

Assessment of the Municipal Finances in the North Eastern Indian State of Mizoram

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Abstract

The increasing level and pace of urbanization necessitate more and more municipal service delivery. The emergence of growth opportunities would require an efficient supply of infrastructure – water supply, drainage, and solid waste management, etc., and the municipalities have been the providers of such services. Growing urban infrastructure and service requirements require augmenting resources from various sources to meet expenditure requirements on operation and maintenance and provision of services. Thus, sound financial management with continuous efforts to mobilize own revenue sources by the urban local bodies and a well-functioning mechanism of revenue transfers from the higher governments would be the key to making them function efficiently in the urban administration and delivery of basic services. This paper assesses the finances of the Aizawl Municipal Corporation (AMC), the only municipality in Mizoram. The study observed that the finance of the AMC is heavily dependent on fund transfers from the Central and State governments and that the average contribution of revenue from own sources to the total revenue receipt (TRR) from 2015-16 to 2021-22 was only 11.59%, which renders the Corporation vulnerable in its ability to provide basic infrastructure and civic services. Moreover, the own revenue receipt is less than one-third of the revenue expenditure of the Corporation throughout the years under study with no visible sign of improvement. The only tax revenue source is property tax, which showed time volatility with an annual growth rate of 14.2% since its introduction, and has indicated a promising trend in its collection with the resumption of economic activities during post covid-19 pandemic. The burgeoning revenue expenditure outpacing revenues from own sources and fund transfers from central and state governments is a concern. Resources increasingly directed towards committed and non-productive activities could hamper the ability of the Corporation to deliver quality civic infrastructure and services while also posing a challenge to the sustainability of the handling of solid waste management, the core function of the corporation.

Keywords: Municipality, AMC, Urban, Property Tax, Own Revenue, Unit Value Method

Introduction

Urbanization has been one of the features of economic growth worldwide, and the urban sector has become the driver of growth. The Indian economy is also increasingly driven by its urban sector (Bahl, 2012), and there is a need to position Indian cities as drivers of the structural

transformation of the Indian economy (Ahluwalia et al., 2019). Cities drive economic growth by catalyzing agglomeration and network externalities (Mishra et al., 2020). Therefore it is necessary to make urban administration a catalyst for the development of the economy through efficient delivery of essential services. This would require progressive provisions for infrastructures to keep the quality of services delivered improving at the same pace as economic development. The increasing level and pace of urbanization calls for the gearing up of municipal service delivery, and the emergence of growth opportunities would require an efficient supply of infrastructure – water supply, drainage, and solid waste management (Srinivasan, 2006). Municipals or Urban Local Bodies (ULBs) and Panchayati Raj Institutions are the main providers of key services at the grass-root level of the citizens (Singh & Singh, 2015). The exponentially growing urban infrastructure and service requirement would require augmenting resources from a variety of sources (Rao, 2013). A vibrant urban India acting as an engine of growth needs drastic reforms in the municipal finance system to broaden and deepen the resource base required to match the urban population's growing needs of infrastructure and civic services (Mohanty et al., 2007).

Since independence, municipal finance in India shared an insignificant position in the country's public finance, characterized by a poor resource base, lack of autonomy, low capacity to mobilize resources and heavy dependence on central and state government (Jain and Joshi, 2021). The 73rd and 74th Constitutional amendments in 1992 have become a landmark in India's municipal finances, which attempted to improve their performance through the delegation of functions and financial powers. The 73rd and 74th Constitutional amendments made an attempt to include important functions like devolution of financial and administrative responsibilities to the third tier of governance, therefore making a path for fiscal federalism (Singh & Singh, 2015). The financial constraint of the municipalities still persists, and their dependence on fund transfers from the central and state continued to increase even after the two constitutional amendments in 1992. Their sources of own revenue are limited (Mishra et al., 2020) and lack buoyancy, leading to a decline in their financial autonomy and increasing their dependence on transfers from higher levels of government (Ahluwalia et al., 2019). This has significantly weakened the rate at which large cities finance services from their own sources (Bahl, 2012). Consequently, the urban local bodies face the problems of inadequate revenue generation and expenditure shortfalls, leading to poor service delivery (Bandyopadhyay, 2014).

On the other hand, the huge dependence on grants is also viewed as a policy instrument to fund the infrastructure deficit in the country through the municipal sector, which adversely affects their fiscal stability (Jain and Joshi, 2022). Similarly, the dependency of the local governments on fiscal transfers is also viewed as the result of limited revenue sources for the local bodies, which arises primarily because of vertical mismatches between functions and finance between the local and upper governments, and greater dependency on the latter adversely affects the functioning of the former (Kumar & Singh, 2017). Thus, sound financial management with continuous efforts to mobilize own revenue sources by the urban local bodies and a well-functioning mechanism of revenue transfers from the higher governments would be the key to making them function efficiently in the urban administration and delivery of basic services. An attempt is made in this paper to assess the finances of the municipal government in Mizoram.

Review of Literature

There is a plethora of empirical literature studying the finances of municipalities in India. The primary focus is largely on the performances of the municipal governments on

revenue collections from their own revenue sources. More focus on the efficiency of revenue collection is necessary as revenues of the municipalities in India are insufficient to meet the growing expenditure needs of urban areas (Matari, 2017). Chaubey (2003) divided the own revenues of the urban local body as tax revenues (own tax, assigned tax, and shared taxes), and non-tax revenue (property income, rent, royalty, interest, fees, fines, user charges, etc.). Property tax is the most important urban local tax in India (Chattopadhyay and Prasad, 2015), while user charge is the most important component of non-tax revenue (Bandyopadhyay, 2014). The own revenue of the municipal governments in India is found to be non-buoyant to the growth of the economy. Municipal corporations are reluctant to utilize their sources of revenue, though there is a good scope for raising revenue from tax and non-tax sources (Kumar and Singh, 2017). The total own municipal revenue as a percentage of GDP reduced from 0.59 in 2002-03 to 0.54 in 2007-08 (Jain and Joshi, 2021). Of the total own municipal revenue, Rao and Bird (2011) estimated that non-tax revenue collections from cities account for only 0.13 per cent of GDP in India. At the same time, Jain and Joshi (2021) observed that the municipal tax revenue as a percentage of GDP decreased from 0.39 to 0.35 during 2002-03 and 2007-08.

Property tax is the mainstay of the local government revenue system, and it is the maximum contributor to the own revenues of the municipalities (Bahl, 2012; Chattopadhyay and Prasad, 2015; Alok and Vashist, 2016). Ahluwalia et al. (2019) estimated that the revenue receipt of the municipalities in India from property tax was 0.15% of the GDP in 2017-18, which was far below the level of 1% for recurrent taxes on immovable property in OECD countries. With the rationalization of rates and methods of collection, it has been found that the yield of property tax has risen tremendously (Chaubey, 2003), and its share in the total revenue is consistently rising, indicating that it has become the most important sources of revenue to meet the expenditure responsibilities of municipal corporations (Jain and Singh, 2022). However, property tax is found to be inelastic because of inefficient administration in the assessment and collection (Alok and Vashist, 2016; Bahl, 2012; Mishra et al., 2020). Mathur et al. (2009) showed that the total tax demanded over their study period showed signs of stagnancy with the reasons being the low rate of incorporation of new properties into the municipal tax register, property tax values not being revised as per the provisions of the municipal act, and provisions relating to depreciation in property tax yields on account of the age of building combined with other rebates which have seriously eroded the productivity of property tax. Consequently, the absence of a formal count of properties is one of the major handicaps in reaching a more accurate estimate of the productivity of property tax potential in India.

Mismatches between the expenditure requirements of the urban local government and revenue generation are another area of concern. The main problem facing the urban local bodies in India is inadequate revenue mobilization which fails to match their growing expenditure responsibilities (Bahl, 2012; Bandyopadhyay, 2012; Matari, 2017). The gaps between revenue inflows and expenditure requirements could not be covered with the current revenue structure (Bahl, 2012). Thus, the problems of inadequate revenue generation and expenditure shortfalls led to poor service delivery (Bandyopadhyay, 2014). Of the total expenditures of the urban local governments in India, Jain and Joshi (2021) observed that revenue expenditure constituted 60.6% in 2007-08. Moreover, Jain and Singh (2022), in their study of municipal finance in Meerut, Uttar Pradesh, observed that within the revenue expenditure, the share of the establishment had been very high, ranging from 55.76% in 2013-75 to 75% in 2019-20, which showed the unproductive nature of the revenue expenditure.

At the same time, Ahluwalia et al. (2019) showed that at an all-India level, administrative and establishment expenditure accounted for about half of the revenue

expenditure. Regarding the spending on five core activities of municipal governments such as water supply, roads, drainage, sewerage and street lighting, Mohanty et al. (2007) found that the proportion of spending on these activities among the municipalities in India ranged from 35% to 65%. It may be noted that the 11th and 12th Finance Commissions put conditions on the disbursement of grants to direct expenditure away from establishment cost but towards the provisions of core services. Studies also found that there is a shortage of expenditures on operation and maintenance (O&M) among the municipal governments in India. Bandyopadhyay (2014) showed that on average, for all the services, there is a shortage of 57% in the O&M expenditure norms, the shortage being the highest in the biggest size class of cities. For cities in Karnataka, only 27.5% of the O&M expenditure requirements can be fulfilled by their own revenues once the potential for the latter is fully realized. This proportion is higher in bigger cities with moderately high variation across cities. Further, the recovery of O&M costs incurred in the delivery of the services is not adequately planned in the current system, and the user charges are not fixed on any economic/financial principles, which affects the financial self-sufficiency of services delivered (Nallathiga, 2009). So, municipalities should rationalize their service charges so that at least the operation and maintenance costs can be recovered (Alok and Vashist, 2016).

Increasing dependency of the municipalities on the fiscal transfers from the higher governments (central and state) is a problem which renders the local governments vulnerable with respect to their spending decisions towards the provisions of basic infrastructure and services. This dependency is primarily seen as the result of vertical mismatches between functions and finances between the local government and upper-tier governments (Mohanty et al., 2007; Matari, 2017; Kumar and Singh, 2017; Vanlalchhawna, 2019). In their study, Mohanty et al. (2007) observed that municipalities which have lower levels of under-spending or better performance have fared well in the criteria of dependency, decentralization, tax administration and expenditure equality. It was also found the municipalities which had a better delegation of revenue powers and less dependency on the upper-tier governments were the best performers in terms of the provision of core services. Thus, this study suggested that restructuring revenue powers be given top priority by the state government if urban amenities were to be improved significantly. On the other hand, Rao (2013) was of the view that empowering local government would imply the avoidance of heavy transfer dependency, imposing a hard budget constraint in ensuring adequate resource handles for the provision of public services the local governments are mandated to provide. Meanwhile, Jain and Singh (2022) favoured enabling the municipal governments' access to municipal bonds to improve the fiscal health of the municipalities.

Data and Methodology

The main objective of this study is to assess the financial performance of the municipal government in Mizoram. As Aizawl Municipal Corporation (AMC) is the only municipal government in Mizoram at the time of the study, the scope of this study is restricted to this Corporation only. The entire analysis presented in this study depends on secondary data collected from reports and official documents of the Aizawl Municipal Corporation. The Annual Financial Statement (AFS) of the AMC for different years form the basis of the data for the study. To supplement and rectify data obtained from AFS, the office of the AMC was visited several times, and official documents were examined from September-October 2022. The years from 2015-16 to 2022-23 were selected for the period of study as more detailed data required for the analysis could be obtained from the budget and other official documents from 2015-16 only.

With respect to the analysis of the data, this study simply follows simple statistical tools like percentages, while the trend is analyzed by calculating the compound annual growth rate (CAGR) using the semi-log regression equation: $\log(Y) = \alpha + \beta t$, where Y and t are the variables of interest and time, respectively, and the $CAGR(r) = e^{\beta} - 1$. In addition, ratios such as tax revenue to revenue expenditure, expenditure on O&M to total expenditure, etc., have also been calculated to examine the financial performances.

Municipality in Mizoram

Mizoram is one of the most urbanized states in India, with 53% of the 10.97 lakhs population living in urban areas in the 2011 census. Currently, there are 23 notified urban centres (city and towns) in Mizoram, and more than half of the urban population is living in the state capital, Aizawl city. The institution of municipal government came into existence in the state with the enactment of The Mizoram Municipalities Act, 2007, by the state government. Aizawl Municipal Council (AMC) was established on the 1st July 2008 under this Act to become the only municipal government in Mizoram. The core functions delegated by the state government to this Council would be as per mentioned in the 12th Schedule of the Constitution of India. The AMC was upgraded to Corporation on 15th October 2015 by the Fourth Amendment of the Municipality Act 2007 as the population of Aizawl City had crossed the threshold limit of 3 lakhs in terms of the said Act. Although the state government had notified the establishment of a Municipal Council for Lunglei township in 2022, the first election has not yet been conducted and is expected to be held during 2023. As such, the Aizawl Municipal Corporation (AMC) is the only municipality fully functional in the state of Mizoram.

The Government of Mizoram has provided for a three-tier system of urban administration in Aizawl, comprising the Municipal Body, composed of elected councillors; Ward Committee (WC), headed by the concerned Councillor; and the Local Council, comprising the elected representatives of the people for each locality (Ralte, 2015). The Corporation consists of 31 councillors, 19 elected, six women from the reserved Ward, and 12 nominated councillors by the State Government consisting of 11 MLAs from the Assembly Constituencies within Aizawl city and 1 MP of the state. The 31 councillors constitute the Board of Councillors (BOC), chaired by the Mayor. The nominated councillors can participate in the BOC meeting but do not have voting rights. The BOC is the Corporation's apex and highest decision-making body. Its primary role is law-making and formulation of policies for the governance of Aizawl City. The executive body of the AMC, the Executive Committee, consists of the Mayor and Deputy Mayor, elected by the Councillors, and other 4 Executive Councillors.

There is a Ward Committee (WC) in each of the 19 Wards, consisting of a concerned Councillor as a chairman, two members each from all the Local Councils (LCs) within the Ward, and three other members amongst prominent citizens, one of which shall be a woman, appointed by the Chairman. There are 83 LCs under the AMC areas. Their roles defined under The Mizoram Municipalities (Ward Committee and Local Council) Rules, 2020 are supported by the WC in the discharge of its role, collection of waste, collection of property tax, issue of NOC for building constructions, shop licensing, etc., and other responsibility entrusted.

Own Revenues of the AMC

Revenues of the Aizawl Municipal Corporation can be broadly divided into two major sources: own revenue, which includes tax and non-tax revenues, and fund transfers from state

and central governments. Own revenue comprises tax and non-tax revenues (user charges, fees, etc.). Property is the only tax revenue collected by the AMC. It is the most important municipal tax in India and, theoretically, subscribes to the efficiency, ability to pay, benefit, and equity principles of public finance (Mishra et al., 2020). It is the only major source of municipal revenue for urban local governments in India (Ahluwalia et al., 2019). It is the only major source of municipal revenue for urban local governments in India (Ahluwalia et al., 2019). The AMC has collected property tax since 2015-16 under The Mizoram Municipalities (Property Tax Management) Rules, 2014. Though the Rules permit the collection of property tax on vacant lands within Aizawl city, the provision for the same was revoked immediately by the State Government on 23.6.2015. Consequently, property tax is levied only on tax on buildings to date.

Table 1: Unit Area Value and Multiplicative Factors for Property Tax Assessment

Unit Area Values (per sq. ft.)		Ownership & Usage Factor	Age Factor		
Zones	Rate (Rs.)	Status	Factor	Age of structure	Factor
A	20	Owners' residential use only	1.00	Less than 10 yrs.	1
B	19	Owners' residential use only	2.00	10 to 25 yrs before	0.90
C	18	Owners' Mix Use	1.50	25 to 50 yrs before	0.60
D	17	Tenants' Residential Use only	1.50	More than 50 years	0.40
E	16	Tenants' Commercial Use only	3.00	Declared heritage	0
F	14	Tenants' Mix Use	2.50	Vacant Land	1
G	12	Use by State Govt./PSU/Local Govt	1.00		
H	10	Use by the Departments of the Central Govt.	0.00		
Locations Factor					
		National Highway with RoY 5-12m or State Highways with RoY is 5-8m			1.00
		Major district roads would include roads with RoY is 5-8m			0.90
		Other district roads would include all other roads not listed above with RoY is 4-6m			0.70
		Any roads other than above would include village roads, stairways, hill slopes, having RoY < 4m			0.50
Structure Factor					
		Vacant Land not being agriculture with or without any commercial use			1
		Building/Apartment having a height of 15m/49.2ft or above with or without apartment open space			2
		Building/Apartment having a height below 15m/49.2ft with or without apartment open space			
		Ordinary (kutch) building			0.50
		Semi-permanent (semi kutch) building			0.70
		Permanent (pucca) building			1

Source: Aizawl Municipal Corporation, Notification No. G.29028/2014-AMC dated 13th May, 2015

The AMC is the only municipal Corporation amongst the municipalities in North Eastern India that adopted the Unit Area Method (UAM) of property taxation for which the Ministry of Housing & Urban Affairs, Government of India, sent its appreciation to the state government (AMC, 2022). Under this method, annual rateable value is determined with reference to location, type of construction, age of the building, and the nature of the use to which a property is put (Mathur et al., 2019), and it is a system of computation based on self-assessment principle (Mohanty et al., 2007). The property value is first calculated based on the Covered Area of each floor or unit of the building (CA), Unit Area Value (UAV). Multiplicative factors are devised for different categories of houses based on location, house structure, ownership and usage, and age of the house. Then, they are assigned factors, such as Location Factor (L), Structure Factor (S), Ownership & Usage Factor (U), and Age Factor (A). The adopted Unit Area Values (UAV) for different zones and multiplicative factors for the assessment of property values are presented in Table 1.

Note: RoY: Right of Way.

Secondly, as per Rule 14 of The Mizoram Municipalities (Property Tax Management) Rules, 2014, the annual property value (APV) is calculated using the following formula:

$$APV = CA \times UAV \times L \times S \times U \times A$$

Finally, the Property Tax would be collected at a flat rate of 3% of the APV and this rate has been adopted by the AMC from 2015 till 2022. The state Government revised the rate of property tax to 3.42% of APV in December 2021, which would be effective from the assessment year 2022-23. As presented in Table 2, revenue receipt of the Corporation from property tax has notably increased, with a Compound Annual Growth Rate (CAGR) of 14.2%, from ₹114.2 lakhs in 2015-16 and reached a peak of ₹344.1 lakhs in 2019-20 but declined in the following years, and it was ₹322.1 lakhs in 2021-22. The repeated lockdowns invoked to contain the Covid-19 pandemic was believed to be the reason for its decline. But, the Budget Estimate (BE) for the FY2022-23 indicated a strong rebound in its collection, estimated at ₹400 lakhs.

The AMC undertakes the assessment and collection of property tax with the active participation of the LCs, in which the former is responsible for its assessment, and the actual collection is entrusted to the latter. Notably, the revenue receipt from property tax is shared by the AMC and LC in the ratio of 20:80. Further, LCs are given 5% of the total revenue collected as a reward for completing the collection task in their respective areas. Thus, the actual share of the LCs on the property tax is 85% of the total receipt, channelled to them through the WC chaired by the concerned Councillor. Given the revenue collection from own sources and revenue transfers from higher governments, the Councillor Ward Development Fund (CWDF) is fixed by the BOC for all the AMC Wards, and the same amount is set for all wards. Further, the share of the LCs in the property tax is to be adjusted to the CWDF, and if the revenue shares of the LCs falls short of the approved amount of CWDF, the Corporation will meet the excess requirement. It is further observed that the CWDF is divided into tied and untied funds in a 50:50 ratio in which the former is usually tied to specific activities such as sanitation, etc., while the untied fund is to be decided by the Ward Committee. Reportedly, it is at the discretion of the concerned Councillor, who is automatically the supervisor of any work implemented under CWDF.

Meanwhile, the municipal government also generates revenue from various non-tax sources such as charges, license fees, fines, interest receipt, and other miscellaneous sales of assets (Kumar and Singh, 2017). Table 2 presents the non-tax revenue of the AMC from

different sources. It is observed that the most important source of non-tax revenue in terms of value and consistency is the bank interest received from the deposit of the municipal fund, despite not showing an increasing trend but fluctuating in the range of ₹65 lakhs in 2022-23 to ₹160.96 in 2018-19. It may be noted that the state government had to pay a substantial amount as penal interest for the late release of the fund from the central government to the AMC, therefore making room for funds received for the current fiscal, but could not be spent before the end of the financial year. Consequently, a substantial amount of the money received in the AMC account has to spill over to the next financial year (FY).

Moreover, the municipality can invest funds not intended for immediate use under Section 73 of The Mizoram Municipalities Act, 2007 (as Amended in 2015). The fund may be invested in government securities or any other avenues deemed appropriate by the State government, fixed deposits in SBI, cooperative banks, and other nationalized banks. As a result, the money received not for immediate use was invested by the Corporation in the form of a fixed deposit and earned substantial interest, which was as much as ₹160.95 lakhs in 2018-19 and ₹88.23 lakhs in 2021-22.

Table 2: Own Revenue Sources and Receipts of the Aizawl Municipal Corporation

(in lakhs)

SN.	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23BE
1.	<u>Tax Revenue</u>								
	Property Tax	114.18	220.40	275.53	297.07	344.06	307.79	322.09	400.00
	Total - Tax Revenue	114.18	220.40	275.53	297.07	344.06	307.79	322.09	400.00
2.	<u>Non-Tax Revenue</u>								
i	Rental income from Municipal properties	24.19	5.31	5.17	13.33	19.81	17.89	28.29	23.15
ii	Shop Licensing Fees	8.13	12.38	16.90	25.43	29.23	32.81	37.91	50.00
iii	Fees from building permit including fines	12.81	46.90	34.85	86.36	51.25	44.03	38.13	35.00
iv	Fees from Advertisement and hoardings	--	20.67	18.18	19.32	14.56	1.71	0.88	30.00
	<u>Other type of fees:</u>								
	a) Zemabawk Market Fees	6.87	0.56	0.98	0.92	0.86	0.01	--	0.10
	b) Street Vendors Fees	--	--	0.16	1.03	2.67	0.70	0.80	0.80
v	c) Fees from application of Birth & Death Certificate	--	10.20	9.25	16.27	10.52	0.61	1.10	0.50
	e) Electric & Water Bill reimbursement from STPI	--	1.05	0.58	0.74	0.63	0.47	0.43	0.45
vi	Parking fees	31.11	73.72	69.13	97.67	39.96	55.04	65.46	107.96
vii	Sale and hire charges	3.16	3.74	13.69	68.40	56.70	52.94	51.46	53.00
viii	Interests (Bank Interest)	73.38	66.32	68.98	160.96	73.72	68.33	88.23	65.00
	<u>Any other non-tax revenue receipts:</u>								
ix	Fines/Fees collected for sanitary component	1.82	3.02	1.07	78.48	9.02	0.72	5.58	4.46
	Beneficiary's contribution etc.	12.92	33.71	5.62	2.37	0.01	1.50	3.36	--
	Total - Non-Tax Revenue	174.39	277.57	244.57	571.29	308.93	276.77	321.63	370.42
3.	TOTAL - OWN REVENUE	288.57	497.97	520.10	868.36	652.99	584.56	643.72	770.42

Source: Collected from Aizawl Municipal Corporation (2022) & Annual Financial Statements of AMC (various years)

Parking fees is one of the main contributors to the non-tax revenue (NTR) in AMC, whose contribution increased from ₹31.11 lakhs in 2015-16 to a peak of ₹97.67 lakhs in 2018-19, down to ₹55.04 the next year and rose to ₹107.95 in 2022-23. It may be noted that the contribution of the two items, interest and parking fees, accounted for 59.92% of total NTR in 2015-16 and 46.69% in 2022-23. The AMC collects parking fees from 51 designated parking areas by appointing contractors (or collectors) who are selected through an open tender on a quoted reserved price for a particular area for one year. In addition, the receipt from building permits has been another NTR main contributor, which has recorded an increase from ₹12.81 lakhs in 2010-11 to a high of ₹86.36 lakhs in 2018-19 and gradually decreased afterwards to ₹35 lakhs in 2022-23. The building permit is issued on payment of required fees under the

AMC Building Regulations 2012, which necessitates permission to construct any building within the municipal jurisdiction. It is reported that the AMC has issued more than 15000 building permissions to date.

The revenue from shop licensing fees has shown an increasing trend consistently during the last seven years, from ₹8.13 lakhs in 2015-16 to ₹50 lakhs in 2022-23. The shop (location of business) license is issued to regulate business activities within the municipal areas as per the Licensing Regulation, 2012. According to the official record, 10972 licenses have been issued under the Regulations. Revenue from sale & hire charges have also shown consistent increases over time, from ₹3.16 lakhs in 2010-11 to a peak of ₹68.40 lakhs in 2018-19 and ₹53 lakhs in 2022-23. Items included under sale & hire charges are revenue from sales of Receipt Books for parking fees, hoarding license application forms, building permit application forms, shop license forms, etc. The other major contributor to AMC's non-tax revenue is rental income from municipal properties, fees from Advertisement and hoardings, and fees collected from sanitary components.

Revenue Transfers from Central & State Governments

Like municipalities in the other Indian states, the AMC is also heavily dependent on revenue transfer from higher governments, i.e., central and state governments. Due to the limited revenue sources, lack of autonomy and a low capacity to mobilize sources, greater dependence on the higher governments is a feature of municipal finances in India (Jain and Joshi, 2021). Its inability to mobilize enough funds from its own sources has forced the AMC to be at the mercy of the state and central governments for any developmental works it wanted to implement. Fiscal dependency is a defining characteristic of Indian municipalities, and they are mostly dependent on the higher levels of Government (Mishra, Mishra, & Panda, 2020). The fund transfers from upper governments (central and state) contributed more than 90% of the total revenue receipt (TRR) of the Corporation in most years.

The flow of fund transfers to AMC from various sources from 2015-16 is presented in Table 3. The total fund transfer received by the AMC during the seven years presented contributed 88.41% of the total revenue receipt, which may also be interpreted as a high dependency of the AMC on the higher governments. High fiscal dependency also implies the vulnerability of the local government regarding spending on the provision of basic infrastructures and other amenities (Matari, 2017). Given the limited own revenue collections, it is clear that the capacity of the Corporation to finance development infrastructure for civic services is determined by the fiscal transfers received from higher governments (both central & state).

The sources of fund transfers to the AMC can be broadly divided into three main categories (1) state transfers comprising devolution of share of taxes as recommended by the 1st Mizoram Finance Commission (1st MFC) and grants-in-aid (GIA) given by the state government, (2) Urban Local Body (ULB) Grants from the central Finance Commissions, and (3) Other Transfers (CSS, penalty, etc.). The total amount of ULB Grants received as per the recommendations of the central Finance Commission, 14th Finance Commission (FC-XIV) and 15th Finance Commission (FC-XV) have been the main contributor to revenues, which accounted for nearly 55% of the total revenue receipt during these 7 years. The ULB Grants received from the Central Government as per the central finance commissions' recommendations have been the largest fund source for this Corporation.

Table 3: Fund Transfer to Aizawl Municipal Corporation (AMC) from State & Central Governments

		(₹ in lakhs)						
SN	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22RE
1	State Devolution of share of taxes:							
	(i) Salary	--	90.00	924.58	507.29	359.46	--	--
	(ii) Non-Salary	--	243.66	1980.82	1432.27	1058.47	--	--
	Total	--	333.66	2905.40	1939.56	1417.93	--	--
	State Grants-in-aid							
	(i) Salary	327.28	--	--	--	--	599.18	222.25
	(ii) Non-Salary	257.59	--	--	--	--	268.83	1306.27
	Total	584.87	--	--	--	--	868.01	1528.52
	Total Transfer from State Government	584.87	333.66	2905.40	1939.56	1417.93	868.01	1528.52
2	Urban Local Body grants from the 14th/15th Central Finance Commission	2968.91	1375.50	2192.50	1990.50	4486.50	4500.00	1700.00
3	Others Transfers (CSS, etc.)							
	(i) Penal Interest (Delay in release of 14th/15th FC Grants to ULB)	32.69	54.38	38.74	--	14.06	0.25	--
	(ii) AMRUT Project	--	73.00	171.39	205.97	--	1390.94	--
	(iii) Swachh Bharat Mission	--	--	28.72	14.40	68.56	7.00	13.61
	(iv) DAY-NULM	--	--	--	--	2.05	6.51	1.00
	(v) Other	--	--	--	--	--	--	--
	Contribution/Reimbursement	--	1.08	--	--	8.41	--	30.50
	Sub-Total of Others	32.69	128.46	238.85	220.37	93.07	1404.69	45.11
	TOTAL TRANSFER (From State & Central Govt.)	3586.47	1837.62	5336.75	4150.43	5997.50	6772.70	3273.63
	TOTAL OWN REVENUE (Tax & Non-Tax)	288.57	497.97	520.10	868.36	652.99	584.56	643.72
	TOTAL REVENUE RECEIPT	3875.04	2335.58	5856.85	5018.79	6650.49	7357.26	3917.35
	Devolution from State Govt. as % of Total Revenue Receipt	15.09	14.29	49.61	38.65	21.32	11.80	39.02
	ULB Grants from 14th/15th FC as % of Total Revenue Receipt	76.62	58.89	37.43	39.66	67.46	61.16	43.40
	Own Revenue as % of Total Revenue Receipt	7.45	21.32	8.88	17.30	9.82	7.95	16.43

Source: Aizawl Municipal Corporation (2022)

The share of state transfer has increased from 15.09% in 2015-16, reached a peak of 49.6% in 2017-18, and down to a low of 11.8% in 2020-21, which reflects the financial stress of the state government in the wake of Covid-19 pandemic. At the same time, other transfers generally meant for centrally sponsored schemes (CSS) through the state government accounted for around 5% and below in most years, except for 2020-21, when it contributed 19.09% of the total revenue receipt. The fund received for projects under Atal Mission for Rejuvenation and Urban Transformation (AMRUT) is the highest contributor of CSS fund received by the AMC, and it has received an amount of ₹1841.3 lakhs from 2016-17 to date. Meanwhile, the AMC received as much as ₹132.28 lakhs from Swachh Bharat Mission during this period.

Expenditure

The municipal expenditure includes revenue and capital expenditures. Revenue expenditure prominently covers staff salaries, pensions, operational expenses like repairing machines and buildings, stationery, and grants to local institutions (Jain and Singh, 2022). Expenditure patterns of AMC from 2015-16 presented in Table 4 show that the total expenditure increased from ₹2839.1 lakhs in 2015-16 to ₹6570 lakhs in 2022-23 with a CAGR of 14.5%. Revenue expenditure has outpaced the growth of total expenditure with a CAGR of 15.2% from ₹1368.7 lakhs to ₹4001.5 lakhs during this period. The share of revenue

expenditure is in the range of 40-67% all through the years. A further classification of revenue expenditure shows the declining share of operation & maintenance from 51.1% in 2015-16 to 27% in 2022-23, while the declining share of operation & maintenance was accounted for by increasing establishment expenditure over time. Here, one may consider the combined share of establishment and administrative expenses on the total expenditure as a measure of the Corporation's ability to provide basic services, as higher spending on it would compromise spending for the provisions of other services. Lower spending on administration and establishment purposes would leave more resources to the municipal corporations to provide civic amenities (Matari, 2017). Consequently, the increasing share of administration and establishment from 23.6% in 2015-16 to 33.6% in 2022-23 suggests the declining ability of the Corporation to provide basic services.

Table 4: *Expenditure Patterns of Aizawl Municipal Corporation*

		(₹ in lakhs)							
SN	Items	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22RE	2022-23BE
A	Revenue Expenditure								
	Establishment Expenses	453.0	663.9	522.4	685.8	878.0	1016.4	1033.6	1320.9
	Administrative Expenses	215.8	362.9	578.8	954.2	606.7	453.9	516.5	885.0
	Operation & Maintenance	699.9	959.9	224.2	819.8	763.7	862.9	1052.4	1080.0
	Programme Expenses	0.0	0.0	316.5	375.8	797.1	1125.3	387.3	715.0
	Interest & Finance Charges	0.0	0.1	0.2	0.1	0.1	0.2	0.6	0.6
	Revenue Expenditure	1368.7	1986.8	1642.0	2835.7	3045.7	3458.6	2990.4	4001.5
B	Capital Expenditure	1470.4	977.2	2440.6	2737.0	3371.0	2492.4	3922.5	2568.5
C	TOTAL EXPENDITURE	2839.1	2964.0	4082.5	5572.7	6416.7	5951.0	6912.9	6570.0
D	Economic Classification of Expenditure (%)								
	Revenue Expenditure	48.2	67.0	40.2	50.9	47.5	58.1	43.3	60.9
	Capital Expenditure	51.8	33.0	59.8	49.1	52.5	41.9	56.7	39.1
E	Breakup of Revenue Expenditure (%)								
	Establishment Expenses	33.1	33.4	31.8	24.2	28.8	29.4	34.6	33.0
	Administrative Expenses	15.8	18.3	35.2	33.7	19.9	13.1	17.3	22.1
	Operation & Maintenance	51.1	48.3	13.7	28.9	25.1	24.9	35.2	27.0
	Programme Expenses	0.0	0.0	19.3	13.3	26.2	32.5	13.0	17.9
	Interest & Finance Charges	0.00	0.00	0.01	0.00	0.00	0.00	0.02	0.01
F	Other Ratios (as % of Total Expenditure)								
	Estt. & Admin. Expenses	23.6	34.6	27.0	29.4	23.1	24.7	22.4	33.6
	O&M Expenditure	24.7	32.4	5.5	14.7	11.9	14.5	15.2	16.4
	Programme Expenses	0.0	0.0	7.8	6.7	12.4	18.9	5.6	10.9

Source: *Aizawl Municipal Corporation (2022). RE-Revised Estimate, BE-Budget Estimate*

The establishment expenditure has increased almost three times in 7 years, from ₹453 lakhs in 2015-16 to ₹1320.9 lakhs in 2022-23. A closer look showed that the salary & wages of the officers and staff of the Corporation accounted for more than 70% of the establishment expenditure, which would be above 90% if the remuneration of Councillors and Local Council (LC) members were added. If expenditure related to pension contributions is added, more than 99% of the establishment expenses went towards salary & pension. Thus, establishment expenditures may be called expenditures on salary & pension. Meanwhile, Administrative expenses also increased by more than four times from ₹215.8 lakhs in 2015-16 to ₹885 lakhs in 2022-23. The share of establishment and administrative expenditure on the total expenditure has been in the range of 23% to 34.6%. Operation & Maintenance expenses increased from ₹699.9 lakhs in 2015-16 to ₹1080 lakhs in 2022-23. The most important item under operation

& maintenance is solid waste management (collection, transportation, etc.). The annual expenditure on it has increased from ₹353.4 lakhs in 2015-16 to ₹650 lakhs in 2022-23, which accounted for more than 50% of the operation & maintenance expenditure of the Corporation. The share of O&M in the total expenditure is found to decrease over time from 24.7% in 2015-16 to 16.4% in 2022-23.

The collection and disposal of solid waste are undertaken jointly by the Local Councils (LCs) and the AMC. The 83 LCs are entrusted to collect solid waste from the designated points within their respective localities and transport it to Solid Waste Management Centre (SWMC) for disposal. The expenditure incurred is shared by the AMC and LC in the ratio of 80:20, which the BOC recently revised at 60:40. To recover their expenditure shares, the LCs collect user charges from the public within their jurisdictions. The user charge rates differ from one LC to another depending on the number of households in the areas. For sharing of cost, the total amount to be incurred by the AMC is determined by calculating 80% of whatever the amount is submitted by the LC as the amount utilized by them for solid waste collection and disposal (Ralte, 2015). With the revision of the cost-sharing pattern at 60:40 since 2022, the working of cost-sharing is simplified by determining the number of trips to each locality which would be fully financed by the AMC, which the AMC considered as 60% of the requirement on waste collection based on past records. Expenses on additional trips over and above the allotted number would be borne by the concerned LCs from the user charges collected in their areas.

Another important category of revenue expenditure is programme expenses which have gained increasing importance in recent years, and a sum of ₹715 lakhs is allocated for it in 2022-23. The main item, which accounts for more than 80%, is Councillor Ward Development Fund (CWDF). The allocation for this Fund is gaining progressive importance in recent years, especially during the Covid-19 pandemic. Allocation for CWDF has increased from ₹272.2 lakhs in 2017-18 and peaked at ₹1117.7 lakhs in 2020-21, and ₹570 lakh is the budget estimate (BE) for 2022-23. As noted earlier, an equal amount is allocated to all the AMC Wards, which is determined by the BOC, keeping in view the revenue positions and collection of property tax. Theoretically, the selection and prioritization of works shall be decided by the Ward Committee chaired by the concerned Councillor. However, experiences show that the concerned Councillor makes decisions on the matter, except for a few cases. In the absence of proper guidelines on the utilization of this fund, the concerned Councillor has discretionary power in the work selection, supervision, monitoring, and settlement of expenditure bills. Moreover, the economic nature of the expenditure is not clearly defined. It is booked simply under revenue expenditure, which may not be true for all cases as the field reality shows that substantial amounts are utilized on asset-creating expenditure.

Concluding Note

A notable feature of the finances of the AMC is heavy dependence on fund transfers from the Central and State governments, which renders the Corporation vulnerable in its ability to provide basic infrastructure and civic services. The average contribution of revenue from own sources to the total revenue receipt (TRR) from 2015-16 to 2021-22 was only 11.59%. Furthermore, the own revenue receipt is less than one-third of the revenue expenditure of the Corporation all through these years, with no visible sign of improvement. The revenue capacity significantly falling short of committed expenditures indicates the Corporation's vulnerability to the fiscal shocks that may come from the upper governments, which is subject to change given the country's fast-changing dimensions of fiscal federalism in recent years. If this trend

continues, a slight reduction in fund transfer will ramify negatively on the fiscal health of the Corporation and pose serious challenges to its ability to execute its mandated task of providing services to the people.

Property tax, the only tax revenue source, which shows time volatility with an annual growth rate of 14.2% since its introduction, has indicated a promising trend in its collection with the resumption of economic activities during post covid-19 pandemic. Property valuation based on the Unit Value Method (UAM) is theoretically seen as volatile with economic growth but subject to efforts to revise base rates at regular intervals, given the property's escalating market prices in different areas. The suspension of the property tax levy on vacant lands within the municipal area by the state government in 2015 needs reconsideration.

The burgeoning revenue expenditure at an annual compound rate of 15.2% since 2015-16, outpacing revenues from own sources and fund transfers from central and state governments, is a concern. In addition, the combined share of establishment and administrative expenditures on the total expenditure has increased from 23.6% in 2015-16 to 33.6% in 2022-23. As against this, the share of operation & maintenance has declined from 24.7% to 16.4% during this period. Resources increasingly directed towards committed and non-productive activities could hamper the ability of the Corporation to deliver quality civic infrastructure and services while also posing a challenge to the sustainability of the handling of solid waste management, the core function of the corporation. It may be necessary to have an expenditure policy framework with measurable parameters to control increasing revenue expenditure due to the expansion of the establishment and administration of the Corporation and to ensure adequate allocation towards operation & maintenance and capital expenditure for the provision of quality civic infrastructure and services.

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