditure authority;

5.4.23. Of the four options listed above, the one that deserves most attention is that of higher locally raised resources viz. item(a). There is scope to improve the financial position through a combination of revision of bases and rates, revision of charges on locally provided services, introducing new taxes into the local tax domain etc. Secondly, increased devolution of State Taxes should also be considered since in the past the States have been very reluctant to share their taxation powers with the local bodies. Still the local bodies would need additional funds in the form of grants, to effectively perform the functions that they have been assigned under the State Conformity Acts, and this is also to be addressed.

5.4.24. A detailed analysis of the fiscal trends of revenue generation for the time frame 1997-2002 and the needs of each of the tiers, both urban and rural are discussed in the ensuing paragraphs. Statements showing the existing level of revenue and expenditure with reference to 1993-94 and projected revenues and expenditure for the period 1997-2002 are given below in Tables 5.25 to 5.31. In these, projected resource generation from own revenue is given. The resources needed for O & M at normative level for core services besides the need for other discretionary functions and administrative expenditure, debt services for a period of five years (1997-2002) are also included in these tables.

(Rupees in Crores)

Table 5.25 1993-94 (Actuals)

LOCAL BODY	Revenue Income			O & M Expenditure										(+)/SURPLUS/ (-)/DEFICIT
	OR *	AR**	GRANT	TOTAL	WATER SUPPLY	SANI- TATION	SOLID WATER	ROADS	STORM WATER DRAINS	LIGHTING	OTHERS	TOTAL		
URBAN														
Corporations	171.86	113.62	7.85	293.33	36.13	37.35	46.56	19.28	..	14.31	95.08	248.71	44.62	
Municipalities	111.63	39.19	6.33	157.15	27.62	14.36	26.69	18.16	..	7.26	48.37	142.46	14.69	
Town Panchayats	57.22	26.81	2.20	86.23	16.43	4.70	9.90	16.82	..	6.71	22.49	77.05	9.18	
Total	340.71	179.62	16.38	536.71	80.18	56.41	83.15	54.26	..	28.28	165.94	468.22	68.49	
RURAL														
Panchayat Unions	43.50	9.10	71.58	124.18	..	..	..	13.87	..	..	85.97	99.84	24.34
Village Panchayats	28.11	51.92	12.90	92.93	23.46	6.25	..	9.34	..	21.89	10.96	71.90	21.03	
Total	71.61	61.02	84.48	217.11	23.46	6.25	..	23.21	..	21.89	96.93	171.74	45.37	
Grand Total	412.32	240.64	100.86	753.82	103.64	62.66	83.15	77.47	..	50.17	262.87	639.96	113.86	

* Own Revenue

** Assigned Revenue

Table 5.26 1997-98

(Rupees in Crores)

LOCAL BODY	Revenue Income OWN REVENUE	O & M Expenditure								(+)SURPLUS/ (-)DEFICIT
		WATER SUPPLY	SANI-TATION	SOLID WASTE	ROADS	STORM WATER DRAINS	LIGHTING	OTHERS	TOTAL	
URBAN										
Corporations	213.98	56.85	69.75	72.78	39.20	1.23	17.05	276.08	532.94	318.96
Municipalities	145.31	35.28	26.28	65.11	40.68	1.90	14.10	178.39	361.74	216.43
Town Panchayats	70.11	27.44	8.60	16.80	21.22	2.06	13.47	32.93	122.52	92.41
Total	429.40	119.57	104.63	154.69	101.10	5.19	44.62	487.40	1017.20	587.80
RURAL										
Panchayat Unions	56.70	..	..	..	53.31	..	..	125.87	179.18	122.48
Village Panchayats	31.95	53.58	32.59	14.09	107.33	2.10	50.38	16.05	276.12	844.17
Total	88.65	53.58	32.59	14.09	160.64	2.10	50.38	141.92	455.30	366.65
Grand Total	518.05	173.15	137.22	168.78	261.74	7.29	95.00	629.32	1472.50	954.45

Table 5.27

1998-99

(Rupees in Crores)

LOCAL BODY	Revenue Income	O & M Expenditure								(+) SURPLUS/ (-) DEFICIT
	OWN REVENUE	WATER SUPPLY	SANI- TATION	SOLID WASTE	ROADS	STORM WATER DRAINS	LIGHTING	OTHERS	TOTAL	
URBAN										
Corporations	234.63	62.53	76.72	80.06	43.12	1.35	18.75	303.70	586.23	-351.60
Municipalities	155.36	38.81	28.91	71.62	44.74	2.09	15.51	196.23	397.91	-1242.55
Town Panchayats	74.02	30.18	9.46	18.48	23.34	2.26	14.82	36.22	134.76	-60.74
Total	464.01	131.52	115.09	170.16	111.20	5.70	49.08	536.15	1118.90	654.89
RURAL										
Panchayat Unions	58.66	..	..	..	58.64	..	..	138.46	197.10	138.44
Village Panchayats	33.52	58.94	35.85	15.50	118.07	2.31	55.41	17.66	303.74	-270.22
Total	92.18	58.94	35.85	15.50	176.71	2.31	55.41	156.12	500.84	-408.66
Grand Total	556.19	190.46	150.94	185.66	287.91	8.01	104.49	692.27	1619.74	-1063.55

Table 5.28 1999-2000

(Rupees in Crores)

LOCAL BODY	Revenue	O & M Expenditure								(+) SURPLUS / (-) DEFICIT
	Income OWN REVENUE	WATER SUPPLY	SANI- TATION	SOLID WASTE	ROADS	STORM WATER DRAINS	LIGHTING LOCAL	OTHERS	TOTAL	
URBAN										
Corporations	294.97	68.78	84.39	88.06	47.44	1.48	20.63	334.07	644.85	349.88
Municipalities	179.17	42.69	31.80	78.79	49.22	2.30	17.06	215.85	437.71	258.14
Town Panchayats	85.84	33.20	10.41	20.33	25.68	2.49	16.30	39.84	148.25	-62.41
Total	559.98	144.67	126.60	187.18	122.34	6.27	53.99	589.76	1230.81	-670.83
RURAL										
Panchayat Unions	60.83	..	..	..	64.51	..	..	152.31	216.82	155.99
Village Panchayats	35.16	64.83	39.04	17.05	129.87	2.54	60.95	19.43	333.71	298.55
Total	95.99	64.83	39.04	17.05	194.38	2.54	60.95	171.74	550.53	454.54
Grand Total	655.97	209.50	165.64	204.23	316.72	8.81	114.94	761.50	1781.34	-1125.37

Table 5.29 2000-01

(Rupees in Crores)

LOCAL BODY	Revenue Income OWN REVENUE	O & M Expenditure										(+)SURPLUS/ (-)DEFICIT	
		WATER SUPPLY	SANI-TATION	SOLID WASTE	ROADS	STORM WATER DRAINS	LIGHTING	OTHERS	TOTAL				
RURAL													
Corporations	329.67	75.67	92.83	96.87	52.18	1.63	22.69	367.48	709.35	379.68			
Municipalities	201.25	46.96	34.98	86.66	54.14	2.53	18.77	237.44	481.48	280.23			
Town Panchayats	92.82	36.52	11.45	22.36	28.24	2.74	17.93	43.82	163.06	70.24			
Total	623.74	159.15	139.26	205.89	134.56	6.90	59.39	648.74	1353.89	730.15			
RURAL													
Panchayat Unions	61.21	..	..	..	70.96	..	..	167.54	238.50	169.29
Village Panchayat	38.92	71.32	43.38	18.75	142.86	2.80	67.05	21.37	367.53	-328.61			
Total	100.13	71.32	43.38	18.75	213.82	2.80	67.05	188.91	606.03	-505.90			
Grand Total	723.87	230.47	182.64	224.64	348.38	9.70	126.44	837.65	1959.92	1236.05			

Table 5.30 2001-02

(Rupees in Crores)

LOCAL BODY	REVENUE	O & M Expenditure								(+) SURPLUS (-) DEFICIT
	INCOME	WATER SUPPLY	SANI-TATION	SOLID WASTE	ROADS	STORM WATER DRAINS	LIGHTING	OTHERS	TOTAL	
	OWN REVENUE									
URBAN										
Corporations	368.98	83.24	102.11	106.56	57.40	1.80	24.96	404.23	780.30	411.32
Municipalities	218.95	51.65	38.48	95.33	59.56	2.78	20.65	261.38	529.83	310.88
Town Panchayats	100.41	40.17	12.59	24.59	31.06	3.01	19.72	48.20	179.34	78.93
Total	688.34	175.06	153.18	226.48	148.02	7.59	65.33	713.81	1489.47	811.13
RURAL										
Panchayat Unions	65.83	..	..	..	78.06	..	..	184.29	262.35	196.52
Village Panchayats	46.25	78.45	47.72	20.62	157.15	3.08	73.75	23.51	404.28	358.03
Total	112.08	78.45	47.72	20.62	235.21	3.08	73.75	207.80	666.63	554.55
Grand Total	800.42	253.51	200.90	247.10	383.23	10.67	139.08	921.61	2156.10	1355.68

Table 5.31 Statement showing Expenditure on Core Services and others at 1993-94 Level and 1997-98 Proposed Level
(Rs. in Crores)

	WATER SUPPLY		SANITATION SEWERAGE		SOLID WASTE MANAGEMENT		ROAD		STORM WATER DRAINS		LIGHTING		OTHERS		TOTAL	
	1993-94	1997-98	1993-94	1997-98	1993-94	1997-98	1993-94	1997-98	1993-94	1997-98	1993-94	1997-98	1993-94	1997-98	1993-94	1997-98
URBAN																
CORPORATIONS	36.13	6.85	37.35	69.75	46.56	72.78	19.28	39.20	..	1.23	14.31	17.05	95.08	276.08	248.71	532.94
MUNICIPALITIES	27.62	35.28	14.36	26.28	26.69	65.11	18.16	40.68	..	1.90	7.26	14.10	48.37	178.39	142.46	361.74
TOWN PANCHAYATS	16.43	27.44	4.70	8.60	9.90	16.80	16.82	21.22	..	2.06	6.71	13.47	22.49	32.93	77.05	122.52
TOTAL	80.18	119.57	56.41	104.63	83.15	154.69	54.26	101.10	..	5.19	28.28	44.62	165.94	487.40	468.22	1017.20
@	FIGURE EXCLUDES CHENNAI MUNICIPAL CORPORATION															
*	FIGURE INCLUDES CHENNAI MUNICIPAL CORPORATION															
RURAL																
PANCHAYAT UNIONS..	..	..	..	..	..	..	13.87	53.31	..	..	..	..	85.97	125.87	99.84	179.18
VILLAGE PANCHAYATS	23.46	53.58	6.25	32.59	..	14.09	9.34	107.33	..	2.10	21.89	50.38	10.96	16.05	71.90	276.12
TOTAL	23.46	53.58	6.25	32.59	..	14.09	23.21	160.64	..	2.10	21.89	50.38	96.93	141.92	171.74	455.30
GRAND TOTAL	103.64	173.15	62.66	137.22	83.15	168.78	77.47	261.74	..	7.29	50.17	95.00	262.87	629.32	639.96	1472.50

5.4.25. The various measures for augmenting resources by way of tax and non tax revenue, new tax domain and additional sharing from State Taxes have been recommended in Part II of the Report. Similarly in Part III, the following subjects have been recommended.

- i) the need for a minimum level of service of core civic services;
- ii) the capital resources needed for delivering that level;
- iii) the resources needed for O & M of existing services at normative level in respect of these core services; and
- iv) the additional O & M expenditure needed on the additional services to be provided for improving levels of service.

The strategy for gap filling is discussed in the ensuing Chapters