

# Municipal Finances in Uttar Pradesh: A Study of the KAVAL Towns

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## *Abstract*

The fast paced and continuously increasing phenomenon of urbanization has been occurring in India for the past few decades which is coming up with a lot of challenges and pressure on the urban local bodies as the needs and requirements of the urban areas and its citizens are also rising. Sustainable Development Goals, the collection of 17 goals set by the United Nations includes some of the goals to be accomplished by the Urban Local Bodies. It is known that Urban Local Bodies or Municipal Corporations are specifically established for the promotion and development of the urban areas with the maintenance and provision of basic and civic amenities of life. However, working of the urban local bodies is suffering from poor municipal finances on account of various reasons. There is a mismatch in the revenue and expenditure of the municipal corporations and their own taxing capacity is not sufficient enough to cover the revenue gap for which these have to rely on the State. This paper has made an attempt to study and analyze the Municipal finances in the KAVAL TOWNS of Uttar Pradesh namely Kanpur, Agra, Varanasi, Allahabad and Lucknow over a period of ten years from 2008 to 2017.

**Keywords:** Urbanization, Urban Local Bodies, Municipal Finances.

## Introduction

India has seen increasing pace of urbanization over the last few decades. Urbanization refers to: - (a) shift of people living in rural to urban areas and (b) gradual increase in the proportion of people living in urban areas. In India, the population living in urban areas has increased from 11.4 percent in 1991 to 28.53 percent in 2001 (Census 1991 & Census, 2001). By 2011, it increased further to 31.16 percent (Census, 2011). According to the World Bank Report (2017) about 34 percent of the total population in India lived in urban areas in 2017. Increasing urbanization lays pressure on Urban Local Bodies (ULB) created in the cities to provide basic and civic amenities of life to the residents of an urban area. ULBs are institutions of the local self-governance, which look after the administration of an area or small community such as villages, towns, or cities. These are constituted for local planning, development and administration in the urban areas.

The 74<sup>th</sup> Constitutional Amendment Act, 1992 is the very Act that led to the creation of the local governments (third tier) for the effective and efficient functioning of these urban local bodies along with the devolution of their financial and administrative powers. Article 243(Y) of the constitution is responsible for the formation of the State Finance Commissions which ensures the devolution of financial resources to the local bodies through its periodic constitution. It is this 74<sup>th</sup> constitutional amendment Act which accorded a constitutional status to the urban local bodies. Under this act, local bodies are classified as follows:

- Municipal Corporations/ Nagar Nigam: Large urban areas.
- Municipal Council/ Nagar Palika: Small urban areas.
- Nagar Panchayats: Areas in transition from rural to urban.

But even after the implementation of the act has passed so many years, still the performance of the urban local bodies is far behind satisfactory, reasons being inadequate transfers, lack of finance and others (Oommen, 2008). This study has been done to cover the analysis of municipal finance in 5 cities of the state Uttar Pradesh namely Kanpur, Agra, Varanasi, Allahabad and Lucknow commonly called as KAVAL TOWNS. Uttar Pradesh is one of the most populous states of the country with total urban population of the state standing at 22.3% covering 16.50% of the total population of India (Census, 2011). As stated by the official website of Uttar Pradesh, the state has 653 Urban Local Bodies which are divided in the following way:

- 16 Municipal Corporations.
- 199 Municipal Councils.
- 438 Nagar Panchayats.

The sources of revenue of municipal bodies have been classified by different studies (Rao, 1986, RBI, 2007).

The sources of revenue are as follows:

- Tax and Non Tax revenue forming the Own Revenue
- Assigned or shared taxes with the government
- Grants-in-Aid from the state and central government
- Borrowings from financial institutions

Municipal Corporations have to look after a variety of functions in an urban area ranging from health, education to a much broader aspect of infrastructure. To perform all these functions efficiently, municipal corporations needs large amount of finance and resources. Municipal finance is needed not only to fulfill the growing requirements of the cities on account of urbanization but also for the sound development and maintenance of the existing services. From this, we can say that municipal finance is the most significant aspect of the local bodies. In short, it is the life and blood of the municipal corporations.

However, even though, municipal finance being very important, yet it has been a less studied subject till date (Mohanty, P.K. et al, 2007). Municipal corporations or the urban local bodies are always lacking adequate amount of financial resources which in turn leads to their increased dependence on the upper tiers of the government for the transfers. Because of the unavailability of municipal finance, urban local bodies are usually caught up in the financial equilibrium trap. The trap can be explained as poor finances leads to poor services which in turn give rise to small capital investment resulting in low credibility of municipal bodies which is responsible for the poor revenue collection and ultimately lack of efficiency and effectiveness in service provision. This trap takes the shape of a vicious circle which can go on and on that hinders the growth potential of the municipal bodies on a large scale (Nallathiga, 2009). Hence, from this we can conclude that to break this vicious circle or to make the urban local bodies self dependent and efficient in performing their functions, large amount of municipal finance is of utmost importance. It is estimated that Municipal sector accounts for about a meager value of 0.75 percent of the GDP and 0.79 percent of the GDP in terms of the expenditure (13<sup>th</sup> Finance Commission Report, 2009).

### **Objectives of the Study**

- To examine the revenues and expenditure of the Municipal Corporations in the selected towns

### **Methodology of the Study**

This paper has studied the finances of the five municipal corporations of the selected towns of Uttar Pradesh (KAVAL TOWNS) for a period of 10 years from 2008-2017. This is a secondary data based study and the data has been collected from various government offices of the state, websites and web portals. The trend of the Municipal finances is studied and the analysis is conducted under three parameters with the help of tools such

as Compound Annual Growth Rate (CAGR) and Percentage Growth Rate. The three broad indicators are as follows:

1. Income and Expenditure performance
2. Category wise Revenue performance
3. Category wise Expenditure performance

### **Scope of the Study**

The study will cover only revenues and expenditures of the Municipal Corporations of the KAVAL Towns. It has focused on five selected towns, i.e., Kanpur, Agra, Lucknow, Allahabad and Varanasi.

### **Analysis of Municipal Finances**

#### **1. Income and Expenditure Performance**

Municipal corporations or the urban local bodies are vested with a long list of functions and they are responsible to fulfill the needs of an urban area by providing basic services to the people. Here the performance of the municipal corporations of the selected districts is viewed by analyzing their income and expenditure over a period of 10 yrs. The following parameters are taken up to study the municipal finance under this head:

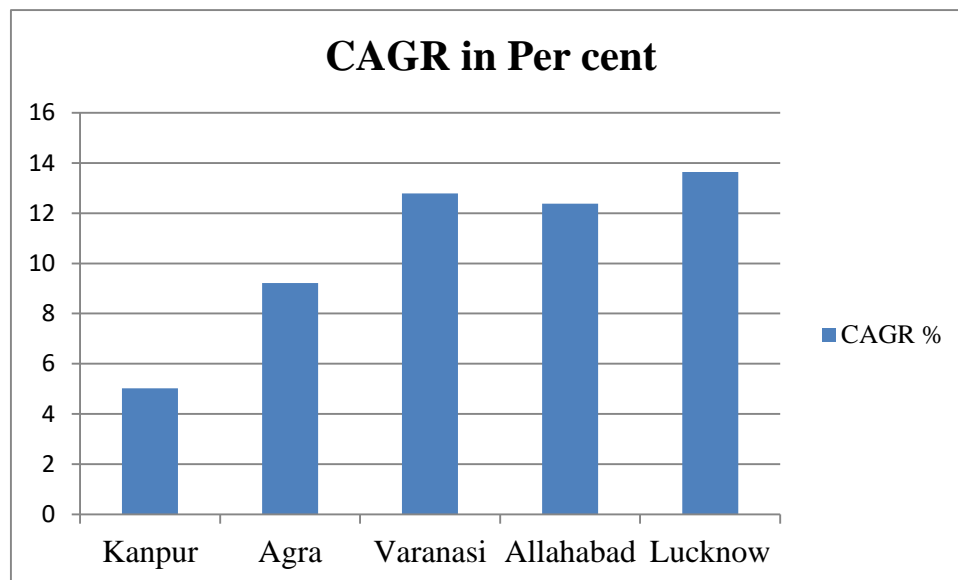
##### **1.1 Total Income and Expenditure**

The income of an urban local body comes from different sources like income from taxes, non taxes and government sources, i.e., grants and transfers etc. Table 1 presents the data of the total income of the municipal corporations for ten years.

**Table 1: Total Income (In Lakhs)**

Year	Kanpur	Agra	Varanasi	Allahabad	Lucknow
2009	48252.05	17807.47	16423.34	21627.64	30828.86
2010	51967.41	21443.68	15757.77	23950.47	37039.87
2011	91683.43	27524.31	14063.98	24815.87	67334.13
2012	95863.59	25222.25	18376.73	35334.25	67334.13
2013	95863.59	31376.24	18376.73	34669.85	67334.13
2014	93858.37	36000.54	18376.73	28442.1	87258.49
2015	58776.33	26684.06	37583.24	20240.92	93222.91
2016	66129.12	27128.45	38652.05	24804.3	128379.5
2017	84332.58	66931.37	77372.69	27890.4	142505.6
2018	78716.58	43026.12	54706.57	64611.24	110707
CAGR	0.05	0.09	0.13	0.12	0.14
CAGR %	5.02	9.22	12.79	12.38	13.64

Source: Directorate of Urban Local Bodies, Lucknow, U.

**Figure 1: CAGR of Total Income**

Source: Table 1.

Table 1 represents the trend in income patterns of the Municipal corporations and shows that there are fluctuations in the trend of all the cities. There has been increase in absolute terms in the districts but the increase has been low as there are fluctuations as well. Compound Annual Growth Rate (CAGR) has been calculated for each district shown in Figure 1 and it has been found out that the highest CAGR has been

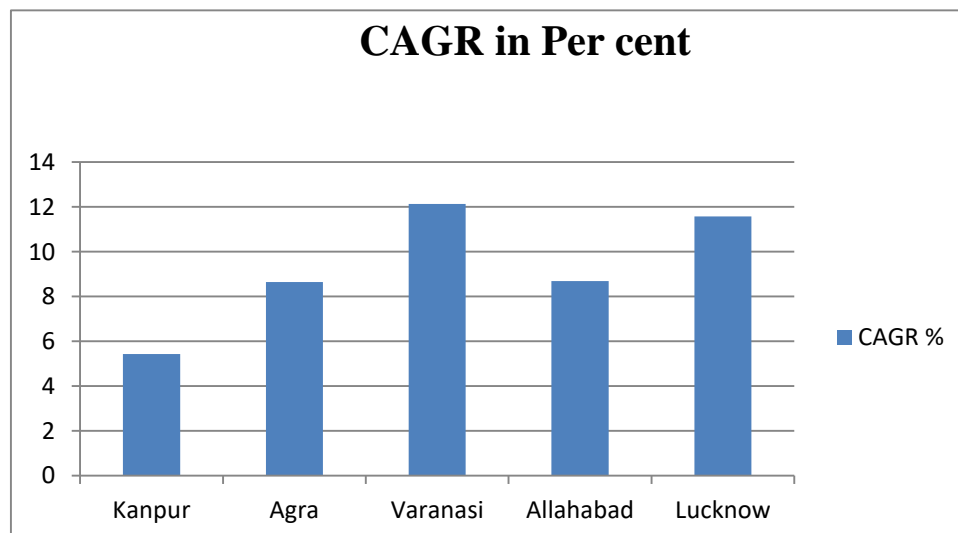
achieved by Lucknow followed by Varanasi and Allahabad which are almost at the same rate while Kanpur has registered the lowest growth rate with just 5 per cent. The low growth rates in the income of the Municipal Corporations of the KAVAL towns results in the low revenue base of these Municipalities. Eventually the insufficiency of the revenues leads to a decline in the performance of the Municipalities.

**Table 2: Total Expenditure (In Lakhs)**

Year	Kanpur	Agra	Varanasi	Allahabad	Lucknow
2009	43637.71	18940.33	17996.98	25298.87	27494.43
2010	43637.71	18608.3	7767.46	20500.2	27761.7
2011	95597.24	28750	11577.45	24984.9	28572.07
2012	84813.67	20118.42	13331.15	29471.12	28572.07
2013	84813.67	20136.64	13331.15	33013.82	28572.07
2014	70468.37	31601.52	13331.15	20573.77	47939.57
2015	65973.11	28205.97	22672.45	30918.74	47939.57
2016	58390.1	27726.47	27151.73	21837.05	111064.53
2017	58652.52	35692.96	53875.06	26499.23	136982.71
2018	74018.63	43404.74	56539.92	58186.53	82173.2
CAGR	0.05	0.09	0.12	0.09	0.12
CAGR %	5.43	8.65	12.13	8.69	11.57

Source: Directorate of Urban Local Bodies, Lucknow, U.P

**Figure 2: CAGR of Total Expenditure**



Source: Table 2.

The expenditure of an urban local body signifies the amount spent on the provision of different services to the citizens. A considerable amount of expenditure is essential for the sound delivery of services. It is evident from the table 2 that likewise the income pattern, the trend has been fluctuating in case of expenditure also. The pace has been slow which is evident in their absolute form also. CAGR is found to be low in all the districts which highlight the poor performance of the Municipalities in terms of the discharge of various urban services.

## 2. Expenditure Performance

The expenditure performance of the Municipal Corporations is assessed by categorizing it into different components with their percentage share in the total expenditure.

**Table 3: Structure of the Municipal Expenditure of the Municipal Corporations of Uttar Pradesh, 2009**

Districts	Revenue Expenditure		Capital Expenditure	Total Expenditure	% Share of Establishment Expenditure	% Share of Maintenance Expenditure	% Share of Capital Expenditure
	Establishment and Wages	Operations and Maintenance					
Agra	8320.9	9881.14	738.29	18940.33	43.93	52.17	3.90
Kanpur	14023.19	29335.45	279.07	43637.71	32.14	67.22	0.64
Allahabad	5405.98	18844.37	1048.52	25298.87	21.37	74.49	4.14
Lucknow	12640.48	14256.43	597.52	27494.43	45.97	51.85	2.17
Varanasi	4952.19	11374.19	1670.6	17996.98	27.52	63.20	9.28

Source: Directorate of Urban Local Bodies, Lucknow, U.P

**Table 4: Structure of the Municipal Expenditure of the Municipal Corporations of Uttar Pradesh, 2018**

Districts	Revenue Expenditure		Capital Expenditure	Total Expenditure	% Share of Establishment Expenditure	% Share of Maintenance Expenditure	% Share of Capital Expenditure
	Establishment and Wages	Operations and Maintenance					
Agra	18976.18	19810.90	4617.66	43404.74	43.72	45.64	10.64
Kanpur	37873.95	22571.87	13572.81	74018.63	51.17	30.49	18.34
Allahabad	16711.71	28571.51	12903.31	58186.53	28.72	49.10	22.18
Lucknow	38863.90	40291.77	3017.53	82173.20	47.30	49.03	3.67
Varanasi	15778.93	40307.62	453.37	56539.92	27.91	71.29	0.80

Source: Directorate of Urban Local Bodies, Lucknow, Uttar Pradesh.

**Table 5: Structure of Municipal Expenditure, 2009**

Districts	% Share of Revenue Expenditure	% Share of Capital Expenditure
Agra	96.1	3.90
Kanpur	99.36	0.64
Allahabad	95.86	4.14
Lucknow	97.83	2.17
Varanasi	90.72	9.28

Source: Karyakalaap, Directorate of Urban Local Bodies, Lucknow, Uttar Pradesh.

**Table 6: Structure of Municipal Expenditure, 2018**

Districts	% Share of Revenue Expenditure	% Share of Capital Expenditure
Agra	89.36	10.64
Kanpur	81.66	18.34
Allahabad	77.82	22.18
Lucknow	96.33	3.67
Varanasi	99.2	0.80

Source: Karyakalaap, Directorate of Urban Local Bodies, Lucknow, Uttar Pradesh.

The structure of expenditure consists of expenditure on establishment wages, salaries, managerial, and supervision costs, operation and maintenance of services, on one hand and capital expenditure on the other hand. Table 3 and 4 describes the structure as well as the composition of the municipal expenditure, i.e., maintenance, establishment and capital expenditure of the five Municipal Corporations of U.P. Table 6 and 7 on the other hand represents just revenue and capital expenditure. It is evident from the table that revenue expenditure dominates the municipal expenditure in all the Municipal Corporations. At the other extreme are the capital expenditures which are dreadfully low against the revenue expenditures. Therefore, it shows that revenue expenditure covers a significant portion of the revenue expenditure out of which establishment expenditure has been the largest component. A considerable portion of the municipal revenues goes into the establishment expenditures leaving behind the municipal sector in terms of service quality and service provision. Establishment expenditure constitutes 40-50 percent of the total expenditures and capital expenditure was even found to be zero in case of Kanpur. Such is the dismal state of the capital expenditure that the highest share has managed to reach to only 22 percent in Allahabad and as low as 0.80 percent in Varanasi. It is quite evident from the tables that the Municipal Corporations in districts such as Lucknow, Kanpur and Varanasi despite being high income cities all have registered a critically low percentage share of the capital expenditure and posts a high revenue expenditure especially establishment expenditure. The

extremely low proportions of Capital Expenditures in the Municipal Corporations of Uttar Pradesh reflect on the deterioration of civic services and lack of development in the state. As shown in the table, spending performance on repairs and maintenance has been very poor, irrespective of the size, capacity or characteristics of Municipal Corporations in all the cities. Since poor spending on repairs and maintenance cuts across all municipal categories, it is likely that the reasons attributable to such trends goes beyond general capacity issues and are more the result of poor management and performance. Since a considerable portion of the expenditure gets utilized as revenue that the capital expenditure is left with little scope. With the objective of the better infrastructural and urban development in the cities, the Municipal expenditures should be effectively channeled into more productive services instead of the extra ordinarily high revenue expenditure especially establishment expenditure (Nallathiga, R., 2009).

**Table: 8 Structures of Municipal Revenues and Expenditures in Municipal Corporations of KAVAL Towns**

Districts	Per Capita Own Revenues in 2009	Per Capita Revenue Exp in 2009	% Share of Own Rev in Total Revenues	Per Capita Own Revenues in 2018	Per Capita Rev Exp in 2018	% Share of Own Rev in Total Revenues
Agra	261.82	1427.46	18.75	830.11	1943.25	38.51
Kanpur	263.72	1696.47	13.97	969.59	1780.69	41.81
Allahabad	344.04	2381.94	16.20	383.13	2400.88	11.14
Lucknow	598.09	1230.46	42.41	1803.21	2089.19	61.71
Varanasi	211.98	1478.90	14.25	640.64	2977.21	22.06

Source: Karyakalaap, Directorate of Urban Local Bodies, Lucknow, Uttar Pradesh.

The above table gives an analysis of the revenue and expenditure structure of the five municipal corporations of Uttar Pradesh over a period of 10 years i.e., 2009 and 2018. There has been wide variations in terms of own revenues and revenue expenditures. The per capita revenues have been in the range of 211.98 Rs. to 598.09 Rs. whereas per capita revenue expenditure has lied in the range of 1230.46 Rs. to 2381.94 Rs. in the year 2009. Varanasi has registered the lowest own revenues in 2009 with 211.98 Rs. and has posted a high per capita revenue expenditure of Rs. 1478.90 in the same year. Contrary to this, the highest per capita revenue was registered by Lucknow whose per capita revenue expenditure is also high relative to their revenues. Although, the revenues have increased in all the Municipal Corporations in the gap of ten years but the rise has been slow and in Allahabad, it is just slight. The per capita revenue expenditures have also increased in almost all the districts but in Kanpur there is only a marginal rise. As regards the percentage share of own revenues in total revenues, it is only Lucknow where it is more than 50 percent i.e., 61 percent. Kanpur and Agra have also shown an improvement of the percentage share of the own revenues. This is an improvement of the municipal sector performance in the same municipal corporations. It reveals inter district variations for in the higher income cities like Lucknow, Kanpur, and Agra have been able to increase and generate a higher share of Municipal own revenues.

With the analysis of own revenue and revenue expenditure balance comes many features like variations in the revenue outcome from both the tax as well as the non tax component in the municipal corporations. But unfortunately, no Municipal Corporation has been able to generate enough revenues against their high revenue expenditures creating a deficit in their revenue accounts. A miserable state of municipal finances has been observed in the Municipal Corporations of these KAVAL Towns i.e., no municipal corporation are found with excess of the Municipal own revenues over revenue expenditures. In all the municipal corporations and that too in the difference of 10 years, it is the revenue expenditures which is higher than own revenues presenting a dismal state of the Municipal sector in these cities. With an objective of bridging this gap, Municipal bodies eventually depend on the transfers and grants-in-aid from the Central as well as the State Government. Except for Lucknow and Kanpur, the percentage share of own revenues in revenue expenditure has been meager in the Municipal corporations of KAVAL Towns. This table has enabled to identify the underlying difference between revenue raising capacity and expenditure responsibilities of the Municipal Corporations. The huge gap between revenues and expenditures delineates the poor revenue generating capacity of these Municipal bodies which results in low municipal finances. It has painted a poor image of the Municipal sector of the KAVAL Towns.

### 3. Revenue Performance

The revenue base of the urban local bodies consists of the following sources:

- Taxes
- Non Taxes
- Assigned (shared) revenue
- Transfers or the Grants-in-Aid

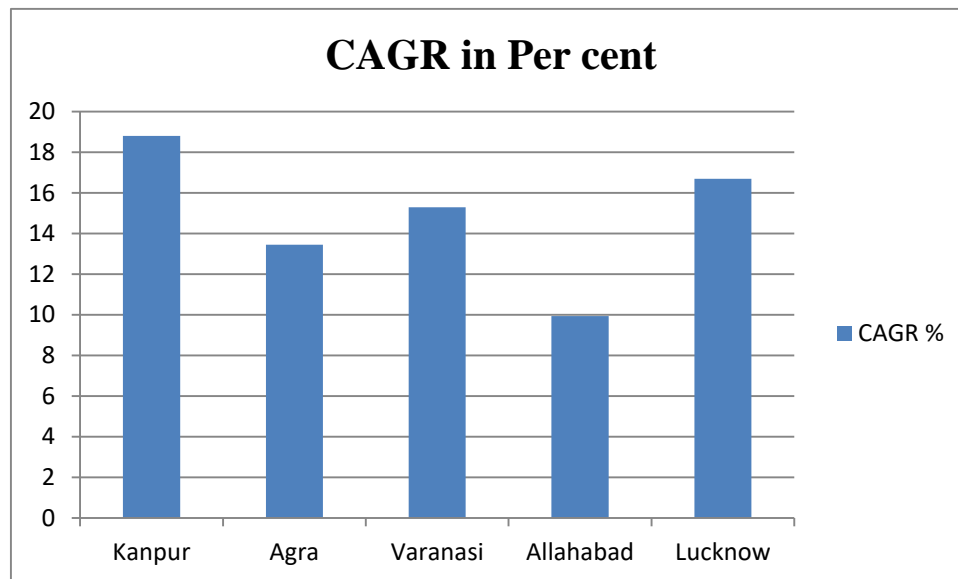
#### 3.1 Growth of Taxes

Taxes form a large part of the revenue of the municipal corporations consisting of property taxes, advertisement taxes, Entertainment taxes, water tax etc. Table 7 presents the data of the taxes in each municipal corporations and their growth rate as well.

**Table 12: Taxes (In Lakhs)**

Year	Kanpur	Agra	Varanasi	Allahabad	Lucknow
2009	4790.92	2038.06	2072.29	2541.19	9280.52
2010	4790.92	1480.87	5467.49	2630.28	11177.19
2011	10474.23	2649.07	3527.29	2243.73	12954.65
2012	13673.91	3202	3933.21	4517.56	12954.65
2013	13673.91	4561.76	3933.21	5369.92	12954.62
2014	20297.61	3759.99	3933.21	3500.28	25928.35
2015	18276.49	4271.42	5990.53	5974.97	31892.77
2016	20775.53	5349.51	6879.36	5804.51	36271.61
2017	23588.51	9279.19	8030.46	7527.73	25701.74
2018	26828.94	7193.88	8598.58	6558.2	43460.28
CAGR	0.188006	0.134422	0.152916	0.099448	0.166949
CAGR %	18.8	13.44	15.29	9.94	16.69

Source: Directorate of Urban Local Bodies, Lucknow, U.P

**Figure 3: CAGR of Taxes**

Source: Table 12.

Table 12 shows the taxes over a period of ten years in the KAVAL towns and it is Kanpur which has achieved the highest growth rate followed by Lucknow and Agra which must have contributed into their revenue base. Though they have achieved the highest growth rate but still they are low in terms of their revenues from taxes. The kind of functions they have to perform, it requires a large revenue base which is lacking in these KAVAL Towns.

### 3.2 Growth of Non Taxes

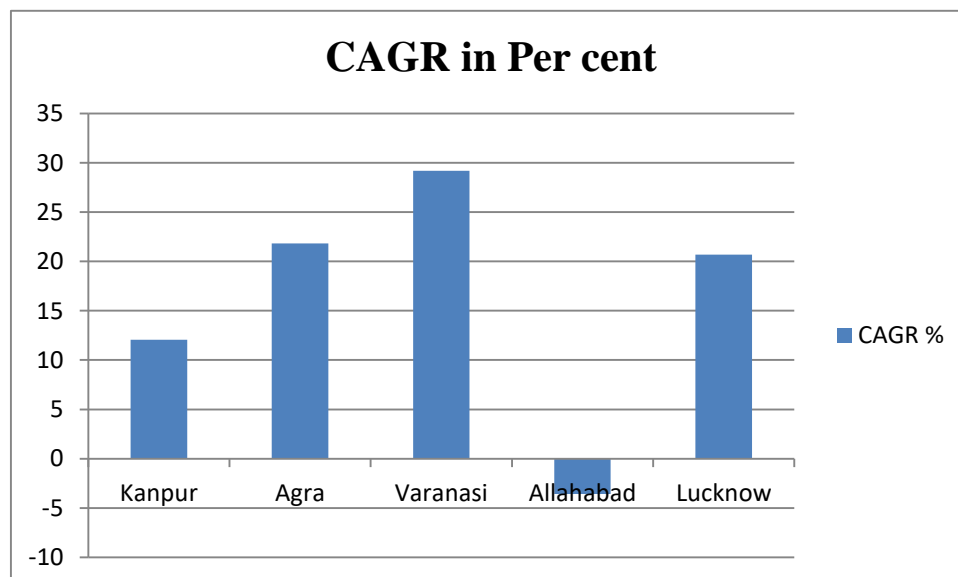
The non taxes are usually comprised of user charges, licensing fees, tehbazari, and water value etc. Along with the taxes, growth of non taxes also will eventually lead to an enhancement of the revenue base of the Municipal Corporations.

**Table 13: Non Taxes (In Lakhs)**

Year	Kanpur	Agra	Varanasi	Allahabad	Lucknow
2009	1949.33	1300.46	267.82	961.47	3793.21
2010	1949.33	1930.79	3088.31	1113.53	6915.78
2011	2858.22	1443.27	3490.56	897.83	2932.31
2012	4920.53	1778.52	3873.41	766.24	2932.31
2013	4920.53	2149.71	3873.41	927.48	2932.31
2014	15356.06	2583.22	3873.41	1033.6	14839.09
2015	3352.93	2794.29	5990.5	1388.09	14839.09
2016	3519.34	1425.02	6879.36	1024.04	28060.7
2017	4251.45	7471.47	8030.64	1453.87	41702.68
2018	6084.13	9374.99	3470.2	668.09	24860.08
CAGR	0.12055	0.21839	0.29197	-0.0357	0.20684
CAGR %	12.06	21.84	29.2	-3.57	20.68

Source: Directorate of Urban Local Bodies, luck now, U.P.

**Figure 4: CAGR of Non Taxes**



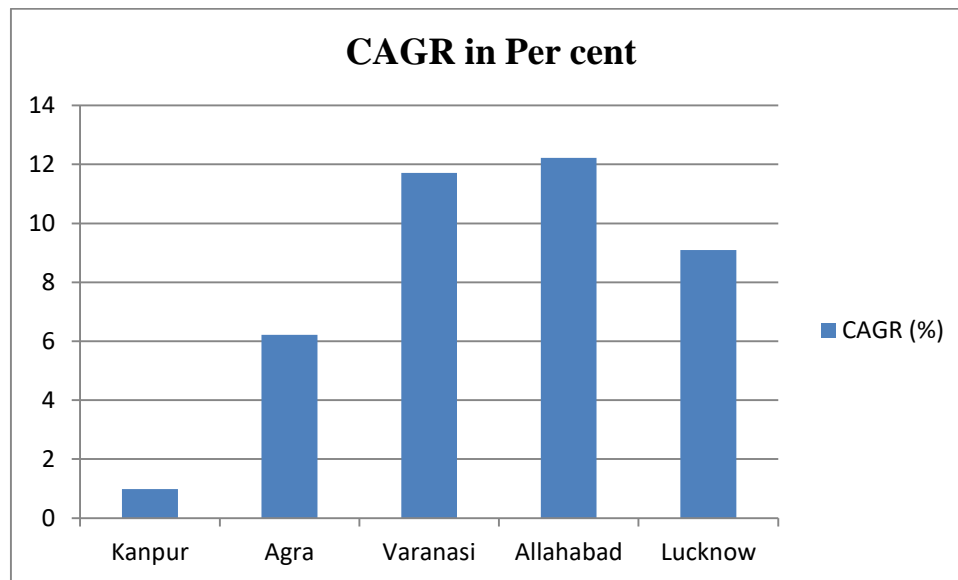
Source: Table 13.

The non taxes in case of these five cities follow a fluctuating trend and in terms of growth rate, Varanasi has registered the highest growth rate of 29.2 percent succeeded by Agra and Lucknow at 21.84 percent and 20.68 per cent respectively. This shows that these cities are making an effort towards their non taxes as well. Kanpur on the other hand has attained a very low growth rate and Allahabad has even gone negative with -3.57 per cent. Subsequent to their decline, it is obvious that it must have resulted in a decline of the revenues of the local bodies. Therefore, it can be stated that Lucknow and Agra has fared well in both the parameters of taxes and non taxes.

**Table 14: Total Grants and Transfers (In Lakhs)**

Year	Kanpur	Agra	Varanasi	Allahabad	Lucknow
2009	41511.8	14468.95	14083.23	18124.95	17755.13
2010	45227.16	18032.02	7201.97	20206.66	18946.9
2011	78350.98	23431.97	7046.13	21674.31	51447.17
2012	77269.15	20241.73	10570.11	30050.45	51447.17
2013	77269.15	24664.77	10570.11	28372.45	51447.17
2014	58204.7	29657.33	10570.11	23908.22	123795.96
2015	37146.91	19618.35	25602.24	12877.86	46491.05
2016	41834.25	20353.92	24893.33	17975.75	64047.22
2017	56492.62	50180.71	61311.41	18908.8	75101.21
2018	45803.51	26457.25	42637.79	57384.95	42386.32
CAGR (%)	0.01	0.06	0.12	0.12	0.09
	0.99	6.22	11.71	12.22	9.09

Source: Directorate of Urban Local Bodies, luck now, U.P.

**Figure 5: CAGR of Grants and Transfers**

Source: Table 14.

It is a known fact that Municipal bodies are recipients of intergovernmental transfers both from the Central and State Governments where the transfers from the State level are specifically provided with the aim of fixing the horizontal and vertical imbalances. The State level grants-in-aid transferred to the Municipal Governments are used to correct imbalances arising in the fiscal capacity. Apart from this, assignment and devolution grants which consist of funds from State tax revenues shared with municipalities and revenue from local taxes levied by the states are also granted to the Municipal bodies. The Central Government transfers come in the form of grants linked to reforms, designated specifically for asset creation and capital works (IMFR, 2011). The above table represents the trend of the grants-in-aid and transfers along with their growth rates. The trend has been fluctuating in all the Municipal Corporations where it can be seen rising sharply at one instance and suddenly taking a steep decline albeit it has been rising on a large scale in absolute form in all the Municipal Corporations.

Lucknow and Agra on the other hand have achieved a low growth rate of merely 9.09 percent and 6.22 percent respectively. The transfers and devolutions in Kanpur City in the aggregate form has been quite high but the growth rate of transfers in Kanpur is not even 1 percent which is the lowest growth rate amongst all the municipalities. The low growth rate relates to the low revenues on one hand but on the other it also relates to the low dependency of the Municipal Corporations on the grants and transfers.

**Table 15: Relative Shares of the Different Government Tiers in Municipal Revenues in MCs of KAVAL Towns, 2009**

Districts	Municipal Corporation	State Government	Central Government
Agra	18.75	45.49	35.76
Kanpur	13.97	32.26	53.77
Allahabad	16.20	24.84	58.96
Lucknow	42.41	47.95	9.64
Varanasi	14.25	36.74	49.02

Source: Karyakalaap, Director of Urban Local Bodies, Lucknow, Uttar Pradesh.

**Table: 16 Relative Shares of Different Tiers of Government in Municipal Revenues of the MCs of KAVAL Towns, 2018**

Districts	Municipal Corporation	State Government	Central Government
Agra	38.51	42.50	15.26
Kanpur	41.81	37.22	17.95
Allahabad	11.18	19.18	52.80
Lucknow	61.71	20.35	9.65
Varanasi	22.06	28.35	45.44

Source: Karyakalaap, Directorate of Urban Local Bodies, Lucknow, Uttar Pradesh.

The tables decipher that it is the State and Central Government, as a share of the Municipal revenues which has dominated amongst all the three tiers in the KAVAL Towns. In 2009, the share of the Municipal own revenues has been the lowest in all the cities except Lucknow. Even after a hiatus of ten years, it is only Lucknow and Kanpur where the share of municipal own revenues have been moderate. The other cities are still being dominated by the share of SFC and CFC. It means they have largely relied over the SFC and CFC rather than making efforts to enlarge their own revenue base. In the due course of ten year period, Central Government has emerged as a crucial source of urban infrastructure in the municipal corporations which has increased to in the range of 30-50 percent from an earlier meager value of just 1 percent. However, at the same time it acts as a source of balancing the municipal income for those municipal corporations who has a low revenue base. State government transfers has accounted for about 60 to 70 percent of the total revenue income in the municipal corporations of Uttar Pradesh giving rise to a conclusion that they are highly transfer dependent Municipal Corporations.

The low share of the municipal corporations in the revenue income of the KAVAL Towns except Lucknow and Kanpur suggests that Municipal bodies are at a risk of maintaining their fiscal identity as the third tier of government. It is necessitated on the part of the municipal bodies to have a sound, stable and strong structure of their own revenues which is a pre requisite for the credit worthiness of the municipal bodies in the state as well as country (IMFR, 2011).

We can sum up by stating that it is only Lucknow which has shown a good performance in both the parameters with the highest growth rate. Conversely, Kanpur and Allahabad have shown poor performance with the negative growth rate.

## Conclusion

The analysis of the municipal finances in the KAVAL Towns of Uttar Pradesh has shown that income and expenditure have been poor in these Municipal Corporations. Even though the revenues have increased, but the increase is not visibly significant. In terms of tax revenues, it is Lucknow, Kanpur and Agra who have managed to maintain themselves by achieving moderate growth. Non tax revenues on the other hand have been better represented by Varanasi and Lucknow only. As far as expenditure growth is concerned, no Municipal Corporation has been successful in achieving visibly significant growth. Almost all the districts manifest a high share of revenue expenditure against the capital expenditures revealing lack of development in the districts. There has been a huge gap between the revenue generating capacity and expenditure responsibilities in all the Municipal Corporations of KAVAL Towns. This leads to dependence on the higher levels of government for grants and transfers on a very large scale. Regarding the growth of transfers, except Lucknow and Kanpur, all the other cities have registered very high growth rates proving their heavy dependence on transfers. The percentage share of own revenues is also found to be abysmally low implying a decline of the revenue base. The low revenue base eventually results in miserably poor performance of these Municipal Corporations in terms of expenditure. The different shares of the three levels of Government are also assessed in terms of their percentage share in the total revenues. It shows that the revenues are dominated by the Central and State Government enormously. The share of the Municipal Corporations is miserably poor reflecting on the miserably poor state of the Municipal sector in these cities. Henceforth, the differences in the Municipal Finances of these KAVAL Towns is because of

- (a) Inter-city disparities i.e., disparities present within a state among the cities. Lucknow being the capital city and Kanpur and Agra being the industrial ones has managed to maintain the pace.
- (b) The higher income cities have performed better as compared to the low income cities, meaning thereby that the income of the district has a positive relationship with the Municipal Development. Some of the studies conducted in the past confirm the same in their studies (Mathur, O. P., Thakur, D., Halen, A. K., Chowdhury, S., Mehrotra, S., Rakshit, R., & Sarkar, C. (2011).

Low income and expenditure always traps the urban local bodies in the vicious circle that makes the revenues generally poor and insufficient enough leading in turn to their heavy dependence on grants from the central and the state level. The functions and responsibilities of the municipal corporations are increasing much higher than their income and expenditure. This creates the gap or the imbalances which affects their performance in

terms of efficiency. It calls for the improvement and augmentation in other sources of revenue for the efficient working of the municipal corporations and covering of the revenue gap. Therefore, the policy makers at the Central and the State level should look into this matter while the allocation and distribution of funds to these concerned bodies. This will lead to the development of the urban areas and the better provision of services to the citizens.

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