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FINANCING URBANISATION: A CASE STUDY OF MEERUT MUNICIPAL CORPORATION

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Abstract: The paper reviews the role of the municipal corporation in financing the urbanization process, in general, and Meerut Municipal Corporation (MMC) in particular. It discusses the financial position of Meerut Municipal Corporation by analysing the revenues and expenditures of the local government. The corporation receives income from tax and non-tax sources (rental income, fees, interest, user charges), transfers from upper tiers of government, and grants as recommended by the State Finance Commission (SFC) and Central Finance Commission (CFC). The paper examines the share of each item in total income and finds that for financing the rapidly increasing urban population, MMC is heavily dependent on SFC transfers. Transfers from the upper tiers of the government act to fill up the vertical imbalance. The growth rate of MMC's own sources of revenue is very low. The High-Power Expert Committee formulated under the chairmanship of Dr Isher J.Ahluwalia in 2011 emphasized on increasing the corporation's own revenue for financing the increased urban amenities due to rapid urbanisation. A large proportion of MMC's expenditure is revenue expenditure which is unproductive in nature. Whatever capital expenditure is being undertaken, is the one that is funded by central and state governments. So, the burgeoning urbanization is actually being financed by the centre and state governments, not by the local government, as they are short of funds to supply adequate urban facilities. The paper mentions some policies that have been introduced by the government. MMC has not introduced these policy measures yet. The paper concludes with a note to introduce measures to increase its revenue.

Index Terms-Municipal Corporation, SFC, MMC, Urbanisation

INTRODUCTION

Towns and cities contribute substantially to the economic development of the country. Cities are the real growth engines and generators of national wealth that nurture fundamental economic expansion or stagnation (Jacob, 1984). The Neo-classical economists suggest urban centres as drivers of regional and national economic growth. Expansion in economic activities has been the main reason for the rapid growth of the urban population. India's National Commission on Urbanisation Report (1988) suggested the role of cities as engines of economic growth, centres of knowledge and innovation, and sources of formal and informal employment (Mohanty et. al., 2007). The growth of urbanization necessitates providing basic urban amenities including better means of communication, housing, health, education, water supply, sanitation etc. The shortage of infrastructure acts as an obstacle in the growth process (Singh & Singh, 2015). The urban population is putting pressure on land, infrastructure, health and sanitation facility etc., so the role of local government becomes vital and significant for achieving a sustainable solution to the growing needs of the increased population. Urbanisation plays a key role in economic development. Rapid urbanization in almost all the countries of the world has led the authorities to strengthen the city infrastructure and civic amenities. India is also turning from a rural economy to an urbanized country. In rapidly developing cities, large public investment is required to improve the quality of life of the people and maintain long-term economic growth.

In India, more than 30% of the Indian population lives in cities and according to the UN State of World Population Report (2007), about 41% of India's population will be residing in the urban area by the end of 2030. In 1901, only 10 per cent population lived in the urban centre, which increased to 17.29% in 1951. In the census of 2001, it was 27.8 per cent and 2011 census data showed that 31.16% population lived in urban agglomeration. About 2/3 urban population lived in the 465 cities of the country (census 2011). As per the census 2011, the total urban population of 377 million lives in about 7935 towns. The number of statutory towns[i] increased from 3799 in 2001 to 4041 in 2011. Besides, census towns[ii] have also shown an increase from 1362 in 2001 to 3894 in 2011. With growing urbanization, cities have become a pivot centre of the economic growth of a nation. Rapid urbanization is creating an immediate need to provide the best urban amenities including infrastructure, housing, social services, and solid waste management.

In 2015, United Nations member nations adopted the 2030 Agenda for Sustainable Development to bring peace and prosperity to the people of the world. 17 Sustainable Development Goals (SDGs) were recognized to achieve good health and education, reduce poverty and inequality, spur economic growth, tackle climate change, and preserve our water bodies and forests. In these 17 SDGs, goal 11 focuses on making cities and human settlements safe, resilient and sustainable. This goal also sets out some targets including slum development, upgrading the transport system, improving air quality and waste management and protecting cultural heritage. The goal and targets are thought to be achieved by the state governments with the cooperation of urban governments.

The responsibility to deliver these services to the urban community is held by the urban local government: Municipal Corporation, Municipality and Nagar Panchayat (depending upon the size of the population). The local government is responsible for providing basic services like water supply, solid waste management, sewerage treatment, street lighting, etc., to the people in the area. Households and private enterprises are the constituents of urban communities and also the owners and operators of economic activities. If the municipal government is unable to deliver adequate infrastructure and support services to the urban people, orderly development may be impaired. The government of India has set certain standards to supply these services in urban areas. Rapid urbanization is posing enormous challenges to the third-tier government. The most important one is that these urban governments in the federal structure have not been empowered in respect of the availability of their financial resources. The 74th Constitution Amendment Act 1992 has empowered these urban governments with various sources of revenue, including tax and non-tax revenue, and transfers from upper tiers of the government. Still, the finances of these Urban Local Bodies (ULBs) in India are in a state of decay. There is a growing mismatch between their responsibilities and revenues. Over a period of time, the functional responsibilities of municipal governments have expanded rapidly, but their resource base is considerably low.

OBJECTIVES AND DATA SOURCES OF THE STUDY

The present paper focuses on the revenue sources of municipal corporations to finance the services for the increased urban population. In particular, it analyses the revenue sources of Meerut Municipal Corporation to supply basic and modern urban amenities to the ever-expanding urban population of Meerut city. The paper also analyses the expenditure undertaken by the Meerut Municipal Corporation under various state and central government schemes, necessary to handle speedy urbanization. The period covered for the analysis is from 2013-14 to 2020-21. The data have been obtained from the office of Meerut Municipal Corporation.

REVENUE STRUCTURE AND SOURCES OF REVENUE OF MUNICIPAL CORPORATION

To undertake various functions (a total of 18 functions) as assigned in the 12th schedule of the Constitution of India, the ULBs are given various sources of revenue. The financial resources of municipal bodies play a crucial role in the productive functioning of the third tier of the federal structure. RBI (2007) broadly categorized the following revenue sources of municipal corporations:

- **Tax revenue:** property tax, vacant land tax, octroi, tax on animals, taxes on carriages and carts, advertisement tax.
- **Assigned (shared) revenue:** profession tax, a surcharge on stamp duty, entertainment tax, and motor vehicles tax.
- **Non-tax revenue:** municipal fees, sale and hire charges, user charges, and lease amounts.
- **Other receipts:** sundry receipts, lapsed deposits, fees, fines and forfeitures, Law charges costs recovered, rent on tools and plants, miscellaneous sales.
- **Grants-in-aid:** Two types of grants are given to the third tier of the government from the central and state governments. These are: tied and untied grants. Tied grants are tied with various projects, programmes and schemes such as MNREGA, Swachch Bharat Mission, Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and so on, funds obtained as recommended by state finance commission and central finance commission. Untied grants are given to compensate for the loss of income and some specific transfers.
- **Borrowings:** Loans undertaken by the local authorities for capital works etc. mainly from LIC, state and central government banks and municipal bonds in select cases.

SOURCES OF REVENUE OF MEERUT MUNICIPAL CORPORATION

Revenue sources of the Meerut Municipal Corporation (MMC) are classified into revenue receipts and capital receipts. Revenue receipts include tax and non-tax revenue. Tax revenue is further divided into own tax revenue and shared taxes (the tax receipts which are shared between the state government and municipal corporation). The main source of the own tax revenue of MMC has been property tax which is a composite tax of house tax, water tax and sewer tax. Other sources of own tax revenue are advertisement tax and show tax, but the revenue obtained from these taxes is very meagre. Moreover, these taxes have been submerged into GST after its implementation. Shared tax constitutes mainly a 2% surcharge on stamp duty from which the MMC collects a sizeable revenue. Non-tax revenue comprises rental income, parking fees, water and sanitation charges, license fees (a total of 39 items come under the purview of license fees in MMC), user charges, income from road cutting, interest income, fines and charges concerning the performance of statutory and regulatory functions (Jain and Singh, 2022). MMC largely depends upon transfers from the State Finance Commission (SFC) and grants from state governments, mainly intended to compensate for the mismatch of functions and finance.

Capital receipts include grants from Central Finance Commission (CFC) and funds obtained under various central and state government schemes like Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Swachch Bharat Mission (SBM), Atal Mission for Rejuvenation and Urban Transformation (AMRUT) Scheme and so on. To cope with burgeoning urbanization, the Government of India launched JNNURM in 2005 with a focus on provision for the urban poor including housing, water supply and sanitation, urban transport and road networks etc. The Ministry of Housing and Urban Poverty Alleviation (MoHUPA) and the Ministry of Urban Development administered the mission. The mission granted 100 per cent central assistance to the implementing agencies i.e. Urban Local Bodies and parastatal agencies which could deploy these funds for implementing the projects. A total of 63 cities across the country were covered under JNNURM in which Meerut was also one of them. The Mission continued till 2014 and later it was replaced by AMRUT in 2014. AMRUT is a modified form of JNNURM which also focuses on solving the problem of water supply, sewage, stormwater drains, transportation and development of parks.

Table 1: Total Receipts of Meerut Municipal Corporation (figures in lakh)

Years	Own Tax Revenue	Own non-tax revenue	Shared tax receipts	Grants from SFC	Grants from CFC	Transfer from Central Govt	Total Receipts
	1	2	3	4	5	6	1+2+3+4+5
2013-14	2400.92 **(7.73)**	1281.27 **(4.13)**	2704.12 **(8.72)**	15257.43 **(49.15)**	3516.4 **(11.33)**	5879.6 **(18.94)**	31039.74 **(100)**
2014-15	2342.22 **(1.35)**	711.2 **(.41)**	2831.29 **(1.63)**	17118.16 **(9.85)**	1126.69 **(.65)**	149744 **(86.12)**	173873.56 **(100)**
2015-16	2883.39 **(11.41)**	876.94 **(3.47)**	2943.83 **(11.65)**	15337.63 **(60.69)**	3228.72 **(12.78)**	****	25270.51 **(100)**
2016-17	2775.63 **(9.81)**	881.6 **(3.12)**	2430.18 **(8.59)**	15894.13 **(56.2)**	3444.31 **(12.18)**	2857.03 **(10.1)**	28282.88 **(100)**
2017-18	2982.6 **(9.51)**	1513.43 **(4.83)**	2363.6 **(7.54)**	15187.87 **(48.43)**	7707.45 **(24.58)**	1603.21 **(5.11)**	31358.16 **(100)**
-2018-19	3712.25 **(12.65)**	1335.81 **(4.56)**	816.18 **(2.78)**	15463.04 **(52.73)**	4970.14 **(16.95)**	3027.52 **(10.32)**	29324.94 **(100)**
2019-20	3798.78 **(11.71)**	1693.46 **(5.21)**	166.62 **(.51)**	19514.84 **(60.15)**	6585.19 **(20.29)**	683.91 **(2.11)**	32442.8 **(100)**
2020-21	3948.34 **(11.78)**	1969.62 **(3.49)**	153.64 **(.49)**	20228 **(60.34)**	7200 **(21.48)**	25.45 **(.08)**	33525.05 **(100)**

Source: Budget documents of Meerut Municipal Corporation for various years
**** Not given in the budget
Values in parentheses show the percentage share of each source of revenue out of the total revenue.

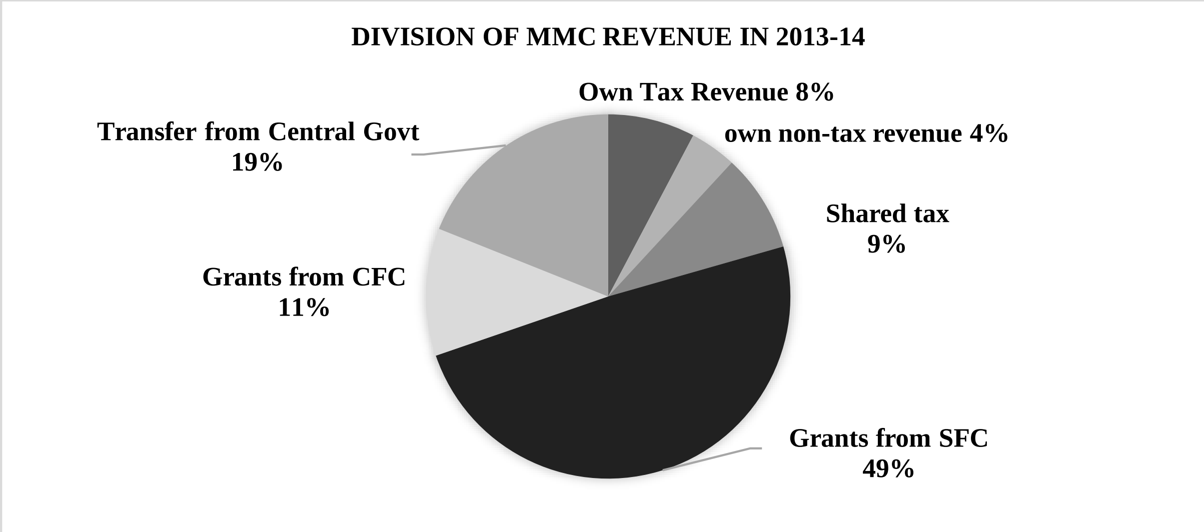
Own sources of revenue of municipal corporations include own tax and non-tax revenue. From table 1, it is evident that the own revenue of MMC constitutes a very small proportion of total revenue. Property tax is the main constituent of the own tax revenue of MMC but its collection is much less due to several factors viz., undervaluation of the properties, mismanaged registers, inadequate coverage of properties, multiple outdated exemptions, sub-optimal tax ratios etc. Almost 80% to 90% of total revenue is obtained from the higher tiers of government either in the form of shared revenue or in the SFC and CFC grants or central government transfers. This shows a high dependency of municipal government on higher levels of government.

To tackle the challenges of rapid urbanization, the MMC needs to deliver adequate urban amenities, but there are certain roadblocks, most important one is the scarcity of own funds to finance the increased responsibility of urbanization. Fiscal transfers are to fill the gaps between revenue and expenditure. Increasing urbanization would be successful only if the urban government would be self-sufficient to finance the expenditure from their own resources.

The population of Meerut city is expanding from 11.5 lakh in 2001 to 14.3 lakh in 2011 and in 2025 it is estimated to increase by 18.75 lakh (World Population Review). For the increasing population, investment in urban amenities including infrastructure, housing, solid waste management, drinking water, sewerage treatment, and street lighting is necessary so that the urban population may live a happy life. Since the municipal government is in close proximity to the local people, its role in the city’s development is significant. But it requires that the urban government must be financially stable. To make the municipal corporation self-reliant, the best way is to improve property tax collection by broadening the tax base, improving the tax collection process and enhancing enforcement.

Table 1 shows that the share of property tax in total revenue is meagre. Necessary efforts are required to raise income from non-tax revenue sources as user charges are based on the benefit principle. They act as signals of the scarcity value to consumers (Bird and Rao,2011). The municipal government may charge fees for the services it provides to the people and thereby increasing its income from non-tax sources. If satisfactory services are given to the consumers, they are ready to pay for them. Ideally, own revenue sources should be sufficient enough to enable the sub-national government to finance the services provided primarily for the benefit of the local community (Bird,2010). It implies that the urban government must be accountable for financing the expenditure for the development of the city.

The High-Power Expert Committee (HPEC) also known as the Expert Committee on Indian Urban Infrastructure and Services, set up under the chairmanship of Isher J. Ahluwalia, found that Indian cities are weak in terms of raising their own revenue. They have been getting a higher allocation of funds from centre and state governments, showing their dependency on the upper tier of the government. The committee emphasised strengthening the local self-government with clear functions, independent financial resources, and the power to take investment decisions.



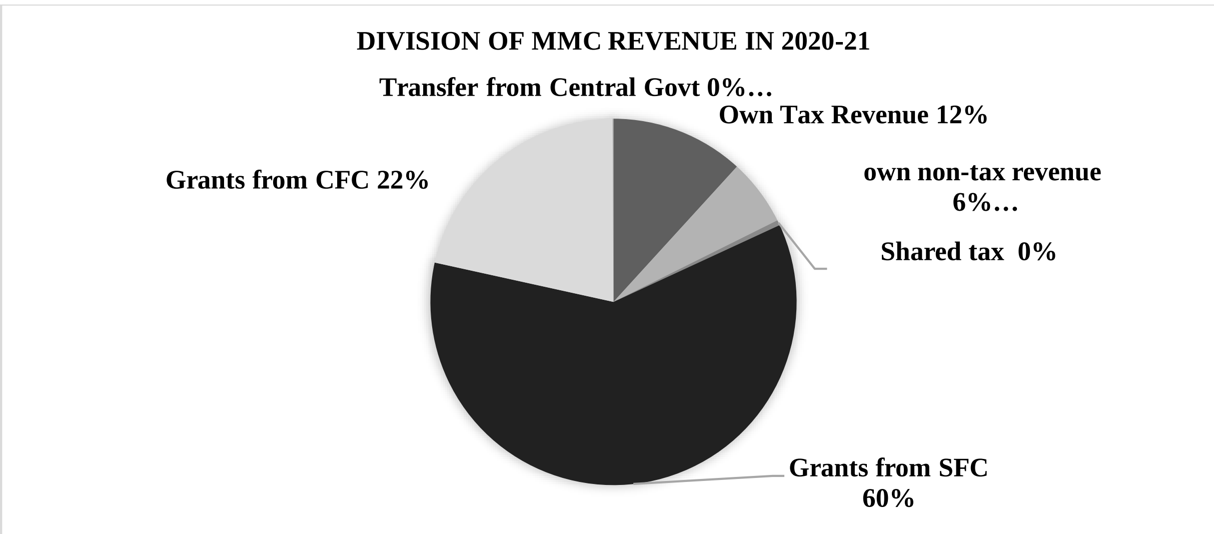


Figure 1: Comparative Share of Sources of Revenue of MMC

Graph 1 shows that the SFC transfers constitute the biggest share of the total revenue of MMC and it is increasing over the study period showing a heavy dependency on SFC for funds. State Finance Commission acts to maintain vertical balance.

Table 2: Total Own Revenue of MMC and its Growth Rate (figures in lakh)

Year	Property tax 1	Non-tax revenue 2	Total own revenue (1+2)	Growth rate of Own Revenue
2013-14	2213.95	1281.27	3495.22	
2014-15	2171.18	711.2	2882.38	-18%
2015-16	2745.16	876.94	3622.1	26%
2016-17	2621.06	881.6	3502.66	-3%
2017-18	2821.96	1513.43	4335.39	24%
2018-19	3541.48	1335.81	4877.29	12%
2019-20	3632.16	1693.46	5325.62	9%
2020-21	3794.7	1969.62	5764.32	8%

From Table 2, it is clear that the growth rate of the own revenue of the MMC is fluctuating and is not very satisfactory. Thus, most of the expenditure, undertaken by the MMC, is performed from the funds obtained from finance commission devolution and transfers from central and state governments, this hinders the fiscal autonomy of the MMC. **Fiscal autonomy**/**Revenue autonomy** (ratio of own revenue to total revenue) is a very important indicator to measure the performance of the government (Mathur and Ray, 2003), which shows the revenue-raising capacity of the municipal corporation. The high value of the ratio shows that municipal corporation is getting more revenue from its own sources. In the case of MMC, this ratio is considerably low showing a very weak fiscal autonomy.

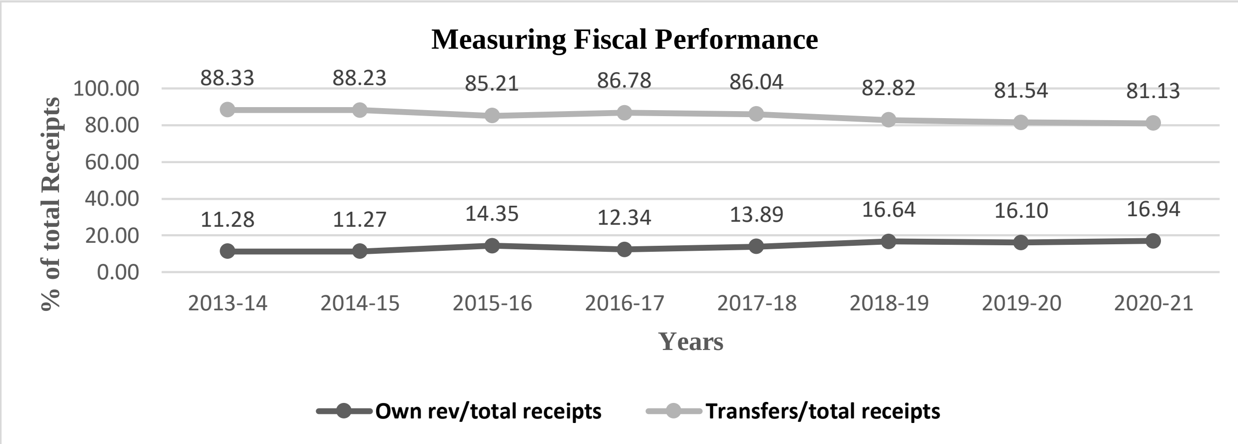


Figure 2: Measuring Fiscal Performance of Meerut Municipal Corporation

Bagchi (2004) also suggested **Revenue Autonomy** and **Revenue Dependency** as important indicators to measure the financial powers of municipal corporations. Revenue Dependency is measured as the share of transfers in the total revenue of the corporation, the high value shows the high dependency of the local government on the upper tiers of government. However, the gap between these two ratios is shortening, which indicates that MMC is making good efforts to increase income from its own sources.

EXPENDITURE UNDERTAKEN BY THE MEERUT MUNICIPAL CORPORATION

With rapid urbanization, urban governments are overburdened with the responsibilities assigned to them by the 74th Constitutional Amendment Act 1992 (CAA). The mandate gives the ULBs 18 functions to perform but there is no mention of corresponding revenue resources to undertake these functions. Each state has its Acts which mention the revenue sources of the municipal corporations. Though these local bodies have powers to raise funds independently, they require approval to levy new taxes mentioned in the Act by the state government which shows their dependence on the state.

The expenditure incurred by the municipal body can be broadly categorized into revenue expenditure and capital expenditure. The revenue expenditure comprises establishment expenditure (salaries of the employees), administrative expenditure (rents, office maintenance, expenditure on books and periodicals, stationery charges etc.) and operations and maintenance expenditure (expenditure on power and fuels, repairs, bulk purchase). Revenue expenditure is broadly undertaken to meet the day-to-day expenses.

Table 3: Heads of Expenditure of Meerut Municipal Corporation (in Lakh Rs.)

Heads of Expenditure	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
1. Revenue Expenditure	15957.57 **(64.68)**	21528.7 **(78.86)**	18057.3 **(83.4)**	19469.6 **(73.32)**	19118.6 **(77.2)**	21105.5 **(67.07)**	23098.3 **(78.67)**
i. establishment Exp.	8896..08	11432.9	10684.3	11178.2	12970.5	15603.8	17343.7
ii. Operation and maintenance exp	7061.19	10096.3	7372.8	8291.44	6147.44	6147.81	5825.11
2. Capital Expenditure	8710.29 **(35.32)**	5771.51 **(21.14)**	3594.77 **(16.5)**	7121.69 **(26.68)**	5646.59 **(22.8)**	10358.6 **(32.93)**	6538.52 **(21.33)**
Total Expenditure (1+2)	24667.86 **(100)**	27299.8 **(100)**	21652.5 **(100)**	26591.5 **(100)**	24764.5 **(100)**	31464.1 **(100)**	29636.2 **(100)**

Source: Various Budget documents of Meerut Municipal Corporation

Figures in parentheses show the percentage share in total expenditure.

Capital expenditure is the investment for long-term development, including water supply and sewerage treatment, energy and lighting, and solid waste management.

Table 3 shows that most of the expenditure of the MMC constitutes revenue expenditure which is concurrent and unproductive in nature. The main constituents of the capital expenditure are expenditure on solid waste management under the AMRUT scheme and Swachch Bharat Mission (SBM). In 2015, the government of India initiated the Smart Cities Mission intending to develop the cities citizen friendly and sustainable. 100 cities across the country were selected under this mission. Though Meerut did not find a place among the selected list of smart cities, it got the funds under the State Smart Cities Project. Later, in 2017, Meerut was selected for Round 3 under the Central Government Smart Cities Mission, in which MMC has been receiving funds for sewerage treatment and solid waste management. Under the State Smart Cities Mission, the MMC has been assigned the responsibility to introduce an Integrated Traffic Management System (ITMS). By ITMS, the traffic congestion problem in the city will be resolved. The smart city mission has focused to develop infrastructure which includes efficient water supply, solid waste management, public transport and affordable housing. All these expenditures are undertaken from the funds obtained from the centre and state government transfers. Even SFC transfers are used to finance revenue expenditure. Currently, Meerut Municipal Corporation is working on the 'Kabad se Jugad' concept for the beautification of the city with minimum funds. Thus, the Meerut Municipal Corporation is doing well to make the city sustainable and resilient.

SOME POLICIES TO ENHANCE REVENUE OF THE URBAN LOCAL BODIES: To improve the financial position of the cities, the government of India has suggested the following policy proposals:

Value Capture Financing (VCF): The policy of VCF was introduced by the Ministry of Urban Development in February 2017. The policy is based on the principle that those who are getting benefits from public investment in various services must also contribute by paying for it e.g. Land value tax, fee for changing land use, betterment levy development charge etc.

Municipal Bonds: Municipal bonds are the instrument in the hands of ULBs to raise money for financing specific projects such as infrastructure projects. Securities and Exchange Board of India Regulations (2015) has issued the following guidelines (i) the Municipal corporation must have positive worth for three preceding financial years (ii) the corporation has not defaulted in loan repayment in the preceding year. Thus, fiscal performance determines the city's performance in the bonds market. In UP only

Credit Rating: The Ministry of Urban Development introduced city credit ratings in September 2016. The cities are granted credit ratings based on their assets and liabilities and the resources available for capital investment. There are a total of 20 ratings ranging from AAA to D. If any city is rated BBB^{--}, known as Investment Grade Rating, it is desired to undertake a necessary initiative to improve the city's rating for issuing the Municipal Bonds.

Besides credit ratings, the Ministry of Urban Development has also introduced some other indicators namely, Swachch Bharat Ranking and the City Liveability Index which measure mobility, access to healthcare and education, employment opportunities etc. These rankings stimulate competition among the cities thereby improving their performance over time.

CONCLUSION: From the ongoing analysis, it is evident that MMC has been highly dependent on higher tiers of governments and SFC and CFC grants which need to be revamped by introducing different policy measures to increase own revenue as mentioned above. Property tax has been an important source of revenue which is not generating adequate revenue to finance various development programs. Moreover, MMC must also make efforts to increase its revenue from non-tax sources to achieve revenue autonomy.

Even though these policy proposals have been introduced by the government, the main problem with the ULBs is that they are reluctant to introduce new fees and levies due to political reasons. Therefore, cities are not making use of these financing mechanisms. Meerut Municipal Corporation has not initiated steps to introduce these policy measures to raise its revenue. Though MMC is trying to earn income from solid waste management by selling manures and Construction and Demolition (C&D) waste. Most municipal corporations suffer from the lack of consolidated data and improper accounting practices. They need to balance their budget by law. For issuing municipal bonds, ULBs need to get approval from state governments. Meerut Municipal Corporation is also facing the same challenges. MMC has to move a long way ahead to raise its own revenue and make the city the centre of economic activities. There is a need for civic and administrative willingness to initiate policy measures for increasing its own revenue sources.

End Notes

[i] Statutory towns are those which have any of the following, municipal corporation, municipal council, cantonment board etc.

[ii] Census towns are those urban areas that do not have any form of urban local government.

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