

NORMATIVE APPROACH OF ASSESSMENT OF MUNICIPAL FINANCE: A CASE STUDY OF WEST BENGAL

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ABSTRACT

The macro overview of municipal finance may not hold enough for understanding the sources, structure, composition, and trend of aggregate revenue and expenditure of the urban local authorities in cities and may not focus enough lights on the constraint faced by the individual local government and the requirement for suitable policy initiative to solve them. Therefore, the present study evaluates the fiscal parameter of individual municipal bodies to examine their ability to provide the minimum level of civic amenities, and a normative approach of assessment of municipal finance applied for this purpose. The study revealed that the Municipal corporations who enjoyed a greater degree of delegation of revenue power and have lesser dependence on upper tiers of government; perform well in terms of provision of the minimum level of civic services or lower under- spending.

KEYWORDS: *Municipal Finance, Core Municipal Amenities, Normative Approach, Under-Spending*

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INTRODUCTION: BACK OF THE STUDY

There are numbers of studies has been conducted by various researchers, academicians onboard aspect of municipal finance at the state level (Sridhar et al 2007, Daware 2013, Gour 2015), national level (Karnik. et al 2003, Mitra 2011, Naltathiga 2012, Mandirwala 2015,) and international level (Kerdar 2006, Fieldsted et al 2010, Josephin 2017) to provide an insight into the sources, structure, composition, and trend of aggregate revenue and expenditure of the Municipal authorities in big cities. Finding and conclusion drawn at the aggregate level may not provide a clear and accurate picture of individual Urban Local Bodies (ULBs) as well as may not focus enough attention on the constraint faced by individual local government and the need for appropriate policy initiative to solve them (Karnik et al 2003). Therefore, the present study analyzed the financial parameters of individual municipal corporations to examine their ability to deliver the minimum level of civic amenities to the people

With the above background, the present study has considered qualitative (normative) benchmarks as a standard set of parameters of assessment of municipal finance in West Bengal. The normative parameters define the minimum level of expenditure on services provision (capital) as well as operation & maintenance expenditure on core civic services to maintain a minimum standard of living for the people (Karnik et al (2003).

It is a debatable issue to what level services have to be provided and maintained by the municipal corporations in urban areas with different sizes, dominance, and economic activities. The fixation of norms and standards for core urban services is a complex and critical task. The norms and standards are dependent on various factors such as the fiscal capacity of local bodies and users, topography and the settlement concerned, the size and density of population, and other economic factors. (Mathurans, Chandra, 2012). Several agencies and expert committees have been working on this issue at the national and state level. They provide a range of options for physical and financial standards of infrastructure and services in India. The norms suggested by various committees are different from each other as they have used different methods for estimation of urban infrastructure needs. However, the standard for civic services is also bound to be different for different sizes of cities. The first attempt to fixing the physical and financial norms of urban civic services was made in 1963 by the Zakaria Committee (Mathur, 2011). The committees worked out the norms based on data related to various physical and financial aspects of urban services include the cost for provision and maintenance of services and finances of municipalities collected from selected cities of different sizes, civic status, and locations across the country. The High Powered Expert Committee (HPEC) has also recommended the financial norms and standard of urban core services in 2011. (Refer table 1).

Table 1: Suggested Financial Norms for Provision of Core Municipal Services

Core Service	Zakaria Committee Norms *	HPEC Norms #
Water Supply	229	501
Sewerage Facilities	266	286
Urban Road	50	397
Street Lighting	63	8

Source: #HPEC Report and Recommendation 2011, * M.P.Mathur, R. Chandra 2007.

REVIEW OF LITERATURES

Karnik et al (2003) examined the revenue and expenditure pattern of urban local bodies in Maharashtra. In Maharashtra, the urban local bodies have a narrow choice to levy and collection of tax and non-tax revenue income and additionally restricted by various regulating principles decided by the state government

Sridhar et al (2007) made an important attempted to examine the cost of providing civic infrastructure and civic facilities to the citizen. Some cities such as Jaipur and Pune are under-charging their water supply compared to those short-run marginal cost estimates. In addition to this, the city's per capita expenditure on other civic services such as sewerage, streetlight appeared exceptionally lowers in major cities in India.

Thakar (2011) examined the fiscal performance of the municipalities across the country in terms of tax revenue, non-tax revenue, user charges, state dependency, and own resource coverage ratio, which were selected from different states as well as municipalities from the same state also and ranked the municipal authority based on their fiscal performance..

Naltathiga (2012) has found most of the urban local bodies in India inspection a small revenue surplus. Their resource gaps are also very high. Their spending on civic amenities is far below the minimum level of requirement.

Daware (2013) examines the financial; performance of Nagpur Municipal Corporation through operating income ratio and utilization ratio. The corporation has enough control over the expenditure. The gross expenses are also less than the total revenue generated by the Nagpur Municipal Corporation.

Gaur (2015) suggested that alternative financing sources are essentials for urban local bodies to discharge their civic services. The traditional methods are not able to fulfill the requirement of present demand. In this regards, the poll financing method is one of the appropriate alternative financial sources of urban local bodies.

Mandirwala (2015) applied revenue income parameters, revenue expenditure parameters, capital asset parameters, and long-term liabilities parameters in his study to measure the financial performance of Ahmadabad, Vadodara, and Surat municipal corporations. Ratio analysis, percentage analysis, and trend analysis used as financial data analysis tools in this research work.

Kaongo (2015) has identified that the local council mostly depends on various levies and taxes as it's a great source of income to the local government in Tanzania. The author showed that the central government of Tanzania imposed restrictions on sources of revenue of the local council and, their revenue-generating ability has declined.

Rabbins et al (2016) used various ratios such as current ratio, average debt collection period, operating surplus/ (deficit) ratio, self-income ratio, commercial rate collection efficiency ratio to measure liquidity, autonomy, collection efficiency, and solvency performance of the thirty –four local council in Ireland.

Josephine (2017) attempted to establish the effects of financial management on the financial performance of local governments. The study shows a positive relationship between the financial management and financial performance of the Tororo Municipal Council in Uganda.

OBJECTIVE OF THE STUDY

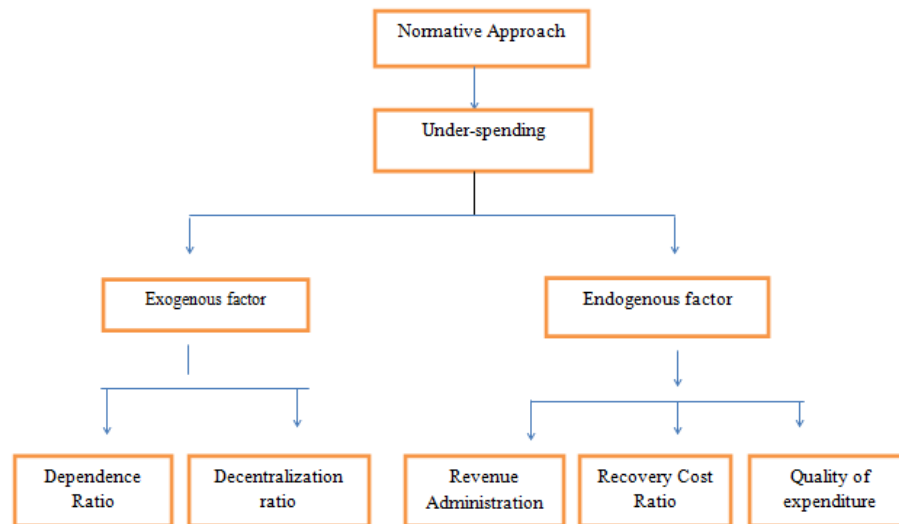
The specific objectives of the study are as follows:-

- To study the pattern of revenue income and revenue expenditure.
- To measure the per capita expenditure on various civic amenities
- To study the level of under-spending on various care civic amenities.
- To study the factors influencing the level of under-spending.

RESEARCH METHODOLOGY

The primary objective of the present paper is a qualitative assessment of municipal finance in West Bengal. The analytical framework for the analysis of municipal finance is an exhibit in figure 1. The receipt and payment account, income and expenditure account, and balance sheet of selected Municipal Corporations are considered for qualitative assessment of sample municipal corporations and collected from their respective websites. In this study, the High Power Expert Committee's norm for operation and maintenance expenditure of core civic services used to measure the extent of under-spending on core civic amenities providing by the sample municipal corporations. The study purposely selected Asansol Municipal Corporation (AMC) and Siliguri Municipal Corporation (SMC) as sample municipal corporations out of six municipal corporations in West Bengal. As the characteristics of Asansol and Siliguri considerably different from each other, would facilitate the comparison process in a justified manner. Asansol is an industry-based city, where Siliguri is a commercial and tourist place. Therefore, a considerable amount of funds has been spent by the government for the cities. Again, Asansol and Siliguri each 2nd and 3rd populated cities in West Bengal. In addition, both the Municipal Corporations are inception in the same year, 1994. With the response to the reforms in the municipal accounting system

under Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the Municipal corporations in West Bengal have changed their accounting system from a cash basis to an accrual basis since the financial year 2007-08. Thus a period from 2007-08 to 2017-18 is considered as a period of study.



Source: Karnik et al, (2003), "Assessment of Revenue and Expenditure patterns in urban local bodies of Maharashtra"

Figure 1: Normative Approach of Assessment of Municipal Finance.

DATA ANALYSIS AND MAJOR INFERENCE

Availability of Civic Amenities

To provide a minimum level of civic amenities to the people is an obligatory function of the municipal corporation. The extent of civic facilities made available by the municipal corporation could be measure by the per capita expenditure incurred for operation and maintenance expenditure of core civic services. The level of under-spending civic facilities provided by the AMC and SMC to the people is estimated by the per capita operation and maintenance expenditure on core services, namely, water supply, sewerage facilities, urban roads, and street lighting with the High Power Expert Committee's expenditure norms. The operation and maintenance expenditures of AMC and SMC on core services exceptionally far away from the recommendation by the HPEC. However, SMC provide better water as well as urban road facilities where AMC provides better sewerage facilities(Refer to table 2)

Table 2: Suggested Financial Norms for Provision of Core Municipal Services and Average per Capita Expenditure Spent by AMC and SMC on Core Services

ULBs	Core Services	HPEC Norms (Rs)	*Average Per Capita Expenditure (Rs)	Under- Spending (%-Age)
AMC	Water Supply	501	53.14	(89.39)
	Sewerage	286	35.7	(87.52)
	Urban Road	397	13.3	(96.65)
	Street Lights	8	21.7	171.25
SMC	Water Supply	501	35.04	(93.01)
	Sewerage	286	83.61	(70.77)
	Urban Road	397	22.24	(94.40)
	Street Lights	8	10.27	28.38

Source: derived from income & expenditure account of AMC & SMC. *Average Per capita expenditure = Total operation and maintenance expenditure / projected population

Factor Influencing Under-Spending

Factors affecting the under-spending on core civic services provided by the municipal corporations could be classified into two exogenous factors and endogenous factors. The exogenous factors are beyond the control of the concerned municipal authority. Factors include the size of resources available; degree of autonomy of revenue power, and the size of grants aid received are influence the spending ability of municipal government on civic amenities. These could be express in the form of dependency ratio and decentralization ratio. Dependency ratio measures the share of grant-in-aid received by the municipal corporation to their total expenditure. It is express in terms of percentage. Decentralization ratio indicates the degree of empowerment enjoys by the concerned Municipal Corporation to decide their financial matters. This ratio is the proportion of the Municipal Corporation's per capita revenue to State per capita revenue.

Dependency and Under-Spending

Table 3 exhibits the extent of under-spending on core services along with the level of dependency ratio of the Asansol Municipal Corporation and Siliguri Municipal Corporation. A large portion of the revenue expenditure of both municipal corporations recovers from inter-government fund transfer. (Refer to Table III). As a result, the dependency ratios of both the Municipal corporations AMC and SMC have increased gradually. So far comparison, SMC is more dependent on a government grant for maintaining their revenue expenditure than that of AMC (refer to table III). SMC provides better services to the people live under their jurisdiction area as compare to AMC as the average under-spending is lower in SMC.

Decentralization and Under-Spending

SMC has enjoyed greater empowerment in decision making for financial matters. Their average under-spending is comparatively lower than that of AMC. Therefore, the higher the revenue decentralization, the lower the level of under-spending (refer table 3)

Table 3: Dependency Ratio, Decentralization Ratio and Under-Spending of the Municipal Corporations

Year		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Average
AMC	Dependency Ratio(%-Age)	40.26	40.09	44.21	48.68	47.67	43	48.09	80.3	63.32	64.74	65.93	53.3
	Decentralization Ratio (%)	8.06	7.43	7.46	10.05	10.54	8.46	7.54	4.76	6.78	6.65	6.53	7.295
	Under-Spending (%-Age)	91.34	90.09	90.49	90.29	91.8	89.38	88.43	88.92	88.64	88.32	88	89.61
SMC	Dependency Ratio(%-Age)	55.54	92.64	100	62.87	59.9	47.43	55.47	61.45	53.49	51.77	50.52	62.83
	Decentralization Ratio (%)	7.8	7.72	7.04	10.75	11.88	12.16	11.41	8.11	10.56	10.68	10.79	9.295
	Under-Spending (%-Age)	94.65	93.61	93.59	87.04	89.33	88.12	84.56	84.41	83.02	81.74	80.46	87.32

Source: derived from income & expenditure account of AMC & SMC.

Endogenous factors are those factors over which municipal corporations have controls. These factors indicate the efficacy of the effort of levying and collecting their revenue. Delegation of revenue power assigned by the upper-tier government, the size of municipal tax, fees, users charges levying and collection by the municipal corporation, and their expenditure structure mainly determine the financial health. These endogenous factors influence the quality of civic amenities provided by the corporation. The endogenous factors express in the present study in the form of revenue administration ratio, cost recovery ratio, and quality of expenditure incurred by the municipal corporation.

Revenue Administration ratio measures the effectiveness of the levying and collection function of the Municipal Corporations. This ratio is not a very accurate measure to judge the revenue administration performance of the Municipal Corporation. The ratio per capita own revenue of local bodies to state GDP (GSDP) per capita is a close estimation to examine the revenue administration efficiency of the Municipal Corporation. The ability to levy and collecting revenue of municipal corporations also depend on the delegation of revenue power. Revenue administration has an inverse relationship with under-spending expenditure as the availability of resources with the Municipal Corporation increases the level of under-spending is decreasing accordingly.(Goayl. R ,2008).

The recovery cost ratio is another important parameter to judge the fiscal health of the Municipal Corporation. This ratio indicates that the share of fees and uses charge to revenue expenditure is spent to provide core civic services. As the recovery Cost has an inverse impact on under-spending, the revenue from fees and user charges increase the level of under-spending decrease accordingly. (Karnik et al, (2003).

Quality of expenditure is an important indicator to examine the quality of services provided by the municipal corporation to the people. These affect the long-term sustainability of the financial health of the municipal corporation. Due to the non-availability of the detailed data on sector-wise user charges, broad indicators of the ratio of municipal fees and user charges to aggregate revenue expenditure have been used to measure recovery costs in this study.

Revenue Administration Ratio and Under -Spending

The revenue administration efficiency ratio has strongly affected the adequacy level and quality of services provided by the Municipal Corporation. The average revenue administration ratio is higher in SMC as compare to AMC. The level of under-spending is lower in the case of SMC as we know that the availability of resources with the municipal Corporation increases the level of under-spending is lower accordingly (Refer to table 4).

Cost Recovery and Under-Spending

The average proportion of fees and user charges to revenue expenditure is higher in SMC, as compare to AMC. Therefore, the level of under-spending is lower in SMC than that of AMC. Thus SMC provides batter civic amenities to the people (refer to table 4)

Quality of Expenditure and Under-Spending

The share of operation and maintenance expenditure in total revenue expenditure indicates the quality of services provided by the municipal corporation to the people by SMC is better than that of AMC. In this regard, it is observed from the data that the SMC rendering better quality of service to the people compare to AMC. (refer to table 4)

Table 4: Revenue Administration, Cost Recovery, Operation & Maintenance Expenditure and Under-Spending of Municipal Corporations

Year		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Average
A M C	Revenue Administration Ratio (%)	0.87	0.93	0.87	0.95	1.15	1.03	1.03	0.87	1.04	1.05	1.06	0.99
	Cost Recovery Ratio (%)	24.93	25.86	20.21	22.27	25.5	18	18.87	15.07	16.79	16.36	15.97	19.98
	O & M expenses ratio (%)	6.62	10.85	7.5	10.64	11	13.59	12.51	13.8	14.56	15.16	15.72	12.00
	Under-spending (%)	91.34	90.09	90.49	90.29	91.8	89.38	88.43	88.92	88.64	88.32	88	89.61
S M C	Revenue administration ratio (%)	0.84	0.97	0.83	1.02	1.3	1.48	1.55	1.49	1.62	1.69	1.75	1.32
	Cost recovery ratio (%)	17.81	20.69	13.52	17.86	25.87	29.98	32.92	29.03	31.58	32.44	33.32	25.91
	O & M expenses ratio (%)	37.79	44.70	38.17	37.01	34.51	43.27	43.56	27.98	35.37	35.13	34.92	37.49
	Under-spending (%)	94.65	93.61	93.59	87.04	89.33	88.12	84.56	84.41	83.02	81.74	80.46	87.32

Source: Derived from income & expenditure account of AMC & SMC: *Decentralization Ratio = Per Capita Own Revenue / State Per capita Own Income *100*. West Bengal State GSDP has been taken from the Finance of the State Government Report,

CONCLUSIONS

The study revealed that the municipal corporations, who enjoyed a greater degree of delegation of revenue power and have lesser dependence on government grant-in-aid, is performing well in providing a minimum level of civic services or lower under spending. Therefore, the issue relating to the delegation of revenue power to urban local bodies needs a top priority. They should have committed to the betterment of urban services. Simultaneously an initiative is required from the urban local government side to enhance the quality of expenditure. These could be possible by rationalized their workforce and reducing establishment and administration expenditure

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