Chapter – 6
Findings and Suggestions
Chapter – 6: Findings, Conclusions and Suggestions

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6. Findings, Conclusions and Suggestions

❖ Findings

1) All three municipal corporations are almost alike in terms of income and expenditure.

2) The trend growth in all major expenditures found significantly increase year wise in all three municipal corporations.

3) All municipal corporations are similar in terms of income and expenditure.

4) All municipal corporations are in a financial crunch.

5) Surpluses reflect good financial health.

6) Large cities can generate more finances.

7) High income/expenditures indicate better financial health.

8) High operating costs indicates better level of services.

9) Municipal corporations with poor financial health follow cash based accounting system.

10) Loans deteriorate the financial health of Municipal Corporation.

11) Privatization can improve the financial health of a municipal corporation.
Following findings on the bases of regression analysis indicates year wise trend regarding the various expenditure parameters amongst all three municipal corporations.

1) There exists a linear trend in income from tax in all three municipal corporations during the years from 1999-2000 to 2008-2009.

2) For Surat and Ahmedabad municipal corporation revenue income significantly increase years wise but for Vadodara municipal corporation year wise significant linear trend was not found in revenue income.

3) Establishment expenditure amongst all three municipal corporations explained significant linear growth years wise.

4) Administrative expenses amongst all three municipal corporations constantly increase year wise.

5) Year wise expenditure of repaired and maintenance increase significantly amongst all three municipal corporations.

6) Direct expense for service and programs explained significantly year wise in all three municipal corporations.

7) Increasing trend in other expenses found significant year wise in all three municipal corporations.

8) Income over expenditure increase as year increase significantly in all three municipal corporations.
Following findings indicates mean comparison of various financial ratios using ANOVA between all three municipal corporations.

1) Average Per capita income is equal across the three municipal corporations.

2) Average per capita expenditure in Surat Municipal Corporation is significantly lower compare to Vadodara and Ahmedabad Municipal Corporations.

3) Average per capita income over expenditure is significantly higher in Surat than Vadodara and Ahmedabad Municipal Corporations.

4) For average of ratio of financial expense by total loan in Surat is lower than Ahmedabad. Vadodara is almost similar with Surat and Ahmedabad municipal corporations for the above ratio.

5) Comparison regarding average of ratio of expenditure by income across all three municipal corporations are significantly differs from each other.

6) Comparison regarding average of ratio of establishment expenditure by total revenue income amongst all three municipal corporations, Surat is significantly differs with Vadodara and Ahmedabad municipal corporation.

7) Comparison regarding average of ratio of financial expense by total revenue income amongst all three municipal corporations, Ahmedabad is significantly higher than Vadodara and Surat municipal corporations.
8) Comparison regarding average of ratio of salary, wages and allowances by total income amongst all three municipal corporations, Ahmedabad is significantly higher than Vadodara and Surat municipal corporations.

9) Comparison regarding average of ratio of salary, wages and allowances by establishment expenditure amongst all three municipal corporations, Ahmedabad is significantly higher than Vadodara and Surat municipal corporations.

10) Average proportions of income from octroi, property tax and other direct taxes by income from tax amongst all three municipal corporations are alike.

❖ Conclusions:

Municipal Corporations, as institutions of local government, are constitution of the third tier that plays an important role in local economic development; they have a sizable proportion of overall public financial resources but are nevertheless subject to the scrutiny in terms of physical and financial performance. Normally, an analysis of municipal finance begins with taking stock of their revenue and expenditure in terms of the composition, trends and balance. The analysis of municipal finance first looks at the current financial status of municipal bodies in providing civil amenities, which is carried out in terms of current spending vis-à-vis the standard/norm. The revenue and expenditure sides of municipal finance are then analysed in terms of the growth rate and their normalized indicators are used.
Municipal corporations are expected to render a minimum level of services to the citizens in order to ensure providing a minimum standard of living to the citizens. The performance of urban local bodies on this aspect is gauged by comparing their levels of revenue expenditure on water supply, roads, sewerage and street lighting. Ascertaining the lack of required civic amenities, the per capita revenue receipts and expenditures to see whether there are any inherent constraints to the provision of services before the municipal corporations. This needs to be further extended by identifying the constraints to the three municipal corporations in meeting the norms of service provision in the revenue sources – tax, non-tax and transfers. Growth rate of composition of tax and non-tax revenue indicates one way of establishing creditworthiness. This growth rate varies from 6.05% to 15.87% in SMC in the year 2000-2001 and 2008-2009 respectively. In the VMC this growth rate varies from -15.66% to 28.12% in the year 2000-2001 and 2008-2009 respectively.

Surat, Vadodara and Ahmedabad municipal corporations having average growth rate 11.69%, 13.97% and 11.46% respectively.

The growth rate of salary and wages of these three municipal corporations having average growth rate of 15.35% in SMC, 31.86% in VMC and 16.82% in AMC. So, it is very high expenses for establishment in VMC.
The growth rate of revenue expenditure indicates that SMC found consistent in last few years compare to beginning years (-2.22% negative growth rate in the year 1999-2000) of the duration while, VMC found to consistent expect the year 2006-2007 and 2008-2009. In the year mentioned with highest growth rates, there was a tremendous rise found in expenditure with 35.88% and 27.80% of growth and AMC was not found consistent in expenditure during the period. With the variation -1.33% to 27.22% in the year 2001-2002 and 2006-2007 respectively. So, VMC has a high growth rate of expenditure amongst these three municipal corporations.

Revenue income and expenditure parameter includes income from tax, other than tax income, other revenue income and grants. On expenditure side it includes establishment expenses, repair and maintenance expenses and other expenses. In this parameter SMC with an annual average of 2.61% surplus, VMC with an annual average of 2.39% surplus and AMC with an annual average of 4.38% surplus of Average income. As major findings according to the income and expenditure figures of past ten years i.e. from year 1999-2000 to 2008-2009, data indicates that all three municipal corporations are poised to have a large surplus in the future, year to take up new capital works.

There is a high variation found in growth rate of per capita expenditure in all three municipal corporations. The high standard deviation value indicates that there is no consistency in the per capita expenditure growth rates amongst the all three municipal
corporations. Average per capita expenditure in Surat Municipal Corporation is significantly lower compared to Vadodara and Ahmedabad Municipal Corporations. But average per capita income over expenditure is significantly higher in Surat than Vadodara and Ahmedabad Municipal Corporations. So, Surat Municipal Corporations should have improved its performance for availability of civic amenities for the public at large.

Comparison regarding average ratio of financial expenses by total revenue income, salary, wages and allowances by establishment expenditure amongst all three corporations, Ahmedabad Municipal Corporations is significantly higher than Vadodara and Surat Municipal Corporations.

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. This apparent contraction is on account of some of the design issues of inter-government system under which the urban local bodies are not independent in functioning and decision making i.e. control over staff, raising of revenue and expenditure and accessing debt, which points to the decentralization yet to come in true sense.
Suggestions:

Municipal corporations can not be compared merely on the basis of income and expenditure. Municipal corporations differ because of their Fiscal and Functional Domain. Across corporations and within corporation bigger municipal corporations have larger functional domain and larger control over their tax and non-tax administration. To improve the financial health of these three municipal corporations, some important suggestions are as under:

1. Increase revenue base, competitive revenue structure, time based rate revisions should be done.
2. The availability of civic amenities in Municipal Corporation is directly influence by expenditure on services, per capita income and expenditure and growth of income and expenditure. Municipal Corporation should have used all its statutory powers to impose taxes, charges, fees and fines etc. and bridging the gap between service costs and services pricing.
3. Reduce establishment costs which lead to improved operation and maintenance and developmental activities.
4. Debt servicing ratio should be low.
5. Reforms like, tax reforms, cost cutting exercises, should be done.
6. Community participation should be encouraged in staff oriented services.
7. Involve private sector participation to instill competition and to bring technological innovations.
8. Good growth of tax revenue is an important indicator which reflects the strength of municipal corporations to undertake service provisioning responsibilities.

9. It is imperative that municipal corporations take a comprehensive evaluation of their tax avenues/sources, levy methods and 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.

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

11. Higher dependency on grants is not recommended, 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).

12. Improving the tax revenue, particularly property tax, through better levy methods and collection procedure.

13. Enhance the tax base through proper assessments. Revising tax rates in tune with rise of property value, local economic development and financial requirement of civic bodies.

14. 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.
15. 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.