8.1. Introduction:

This chapter presents the findings and conclusions of the present study. This chapter also tries to offer some suggestions that may help to augment the finances of Greater Hyderabad and Vijayawada Municipal Corporations.

Urban local government units in India are mandated to undertake certain basic civic functions. To undertake these functions, they are given powers to levy and collect taxes, non-taxes and receive grants and loans from state and central governments. After the Constitution 74th Amendment Act, the nature of these functions has been broadened to include development programmes along with traditional civic functions. However, the experience and various scholarly works shows that the urban local bodies all over the country suffer from inadequate financial resources to undertake even the basic civic functions.

The finances of Greater Hyderabad and Vijayawada municipal corporations in a tabular form 2000-01 to 2009-10 (ten years) are presented in chapters VI and VII. The evaluation was done on the basis of ten years financial statements (budgets) approved by the Greater Hyderabad and Vijayawada Municipal Corporations. On the basis of these statements, the difference between Total Revenue Receipts and Total Revenue Expenditure, comparison between tax revenue and expenditure on salaries and expenditure on roads, health and water of Greater Hyderabad and Vijayawada Municipal Corporations are analyzed. For the purpose of analysis Revised Budget Estimates are taken into consideration.

8.2. Findings:

Analysis of Greater Hyderabad Municipal Corporation’s (GHMC) revenue account indicates that its income had increased (Table-VI.I). The total revenue receipts yield rose from Rs. 25,274.39 lakhs in the year 2000-01 to Rs. 120,825.46 lakhs in the year 2009-10. Surprisingly, revenue receipts suddenly fell to Rs. 120,825.46 lakhs in the year 2009-10 when compared to 2008-09. There was highest growth of Rs. 163,849.32 lakhs in the year 2008-09 when compared to 2007-08. The
main reason for increase of income was realization under the heads of building development charges, penalty for unauthorized construction and penalty on contractors. Because of a special drive the corporation collected most of the dues in the year 2008-09. As a result of this special drive most of the accumulated debts were collected. This also shows a determined and committed effort by the authorities will always yield good results.

The Revenue Expenditure was increased from Rs. 24,206.30 lakhs in the 2000-01 to Rs. 92,955.36 lakhs in the year 2009-10 (Table-VI.I). Surprisingly, the revenue expenditure was highest i.e., Rs. 100,580.43 lakhs in the year 2008-09 when compared to 2007-08. The main reason for increase of expenditure was benefits and other allowances, terminal benefits, quality control expenses, sanitation/ conservancy expenses, maintenance of major parks, road marking and terminal benefits.

The position in terms of total receipts and total expenditure indicated that the budgets of all ten budget years were surplus budgets from 2000-01 to 2009-10 (Table-VI.I). However, the surplus was not the result of own revenues, but the result of grants and of the external funding.

The Revenue from all taxes (i.e., tax-wise revenue) was the main source of income to the Greater Hyderabad Municipal Corporation. The tax income had steadily increased (Table–VI.II). Total Tax-wise (own) revenue had continuously increased from Rs. 8,856.75 lakhs in the year 2000-01 to Rs. 52,608.33 lakhs in the year 2009-10. On its face value or in absolute terms this appears as substantial improvement. But when we take other factors like inflation and growing nature of city into consideration, this improvement in income becomes a meager improvement. All of us know that because of inflation the net value of the goods required to render services keeps on mounting. The growth both in population and area requires a corresponding growth in revenues. However, in absolute terms the tax revenue registered an increase over a period of ten years.

The Public – General tax (property tax) had increased from Rs. 3,945.70 lakhs in the year 2000-01 to Rs. 33,392.65 lakhs in the year 2009-10. Surprisingly, there was a sudden fall to Rs. 6,893.26 lakhs in the year 2005-06 when compared to 2004-05. There was sudden growth of Rs. 16,574.40 lakhs in the year 2007-08 (Table- VI.III). Government orders vide G.O.Ms.No.261/MA&UD Department issued on 16-04-2007
constituted Greater Hyderabad Municipal Corporation with a view to provide better civic infrastructural facilities to the increasing population of the Hyderabad. Accordingly the government of Andhra Pradesh is Constituted Greater Hyderabad Municipal Corporation by merging surrounding (Twelve) Municipalities. The city was divided into (five) territorial zones (North, South, Central, East and West) and 18 circles to provide better services to the citizens. The area of the city has increased from 175sq.km to 625sq.km. The slab rates are in vogue from 01.04.1974 under section 199 (2) of the Hyderabad Municipal Corporation Act, 1955. The graded slab rates of taxation are being adopted only in respect of residential buildings with effect from 01.04.1982, while non-residential buildings are being taxed at a flat rate of 30% of the Annual Rental Value (ARV) irrespective of their slab (Greater Hyderabad Municipal Corporation Budget, 2008-09: 39-42). The above system of tax collection reveals that there is continuous increase in property tax collection from one year to another, due to identification of un-assessed properties and assessing them to tax. During 2002-03 the corporation laid emphasis on the correction of inequity in the levy of property tax of the past. Though there is no hike in the property tax rate due to correction of inequity in the levy of property tax and collection of the property tax through e-seva centres, the income on property tax shows continuous increase.

Total Taxes (own) income had increased from Rs. 8,856.75 lakhs in the year 2000-01 to Rs. 52,608.33 lakhs in the year 2009-10 (Table–VI.III). Though there is no hike in the Total Taxes (own) rate, due to correction of inequity in the levy of property tax and efficient collection mechanism using several innovative models of tax collections, the income on property tax showed continuous increase. But, the increase did not take place in other revenues. Realisation of tax on animals, property tax from vacancy remission, advertisement tax on cable operators was very poor. To give an example an amount of Rs.20 lakhs was realized during 2006-07. The tax realization increased by 100 per cent (Rs.48.00 lakhs) in the year 2007-08. However, it came down to Rs. 21.83 lakhs during 2008-09. Surprisingly, only one lakh (Rs. 1.00 lakh) was realized during 2009-10. When enquired, right from Commissioner to tax collectors of concerned areas could not give any satisfactory reason for this decline in tax realization.

Realisation of service charges in lieu of property tax from other central government departments was also very poor (Table-VI.III). To give an example, an
amount of Rs. 300.00 lakhs was realized during 2000-2001, 2001-2002 and 2002-2003. The tax realization was increased by Rs. 308.77 lakhs in the year 2003-04. It further, increased to Rs. 393.23 lakhs in three budget years i.e., 2004-05, 2005-06 and 2006-07. Surprisingly, in three subsequent years i.e., 2007-08, 2008-09 and 2009-10 no amount was realized. The Commissioner could not give any satisfactory reason for this non-realisation.

The effective growth of property tax to a large extent depends upon proper valuation of the assets, deciding the volume of the tax and timely collection of tax. Hyderabad is one of the three fast growing cities in Andhra Pradesh- the other cities being Vijayawada city and Visakhapatnam city. This rapid expansion or urban development changed land use pattern due to increasing population and commercial demand. With rapid urbanization and industrialization, there had been increasing pressure on land, water and environment, particularly in the Greater Hyderabad Municipal Corporation area. The open spaces within the city got filled up by the construction of high rise buildings. Large bungalows and old residences were demolished and high rise buildings have come up both as commercial complexes and as residential flats. Besides, a number of residential houses were converted into commercial places. We have personally surveyed Banjara Hills, Hi Tech City, Jubliee Hills, Madhapur, Gachibowli, Kukatpally. A number of residential facilities were converted into commercial facilities. Still, the commercial tax rates are not imposed on them. All these changes should have certainly increased the income on property tax.

A report from The Hindu and our own field visits proved that still, under assessment is a practice. On one hand the corporation is on a tax hike spree to fill its coffers, on the other hand it is losing at least 50 per cent of its rightful revenue due to collusion of property owners and field-level property assessment staff. The GIS-based survey included a sample of 1,794 properties with 3,254 assessments in four pockets from four circles under the Greater Hyderabad Municipal Corporation. The difference in the tax amount was Rs. 1.36 crore. A clear indication that thousands of the properties were either under assessed or un-assessed (The Hindu Hyderabad, January 16, 2013). Besides, a number of residential houses were converted into commercial places. We have personally surveyed Banjara Hills, Hi Tech City, Jubliee Hills, Madhapur, Gachibowli, Kukatpally and found that a number of residential facilities
were converted into commercial facilities. Still, the commercial tax rates are not imposed on them.

The Assigned revenue income had increased from Rs. 8,951.61 lakhs in the year 2000-01 to Rs. 18,672.00 lakhs in the year 2009-10 (Table-VI.II). It registered highest growth in the year 2007-08. In that year an amount of Rs. 29,744.00 lakhs was collected. The main reason for sudden increase of income was generation of more income under the heads of tax on transfer of immovable properties, entertainment tax, profession tax, compensation in lieu of octroi and toll tax, compensation in lieu of motor vehicle tax and property tax compensation due to concession to tax-payers. Surprisingly, there was a sudden fall in the year 2009-10. An amount of Rs. 18,672.00 lakhs was collected in the year 2009-10.

Realization of fees and user charges had steadily increased (Table-VI.II). The income from fees and user charges rose from Rs. 6,088.50 lakhs in the year 2000-01 to Rs. 39,651.96 lakhs in the year 2009-10. It registered highest growth Rs. 74,926.13 lakhs in the year 2008-09. Surprisingly, there was a sudden fall to Rs.39, 651.96 lakhs in the year 2009-10 when compared to 2008-09. The main reason for sudden fall of income was decline in realization of full amount in license fee from butchers and traders in slaughter house, licensing of animals, trade licensing fee, fee for erection of hoardings, projection charges, building permit fee, quality control charges, development charges, open space contribution and cattle pound fee.

The Greater Hyderabad Municipal Corporation’s own income was less than the expenditure, which indicates a deficit in its budget (Table-VI.V). The revenue gap was widened from Rs. (-) 16,931.55 lakhs in the year 2000-01 to Rs. (-) 40,347.03 lakhs in the year 2009-10. The alarming fact was that not even a single budget has a positive figure i.e., income is less and expenses are more.

Another discouraging factor is that the earnings of the corporation are not even sufficient to meet the salaries of its own employees (Table-VI. VI). At the same time, the burden of salaries was increased by more than 100 per cent – the percentage of expenditure on salaries and administrative expenses was 145.17 per cent in the year 2000-01; 104.53 per cent in the year 2001-02, 80.42 per cent in the year 2002-03, 70.95 per cent in the year 2003-04, 65.37 per cent in the year 2004-05, 74.16 per cent
in the year 2005-06, 79.82 per cent in the year 2006-07, 65.11 per cent in the year 2007-08, 59.30 per cent in the year 2008-09 and 49.82 per cent in the year 2009-10.

Except during 2009-10, the expenditure on salaries and administrative expenses was more than 59 per cent (Table-VI. VI). The total expenditure came down from 145.17 per cent in the year 2000-01 to 49.82 per cent in the year 2009-10. This reduction in this expenditure is a welcome future. However, in absolute terms the expenditure rose from Rs. 12, 858.05 lakhs in the year 2000-01 to Rs. 26, 210.52 lakhs in the year 2009-10. The income is outpaced by the expenditure. The literature on urban finances suggests that a miss match between Tax Revenue and Salary Expenditure is a sign of financial ill health. The net result is total dependence on grants and loans for development work.

The capital receipts of Central Government Grants/ Contributions increased from Rs.105.00 lakhs in the year 2001-02 to Rs. 8,000.00 lakhs in the year 2009-10 (Table –VI.VII). There was highest growth of Rs. 25,100.00 lakhs in the year 2007-08 when compared to 2006-07. The main reason for increase of Central government grants was Adarsh Basti Scheme, Abatement of pollution of River Musi, NURM and Grant for GIS.

A careful study of the detailed budget reveals that the Capital Expenditure on Roads and Pavements had increased from Rs. 3,421.00 lakhs in the year 2000-01 to Rs. 28,534.01 lakhs in the year 2009-10. Surprisingly, there was highest growth of Rs.61, 407.17 lakhs in the year 2008-09 when compared to 2007-08. The expenditure on Urban Community Development had increased from Rs. 2,221.00 lakhs in the year 2000-01 to Rs. 27,000.00 lakhs in the year 2009-10 (Table-VI.VIII). There was highest growth registered Rs. 31,667.00 lakhs in the year 2007-08 when compared to 2006-07.

The expenditure on Street Lighting had increased from Rs. 1,500.00 lakhs in the year 2000-01 to Rs. 4,528.68 lakhs in the year 2009-10 (Table-VI.VIII). Surprisingly, there was highest growth of Rs. 10,758.15 lakhs in the year 2008-09 when compared to 2007-08. The Capital Expenditure account is meant to spending on infrastructure/capital works undertaken by various departments and is designed to track the development functions executed by civic functionaries. Urban Community Development is kept as a separate head considering the social and political
significance of slum development and up gradation programmes and the need to report on the same to higher authorities.

As far as the difference between Total Capital Receipts & Capital Expenditure was concerned, it is observed that the two budget years i.e., 2000-01 and 2009-10 were deficit budgets (Table-VI. IX). The deficit is to the tune of Rs. (-) 3,494.00 lakhs and Rs. (-) 43,286.45 lakhs respectively. Remaining eight budget years i.e., from 2001-02 to 2008-09 were surplus budgets. Deeper study of the capital receipts reveals that not only the help was inconsistent but also less dependable. The reason for the surge in capital receipts was the special intervention by the central and state government and heavy funding in the name of Urban Community Development, National Slum Development Programme (NSDP), Jawaharlal Nehru National Urban Renewal Mission (J.N.N.U.R.M), Mega City Scheme etc.

The growth in capital receipts was surprisingly very high. The total value of the capital receipts was increased from Rs. 6,210.00 lakhs in the year 2000-01 to Rs. 152,996.54 lakhs in the year 2008-09. The major source of income was capital receipts from the state and central governments. A healthy urban finance is one which matches its own resources with capital receipts (Table-VI. X).

The expenditure on three most important activities viz., roads, water and health had been negligible (Table-VI.XI). These three are considered most important because they were essential for infrastructural development and communication. Health was essential for social development. Surprisingly, on these three areas the expenditure was very low. It was so low that the total share of expenditure on these areas (when compared to the total expenditure) did not reach even 50 per cent from 2000-01 to 2009-10. Its percentage was just 5.6 per cent (1.8 per cent per each activity) in the year 2000-01. The percentage of expenditure during 2007-08, 2008-09 and 2009-10 was 23.9 per cent (7.9 per cent per each activity), 26.3 per cent (8.7 per cent per each activity) and 44.7 per cent (14.9 per cent per each activity) respectively.

It had been found that on most of the occasions the promised grant was not sanctioned by State and Central governments (Table-VI.XII). The promised grant was Rs. 216,000.00 lakhs (budget estimates) in the year 2009-10. But only Rs. 87,536.00 lakhs (revised budget estimates) was sanctioned. Only 50 per cent of the promised grants were sanctioned during 2000-01 i.e., Rs. 6,210.00 lakhs (revised budget
estimates) against Rs. 13,830.00 lakhs (budget estimates). A careful study of the detailed budget reveals that all these grants were sanctioned for centre sponsored and centre financed schemes. Moreover, what was sanctioned as grant to Greater Hyderabad Municipal Corporation by the State Government was not in accordance with the recommendations of 1st and 2nd Andhra Pradesh State Finance Commissions (A.P.S.F.C). The first A.P.S.F.C. recommended 30 per cent of state tax and non-tax revenue to urban governments. Had the state government honored the recommendations of A.P.S.F.Cs., the Greater Hyderabad Municipal Corporation would have received much more amount of grant. The revenue of the state government between 1995-2000 was 25,000 crores average (it was 28,000 crores in 1995-1996 on reached 30,000 crores in 1999-2000). 30 percent of 25,000 crores means around 9,000 crores. This was the amount to be disbursed among urban governments as per the recommendations of the first A.P.S.F.C. But this was not done. The second A.P.S.F.C. recommended 18.5 per cent of the state’s tax and non-tax revenue as the share of urban governments. The average income of the state between 2001-2002 and 2005-06 was 35,000 crores. 18.5 percent of this means around 6,000 crores (http://www.niua.org/publicattions/research/studies/SFC-Vol.I/SFC, “State Finance Commission Reports and Action Taken Reports,” accessed on 16.08.2008; Siva Subrahmanyam (2001), Madhav Godbole (1998) and Oommen (1998). Even this amount was not disbursed among the urban governments.

According to Report of the Second State Finance Commission (2008:117, para 5.25.1) Municipal bodies shall receive non-plan grants such as per capita grant @ Rs.8 for urban population, roads grant for formation of new roads and for the repairs to the existing roads, and teaching grant including salary grant to the teachers working in Municipal Secondary and Elementary Schools. But only Rs. 6.29 was released to the Municipal Corporations in the 2003-04 (Report of the Third State Finance Commission, 2008:188).

The Municipal Bodies have to get per capita grant @Rs. 8.00 per head on population basis, to meet the expenditure for maintenance of roads and to provide civic amenities. However, government did not release the mandated grant to Greater Hyderabad Municipal Corporation (Greater Hyderabad Municipal Corporation Budget, 2009-10:39).
The Revenue Gap and filling through external sources of Greater Hyderabad Municipal Corporation (Table-VI.XIII). According to the resource gap (6+14) the budgets of all ten budget years were surplus budgets from 2000-01 to 2009-10.

Loan Repayment burden was increased from Rs. 700.00 lakhs in the year 2000-01 to Rs. 4,125.00 lakhs in the year 2008-09 (Table- VI. XIV). The highest repayment burden was Rs. 8,250.00 lakhs in the year 2006-07. Nearly Rs. 17,000.00 lakhs of the total ordinary expenditure was allotted for the loan repayment to the state government.

Analysis of Vijayawada Municipal Corporation finances shows that the total revenue receipts had increased (Table-VII.I). The total revenue receipts yield rose from Rs. 115.79 crores in the year 2000-01 to Rs. 539.04 crores in the year 2009-10. Except sudden fall in revenue receipts to Rs. 333.72 crores in the year 2007-08, the revenue receipts had shown continuous improvement. There was highest growth of Rs. 539.04 crores in the year 2009-10 when compared to 2008-09. The main reason for increase of income was the authorities took up a special drive, without caring for pressure and collected all outstanding dues like shops goodwill, building regularization fees, compounding fees, betterment charges, rent from markets, shopping/office complexes, canteens, lease of advertisement right Supra Ads, income on 30 per cent, 50 per cent contribution works and income on water supply and drainage and interest on late payment house tax.

The total expenditure had increased from Rs. 122.86 crores in the year 2000-01 to Rs.520.37 crores in the year 2009-10 (Table-VII.V). Surprisingly, there was a sudden fall to Rs. 326.66 crores in the year 2007-08 when compared to 2006-07. There was sudden growth of Rs. 513.48 crores in the year 2008-09 when compared to 2007-08.

The budget position in terms of total revenue receipts and total expenditure shows that the budgets of six budget years from 2004-05 to 2009-10 were surplus budgets (Table-VII.V). Remaining four budget years from 2000-01 to 2003-04 were deficit budgets. It has to be appreciated that the corporation could mobilize the necessary money on six occasions. However, the facts are to be taken with some caution. Because, if we take the loan amounts (which are to be repayable) into consideration then all the budgets become deficit budgets.
The total revenue receipts were increased by five times during this period (from 2000-01 to 2009-10). A redeeming feature of finances of the Vijayawada Municipal Corporation as presented in table-VII.I is that over the years, the share of its tax-wise (own) income had increased. The income from tax-wise (own) sources had increased from Rs. 39.92 crores in the year 2000-01 to Rs. 47.79 crores in the year 2009-10. There was highest growth of Rs. 61.44 crores in the year 2003-04 when compared to 2002-03. Surprisingly, there was a sudden fall to Rs. 35.11 crores in the year 2004-05 when compared to 2003-04. On its face value or in absolute terms this appears as substantial improvement. But when we take other factors like inflation and growing nature of city into consideration, this improvement in income becomes a meager improvement. All of us know that because of inflation the net value of the goods required to render services keeps on mounting. The growth both in population and area requires a corresponding growth in revenues. One and half times growth in revenue in over a period of ten years appears as an ordinary growth.

The town planning officers (on the condition of anonymity) told this student that an impartial and rational tax structure should have yielded more revenue. The corporators also expressed the same opinion, but said that the electoral compulsions prevent everyone from raising the taxes. A report by the Hindu (dated 3rd June, 2008) also revealed the same.

The growth in capital receipts was surprisingly very high (Table-VII.I). While the growth in revenue is 100 per cent, the capital receipts registered 1000 per cent increase or an increase by ten times. The capital receipts had increased from Rs. 29.98 crores in the year 2000-01 to Rs. 322.86 crores in the year 2009-10. Surprisingly, there was a sudden fall to Rs. 10.90 crores in the year 2002-03. There was highest growth of Rs. 322.86 crores in the year 2009-10 when compared to 2008-09. However, a deeper study of the capital receipts reveals that not only the help is inconsistent but also less dependable. As it is scheme specific, the corporation has no role in using the grant or diverting some grant for other pressing needs. The reason for the surge in capital receipts was the special intervention by the central government and heavy funding in the name of U.S.P (Urban Services for the Poor), J.N.N.U.R.M (Jawaharlal Nehru National Urban Renewal Mission) and Slum Development Programme. These grants were generally provided for implementation of development plans, for water supply and drainage, for housing, public works, roads,
drains, passing footpaths, latrines, urinals; for maintenance of dispensaries and hospitals, schools; for purchase of necessary equipment and maintenance of fire fighting service, and so on. The grants were given under various enactments to the local bodies as compensation on account of loss of any revenue on taking over a tax by state government from local government.

Assigned revenue had increased from Rs.24.82 crores in the year 2000-01 to Rs.25.26 crores in the year 2009-10 (Table-VII.II). It registered highest growth of Rs.38.02 crores in the year 2006-07. Surprisingly, there was a sudden fall to Rs.30.51 crores in the year 2007-08 when compared to 2006-07. The main reason for sudden fall of income was less realization of income on tax on transfer of immovable properties, entertainment tax, profession tax, compensation in lieu of octroi and toll tax, compensation in lieu of motor vehicle tax and property tax compensation due to concession to tax payers.

The (property tax) Public – General tax had increased from Rs. 20.00 crores in the year 2000-01 to Rs. 21.62 crores in the year 2009-2010 (Table-VII.III). Surprisingly, there was a sudden fall to Rs. 17.73 crores in the year 2004-05 when compared to 2003-04. There was highest growth of Rs. 28.82 crores in the year 2003-04 when compared to 2002-03. Given the spread and commercialization of Vijayawada city, this growth is negligible. The effective growth of property tax to a large extent depends upon proper valuation of the assets, deciding the volume of the tax and timely collection of tax. Vijayawada is one of the three fast growing cities in Andhra Pradesh – the other cities being Hyderabad and Visakhapatnam. In the last decade the city expanded at least by five to eight kilometers on three sides. Lakhs of houses, more than one lakh commercial establishments, thousands of apartments, a number of cinema theatres, colleges, and industries were added to the corporation area. Consequently the tax net of the corporation was also expanded. Thousands of residential houses in the heart of the city were converted into commercial buildings. All these changes should have increased the income on property tax. But, this did not happen. Our enquiry and interviews had shown that underassessment was a general practice.

Employers who worked in Vijayawada and who are working in Vijayawada Municipal Corporation (on the condition of anonymity) told this student that not even
25 per cent of the original value is taxed. Another reason for this underassessment was fear of public revolt. During the last three years two attempts were made by the commissioner to enhance the property tax. On both of the occasions, the council and the public forced him to retreat. We have personally surveyed Jemmi Chettu Centre, Old City, Kaleswara Rao Market Centre, Patamata Centre, Panja Centre, Chittinagar Market Centre, Lenin Centre and Besant Road. In all these areas a number of residential facilities were converted into commercial facilities. Still, the commercial tax rates were not imposed on them.

The Advertisement tax had increased from Rs. 1.00 crore in the year 2000-01 to Rs. 1.39 crores in the year 2009-2010 (Table-VII.III). There was highest growth of Rs. 3.42 crores in the year 2007-08 when compared to 2006-07. Surprisingly, there was a sudden fall to Rs. 1.40 crores in the year 2008-09 when compared to 2007-08. By its very nature advertisement tax is ever growing tax. Year by year the hoardings other means meant for advertisements keep on growing. So, any decline of advertisement tax in any financial year means the failure of authorities either to assess the tax or collect the tax. Many of the advertisements were not taxed. Vijayawada Municipal Corporation does not maintain up dated records. Some officers on the condition of anonymity informed this student that not even 1/4th of the digital advertisements are taxed.

The Cable T. V tax had increased from Rs. 60 lakhs in the year 2000-01 to Rs. 63.01 lakhs in the year 2006-07 (Table-VII.III). Unimaginably, it fell down to Rs. 25 thousand in the year 2007-08. The Cable T.V. tax was stagnant throughout the period under study. That means the public is made to believe that there was no single addition to the existing connections in the city for 10 years. Everybody living in the city knows that lakhs of connections were added during this period. Another surprising aspect was that there was no income under this head during 2002-03, 2008-09 and 2009-10. Since, there is no possibility in the reduction of Cable T.V. connections, the only possible explanation is the failure of the officials in assessing and collecting the tax, which resulted in heavy loss to the corporation’s income.

The Vacant land tax had increased from Rs. 1.00 crore in the year 2000-01 to Rs. 3.59 crores in the year 2009-2010 (Table-VII.III). There was highest growth of
Rs. 5.00 crores in the year 2007-08 when compared to 2006-07. Surprisingly, there was a sudden fall to Rs. 67 lakhs in the year 2002-03 when compared to 2001-02.

The Non-tax income had increased from Rs.7.12 crores in the year 2000-01 to Rs. 98.25 crores in the year 2009-10 (Table-VII.IV). There was highest growth of Rs. 98.25 crores in the year 2009-10 when compared to 2008-09. Surprisingly, there was a sudden fall to Rs. 7.29 crores in the year 2002-03 when compared to 2001-02. The main reason was that Town planning development charges, regularization fees, charges on sales and rents, sales of vacant lands, charges on markets and remunerative enterprises, public works and water supply charges were decreased.

With many of the commercial establishments evading property tax, the Vijayawada Municipal Corporation (VMC) was ended up netting a poor Rs 65 crores as property tax during 2009-10. Most of the shops in the One Town area had been showing their establishments as residential buildings, causing a huge loss to the civic body. The same was brought to the notice of the public by a very popular news paper The Times of India. It wrote a long report entitled “Shop owners cheat Vijayawada Municipal Corporation on property tax”, (The Times of India, “Shop owners cheat Vijayawada Municipal Corporation on property tax”, April 7, 2012).

The following observations made by Audit Report on Local Bodies (2004-2007) reveals the failure of the Vijayawada Municipal Corporation in revenue realisation. The Report found that Vijayawada Municipal Corporation has failed to collect rents from commercial complexes constructed by Vijayawada Municipal Corporation. Kaleswararao General Market is situated in one of the busy commercial areas of Vijayawada. It was remodelled with 232 shops on ground floor and 186 shops on first floor during February 2003. All the shops in the ground floor were provided to the then existing occupants. In the newly added first floor, which was constructed at a cost of Rs 69.20 lakhs, 177 shops remained unoccupied. The poor response despite several attempts from January 2004 was attributable to lack of toilets, sewerage and water supply facilities. This glaring deficiency is all the more objectionable since Vijayawada Municipal Corporation is the regulatory authority entrusted with the task of granting permissions to shopping establishments in the city after ensuring
availability of civic amenities. This has resulted in loss of revenue of Rs 2.29 crores as estimated by Vijayawada Municipal Corporation for the period from January 2004 to December 2007 in the form of rents.

Vijayawada Municipal Corporation constructed Ansari Commercial complex in 1994 consisting of 64 shops at a cost of Rs 66 lakhs in Besant road which is the hub of commercial activities. Although 14 years have lapsed from the year of construction, Vijayawada Municipal Corporation has failed to lease the shops in the complex despite the locational advantage and has sustained a revenue loss of Rs 5.10 crores in addition to loss of goodwill of Rs 38.40 lakhs. The procedure adopted in allocation of shops was erroneous. In the initial stage, a deposit of Rs 10,000 was collected (1994) from applicants without informing them that further deposit (Rs 50,000) would be required for providing AC facility (as the shops are located underground). This led to litigation (1995) and refund of deposit (Rs 4.80 lakhs) along with interest (Rs 8.04 lakhs) for 14 years in 2007 in respect of 48 applicants. All the shops were still lying vacant as of September 2008 (Audit Report on Local Bodies for the year ended 31 March 2007:66, para- 2.3.8.1).

It was found that on most of the occasions the promised grant by both state and central governments was not sanctioned (Table VII.IV). When compared to the budget estimates the actual realization was always less, except in the budget year of 2003-04. The amount sanctioned was strikingly less in more than nine budget years. For example the sanctioned grant during 2002-03 capital receipts was Rs.10.90 crores (revised budget estimates) against a promised grant of Rs.46.47 crores (budget estimates). During 2004-05 the sanctioned grant was Rs. 35.37 crores (revised budget estimates) against a promised grant of Rs. 85.59 crores (budget estimates). The situation was much worse during 2007-08. In the year 2007-08 sanctioned grant was Rs. 159.73 crores (revised budget estimates) against a promised grant of Rs. 1823.01 crores (budget estimates).

A careful study of the detailed budget reveals that all these grants were sanctioned for centre sponsored and centre financed schemes. Moreover what was sanctioned as grant to Vijayawada Municipal Corporation was not in accordance to
the recommendations of 1st and 2nd State Finance Commission’s (S.F.C.) recommendations. The first A.P.S.F.C. recommended 30 per cent of state tax and non-tax revenue to urban governments. Had the state government honored the recommendations of A.P.S.F.Cs the Vijayawada Municipal Corporation would have received much more amount as the grant. The revenue of the state government between 1995-2000 was 25,000 crores average (it was 28,000 crores in 1995-1996 on reached 30,000 crores in 1999-2000). 30 percent of 25,000 crores means around 9,000 crores. This was the amount to be disbursed among urban governments as per the recommendations of the first A.P.S.F.C. But this was not done. The second A.P.S.F.C. recommended 18.5 per cent of the state’s tax and non-tax revenue as the share of urban governments. The average income of the state between 2001-2002 and 2005-06 was 35,000 crores. 18.5 percent of this means around 6,000 crores (http://www.niua.org/publications/research/studies/SFC-Vol.I/SFC, “State Finance Commission Reports and Action Taken Reports,” accessed on 16.08.2008; Siva Subrahmanyam (2001), Madhav Godbole (1998) and Oommen (1998) Even this amount was not disbursed among the urban governments.

The total expenditure had increased from Rs. 122.86 crores in the year 2000-01 to Rs.520.37 crores in the year 2009-10 (Table-VII.V). Surprisingly, there was a sudden fall to Rs. 326.66 crores in the year 2007-08 when compared to 2006-07. There was sudden growth of Rs. 513.48 crores in the year 2008-09 when compared to 2007-08.

The budget position in terms of total revenue receipts and total expenditure shows that the budgets of six budget years from 2004-05 to 2009-10 were surplus budgets (Table-VII.V). Remaining four budget years from 2000-01 to 2003-04 were deficit budgets. It has to be appreciated that the corporation could mobilize the necessary money on six occasions. However, the facts are to be taken with some caution. Because, if we take the loan amounts (which are to be repayable) into consideration then all the budgets become deficit budgets.

The loan Repayment burden was increased from Rs. 13.33 crores in the year 2000-01 to Rs. 14.40 crores in the year 2007-08 (Table-VII.VI). The highest repayment burden was Rs. 80.00 crores in the year 2005-06. Nearly Rs.175.64 crores of the total ordinary expenditure was allotted for the loan repayment to the state government.
The revenue gap between tax-wise (own) income and expenditure of salaries and administrative expenses in four budget years were surplus, i.e., Rs. (+) 8.13 crores, Rs. (+) 12.54 crores, Rs. (+) 22.87 crores and Rs. (+) 21.96 crores in the year 2000-01, 2001-02, 2002-03 and 2003-04 respectively (Table-VII.VII). Remaining six budget years were deficit budgets i.e., Rs. (-) 10.89 crores, Rs. (-) 15.86 crores, Rs. (-) 95.36 crores, Rs. (-) 22.51 crores, Rs. (-) 26.69 crores and Rs. (-) 42.23 crores during 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 respectively. In many budget years it had to draw money either from non-tax revenue or from grants to meet the salary and contingency bill.

A careful study of the figures reveals the following:
1. The tax-wise (own) income increased in a period of 10 years – The tax-wise (own) income had increased from Rs. 39. 92 crores in the year 2000-01 to Rs.47.79 crores in the year 2009-10.
2. At the same time, the burden of salaries was increased from Rs. 30.93 crores in the year 2000-01 to Rs. 86.43 crores in the year 2009-10.
3. The implication is while there was only 7.79 crores increase in tax-wise (own) income, the expenditure on salaries and administrative expenses increased by almost 59 crores (around 170 per cent increase).

The income is outpaced by the expenditure. 170 per cent increase in salary is totally unjustified, when the income is less. The literature on urban finances suggests that a mis-match between tax-wise (own) income and salary expenditure is a sign of financial ill health. The net result was total dependence on grants and loans for development work, and sometimes even to pay salaries. Some senior corporators and retired employees told this student that, recruiting out sourcing, contract staff and spending huge amount on salaries was waste of public money. Keeping more engineers than necessary and paying heavy salaries is also waste. Officers and politicians are recruiting this people and causing lot of income loss to the corporation.

The following news item highlights the fiscal irresponsibility of the corporation.

- The income of corporation is exhausting in paying salaries to unnecessary staff. For example previously these were 18 Data entry operators but now there are 48 and corporation is paying 2.10 lakhs to them.
• In corporations urban community branch there were 20 excess social workers, community organizers, community development officers. Because of this corporation is losing Rs. 1.80 lakhs per month.

• In engineering wing there are 5 Deputy executive engineers and six more DEE engineers. They are in excess and have no work load. The loss to the corporation is Rs. 5.28 lakhs per month.

• The loss on salaries to the not - necessary outsourcing staff is Rs.9 lakhs per month (Eenadu, Sunday, July, 2010: 1-7).

The Tax-wise (own) income of the corporation is not even sufficient to meet the salaries and administrative expenses of its own employees (Table-VII.VIII). The burden of salaries and administrative was increased by more than 320 per cent – the percentage of expenditure on salaries and administrative expenses was 79.61 per cent in the year 2000-01; 74.55 per cent in the year 2001-02, 60.00 per cent in the year 2002-03, 64.25 per cent in the year 2003-04, 131.02 per cent in the year 2004-05, 148.93 per cent in the year 2005-06, 322.85 per cent in the year 2006-07, 143.44 per cent in the year 2007-08, 153.84 per cent in the year 2008-09 and 188.37 per cent in the year 2009-10. Except during 2009-10, the expenditure on salaries and administrative expenses was consistently more than 60 per cent. The total expenditure on salaries and administrative expenses had increased from 79.61 per cent in the year 2000-01 to 188.37 per cent in the year 2009-10. In absolute terms the expenditure of salaries and administrative expenses rose from Rs. 31.78 crores in the year 2000-01 to Rs. 90.02 crores in the year 2009-10.

The analysis so far has thrown some light on the financial situation of the Vijayawada Municipal Corporation. The Corporation’s income is less than the expenditure, which indicates a deficit in its budget (Table-VII.IX). The tax-wise (own) revenue when compared to the total expenditure, the revenue gap was widened from Rs. (-) 82.93 crores in the year 2000-01 to Rs. (-) 472.57 crores in the year 2009-10. The alarming fact was that not even a single budget has a positive figure i.e., income is less and expenses are more.

The expenditure on three most important activities viz., roads, health and education had been negligible (Table-VII.X). These three are considered most important because they are essential for development. The percentage of spending
registered a steady growth from 23.11 per cent (7.7 per cent each activity) in the year 2000-01 to 30.34 per cent (10.11 per cent each activity) in the year 2002-03. Then it declined from 25.75 per cent (8.58 per cent each activity) in the year 2003-04 to 7.68 per cent (2.56 per cent each activity) in the year 2006-07. But there was sudden growth of 17.99 per cent (5.99 per cent each activity) in the year 2007-08. Surprisingly, on these three activities, the expenditure is very low. It was so low that the total share of expenditure on these activities (when compared to the total expenditure) did not reach even 35 per cent till 2009-10. Its percentage was just 7.68 per cent (2.5 per cent each activity) in the year 2006-07 and in last two budget years of study i.e., 2008-09 and 2009-10 it never crossed 20 per cent (6.6 per cent per each activity).

8.3. Conclusions:

The property tax is the single most important source for (GHMC) Greater Hyderabad and Vijayawada Municipal Corporations (VMC). The assessment of value and imposition of tax was not properly done. Any familiarity with Hyderabad and Vijayawada reveals that something had gone wrong in assessment of property. These two Municipal Corporations were failed in tax collection from commercial complexes and vacant land owners. Since, there was no possibility in the reduction of property tax collections, the only possible explanation is the failure of the officials in assessing and collecting the tax, which resulted in heavy loss to the corporation’s income.

Another discouraging factor was that salaries and contingency expenditure is more than what the corporations earns as tax. The earnings of the corporations were not even sufficient to meet the salaries of its own employees. In every budget year it had to draw money either from non-tax revenue or from grants to meet the salary and contingency bill. The literature on urban finances suggests that a miss match between tax revenue and salary expenditure is a sign of financial ill health. The net result is total dependence on grants and loans for development work. The decisions of officers are creating much more loss to corporation’s income by recruiting Additional Staff.

The expenditure on three most important activities viz., roads, water and health had been negligible. These three are considered most important because they were essential for development. Surprisingly, on these three activities the expenditure is very low.
As rightly commented by Report of the Second State Finance Commission “It is a well known fact that the financial position of the most of the municipalities is not sound and they are not able to provide the basic minimum civic amenities to the public. This is mainly due to mis-match between the functions entrusted and the finances made available to them by non-buoyant taxes which do not increase proportionately with the increase in the cost of establishment and services to be provided by the municipal bodies” (Report of the Second State Finance Commission, 2002:141, para 7.4.1). The Greater Hyderabad and Vijayawada Municipal Corporation’s incomes are less and expenses are more. Revenue Gap and filling through external sources becomes a routine feature. These two Municipal Corporations mostly depend on state government grants. So, Greater Hyderabad and Vijayawada Municipal Corporations should have improved its performance for providing civic amenities for the public at large. The analysis of municipal finances reveals that municipal corporations are generating small revenue surplus with low resources gaps. More than that, they are spending lower than that required for providing a minimum level of civic amenities.

8.4. Suggestions: To improve the financial health of these two municipal corporations, following changes are necessary.

1. The Municipal Corporations shall increase revenue base, develop competitive revenue structure and shall attempt at time based rate revisions.

2. The availability of civic amenities in Municipal Corporations is directly influenced by expenditure on services, per capita income and growth of income. These Municipal Corporations should have used all its statutory powers to impose and collect taxes, charges, fees and fines etc. and bridge the gap between service costs and services pricing.

3. The Municipal Corporations shall reduce establishment costs which lead to improved operational and maintenance and developmental activities.

4. The Municipal Corporations shall seriously attempt at reforms. Reforms like, tax reforms, cost cutting exercises, should be done.

5. Community participation should be encouraged in staff oriented services.

6. Consistent growth of tax revenue is an important indicator which reflects the strength of municipal corporations to undertake service provisioning
responsibilities. The Municipal Corporations shall look for ways and means to achieve this growth.

7. It is imperative that municipal corporations take a comprehensive evaluation of their tax avenues/sources, levy methods and improve collection efficiency. The municipal corporations have to strive to perform well on all these counts in order to provide a sustained financial performance and improved service delivery.

8. The reasons for the poor revenue receipts of municipal corporations need to be explored further.

9. Higher dependency on grants is not advisable. A declining share of grant to the municipal corporations, if found to be the case, warrants reconciliation of grant system (particularly, revenue grants) in tune with the rising gap in local finances (due to rise of population, economic growth and responsibilities).

10. The Municipal Corporations shall improve the tax revenue, particularly property tax, through better levy methods and collection procedure.

11. The municipal corporations with very high proportion of revenue expenditure have to streamline their expenditure by either restructuring staffing pattern or outsourcing some non-core functions to third parties.

12. Low proportion of spending on establishment is desirable, too low proportion may hamper its service delivery; likewise, expenditure on capital works is important as it provides future sources of revenue, but high expenditure on it would have a bearing on the finances and even necessitate external support in the form of either grants or borrowings.

13. The recommendations of State Finance Commissions shall be implemented for the second financial position of urban bodies.

Change of mindset, total dedication of municipal officials and strong political will are needed. Above all, the role of people improving municipal finances is very important. People are supposed to pay their taxes in time, build the houses according to town plan and use the basic amenities properly and cooperate with the municipal corporation. A kind of civic awareness must be developed among citizens for proper utilization of facilities provided by Greater Hyderabad and Vijayawada Municipal Corporations.
In India Municipal Corporations have adopted various innovative methods for augmenting their financial resources. To give few examples; (i) the strict financial control ensuring timely financial reporting and auditing of accounts in Calcutta Municipal Corporation, (ii) developing new taxes for mobilization of resources such as levy of new taxes such as tax on profession, trade, and entry tax in the Municipal Corporation of Delhi, (iii) very efficient and economical collection of revenue and proper utilization of funds for provision of maximum services to the people in municipal finances in Punjab, (iv) Vadodara and Bangalore Municipal Corporations have made use of institutional lending for financing infrastructure services. At the same time, debt financing as an instrument for financing urban infrastructure and services was still in an infant stage even with such municipal corporations as Vadodara and Bangalore. But either Vijayawada or Greater Hyderabad Municipal Corporations have taken any action for augmenting the financial resources. These municipal corporations are not shown any interested to adopt the innovative methods or to collect the taxes that are followed by other states.

References:

