

Municipal Finance: A Study of Thiruvananthapuram Municipal Corporation

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Abstract: Among the six municipal corporations in Kerala, Thiruvananthapuram Municipal Corporation (TMC) is the largest one. The major share of TMC's revenue is from transferring state funds and grants, with property and professional tax account for over 90 per cent of TMC's tax revenue. However, the lack of revision of the professional tax rate since 1988 and the inclusion of entertainment tax in goods and service tax have significantly affected the resource mobilisation of TMC. There is much scope for an increase in non-tax revenue collection, such as trade licence fees, building permit fees, registration fees, and rents from municipal properties. The state government transferred the largest amount in all four years. The programme or annual plan is the largest item among the five expenditure categories. The need for tax rate revisions is crucial to address the financial challenges faced by TMC.

Keywords: Municipal Finance, Revenue Receipts, Revenue Expenditure, Fiscal Performance.

As per the amendments to the constitution of India (73rd and 74th), which significantly devolved powers to local bodies, the government of Kerala has transferred several functions to local bodies in Kerala. Following this, the Kerala Municipality Act (KMA), 1994, was passed, and several functions previously exercised by the state government were transferred to municipalities and municipal corporations (MCs) in Kerala. Rules are formulated for revenue mobilisation and expenditure by the municipalities. Attempts are made to better collect property tax and other tax and non-tax items. The major issues in the municipal finances in Kerala are insufficient resources due to several factors, such as lack of freedom to revise rates of own tax and non-tax items, inadequate transfer of state funds, and non-implementation of State Finance Commission (SFC) recommendations. Only a few attempts have been made to study the municipal finances in Kerala. In this context, the study examines the finances of Thiruvananthapuram Municipal Corporation (TMC). The aspects examined are tax and non-tax revenue receipts, the efficiency of tax

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collection, transfer of funds and grants, major items of Expenditure and Total Expenditure.

Profile of TMC

The jurisdiction of TMC, the capital city of Kerala, covers an area of 214.86 sq. km (Table 1). According to the 2011 census, TMC has a population of 9.60 lakh. TMC is the largest city in Kerala in terms of total population, area, and number of wards. The city's population density is estimated as 4470 persons per sq. km. The TMC has 100 wards, and the average population per ward is 9603. The decadal growth of the population between 2001 and 2011 is estimated at 3.25 per cent. Of the total population of Thiruvananthapuram district, the share of the population of TMC is estimated at 27.41 per cent. The number of government schools coming under the jurisdiction of TMC is 121. The TMC has 20 primary health centres, six veterinary hospitals, four homoeopathy hospitals, and 12 Ayurveda hospitals. Half of the 100 municipal wards are reserved for women councillors.

Table 1. Profile of Thiruvananthapuram Municipal Corporation (TMC)

Items	Status
Wards (Number)	100
Area (KM ²)	214.86
Total Population (2011 Census) (Number)	9,60,347
Density (Per sq. km)	4470
The average population of per ward (Number)	9,603
Population Growth (Decadal %)	3.25
Share of TMC population in District (%)	27.41
Institutions under TMC	
Government Schools (Number)	121
Anganwadi (Number)	20
Primary Health Centers (Number)	20
Veterinary Hospitals (Number)	6
Hospitals – Homeopathy (Number)	4
Hospitals – Ayurveda (Number)	12
Old Age Homes (Number)	2

Source: BWR (2017).

Tax and Non-tax Revenue of TMC

The major revenue receipts of MCs in Kerala are tax and non-tax items, as well as state funds and grant transfers. The taxes levied and collected are property, profession, entertainment and advertisement. Non-tax revenue items are building permits, rent, licences, and market fees. Transfer of state funds as per SFC awards is another major source of revenue. Similarly, the Union Finance Commission (UFC) recommends distributing specific grants from union government funds to MCs. Table 2 presents the trend in the amount of three major sources of revenue receipts between 2012-13 and 2015-16, its annual growth rate, and share from each item. From Table 2, we can draw the following observations. (1) The revenue increased from Rs 78.88 crore to 99.42 crore within three years. (2) There has been a decline in the growth of non-tax revenue since 2013-14. During 2015-16, this item indicated a negative growth of (-)23.6 per cent. The increase in the amount of transferred funds from the state indicated a marginal increase in the years 2013-14 and 2014-15 but recorded an increase in 2015-16.

Table 2. Total Revenue Receipts of TMC

No	Item	2012-13	2013-14	2014-15	2015-16
		Amount (Rs in Crore)			
1	Tax	78.88	87.11	91.86	99.42
2	Non-tax	18.09	24.94	29.04	22.18
3	Transfer of state funds and grants	154.64	155.76	156.07	196.05
	Total	251.61	267.81	276.97	317.65
		Composition (%)			
1	Tax	31.4	32.5	33.2	31.3
2	Non-tax	7.2	9.3	10.5	7.0
3	Transfer of state funds and grants	61.5	58.2	56.3	61.7
	Total	100.0	100.0	100.0	100.0
		Growth (%)			
1	Tax	-	10.4	5.4	8.2
2	Non-tax	-	37.8	16.4	-23.6
3	Transfer of state funds and grants	-	0.7	0.2	25.6
	Total	-	6.4	3.4	14.7

Source: BWR (2017).

Property Tax

The GPs and municipalities are collecting property tax on buildings based on KMA 1994. This item of tax assessed on an annual rental value basis (of MCs from April 1, 1993) was changed to the plinth area basis of the buildings. As per KMA 1994, revision of property tax has to be effected once in five years, but the state government has not revised the rate for more than two decades due to a lack of rules since 1994. The fifth state finance commission, Kerala, which examined the issue, recommended framing necessary rules and revising them once in five years. It also recommended compensating municipalities for the lapse and revising it once in five years. The successive governments in Kerala failed to effect periodical revision and improve the finances of municipalities and MCs. Table 3 gives the revenue from the property tax of TMC between 2012-13 and 2015-16. The major share of TMC's tax revenue is collected from

Table 3. Tax Revenue of TMC

No	Item	2012-13	2013-14	2014-15	2015-16
		Amount (Rs in Crore)			
1	Property tax	45.07	49.94	51.74	53.72
2	Profession tax	27.84	30.65	33.09	35.96
3	Entertainment tax	4.73	5.02	5.44	8.22
4	Advertisement Tax	1.25	1.50	1.56	1.52
5	Others	0.00	0.00	0.02	0.01
	Total	78.89	87.11	91.85	99.43
		Composition (%)			
1	Property tax	57.1	57.3	56.3	54.0
2	Profession tax	35.3	35.2	36.0	36.2
3	Entertainment tax	6.0	5.8	5.9	8.3
4	Advertisement Tax	1.6	1.7	1.7	1.5
5	Others	0.0	0.0	0.0	0.0
	Total	100.0	100.0	100.0	100.0
		Growth (%)			
1	Property tax	-	10.8	3.6	3.8
2	Profession tax	-	10.1	8.0	8.7
3	Entertainment tax	-	6.1	8.4	51.1
4	Advertisement Tax	-	20.0	4.0	-2.6
5	Others	-	-	-	-50.0
	Total	-	10.4	5.4	8.3

Source: BWR (2017).

property tax. The revenue growth rate from this tax was very small in 2014-15 and 2015-16.

Profession Tax

Another major item of tax collected by MCs is the professional tax, which is collected at half yearly from every institution/business unit that transacts business in the municipal area. The state government collects professional tax in India in all states except Kerala and Tamil Nadu. A major problem TMC faces is the meagre upper limit of the tax. The upper limit of Rs 2500 per year remained unchanged for the last 36 years. In India, the states do not have the power to change the rate or upper limit of the tax. The power is vested with the Indian Parliament. Though the Union Finance Commission has recommended raising the ceiling from Rs 2,500 to Rs 12,000, the Union Government has kept the rate the same. Due to this, the MC has been incurring a substantial loss in revenue. The 5th SFC, which examined this issue, found that there is considerable scope for increasing the revenue by bringing the categories that evade this tax.

Entertainment and Advertisement Tax

The entertainment tax was also collected from events such as exhibitions, performances, games, sports, and cinema halls until 2017. However, this tax has been included in GST since July 2017. This has resulted in the loss of revenue from this tax to the entire category of local bodies in Kerala. This tax accounted for 8.3 per cent of the total tax revenue of TMC in 2015-16 (Table 3).

The advertisement tax is collected on various advertisements and displays on land, buildings, walls, and hoardings for public viewing. This complex tax requires time-consuming procedures to approve rates and collect the tax. The introduction of the tax requires the preparation of by-laws to be approved by the Director of Urban Affairs and the local self-government department. The revenue from this tax accounted for 1.5 per cent of the total tax revenue of TMC in 2015-16 (Table 3).

Non-Tax Revenue

It is the second major item of own tax revenue collected by Municipalities and municipal corporations in Kerala. The major items of revenue of TMC are rents from municipal properties, fees and user charges, and other incomes. The fees and user charges account for the bulk of this revenue. The most important item is the building permit fee for constructing new buildings such as houses, flats and shops. The total amount collected from this item was Rs 15.58 crore in 2015-16 (Table 4). Rents from municipal properties account for Rs 4.37 crores in 2015-16.

Efficiency of Tax Collection and Income Rates

The consolidated tax revenue and demand collection balance (DCB)

Table 4. Non-Tax Revenue of TMC (Rs in Crore)

No	Item	2012-13	2013-14	2014-15	2015-16
1	Rents from municipal properties	4.57	3.72	3.97	4.37
2	Fees and user charges	12.70	20.33	23.07	15.58
3	Other income	0.82	0.89	2.00	2.23
Total		18.09	24.94	29.04	22.18
Growth rate (%)		-	37.9	16.4	-23.6

Source: BWR (2017).

presents the demand side, such as arrears and current revenue, as well as the collection side and collection efficiency (Table 5). The efficiency of arrears collection indicates a positive trend between 2012-13 and 2015-16. On the other hand, the collection efficiency of current revenue continued to remain poor throughout the years. This suggests the need to increase the efficiency of collecting current tax revenue.

Table 5. Consolidated Tax Revenue DCB (Rs Crore)

No	Item	2012-13	2013-14	2014-15	2015-16
I	Demand				
1	Arrears	33.69	43.85	58.95	69.01
2	Current	78.88	87.13	87.78	101.80
3	Total (A)	112.57	130.98	146.73	170.81
II	Collection				
1	Arrears	10.30	9.33	12.27	12.37
2	Current	58.42	62.77	69.66	78.81
3	Total (B)	68.72	72.10	81.93	91.18
	Balance (A-B)	43.85	58.88	64.80	79.63
III	Collection Efficiency (%)				
1	Arrears	30.58	21.27	20.81	17.93
2	Current	74.06	72.04	79.35	77.42
3	Overall	61.04	55.04	55.83	53.39

Source: BWR (2017).

The income ratios are indicators of various revenue items to the total revenue. Of the total revenue, the share of tax revenue remains at a rate ranging between 31.27 and 33.16 per cent (Table 6). Regarding non-tax revenue, its share varied between 7 per cent to 10.4 per cent. Own income to total revenue varied between 38.25 per cent and 43.65 per cent. Revenue grants to total revenue ratio also significantly varied during these four years. In the case of compound annual growth rate (CAGR) and operating margin, the only year that indicated much difference is 2012-13. Overall, the income ratios indicated a stable level during the four years.

Table 6. Income Ratio (%)

No	Item	2012-13	2013-14	2014-15	2015-16
1	Tax Revenue to Total Revenue	31.35	32.52	33.16	31.27
2	Non-Tax Revenue to Total Revenue	7.19	9.31	10.48	6.98
3	Own Income to Total Revenue	38.54	41.83	43.65	38.25
4	Revenue Grants to Total Revenue	61.46	58.15	56.35	61.67
5	CAGR* of Total Revenue	41.42	28.65	21.81	20.37
6	Operating Margin	5.33	27.82	23.74	27.89

* Compound Annual Growth Rate
Source: BWR (2017).

Transfer of State Funds and Grants

A major item of revenue of MCs is the fiscal transfers of state funds. In India, intergovernmental fiscal transfers are done by institutions such as UFC (from union to states) and SFC (from state to local governments). The 5th SFC has recommended a transfer of 20 per cent of the net proceeds of the annual state tax revenue of Kerala to local governments as devolution. The transfer of funds is meant to meet mandatory functions, maintain road and non-road assets, and finance annual development plans. The SFC named the fund for general purpose, maintenance, and development.

The total funds transferred per SFC recommendations to TMC increased from Rs 121.53 crore in 2012-13 to Rs 125.59 crore in 2015-16 (Table 7). Besides this, the TMC also got UFC grants and other grants. The total amount received by TMC for four years from the above items is the share of each item, and the annual growth rate between 2012-13 and 2015-16 is given in Table 7. The transfer of state funds and grants accounted for the major share of the total revenue receipts of TMC for the four years (Table 2). The share of state funds and grants accounted for 61.7 per cent of the total revenue receipts in 2015-16.

Table 7. Transfer of State Funds and UFC Grants

No	Item	2012-13	2013-14	2014-15	2015-16
		Amount (Rs in Crore)			
1	Transfer of state funds as per State Finance Commission (SFC)	121.53	127.95	128.89	125.59
2	Union Finance Commission grants	25.93	17.57	16.21	54.34
3	Other grants	7.18	10.25	10.97	16.12
	Total	154.64	155.76	156.07	196.05
		Composition (%)			
1	Transfer of state funds as per SFC	78.6	82.1	82.6	64.1
2	Union Finance Commission grants	16.8	11.3	10.4	27.7
3	Other grants	4.6	6.6	7.0	8.2
	Total	100.0	100.0	100.0	100.0
		Growth (%)			
1	Transfer of state funds as per SFC	-	5.3	0.8	-2.7
2	Union Finance Commission grants	-	-32.2	-5.2	147.0
3	Other grants	-	42.8	10.0	71.7
	Total	-	0.7	0.2	25.9

Source: BWR (2017).

Items of Expenditure of TMC

The major expenditure items of municipal corporations in Kerala are the establishment, administration, maintenance, depreciation and programme. Establishment expenditure consists of payments to various categories of staff and elected persons. It consists of salary, wages, travelling allowances, pension contributions to staff, honorarium, sitting fees, and other items. The administrative expenditures are office expenses, council meetings, electricity charges for office buildings, rents paid for buildings hired, and other items. Maintenance of municipal assets such as road and non-road is another expenditure. Operations Expenditure consists of electricity charges, water charges, vehicle operating expenses, and other capital assets. Depreciation provides an amount to replace a capital asset when it completes its economic life. Programme expenditure is the item spent for development schemes and programmes included in

the annual plan.

Table 8 presents the Expenditure structure of TMC between 2012-13 and 2015-16. From the table, we can draw the following observations. First, establishment expenditure accounted for less than one-third of total Expenditure till 2014-15. However, it increased to a share of 38.3 per cent in 2015-16. Second, the share of administrative Expenditure was below 5.6 per cent except for one year. Third, the share of O&M expenditure ranged between 12.6 per cent and 15.2 per cent, except for one year. Fourth, there was a spurt in the share of depreciation expenditure in 2013-14. Fifth, programme or annual plan expenditure accounted for the largest item of Expenditure. A major share of the total Expenditure is spent in two years. Sixth, we can see much variation regarding the growth rate of expenditure items. A notable aspect is a huge fall plan in programme or annual plan expenditure in 2013-14.

Table 8. Structure of Expenditure of TMC (Rs Crore)

No	Item	2012-13	2013-14	2014-15	2015-16
		Amount (Rs in Crore)			
1	Establishment	70.47	66.46	68.99	95.17
2	Administrative	13.41	37.81	9.19	11.45
3	Operations & Maintenance	30.09	28.47	20.66	37.79
4	Depreciation	4.05	12.12	13.98	0.37
5	Programme	121.06	67.36	113.38	103.86
	Total Expenditure	239.08	212.21	226.53	248.66
		Composition (%)			
1	Establishment	29.5	31.3	30.5	38.3
2	Administrative	5.6	17.8	4.1	4.6
3	Operations & Maintenance	12.6	13.4	9.1	15.2
4	Depreciation	1.7	5.7	6.2	0.1
5	Programme	50.6	31.7	50.1	41.8
	Total	100.0	100.0	100.0	100.0
		Growth (%)			
1	Establishment	-	-5.7	3.6	37.2
2	Administrative	-	182.0	-213.4	16.9
3	Operations & Maintenance	-	-5.4	-26.0	56.9
4	Depreciation	-	199.3	45.9	-336.0
5	Programme	-	-44.4	38.0	-7.9
	Total	-	-11.2	6.0	9.3

Source: BWR (2017).

Fiscal Performance

A review of the fiscal performance of TMC is given in Table 9. We can observe the following from the table. (1) There has been a steady increase in the revenue receipts of TMC between 2012-13 and 2015-16. (2) However, the Expenditure of TMC is much lower than the revenue receipts. (3) This is mainly due to the low utilisation of programme or plan funds. (4) Compared to the programme expenditure in 2012-13, the fall in Expenditure was -44.4 per cent in 2013-14, -6.3 per cent in 2014-15 and -14.2 per cent in 2015-16 (Table 8). (5) This shows the incompetence in utilising development funds given by the state and union governments for development. This indicates the need to prioritise the timely and efficient implementation of the programme and the utilisation of funds.

Table 9. Fiscal Performance of TMC

No	Item	2012-13	2013-14	2014-15	2015-16
1	Total revenue	251.61	267.87	276.98	317.91
2	Total Expenditure	239.08	212.21	226.53	248.66
3	Gross Surplus / Deficit of revenue over Expenditure	12.53	55.66	50.46	69.25
4	Total Prior Period Items(Net)	0.03	0.07	0.68	0.37
5	Gross Surplus / Deficit of revenue over Expenditure after prior period items	12.55	55.73	49.78	68.88

Source: BWR (2017).

Conclusions

We may draw the following conclusions from the above analysis of TMC's finances. Among the categories of revenue receipts, a significant share of revenue is received from the transfer of state funds and grants. Property and professional tax account for over 90 per cent of TMC's tax revenue. The lack of revision of the professional tax rate since 1988 has adversely affected the resource mobilisation of TMC. The inclusion of entertainment tax in GST, which TMC collected until July 2017, has also affected its resource mobilisation. There is much scope for an increase in non-tax revenue collection, such as trade licence fees, building permit fees, registration fees, and rents from municipal properties. The fiscal data indicates that the collection efficiency of current revenue could be better. Among the items for the transfer of funds, the largest amount was transferred as per the recommendations of SFC in all four years. However, there has been an increase in the share of UFC grants in 2015-16. AmTheogramme or annual

plan is the largest item. Among the five expenditure categories, a negative aspect of TMC's finances is the low utilisation of programme funds. This suggests the need to increase the efficiency of utilising programme funds.

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