

CHAPTER - 10

A MACRO REVIEW OF MUNICIPAL FINANCES IN CHHATTISGARH STATE

10.1.0 Introduction :

10.1.1 In The previous Chapter, we have presented the Functional and Financial Powers of different categories of *ULBs* in Chhattisgarh State, devolved upon them under the constitutional provisions, incorporated in the legislations, enacted by the State Government. In this Chapter, we would make a *Macro Review and Assessment of Financial Resources* which *ULBs raise through their Own Sources and also through Outside Sources*. To what extent they can *Finance* their *Revenue Expenditure* as well as *Total Expenditure*, through their *Own Resources* and also through *Total Resources* ? Their budgets reflect their calibre of planning and their priorities of expenditure. A review of municipal budgets would, therefore, provide valuable insights into how *ULBs* raise their revenues, by deploying their financial powers conferred upon them by the legislation, and also into their priorities for using their resources. But it needs to be made clear at the very outset that the size and quality of civic services is largely determined not only by the quantum of financial resources at their disposal but also by the efficiency and effectiveness with which these resources are utilized. There is a considerable truth in the Statement that *“Outlays May not Necessarily Mean The Outcomes”*.

10.2.0 The Macro Framework of Urban Local Bodies :

10.2.1 Though all *ULBs* of a particular category are governed by a uniform legislation, conferring upon them uniform powers of raising revenues and incurring expenditure, they differ in their resource mobilization in terms of composition of resources, and also expenditure patterns and their levels of efficiency in the delivery of their services. How is it so? The answer to this question partly depends upon the macro framework in which a particular municipality functions. This framework varies from one municipality to another. The macro framework is that environment in which *ULBs* function and carry

out their activities. It is diverse, complex and changing, shaped by a gamut of factors, viz long history, the legislation empowering them to raise revenue and utilize such revenues, their powers and authority, their population, their growth and distribution among different activities, the area which determines jurisdiction, their linkages with the outside world, the economic and social status, the degree of decentralization and autonomy, both functional and financial, the tax base, the administrative set up, the expenditure liabilities and differences in the cost of providing services, arising out of location, size, spatial spread of settlement hierarchy and topography. We do not have the necessary information and data to study the impact of all these factors on the macro framework of ULBs, while making a macro review of their finances. But wherever possible and also permitted by data availability, we may highlight the impact of these factors on the macro framework of ULBs, influencing their functional and financial performance, not only while making a macro review in this Chapter, but also the micro review of individual ULBs in a subsequent Chapter. Appraising the finances of ULBs is crucial to addressing the mandate embodied in Articles 243(i) and 280(3) of the Constitution and also the TOR of this Commission.

10.3.0 Main Objectives of Macro Review of Urban Local Bodies Finances :

10.3.1 This macro review is intended to achieve certain objectives which are given below:

- (i) To get a picture of the *Financial Health of ULBs*,
- (ii) To get an idea of the extent of *Functional and Fiscal Decentralization* in their different manifestations,
- (iii) To facilitate our journey from Macro to Micro Review that we make in another Chapter,
- (iv) To enable us in *Estimating Revenue Gap*, by making projections of Revenue And Expenditure, on some Normative Basis,
- (v) To facilitate the task of making *suggestions for augmenting resources and restructuring of Municipal Finances*, with a view to reducing the hiatus between demands on their resources and their capacity to raise resources.

10.4.0 The Availability of Data :

10.4.1 *A Macro Review of Finances of ULBs needs adequate data covering sufficiently long period, related to different aspects of such finances.* We understand that such data are not being collected and published at present, by any agency of the State Government, on a regular basis. In fact, the collection of such data is the responsibility of the Directorate of Economics and Statistics of the State Government. It is only recently that some data relating to the finances of Local Bodies of different States have been made available by the *XIIth Finance Commission*, covering the period of *1998-99 to 2002-03*. But this data is too aggregated and do not give the required breakdowns of Tax and Non-Tax Revenue and also of Revenue and Capital Expenditure of *ULBs*. Though the data published by the *XIIth FC*, gives combined data for all *ULBs* taken together in a State, irrespective of their categories, we have made attempts to supplement this data by separate data for 3 types of *ULBs*, provided by the State Government in its memorandum submitted to the *XIIth FC*. With the help of the data provided by the *XIIth FC* and the State Government in its memorandum, we could make a broad review of the finances of *ULBs* in the State. Thus the available data could serve our purpose, to a large extent, for making assessment of the extent to which *ULBs* in the State are moving in the direction of Decentralization and Fiscal Autonomy.

10.5.0 Indicators of Fiscal Decentralization And Fiscal Autonomy :

10.5.1 With the help of some indicators and depending upon the availability of data, we would make an assessment of the extent to which *ULBs* in the State have moved in the direction of Fiscal Decentralization and Fiscal Autonomy, the two important requirements of the Constitution. The present Macro Review is intended in this direction.

10.5.2 Some of the *Important Indicators of Fiscal Decentralization and Fiscal Autonomy* that we have deployed in the present study are the following:

- (i) Own Revenue and Expenditure of *Local Bodies* in The State as Percent of *Central and State Government* Revenue and Expenditure.

- (ii) Percentage of Total *Local* Spending to *Central and State Government* spending.
- (iii) Own Tax Revenue of *Local Bodies* as Percent of *State Government* Tax Revenue.
- (iv) Total Revenue and Expenditure of *Local Bodies* as Percentage of *GSDP* of the State.
- (v) Total Revenue and Expenditure of *ULBs* as Percentage of *GSDP* from *Non-Agriculture*.
- (vi) Total Revenue and Expenditure of *PRIs* as Percentage of *GSDP* for *Primary Sector*.

10.6.0 Indicators of Fiscal-Autonomy

10.6.1 The *Indicators of Fiscal Autonomy* are given below:

- (i) The Percent age of locally raised resources (both Tax and Non-Tax), to Total Expenditure of *Local Bodies*.
- (ii) The Percentage of locally raised resources (Own) to Total Revenue of *Local Bodies*.
- (iii) Percentage of Own Revenue Resources to Total Revenue Expenditure of *Local Bodies*.
- (iv) The proportion of externally provided resources to Total Revenue of *Local Bodies*.
- (v) The Percentage of Own Revenue Receipts to Revenue Expenditure of *Local Bodies*.
- (vi) The Per Capita Revenue and Expenditure of *Local Bodies and of the State and Central Government*.

10.7.0 Fiscal Decentralization And Fiscal Autonomy of Local Bodies In The State :

10.7.1 Before we analyse the data relating to certain fiscal variables of the Centre, State and Local Governments in the State, we would like to mention that financial data of the Chhattisgarh State Government covers only two years namely, **2001-02 and 2002-03**, since earlier to this period, there was no separate Chhattisgarh State which was created on 1st November, 2000. The financial data for the financial year 2000-01, did not cover the whole financial year of the new State. We would also like to indicate the fact that to get an overall picture of Local Finances in the State in the Public Finances of the Country, we have taken together the finances of both *panchayats* and *ULBs*. Whatever scanty data we present in the **Table No. 10.1** may be *indicative of the broad trends in the direction of Fiscal Decentralization and Fiscal Autonomy of Local Bodies*. In subsequent sections, we have also presented the extent of Fiscal Decentralization and Fiscal Autonomy of *ULBs* separately.

10.7.2 The **Table No. 10.1** presents the *Finances of Local Bodies in the State in relation to the Central and State Government Finances*.

10.7.3 The **Table No. 10.1** gives ample evidence of the fact that the process of Fiscal Decentralization in the State has deteriorated in terms of share of Total Revenue of Local Bodies in the Total Revenue of the Centre, declining from 0.13% in 1998-99 to 0.11% in 2002-03. *Total Expenditure of Local Bodies*, though higher than of *Total Revenue*, as a Percent of *Central Expenditure*, has marginally increased from 0.13% in 1998-99 to 0.21% in 2002-03. This indicates that *Revenue Decentralization* has been lagging behind *Expenditure Decentralization*. The higher Percent age of *Local Expenditure* than *Local Revenue* may be due to the fact of increasing transfer of funds from the centre for funding *Centrally Sponsored Scheme* whose number and variety have multiplied. But the fact remains that Local Finances constitute an insignificant proportion of Central Finances and have remained in the periphery of Public Finances of the Country.

10.7.4 More or less the same picture emerges in respect of *Decentralization of Revenue and Expenditure of Local Bodies* as indicated by the Percent shares of *Local Bodies in State Finances*. *Total Revenue of Local Bodies* as a Percentage of *Total Revenue of*

the State , has declined from 9.51% in 2001-02 to 9.00% in 2002-03, and of *Total Expenditure* from 14.29% to 13.68% during the same period. This is indicative of the fact that *Functional Decentralization has been higher than Fiscal Decentralization*, as revealed by higher Percentage of *Total Expenditure of Local Bodies* in *Total Expenditure of the State Government*, compared to the share of *Local Revenues in the Total Revenue of the State*.

10.7.5 *Total Own Tax Revenue of Local Bodies* as Percent of *States Own Tax Revenue*, has declined from 4.19% in 2001-02 to 3.53% in 2002-03. This implies that Local Bodies are not making any concerted efforts in the direction of Mobilization of Revenues through their *Own Taxes*. The Percentage is not only very small but at the same time is declining. It may also be due to the fact Local Bodies have been empowered to levy such *Taxes which are less productive and less elastic* .

10.7.6 One redeeming feature of the fiscal situation is that *Capital Expenditure of Local Bodies* as Percent of *Total Capital Expenditure of the State Government*, has been quite high 55.30% in 2001-02, though declined to 35.28% in the next year - a steep fall. Local Bodies in the State are getting funds from the State and the Central Governments and also from financial institutions, under different schemes, for financing their capital investment.

10.7.7 The overall picture is disappointing, since Local Bodies do not reveal any significant increase in their Revenue and Expenditure vis-à-vis the State Government Finances. This is an indication of deterioration in the process of Decentralization in the State. It has to be ensured that *Local Bodies Account for an increasing proportion of State Revenue and State Expenditure in their Finances*.

10.8.0 Local Finances In Relation To The Gross State Domestic Product of The State :

10.8.1 Another important indicator of *Fiscal Decentralization* which is generally used is the *Percentage of Revenue and Expenditure of Local Bodies* to the GSDP of the State. The expectation is that Local Bodies show an increase in the proportion of their *Revenue and Expenditure to the GSDP, by mobilizing increasing proportion of Incremental GSDP, through their Own Tax and Non-Tax Sources*.

10.8.2 The **Table No. 10.2** presents this picture. It is based on the data contained in the **Appendix No. 10.1**.

10.8.3 The **Table No. 10.2** shows that *Total Receipts of Local Bodies in terms of resources mobilized by them, along with Resources Transferred to them by Outside Sources*, constituted a very small proportion of **GSDP**, 2.07% in 1998-99, increasing to 2.57% in 2000-01, but declining to 1.78% in 2002-03. Small increase in Total Receipts may be attributed to increasing proportion of resources coming to them from Outside Sources. It augers well that their *Total Expenditure as Percentage of GSDP* has increased marginally from 2.30% in 1998-99 to 2.77% in 2002-03. This increase may also be attributed to increasing flow of resources from the State and Central Governments to Local Bodies under different schemes. Their *Total Tax Revenue* accounted for a very small proportion of GSDP, hardly 0.28%. Their *Total Own Resources* constituted 0.67%, on an average, during the period under study. *Total Expenditure* of Local Bodies has increased its share in **GSDP**. Their *Capital Expenditure* is less than 1% of **GSDP** in most of the years, much lower than the Percentage of *Revenue Expenditure*. *With a view to improving their level of Fiscal Decentralization, Local Bodies in the State have to mobilize a much larger proportion of GSDP than at present.*

10.8.4 Let us have a look at the performance of **ULBs** separately in terms of their *Share of Revenue and Expenditure in the GSDP of the State*. The **Table No. 10.3** presents this picture.

10.8.5 Considering the fact that *Urban Areas generate more than 60% of the GSDP in the State*, the picture is depressing in respect of **ULBs**, though it is better than that of *Rural Local Bodies (RLBs)*. *The Total Receipts of ULBs in the State accounted for 1.05% of GSDP from Non-Primary Sources in 1998-99, increasing to 1.34% in 2002-03*. The proportion of *Total Expenditure* to the GSDP from *Non-Primary*, which was 0.93%, increased to 1.26% in 2002-03. In all the years for which data are given, *the Percentage of Total Expenditure of ULBs to GSDP from Non-Primary has been lower than that of Total Receipts. This implies that they are raising more resources compared to their expenditure. They are not in a position to spend,*

whatever they receive from different sources, both their own and from outside. Surplus Budgets cannot be tolerated in view of the poor performance of Local Bodies, both in terms of the quantity and quality of Municipal Services. The matter needs to be probed as to why and how this situation has arisen in the State. When we make an evaluation of Finances of Individual *ULBs*, we would take up the issue in some details.

10.8.6 The Percent share of *PRIs* in the *GSDP from Primary Sector* in respect of their *Tax Revenue* was 0.04% in 2002-03 and of their *Own Revenue* also less than 1%, which is insignificant. The *Total Revenue* of *PRIs* as Percent age of *GSDP from Primary Sector*, accounted for 4.00% in 1998-99, but declined to 2.68% in 2002-03. But *Total Expenditure of PRIs* as Percent of *GSDP* has been higher than their *Revenue* Percentage. This means that *they have been spending more than what they getting in the form of their revenue from their Own Resources and transfers from other agencies.*

10.9.0 Fiscal Autonomy Of Local Bodies In The State :

10.9.1 One important objective of the Constitutional Amendment is to raise the status of Local Bodies to the level of *Autonomous Units of Self-Governance*. For this purpose, the dependence of Local Bodies on outside sources may decline and on own sources of revenue may increase. But in no federation, complete autonomy is conceivable. Local Bodies will continue to depend on devolution of resources from higher levels of government, the State government and the central government. *There can be a number of Indicators of Autonomy* as mentioned in an earlier section of this Chapter. *But the most important indicator is to what extent Local Bodies can finance their Total Expenditure through Own Resource.* To what extent their Own Resources can generate their Total Receipts? The answers to these questions may be found in the **Table No. 10.4**

10.9.2 To what extent Local Bodies in the State are moving in the direction of Fiscal Autonomy? To find answer to this question, let us look at behavior of certain Fiscal Parameters. It is disheartening to note that *Total Own Revenue* of *Local Bodies* could

Finance only 28.53% of their *Total Expenditure* in 1998-99, and this Percentage has been going down, reaching a low figure of 19.31% in 2002-03. If we take only *Revenue Expenditure* of *Local Bodies*, we find that their *Own Revenue* could Finance only 48.77% of their *Revenue Expenditure* in 1998-99 and the Percentage has declined to 28.82% in 2002-03. Their *Total Revenue* , their *Own and that received from Outside*, could finance 90.10% of their *Total Expenditure* in 1998-99 but the Percentage went on declining over time and reached the figure of 64.30% in 2002-03. *For becoming more autonomous they are expected to finance an increasing Percentage of their Total Expenditure through their Own Resources.* Their *Tax Revenue* as Percent of *Total Receipts*, has shown a slow increase from 11.93% to 14.57% during the period under study, but their *Non-Tax Revenue* has recorded a declining Percentage. Their *Own Revenues* as Percent of *Total Revenue* has declined from 31.66% to 30.03%, with the result that their dependence on *Assigned Revenue, Devolution and Grants-in-Aid*, has gone up from 68.34% of *Total Revenue* to 69.97%. The Percentage of *Revenue Expenditure* in *Total Expenditure* has gone up from 58.49% in 1998-99 to 67.00% in 2002-03. Correspondingly, the Percent share of *Capital Expenditure* has gone down.

10.9.3 *On the whole, Local Bodies in the State have not been moving forward in the direction of Fiscal Autonomy*, as revealed by a number of indicators.

10.10.0 The Extent of Financial Decentralization :

10.10.1 The **Table No. 10.5** presents *some important ratios in respect of the extent to which decentralization has been achieved in the State*. Though the State claims to have devolved most of the functions to Local Bodies as envisaged in schedule *XIth and XIIth*, *the position in respect of Financial Decentralization which should have been a necessary concomitant of Functional Decentralization, seems to be far from satisfactory*. In this context, we take three ratios.(i)*Expenditure Decentralization Ratio*,(ii)*Revenue Decentralization Ratio* and (iii) *Fiscal Autonomy Ratio*. The *Expenditure Decentralization Ratio* measures the Percentage of Total Local Spending to Total State Government Spending. The *Revenue Decentralization Ratio* measures the Percent age of Total Tax Revenue of Local Bodies to Total State

Government Tax Revenue. The *Fiscal Autonomy Ratio* measures the Percentage of locally raised resources, both Tax and Non-Tax Revenue, to Total Expenditure of Local Bodies.

10.10.2 *The Expenditure Decentralization Ratio is much higher than Revenue Decentralization in the State, indicating the fact that the State government has been transferring more and more functions to Local Bodies but not devolving adequate funds for the performance of their functions. The Fiscal Autonomy Ratio also has been declining over time, from 28.53% in 1998-99 to 19.31% in 2002-03. This analysis shows that decentralization of functions has not been accompanied by a commensurate decentralization of revenue, and also that Local Bodies themselves are not making concerted efforts in the direction of mobilization of their Tax and Non-Tax Revenue s. Revenue Decentralization is lagging behind Expenditure Decentralization.* The gap between the two needs to be filled up, if *Fiscal Autonomy Ratio* is to be raised to a sizeable magnitude, so that a larger proportion of local expenditure is met by locally raised resources. It needs to be mentioned again that complete matching of *Expenditure Decentralization* and *Revenue Decentralization* is not feasible in a federal set up. A part of the gap has to be met by devolution of funds from the higher levels of government to the lower level, but devolution should improve the Fiscal Autonomy of the Local Government, so as to raise them to the status of Self-Government.

10.11.0 Finances of Urban Local Bodies :

10.11.1 The Constitutional Amendment provides a list of functions which **ULBs** should perform. The general rule has been to assign such functions to ULBs whose benefits are localized. But the Constitutional Amendment has also included such functions in the *XIIth schedule*, which the ULBs have not been performing historically, which have distributional and development role to play and also have spill over effects beyond their respective jurisdictions. Economic Reform that are being introduced in the Country since 1991, have added some new dimensions to the demand for urban infrastructure and urban functions and facilities.

10.11.2 It is a well know fact that municipal services and amenities are chronically short of basic requirements. With present level of resources at their disposal, ULBs are incapable of meeting, leave alone expanding the existing facilities in their charge. The City of Raipur became suddenly the Capital of the New State of Chhattisgarh on first November 2000. It did not have the infrastructure of a Capital City. There has been a sudden jump in its population, putting considerable pressure on existing facilities. The city needs expansion as well as improvement in its existing infrastructure and facilities. The demand for funds is much larger than what the municipal corporation can generate from its own sources.

10.11.3 **Appendix No. 10.2, 10.3, 10.4 & 10.5** given in the appendices present picture of *ULBs Finances* separately for *Municipal Corporations, Municipal Councils* and *Nagar Panchayats*, as well as consolidated *Finances of ULBs* taken as a whole, in the State. We have derived some tables from the data presented in the tables in the appendices, with a view to presenting a synoptic picture of ULBs taken together as well as separately for the 3 types of *ULBs*.

10.11.4 The **Table No. 10.6** presents the *place occupied by ULBs in the Fiscal Scenario of the State*.

10.11.5 The **Table No. 10.6** shows that *ULBs* in the State have very insignificant share in the Public Finances of the Country and the State. Their *Total Receipts Accounted* for 4.53% of *Total State Government Receipts* in 2001-02, declining to 4.50% in 2002-03. On *the Expenditure* side, the picture is different. *Total Expenditure* of *ULBs* accounted for 3.97% of *Total State Expenditure* in 2001-02, increasing to 4.15% in 2002-03. One striking fact which the table reveals is that Revenue Percentages are higher than the Expenditure Percentage, which means that Local Bodies in the State are raising more from Own and Outside Sources, that what they are spending. This is worrisome in view of the deplorable State of affairs of Civic Services. We will make a probe into this fact later on, in a subsequent Chapter when we take up *Finances of ULBs in the State at the Micro Level*.

10.12.0 Finances of Urban Local Bodies In The State :

10.12.1 So far we have discussed the *combined Finances of RLBs and ULBs*. Now we take up the *Finances of ULBs* in the State separately from *Rural Local Bodies*. The **Table No. 10.7** presents this picture.

10.12.2 The **Table No. 10.7** demonstrates the fact that *Own Tax Revenue* of *ULBs* in the State as % of *Total Revenue* has declined from 34.19% in 1998-99 to 27.58% in 2002-03. This implies that *ULBs* in the State have not been mobilizing an increasing proportion of incomes generated in their respective jurisdictions, through *Tax Revenue*. So is the case with *Non-Tax Revenue* which has recorded a steep decline. Accordingly, *Total Own Resources* of *ULBs* as Percentage of their *Total Revenue* has declined from 63.31% in 1998-99 to 39.17% in 2002-03. The Percent share of *Grants-in-Aid, Assigned Revenue and Devolution* taken together, has increased from 33.40% of their *Total Receipts* in 98-99 to 57.23% in 2002-03. This means that more than half of their *Total Resource* come from *Outside Sources*. The *Own Revenue* of *ULBs* could Finance 71.39% of their *Total Expenditure*, an encouraging figure for 1998-99, but declined to 41.50% in 2002-03. *Total Receipts* being higher than *Expenditure*; have given rise to a peculiar situation of *ULBs* shown surpluses in their budgets. *With such a picture of their Finances, ULBs in the State are not moving in the direction of Fiscal Autonomy and Financial Decentralization.*

10.12.3 The **Table No. 10.8** presents the *Surplus/Deficit of Local Bodies, separately for PRIs and ULBs, and also for three types of ULBs.*

10.12.4 The **Table No. 10.8** shows that whereas *PRIs* as a whole have been showing increasing magnitude of *Deficits*, rising from Rs.(-)73.4 crores in 1998-99 to (-) 328.68 crores in 2002-03, *ULBs* have been showing *Surpluses* throughout the period of study. All the *three category* of *ULBs* taken separately have shown *surpluses*. This is a matter of considerable concern. *When ULBs need considerably large amounts of resources to expand and improve their services, appearance of surpluses in their budgets, raises several questions.*

10.12.5 These *Surpluses may not appear* when considered along with the *Outstanding Liabilities* of *ULBs* in the State, amounting to Rs 81.04 crores, as detailed below :-

- | | |
|--|-------------------|
| i) Outstanding loans of the State government | - Rs 15.80 crores |
| ii) LIC loans | - Rs 12.46 crores |
| iii) Borrowings from SUDA | - Rs 52.78 crores |

Of the *Total Liabilities*, nearly 72% are on *Account of Liabilities* of the *Municipal Corporations* and the remaining 28% due to *Municipal Councils* and *Nagar Panchayats*.

10.13.0 Financial Profile of Urban Local Bodies In The State :

10.13.1 Now we present separately the *Profile of Revenue and Expenditure* of *Municipal Corporations, Municipal Councils* and *Nagar Panchayats* in terms of Percentages of certain aggregates.

10.13.2 The data given in **Table No. 10.9, 10.10 and 10.11** relating to *Finances* of *Municipal Corporations, Municipal Councils* and *Nagar Panchayats* are derived from the tables given in the appendices. We get a gloomy picture of municipal finances in the State. The main features of finances of ULBs in the State as revealed in the tables, are the following:

- (i) The Percent share of *Own Tax Revenue* in *Total Revenue* of *all the three type of ULBs* is declining over time,
- (ii) The Percent share of *Non-Tax Revenue* in the *Total Revenue* has also been declining,
- (iii) *Total Own Revenue* as Percent of *Total Revenue* has been declining and the decline is more steeper in regard to *Municipal Corporations*,
- (iv) The Percentage share of *Assigned Revenue, Devolution* from the State and *Grants-in-Aid*, has shown an increase, indicating increasing dependence of Local Bodies on *Outside Sources*,

- (v) **Total Own Revenue** as Percentage of **Total Expenditure**, though fairly high has shown a gradual decline, indicating deterioration in respect of **Financial Decentralization and Fiscal Autonomy**,
- (vi) **Total Revenue Expenditure** as Percent of **Total Expenditure** has increased in respect of **Municipal Corporations** but gradually declined in respect of **Municipal Councils** and **Nagar Panchayat(except 2002-03)**.
- (vii) **Capital Expenditure** as Percentage of **Total Expenditure** has been declining in respect of **Municipal Corporations** but has been increasing in respect of **Municipal Councils** and **Nagar Panchayats (except 2002-03)**. This is to be welcomed, since increase in **Capital Expenditure** builds up and improves infrastructure in urban areas. But it is disheartening to note that the Percentage has been declining over time in respect of **Municipal Corporations** which exhibit big shortfalls on this front,
- (viii) **In respect of all the three types of ULBs, the Total Receipts have been higher than their Total Expenditure** . This cannot be justified against the background of unsatisfactory and poor condition of municipal services and infrastructure which demand more resources, both for expansion and qualitative improvement. This needs a through probe as to how the situation has arisen.

10.14.0 A Macro View Of Transfers Of Resources To Urban Local Bodies :

10.14.1 In every federation, Transfers from Higher Level Governments to the Lower Level, are indispensable. Transfers from the Central Government to the States, on the recommendations of the Central Finance Commission, the Planning Commission and the Central Ministries, have been increasing over time and account for nearly 5% of GDP of the Country. What place these transfers occupy in Local Finances. An attempt is made in this section to address the issue.

10.14.2 Transfers to **ULBs** assume the form of **Assigned Revenue** in respect of such **Taxes** which legitimately belong to the domain of Local Bodies but which are levied and collected by the State Government, devolution of funds on the recommendations of the State Finance Commission, Grants-in-Aid from the State Government, Loans and Other Transfers. These transfers are a normal feature of the Federal System of Governance.

10.14.3 We have analyzed the contribution of such *Transfers* to the *Local Receipts and Expenditure* of different types of *ULBs*, separately. Now we analyze the position of these transfers in the Public Finances of the State and also of the *ULBs* taken as a whole, to present the macro picture. The **Table No. 10.12** provides such data .

10.14.4 As Percent of *GSDP from Non-Primary* in the State, *Total Transfers* accounted for 0.38% in 1998-99, increasing to 0.81% in 2002-03. It is heartening to see a in the Percentage during the period under study. Despite this increase, they constitute a very small proportion of *GSDP from Non-Primary*. Such Transfers from the Center to the States from all sources, constitute nearly 5% of the *GDP of the Country*. Compared to this figure, less than 1% of *GSDP* seems to be very small in respect of *ULBs* in the State.

10.14.5 As a Percentage of *Total Revenue* of the State Government, these *Transfers* accounted for 2.27% in 2001-02, increasing to 2.74% in 2002-03, and as Percent of *Total Expenditure* of the State Government, constituted 2.31% in 2001-02, increasing to 2.67% in 2002-03. These are very low Percentages.

10.14.6 Let us look at the place of *Transfers* in the *Total Finances* of *ULBs* in the State. These *Transfers* constituted 36.69% of *Total Receipts* of *ULBs* in the State in 1998-99, increasing to 60.83% in 2002-03. As Percentage of *Total Expenditure* of *ULBs*, these transfers accounted for 41.37% in 1998-99, increasing to 64.43% in 2002-03%. The role of such *Transfers* in the *Total Receipts and Total Expenditure* of *ULBs* in the State is significant, as more than 50% of *Total Receipts* and also of *Total Expenditure*, is accounted for by *Transfers* from the State Government in different forms.

10.14.7 There is a view-point that increasing Transfers make encroachment in local autonomy and also kill initiative of Local Bodies to raise their Own Resources .There may be some truth in this view-point. But the adverse effects of transfers can be reduced by linking them with incentive to mobilize Own Resources. What is required is considerable freedom to Local Bodies in the utilization of such transfers, according to their priorities. In no case, such transfers should become a substitute of Own Resources of Local Bodies. In a federal system, transfers play an important role in reducing vertical and horizontal imbalances in the State. *The system of Transfers need to be progressive, transparent and purposeful, providing sufficient incentive to Local Bodies to raise their Own Resources* . We would come back to these issues in a subsequent Chapter dealing with grants-in-aid to *ULBs*

10.15.0 Conclusion :

10.15.1 *The Poor Financial Position of the Urban Government in terms of their Own Resources may be mainly due to the following factors.*

i	<i>Narrow Tax Base of ULBs and also the less elastic nature of Local Taxes,</i>
ii	<i>Limited or zero implementation of User-Charges against services they provide,</i>
iii	<i>High incidence of Administrative and Establishment Charges,</i>
iv	<i>Inadequate Efforts made by Local Bodies in the direction of mobilization of their Own Resource.</i>

10.15.2 As a consequence of poor financial condition, ULBs to a large extent have to depend upon the State Government, particularly for financing their capital investment, and a large number of smaller ULBs also depend upon the State Government even for meeting their current expenditure.

10.15.3 In a subsequent Chapter, we would be discussing the nitty-gritty of different modes of financing city infrastructure and their feasibility, and also issues relating to *Restructuring Of Their Finances*.

Table No. 10.1
**Finances Of Local Bodies In Relation To
Central And State Finances
(1998-99 To 2002-03)**

SNo.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Total Revenue of Local Bodies in the State as % of Total Receipts of the Central Government	0.13	0.12	0.15	0.12	0.11
2.	Total Expenditure of Local Bodies as % of Total Expenditure of the Central Government	0.13	0.19	0.24	0.21	0.21
3.	Own Revenue of Local Bodies as % age of Own Revenue of the State Government	-	-	-	6.75	5.15
4.	Total Revenue of Local Bodies as % age of Total Revenue of the State Government	-	-	-	9.51	9.00
5.	Own Tax Revenue of Local Bodies as % age of own Tax Revenue of the State Government	-	-	-	4.19	3.53
6.	Total Expenditure of Local Bodies as % age of Total Expenditure of State Government	-	-	-	14.29	13.68
7.	Revenue Expenditure of Local Bodies as % of Revenue Expenditure of State Government	-	-	-	10.55	10.62
8.	Capital Expenditure of Local Bodies as % of Capital Expenditure of the State Government	-	-	-	55.30	35.28

Source – Data relating to Revenue and Expenditure of Local Bodies are taken from memorandum for **XIIth** Finance Commission submitted by C.G. Govt. department of finance and the data of State and Central Finances from the RBI documents and data of State from budget in brief.

Table No. 10.2
**Revenue and Expenditure Of Local Bodies
 Both Rural And Urban As Percent Of GSDP
 (1998-99 To 2002-03)**

SNo.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Total Receipts of Local Bodies	2.07	2.05	2.57	1.78	1.78
2.	Total Expenditure of Local Bodies	2.30	2.24	3.29	2.65	2.77
3.	Total Tax Revenue of Local Bodies	0.25	0.20	0.28	0.28	0.26
4.	Total Own Revenue	0.66	0.57	1.00	0.62	0.54
5.	Total Revenue Expenditure	1.34	1.28	2.06	1.75	1.86
6.	Total Capital Expenditure	0.95	0.96	1.22	0.89	0.92

Table No. 10.3
**1. Revenue and Expenditure Of ULBs As Percent Of Non-Primary GSDP
 (1998-99 To 2002-03)**

SNo.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Total Revenue	1.05	1.07	1.87	1.40	1.34
2.	Total Expenditure	0.93	0.82	1.30	1.21	1.26
3.	Total Own Tax Revenue	0.36	0.29	0.40	0.44	0.37
4.	Total Own Revenue	0.66	0.56	1.17	0.70	0.52
5.	Capital Expenditure	0.31	0.30	0.46	0.39	0.42

2. Revenue And Expenditure Of PRIs As Percent GSDP Of Primary Sector

SNo.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Total Revenue	4.00	3.75	3.91	2.39	2.68
2.	Total Expenditure	4.88	4.71	7.06	4.89	5.81
3.	Total Own Tax Revenue	0.04	0.03	0.05	0.04	0.04
4.	Total Own Revenue	0.64	0.59	0.69	0.50	0.56

Table No. 10.4
Fiscal Autonomy Of Local Bodies In The State
(1998-99 To 2002-03)

(In %)						
SNo.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Total Own Revenue as % of Total Expenditure	28.53	25.79	30.49	23.44	19.31
2.	Total Own Revenue as % of Revenue Expenditure	48.77	45.02	48.56	35.34	28.82
3.	Total Receipts as % of Total Expenditure	90.10	91.83	78.26	67.54	64.30
4.	Tax Revenue as % of Total Receipts	11.93	9.67	10.97	15.82	14.57
5.	Non-Tax Revenue as % of Total Receipts	19.73	18.41	27.99	18.88	15.46
6.	Own Revenue as % of Total Revenue	31.66	28.08	38.96	34.70	30.03
7.	Assignments, devolution and grants as % of Total Revenue	68.34	71.92	61.04	65.30	69.97
8.	Revenue Expenditure as % of Total Expenditure	58.49	57.28	62.79	66.31	67.00
9.	Capital Expenditure as % of Total Expenditure	41.51	42.72	37.21	33.69	33.00

Table No. 10.5
Ratios of Decentralization And Fiscal Autonomy
In Respect Of Local Bodies In The State
(1998-99 To 2002-03)

SNo.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Expenditure Decentralization Ratio	-	-	-	14.29	13.68
2.	Revenue Decentralization Ratio	-	-	-	4.19	3.53
3.	Fiscal Autonomy Ratio	28.53	25.79	30.49	22.44	19.31

Table No. 10.6
Revenue And Expenditure Of ULBs In The State
Percent Of Central And State Govt. Revenue And Expenditure
(1998 -99 to 2002 - 03)

SNo.	Indicators	Central Government		State Government	
		1998-99	2002-03	2001-02	2002-03
1	2	3	4	5	6
1.	Total Receipts of ULBs of the State as % of Receipts of Central Government / State Government	0.05	0.06	4.53	4.50
2.	Total Expenditure of Urban Local Bodies as % of Center/State Government Expenditure	0.05	0.06	3.97	4.15

Table No. 10.7
Finances Of ULBs In The State
(1998-99 To 2002-03)

SNo.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Own Tax Revenue as % of Their Total Revenue	34.19	26.94	21.70	31.47	27.58
2.	Own Non-Tax Tax Revenue As % of Total Revenue	29.12	25.50	40.94	18.39	11.60
3.	Total Own Revenue as % of Total Revenue	63.31	52.44	62.64	49.86	39.17
4.	Assigned Revenue +Devolution as % of Total Revenue	7.87	8.74	7.92	9.63	17.59
5.	Grants-in-Aid as % of Total Revenue	25.53	36.41	26.17	37.16	39.64
6.	Total Own Revenue as % of Total Expenditure	71.39	69.37	90.08	57.83	41.50
7.	Total Receipts as % of Total Expenditure	112.76	132.29	143.80	115.98	105.93
8.	Revenue Expenditure as % of Total Expenditure	66.52	63.11	64.55	67.64	66.96
9.	Capital Expenditure as % of Total Expenditure	33.48	36.89	35.45	32.36	33.04

Table No. 10.8
Surplus/Deficit Of Local Bodies In The State
(1998-99 To 2002-03)

(In Crores Rs)

SNo.	Local Bodies	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	PRIs	-73.40	-89.34	-267.74	-288.47	-328.68
2.	ULBs	18.64	42.87	91.68	34.69	15.76
3.	Municipal Corporations	2.61	20.91	65.30	9.18	-11.42
4.	Municipal Councils	10.65	16.07	17.95	17.00	23.07
5.	Nagar Panchayats	5.38	5.89	8.43	8.51	4.11

Table No. 10.9
Financial Profile Of Municipal Corporation
(1998-99 To 2002-03)

(In %)

SNo.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Own Tax Revenue as % of Total Revenue	37.47	24.39	19.29	33.69	30.38
2.	Own Non-Tax Revenue as % of Total Revenue	32.43	27.20	49.29	17.97	9.28
3.	Total Own Revenue as % of Total Revenue	69.90	51.59	68.58	51.66	39.66
4.	Total Own Revenue as % of Total Expenditure	71.57	64.07	98.83	54.71	37.32
5.	Assigned Revenue and Devolution as % of Total Revenue	3.77	6.73	5.50	5.64	13.28
6.	Grants-in-Aid as % of Total Revenue	23.86	40.17	23.19	39.71	44.24
7.	Revenue Expenditure As % of Total Expenditure	70.00	67.14	69.75	76.24	74.11
8.	Capital Expenditure as % of Total Expenditure	30.00	32.86	30.25	23.76	25.89
9.	Total Revenue as % of Total Expenditure	102.39	124.19	144.12	105.91	94.10

Table No. 10.10
Financial Profile Of Municipal Councils
(1998-99 To 2002-03)

(In %)

SNo.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Own Tax Revenue as % of Total Revenue	28.15	33.68	28.99	28.26	22.39
2.	Own Non-Tax Revenue as % of Total Revenue	24.45	22.55	20.17	18.51	15.65
3.	Total Own Revenue as % of Total Revenue	52.60	56.23	49.15	46.77	38.04
4.	Total Own Revenue as % of Total Expenditure	74.04	83.35	68.14	64.60	54.69
5.	Assigned Revenue and Devolution as % of Total Revenue	21.40	14.60	16.74	21.66	31.19
6.	Grants-in-Aid as % of Total Revenue	21.78	25.43	30.07	28.27	26.39
7.	Revenue Expenditure As % of Total Expenditure	54.90	51.73	49.08	41.77	43.15
8.	Capital Expenditure as % of Total Expenditure	45.10	48.27	50.99	58.23	56.85
9.	Total Revenue as % of Total Expenditure	140.77	148.21	138.64	138.13	143.76

Table No. 9.11
Financial Profile Of Nagar Panchayats
(1998-99 To 2002-03)

(In %)

S. No.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Own Tax Revenue as % of Total Revenue	25.40	23.83	23.60	25.02	22.61
2.	Own Non-Tax Revenue as % of Total Revenue	16.99	23.52	21.93	20.79	16.47
3.	Total Own Revenue as % of Total Revenue	42.39	47.35	45.53	45.81	39.08
4.	Total Own Revenue as % of Total Expenditure	63.28	68.82	71.41	68.38	47.31
5.	Assigned Revenue and Devolution as % of Total Revenue	5.46	4.87	5.72	6.32	7.20
6.	Grants-in-Aid as % of Total Revenue	45.46	43.80	42.73	42.13	46.61
7.	Revenue Expenditure as % of Total Expenditure	59.52	65.43	61.43	53.04	60.28
8.	Capital Expenditure as % of Total Expenditure	40.48	34.57	38.57	42.96	39.72
9.	Total Revenue as % of Total Expenditure	149.27	145.34	156.84	149.28	121.07

Table No. 10.12
A Macro View Of Total Transfers To ULBs In The State
(1998-99 To 2002-03)

(In Lakhs Rs.)

SNo.	Transfers to ULBs	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1	Municipal Corporations	3361	5197	6703	7949	10998
2	Municipal Councils	1743	2162	3275	3278	4696
3	Nagar Panchayats	939	994	1267	1397	1439
	Total Transfers	6043	8353	11245	12624	17133
i	Total Transfers as % of GSDP from Non-Primary	0.38	0.52	0.70	0.70	0.81
ii	As % of Total Receipts of The State Government	-	-	-	2.27	2.74
iii	As % of Total Expenditure of State Government	-	-	-	2.31	2.67
iv	As % of Total Receipts of ULBs	36.69	47.56	37.36	50.14	60.83
v	As % of Total Expenditure of ULBs	41.37	62.92	53.73	58.15	64.43

Appendix No. 10.1
Combined Finances Of Local Bodies In Chhattisgarh
(1998-99 To 2002-03)

(In Crores Rs.)

SNo.	Indicators	Rural and ULBs				
		1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Own Tax Revenue	59.44	50.50	69.54	83.55	82.08
2.	Own Non-Tax Revenue	98.28	96.11	117.40	99.72	87.13
3.	Total Own Revenue	157.72	146.61	246.93	183.27	169.21
4.	Assignments & Devolution	26.66	29.30	38.03	38.68	64.22
5.	Grants-in-Aid from The State Govt.	157.49	188.55	188.66	161.92	181.36
6.	Others, (Loans, Grant from Cent. Govt & Centrally Sponsored Schemes)	156.28	157.67	160.26	144.27	148.70
7.	Total Other Revenue	340.42	375.52	386.96	344.87	394.29
8.	Total Receipts	498.14	522.13	633.89	528.13	563.50
9.	Revenue Expenditure	323.41	325.68	508.56	518.52	587.20
10.	Capital Expenditure	229.49	242.92	301.38	263.39	289.22
11.	Total Expenditure	552.90	568.60	809.95	781.91	876.42

Source: Annexure to the memorandum, submit to the *XIIth* Finance Commission, Finance department govt, of Chhattisgarh, Nov 2003.

Appendix No. 10.2
Finances Of Municipal Corporations
(1998 -99 To 2002 -03)

(In Lakhs Rs.)

S No.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Own Tax Revenue	4183	2618	4115	5539	5537
2.	Own Non-Tax Revenue	3621	2920	10514	2955	1691
3.	Total Own Revenue	7804	5538	14629	8494	7228
4.	Assignments & Devolution	421	722	1173	928	2420
5.	Grants-in-Aid From The State Govt.	2664	4312	4947	6530	8064
6.	Others, (Loans, Grant from Cent. Govt & Centrally Sponsored Schemes)	276	163	583	491	514
7.	Total Other Revenue	3361	5197	6703	7949	10998
8.	Total Receipts	11165	10735	21332	16443	18226
9.	Revenue Expenditure	7633	5804	10324	11837	14354
10.	Capital Expenditure	3271	2840	4478	3688	5014
11.	Total Expenditure	10904	8644	14802	15525	19368

Source: Annexure to the memorandum, submit to the *XIIth* Finance Commission,
Finance department Govt, of Chhattisgarh, Nov 2003

Appendix No. 10.3
Finances Of Municipal Councils
(1998-99 To 2002-03)

(In Lakhs Rs.)

SNo.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Own Tax Revenue	1035	1664	1867	1740	1697
2.	Own Non-Tax Revenue	899	1114	1299	1140	1186
3.	Total Own Revenue	1934	2778	3166	2880	2883
4.	Assignments & Devolution	787	721	1078	1334	2364
5.	Grants-in-Aid From The State Govt.	801	1256	1937	1741	2000
6.	Others, (Loans, Grant from Cent. Govt & Centrally Sponsored Schemes)	155	185	260	203	332
7.	Total Other Revenue	1743	2162	3275	3278	4696
8.	Total Receipts	3677	4940	6441	6158	7579
9.	Revenue Expenditure	1434	1724	2277	1862	2275
10.	Capital Expenditure	1178	1609	2369	2596	2997
11.	Total Expenditure	2612	3333	4646	4458	5272

Source - Same Appendix No. 10.2

Appendix No. 10.4
Finances Of Nagar Panchayats
(1998-99 To 2002-03)

(In Lakhs Rs.)

S No.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Own Tax Revenue	414	450	549	645	534
2.	Own Non-Tax Revenue	277	444	510	536	389
3.	Total Own Revenue	691	894	1059	1181	923
4.	Assignments & Devolution	89	92	133	163	170
5.	Grants-in-Aid From The State Govt.	741	827	994	1086	1101
6.	Others, (Loans, Grant from Cent. Govt & Centrally Sponsored Schemes)	109	75	140	148	168
7.	Total Other Revenue	939	994	1267	1397	1439
8.	Total Receipts	1630	1888	2326	2578	2362
9.	Revenue Expenditure	650	850	911	985	1176
10.	Capital Expenditure	442	449	572	742	775
11.	Total Expenditure	1092	1299	1483	1727	1951

(Source : Same Appendix No. 10.2)

Appendix No. 10.5
Combined Finances Of ULBs In The State
(1998-99 To 2002-03)

(In Lakhs Rs.)

SNo.	Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6	7
1.	Own Tax Revenue	5632	4732	6531	7924	7768
2.	Own Non-Tax Revenue	4797	4478	12323	4631	3266
3.	Total Own Revenue	10429	9210	18854	12555	11034
4.	Assignments & Devolution	1297	1535	2384	2425	4954
5.	Grants-in-Aid From The State Govt.	4206	6395	7878	9357	11165
6.	Others, (Loans, Grant from Cent. Govt & Centrally Sponsored Schemes)	540	423	983	842	1014
7.	Total Other Revenue	6043	8353	11245	12624	17133
8.	Total Receipts	16472	17563	30099	25179	28167
9.	Revenue Expenditure	9717	8378	13512	14684	17805
10.	Capital Expenditure	4891	4898	7419	7026	8786
11.	Total Expenditure	14608	13276	20931	21710	26591

(Source : Same Appendix No. 9.2)

Appendix No. 10.6
**Per Capita Revenue and Expenditure Of ULBs In The State
(2001-02)**

(Rs.)

SNo.	Indicators	Municipal Corporation	Municipal Council	Nagar Panchayat
1	2	3	4	5
1.	Own Tax Revenue	198.82	179.94	88.36
2.	Own Non-Tax Revenue	106.07	117.89	73.42
3.	Total Own Revenue	304.88	297.83	161.78
4.	Assignments & Devolution	33.31	137.95	22.33
5.	Grants-in-Aid From The State Govt.	234.39	180.04	148.77
6.	Others, (Loans, Grant from Cent. Govt & Centrally Sponsored Schemes)	17.62	20.99	20.27
7.	Total Other Revenue	285.32	338.99	191.37
8.	Total Receipts	590.20	636.81	353.15
9.	Revenue Expenditure	424.87	192.55	134.93
10.	Capital Expenditure	132.38	268.46	101.64
11.	Total Expenditure	557.25	461.01	236.58

(Source: Calculated from the data provided in annexure to the memorandum, submit to the XIIth Finance Commission. Finance department Govt. of Chhattisgarh, Nov 2003.and the Census Report, 2001)