Analyze *This*:

Deciphering the Code of '*Mumbai*' Budgets

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I. Introduction

Mumbai as serviced by M.C.G.M comprises only about 437 square kilometers, forms a very small proportion (less than half percent) of the expanse of the state of Maharashtra. It is undoubtedly the most dynamic mega polis in India and a torchbearer for India's economic surge. It needs to continue to grow rapidly if Maharashtra and indeed India have to sustain their economic momentum. However Mumbai will be hitting some roadblocks that will present themselves in several manifestations. The basic service provision and infrastructure will probably rank pretty high on the list of such roadblocks. It is therefore imperative that we address the problems with serious urgency. The welcome signs are that local government, the State government and the Central government not to mention several NGOs, private parties and others like MMRDA have been evincing interest in the matter. Mumbai therefore is the flavor of the season and yet this may not necessarily a good thing. There has to be clarification and clear demarcation of the respective domains of responsibilities of these various stakeholders so that delivery mechanisms become transparent, efficient and accountable. Mumbai enjoys an exalted status as a premier mega polis in India. It has been described as the financial, commercial and entertainment capital of India. Whatever measure one were to use to gauge its economic importance, one is sure to conclude that its economic prowess is significant in the context of Maharashtra's economy as well as that of India. Some of the following facts will make this amply clear.

- The total population of Mumbai on last count was just over 12 million. Of these about 55% live in slums, encroaching on 3500 hectares of prime land in 1100 pockets.
- At current prices, the Net Domestic Product of Mumbai is pegged over Rs. 92,000 crores accounting for around 26% of Maharashtra's Net State Domestic Product (NSDP)
- In the last five years the real growth in Mumbai's economy has shown a remarkable rate of over 9% that has naturally helped the State's economy to grow over 6.5 %. This is in contrast to the sharp slowdown in the Mumbai's growth rate in earlier years.

- The per capita income is pegged at around Rs. 72,000 is over three times that of the national average.
- The structure of production continues to show a deceleration in industrial activity with around 75% being contributed by the services sector. Yet it substantially shares in the industrial activity recorded in the state.
- While there is a multiplicity of modes through which investment in Mumbai's infrastructures takes place in Mumbai the precise figure is difficult to ascertain but there is a general consensus that there is a serious under investment in terms of even the order of magnitude.
- Several reforms in the nature of standardization accounting, service delivery and governance are on the anvil.

Given the importance of Mumbai in the overall scheme of things and from the standpoint of the process of decentralization that has been set in motion through the passage of 74^{th} Constitutional Amendment, we believe that the role of MCGM is particularly important. This is particularly so because the first state finance commission and all subsequent studies and relevant recommendations dealing with the devolution of funds to ULBs in Maharashtra have kept Mumbai out of reckoning for various reasons. The budgetary analysis therefore assumes importance. The size of budget of Mumbai, as is well known, is bigger than the budget of many a state in India. It is to the tune of around 8% of the income of the relevant economy. That it is horrendously complicated and difficult to comprehend will be clear from what follows and prompts our (sub) title.

The paper is organized in four sections including the introductory preamble. Section II, by way of a backdrop, briefly looks at the organizational structure of MCGM. Section III is the core of the paper. It analyzes the Budgets for five years. The treatment is in terms of standard economically meaningful variables starting from consolidated culminating in disaggregated view of the budgets. There is some confusing treatment in reporting that is commented upon and an attempt made to rectify and reconcile data. Ratios, proportions and trends allow us to get some insights into the progression seen in the real processes underlying the budget. In section IV we conclude.

II. MCGM: The Organizational Setup

This section is largely based on web base information (http://www.mcgm.gov.in). The Brihanmumbai Mahanagarpalika covers and services an area of over 437.71 kms., catering to the civic needs of over 1,19,14,398 Citizens. There are approximately 1,23,167 employees in different categories.

Two most important offices that hold the balance of prestige and power in the city government are those of the *Mayor of Mumbai* and that of the *Commissioner*. The office of Mayor combines a functional role of chairing the Corporation meetings as well as the ceremonial role associated with being the first of citizens of the premier city of India. Thus the Mayor being the ceremonial head symbolizes the Corporation sprit. As per amended Act, the Mayor and Deputy Mayor are appointed (normally through election) by the councilors. The tenure of the Mayor & the Deputy Mayor is of two and half years.

The Commissioner, a key figure in the local self-government, is the executive head and is virtually under constant watch by the citizens, councilors, and the state administration. Each section looks upon him expectantly for results in the administration. The Mumbai Municipal Corporation Act 1888, envisages separation of powers between the deliberative and executive functions making the Municipal Commissioner *theoretically* an all-powerful executive head. The important issue, therefore, that characterizes the city government is the relationship between the legislative and policy making bodies on the one side and the executive and administrative agencies on the other. This involves a healthy adjustment between the principle of democracy and the need for an efficient civic administration. It rests on three principles:

1. In the first place, it recognizes the distinction between policy making and policy execution.
2. Secondly, it entrusts the policy making function to the corporate body and the policy execution to a single individual the Commissioner, and
3. Thirdly, it makes the Commissioner more or less independent of the Corporation although the two always work in close co-operation.

As an aside, we may mention that since the commissioner is appointed by the state, he has to ride two horses and actually is not directly accountable to the city, as the mayor too is appointed by proxies (alibis) of the city. This has resulted in a major contemporary debate on the need for a directly appointed mayor. The Mumbai Municipal Corporation Act of 1888, within the framework of which the Corporation and the Commissioner function, has specified nine statutory collateral authorities charged with the distinct responsibilities of City Government. Each operates within the limitations set for it. Though the executive authority vests in the Municipal Commissioner, the 227 elected representatives (the Municipal Councilors) do exercise general authority over the civic affairs through budgetary and financial control by determining taxes and allocating expenditure approving contracts and other financial proposals and approving appointments to senior posts.

The 74th Amendment to the Constitution passed in 1992 has brought about radical changes and for the first time Municipalities have found a place in the country's constitution. By virtue of this amendment, the responsibility regarding economic planning and social justice has devolved on Municipalities, by special enactment of the State Legislature. The Constitution Amendment Act, also provides for establishment of Planning Committees for Districts and Metropolitan areas, as also at the Ward level. In accordance with this amendment, the Urban Local bodies are required to prepare co-ordinated plans for comprehensive development of areas within their jurisdiction and ensure social justice to the people. The plan for development of Brihanmumbai Mahanagarpalika to be so formulated could cover the activities not only of the Municipal Corporation but also of the State and Central Government, their statutory and non-statutory agencies, corporate and private sectors. The Indian Constitution has been amended with the purpose of making administration of Local Self Government more public oriented and decentralize powers. Accordingly, M.M.C. Act 1888, has been amended adding therein Section 50 TT which relates to the formation of the Wards Committees in the Jurisdiction of the Brihanmumbai Mahanagarpalika. The Corporation has, therefore, vide C. R. No. 1224 of 20-11-1997 form 16 Wards Committees and same are started functioning from January 2000. These have since been increased to 24.

Despite what is mentioned above, it is common knowledge that the commissioner and the bureaucracy have far too much power concentrated and the elected representatives including the Mayor are in-effect ceremonial. Also, it is common knowledge that due various reasons – that are again well documented in the literature – the decentralization in practice is a far cry from that envisaged in the 74th CAC. Several new Acts and Institutions that have been set up over time lead to a major governance tangle leading to overlapping authority and consequent lack of accountability. These are issues that surround the focal subject of this paper and yet crucial enough to warrant at least a mention (see for example On Urban Governance: The Case of Mumbai in the forthcoming February/March issue of MEDC Digest). With this bit of backdrop, let us now turn to the MCGM budgets.

III. The Core: BMC Budgets for Five Years

This section is further sub-divided into two. III(A) tries to capture the overall picture and section III (B) discusses each of the four budgets (A,B, E and G in greater detail).

III.0 *Overall Picture*

All budgets need be studied in the context of the income and growth rate of the jurisdiction under study. The Net District Domestic Product (NDDP) of Mumbai city has grown from Rs.54262 crores in 1999/00 to be about Rs. 109123 crores in 2006/07 (The numbers for 2005/06 and 2006/07 are extrapolated). The Table 1 given below shows that contrary to the normal belief, of a slowdown, Mumbai has shown a strong, secular and sustained upturn in growth for the last four to five years.

Table 1
Net District Domestic Product (DDP)

(Rs. Crs.)

1999-00	2000-01	2001-02	2000-03	2003-04	2004-05	2005-06	2006/07
54262.31	52047.79	60009.68	66440.25	76136.7	87161.9	97526.22	109122.95
Growth Rate							
6.08	-4.08	15.30	10.72	14.59	14.48	11.89	11.89
Note: Figures for 2005/06 and 2006/07 are extrapolated							

We begin by presenting a consolidated picture of the budgets. Of course, as a part of the complicated and confusing ways, under ***Section 125 and 126*** of the B.M.C. Act, there are various Budgets namely, A, B, C, E and G to be adopted by the Corporation. Each of these is further subdivided on the basis of either zone or functionality or organizational structure. Except the C Budget, which is prepared by General Manager of BEST Undertaking, budget estimates for others are prepared by Municipal Commissioner. The present study whilst completely ignoring the C-budget, takes a detailed look at the A, B, E and G budgets for the years 2000 to 2006. These budget documents provide us with accounts figures for the period 1999/00 to 2003/04. Only the Revised Estimate for 2004/05 and the Budget Estimate for 2005/06 is available. This then defines the period for which the analysis is carried out.

One should complement the M.C.G.M authorities for compiling the budget document in a painstaking and voluminous manner as well as putting out a rather lucid budget statement. Details provided in the M.C.G.M budgets present a veritable mine of data for the economist interested public finances of the various levels of State. While it is undeniable that *God and Devil lie in the detail*, it is required that these data represent a conceptually clear and a coordinated effort of the budget makers and M.C.G.M budget perchance does not perform well on this count. For example, before steeping into any details of any budget document the first question that naturally comes to one's mind is '*What is the size of the budget?*' Unfortunately, the answer to this fairly simple and straightforward question is not forthcoming from the MCGM budget document or even the budget statement![2]

In an attempt to answer to our question on budget size of M.C.G.M, we undertook a small statistical exercise to aggregate the numbers of A, B, E and G budgets. It was observed that in addition 'Contributions' made from Budget A to B, E and G there are also *internal* transfers made from the revenue account to the capital account in case of budgets A and B. These items appeared as the revenue income, revenue expenditure of the donor budget and again as revenue/ capital receipts and as

[2] A first attempt at this has been made in the just released document of budget 2006/07 by obtaining an aggregate picture and eliminating inter-budget contributions. However, while adjusting for inter-budget contributions, the adjustments on count of intra-budget contributions seem to have been missed out in this first initiative

revenue/capital expenditure of the receiving budget. Since no attempt at aggregation of the various budgets is attempted the various budget documents, the M.C.G.M. is not guilty of double counting. In its present form the four budget documents appear as independent entities and the partially consolidated picture in the budget statements appear in a table called A,B and E at a glance, when in fact the statement is a consolidated one combining A,B and G, with the statement of E budget presented later. This partial consolidation too presents only the BE of the forthcoming year with the RE of the previous year alongside. Actual figures of the previous years are conveniently omitted, raising questions and suspicion.

An *aggregation exercise of A, B, E and G budgets, as has been attempted here, required us to keep the contributions and internal transfers only at the entry point and the exit point, irrespective of which budget it had moved to*. Clearly, since the overall picture had to be gleaned, technicalities apart, we believe that our procedure of reconciliation does lead to a fairly good representation of the realistic financial position of the M.C.G.M. This is crucial to meaningfully understanding the budget details.

In Table 2 below we present the consolidated picture of the M.C.G.M budget, having hopefully conveyed the perhaps unnecessary level of difficulty involved in getting the details. The gap between unadjusted and adjusted expenditures, on average, is 10% of the original budget size. *This implies a serious over estimation of the budget size!*

TABLE 2
Consolidated Picture: Budgets A, B, E & G

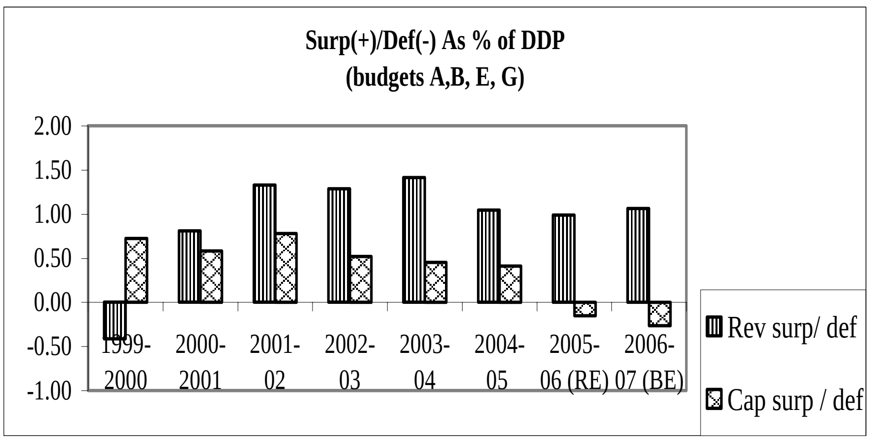
(Rs. Crs)

	1999-2000	2000-2001	2001-02	2002-03	2003-04	2004-05	2005-06(BE)	2006-07(BE)
UNADJUSTED								
Total Rev Exp	3011.64	2996.91	3284.78	4159.70	4687.98	5426.88	6057.09	6644.68
Toal Cap. Exp.	561.28	657.08	718.60	719.80	810.02	735.46	1725.07	3674.90
Total Rev. receipts	2787.65	3417.17	4082.18	5012.38	5544.34	5876.11	6509.00	7170.18
Total Capital Rec.	953.43	960.42	1188.52	1070.15	1156.06	1099.24	1577.39	3387.09
CONTRIBUTIONS								
Contribution from A to E	260.93	183.92	204.87	287.16	337.46	264.58	348.07	312.19
Contribution to A to B	43.18	47.45	67.34	88.12	144.16	101.03	232.32	142.44
Recoveries from user Dept.	9.5	9.5	8.16	0	0	0	0	0
Contribution from A to G	0	0	0	0	221.2	459.04	510.55	634.9
Contribution from Rev. to Capital Acct. Of A	0	0	0	1.91	0.04	2.45	0.14	0.4
Contribution from Rev. to Capital Acct. Of B	0	0	0	1.91	0.04	89.97	191.81	226
INTER-BUDGET ADJUSTMENT MADE AS INITIATED IN BUDGET 06-07								
Total Rev Exp	2698.03	2756.04	3004.41	3784.42	4206.36	5061.27	5476.7	6190.05
Toal Cap. Exp.	561.28	657.08	718.6	719.8	810.02	735.46	1725.07	3674.9
Total Rev. receipts	2474.04	3176.30	3801.81	4637.10	5062.72	5510.50	5928.61	6715.55
Total Capital Rec.	953.43	960.42	1188.52	1070.15	1156.06	1099.24	1577.39	3387.09
INTRA-BUDGET ADJUSTMENTS ALSO MADE								
Total Rev Exp	2698.03	2756.04	3004.41	3782.51	3985.12	4599.78	4966.01	5554.75
Toal Cap. Exp.	561.28	657.08	718.6	719.8	810.02	735.46	1725.07	3674.9
Total Rev. receipts	2474.04	3176.30	3801.81	4637.10	5062.72	5510.50	5928.61	6715.55
Total Capital Rec.	953.43	960.42	1188.52	1066.33	1155.98	1094.34	1577.11	3386.29
Overall rev surp/def as % of DDP	-0.41	0.81	1.33	1.29	1.42	1.04	0.99	1.06
Overall capital surp/def as % of DDP	0.72	0.58	0.78	0.52	0.45	0.41	-0.15	-0.26
GAP (unadj-adj)								
Total Rev Exp	313.61	240.87	280.37	377.19	702.86	827.10	1091.08	1089.93
Toal Cap. Exp.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Rev. receipts	313.61	240.87	280.37	375.28	481.62	365.61	580.39	454.63
Total Capital Rec.	0.00	0.00	0.00	3.82	0.08	4.90	0.28	0.80

Intra- budget transfers made in Budgets A and B from Revenue to Capital account. These numbers have been netted out of revenue exp of A and B and also from Capital receipts of these respective budgets - leaving them at the entry point of revenue receipts and their final point of capital expenditure

One quick point: - the adjusted statistics (in Table 2) for the period under consideration indicate that the average growth rate of total expenditures is 16.5% and that for total revenues is 18%. This is the macro-reason underlying the fact that surplus has started emerging in the M.C.G.M budgets. The structure of this surplus and the implications will become clear as we analyze the budget details.

Figure 1



M.C.G.M. has conformed to the statutory requirement and maintained an overall surplus. Revenue deficits and capital surpluses were observed from 1999/00 and 2000/01. This is the worst-case scenario where not only do overall deficits arise due to revenue deficit but one is not able to absorb capital expenditure. Since 2000/01 revenue account has turned into a surplus. While this is a welcome feature, what was worrying was that capital surpluses continued to remain leading to a substantial overall surplus but sadly suggesting lack of absorptive capacity. It is heartening to note that perhaps, corrective steps have been taken and since 2005/06 (RE) when revenue surpluses and capital deficit have appeared. This clearly makes for good economic sense. *Indeed the above graph is a classic pictoral representation of a passage in contemporary economic history that shows a transition from bad to good to even better phase at least at the macro aggregative level. This is analogous to not only maintaining a reasonable level of cholesterol but getting the LDL and HDL pegged at right ratios!*

This snapshot picture, which would appear (deceptively) to be simply derivable and should have appeared upfront in the budget statement, has certainly taken some doing on our part; and that is a comment on the complicated way in which the budget is currently presented. Clearly, a macro perspective helps us size up the situation as far as the finances of any government are concerned. Thus, we would explicitly emphasize that a *macro picture needs to be provided in the statement before plunging headlong into details* so that both, the intelligent lay persons and the professionals, are better informed about where the rupee comes from and where it goes in the budget of the M.C.G. M. In fact we would go a few steps further and say that the cause would be better served if such a macro picture is provided juxtaposed together with a similar one for a few previous years (as we have done, especially for the latest year for which the actuals become available) so that we can see the story unfolding.

III.1 Disaggregated Look: The First Cut

Having got and overview of the fiscal situation we take a small second step to look into the aggregate budgetary figures that emerges from the four separate budget documents:

Budget A: is the General Budget. It is the main Budget of the Corporation

Budget B: Improvement Budget

Budget E: Education budget for primary education

Budget G: Water supply and sewerage department budget

Here no adjustments have been attempted and each budget is considered as an independent entity (as is treated by the MCGM)

TABLE 3
Budgets A,B,E & G

(Rs. Crs)

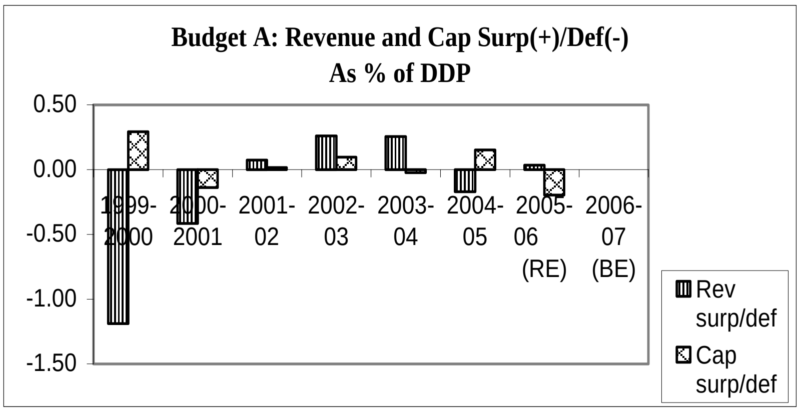
Budget A	1999-2000	2000-2001	2001-02	2002-03	2003-04	2004-05	2005-06 (RE)	2006-07 (BE)
Revenue Receipts (A)	1400.65	1750.09	2266.34	3096.38	3453.07	3773.82	4178.99	4715.5
Revenue Exp. (A)	2045.61	1966.04	2221.01	2923.57	3258.58	3921.55	4145.36	4715.24
Capital receipts (A)	410.57	141.55	291.2	332	369.99	586.3	791.21	2396.47
Capital Exp. (A)	251.95	213.82	281.93	267.95	387.6	453.72	982.43	2396.1
Revenue surplus(+)/def (-) as % of DDP	**-1.19**	**-0.41**	**0.08**	**0.26**	**0.26**	**-0.17**	**0.03**	**0.00**
capital surp(+)/def.(-) as % of DDP	**0.29**	**-0.14**	**0.02**	**0.10**	**-0.02**	**0.15**	**-0.20**	**0.00**
Budget B								
Revenue Receipts (B)	66.7	64.34	88.17	129.38	172.91	133.85	247.87	170.7
Revenue Exp. (B)	66.7	64.34	88.17	129.38	172.91	133.85	247.87	170.7
Capital receipts (B) *	18.5	83.99	12.42	50.28	91.13	71.58	181.04	100.81
Capital Exp. (B)	13.77	9.5	7.42	26.64	77.4	44.34	178.13	161.01
Revenue surplus(+)/def (-) as % of DDP	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
capital surp(+)/def.(-) as % of DDP	**0.01**	**0.14**	**0.01**	**0.04**	**0.02**	**0.03**	**0.00**	**-0.06**
Budget E								
Revenue Receipts (E)	349.09	371.39	407.6	472.78	531.66	508.62	596.09	715.34
Revenue Exp.(E)	352.29	349.09	371.39	407.6	472.78	508.62	647.03	715.34
Capital receipts (E)**	-1.18	18.41	21.08	18.43	50.28	14.03	43.17	64.34
Capital Exp. (E)**	24.35	19.81	20.8	18.34	50.26	43.08	29.93	64.17
Revenue surplus(+)/def (-) as % of DDP	**-0.01**	**0.04**	**0.06**	**0.10**	**0.08**	**0.00**	**-0.05**	**0.00**
capital surp(+)/def.(-) as % of DDP	**0.00**	**0.00**	**0.00**	**0.00**	**-0.01**	**-0.03**	**-0.01**	**0.00**
Budget G								
Revenue Receipts (G)	971.21	1231.35	1320.07	1313.84	1386.70	1459.82	1486.05	1568.64
Revenue Exp.(G)	547.04	617.44	604.21	699.15	783.71	862.86	1016.83	1043.40
Capital receipts (G)	500.01	715.08	862.65	669.52	654.05	427.33	561.97	825.47
Capital Exp. (G)	271.21	413.95	408.45	406.87	294.76	194.32	534.58	1053.62
Revenue surplus(+)/def (-) as % of DDP	**0.78**	**1.18**	**1.19**	**0.93**	**0.79**	**0.68**	**0.48**	**0.48**
capital surp(+)/def.(-) as % of DDP	**0.42**	**0.58**	**0.76**	**0.40**	**0.47**	**0.27**	**0.03**	**-0.21**

Note:

(a) surplus/defit = receipts – exp. Thus '+ 'indicates surplus and '– 'deficit
(b)* Figures prior to actuals of 2002/03 do not include contribution from rev. acct. of A
(c)** Figures from 99/00 to 04/05 are REs as actuals not available.
(d) *** Figures for 99/00 alone is RE as actual is not available

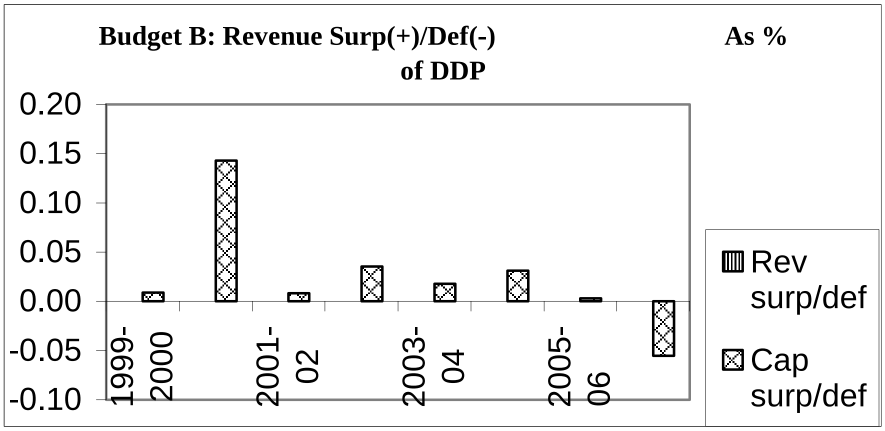
Budget A shows revenue surpluses for three years since 2001/02. Revenue deficits emerged once again only in 2004/05. On the capital side of the budget there was surplus in 1999/00, which turned into a deficit in 2000/01 but once again surpluses emerged for the two subsequent years. More recently the RE of 2005/06 once again records capital deficit.

Figure 2



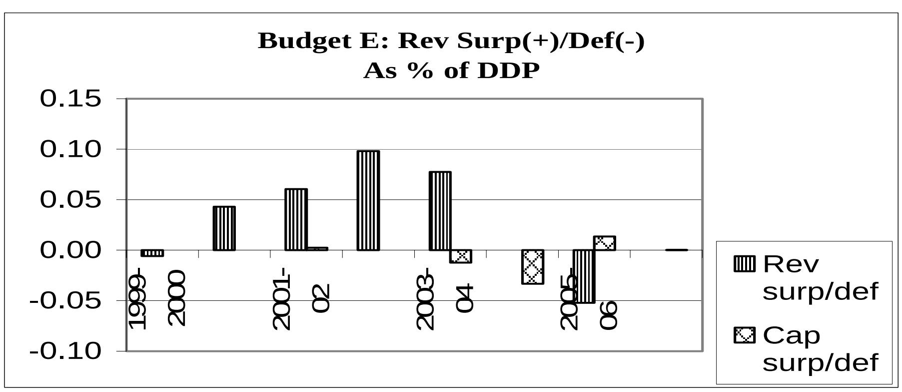
Budget B has, over the entire time period under consideration, consistently registered balance on the revenue side and capital surplus, with budget 2006/07 for the first time expecting a capital deficit to emerge. Whilst some of this capital surplus can be condoned by the argument that it is in the nature of the budget type, something is clearly amiss. Inability of budget B to absorb capital expenditure is a pointer that warrants further detailed scrutiny. Whether it is because of lack of capacity or indeed is it because, the powers that be seem to artificially force capital expenditure compression. This is a moot point that requires explanation.

Figure 3



Budget E recorded a revenue deficit in 1999/00 but then turned to surplus since 2000/01. It must be kept in mind that the capital receipts and expenditures considered here are revised estimates. As an aside we may point out that the budget reporting in this case is quite different from that in other cases. Even so, it is astonishing that in the case of education, revenue surpluses have consistently emerged, indicating either that the municipal schools are closing down – due to lack of demand – and hence or otherwise the teacher vacancies are not being filled in. If this is due to the fact that even amongst the relatively poor section there is a demand for private education since it clearly perceived to be qualitatively better, then it points to the need for a policy that will increase the quality and draw in the even poorer children into the schools (of whom there surely are many!). Whatever the case, the picture is indicative of a malaise.

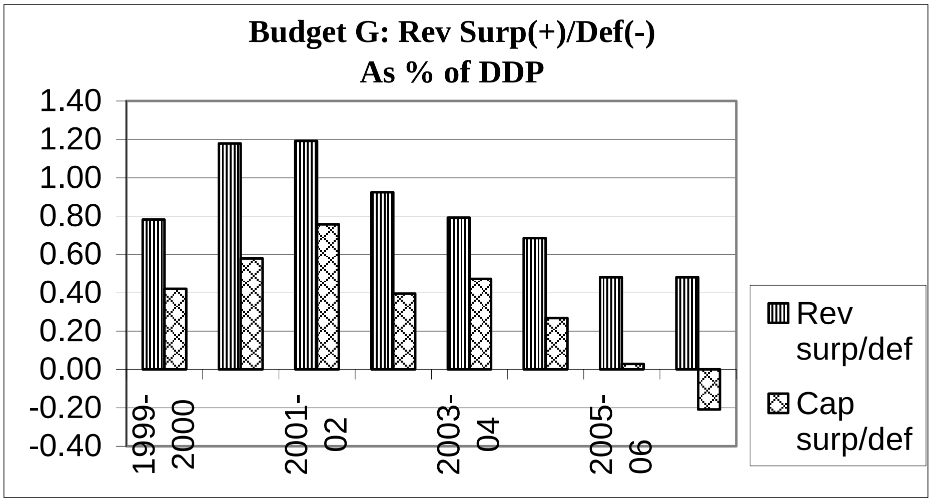
Figure 4



A caveat that needs to be borne in mind regarding the discussion on E budget is that for capital receipts, REs have been considered for the entire period 99/00 to 2005/06 as *actuals* are not available from the budget documents. (*We are informed that these can be obtained from administrative reports of the M.C.G.M*!). As it stands, there is no apparent justification for this data to be missing (i.e., not being reported in the budget). A similar problem was noticed in case of property tax, which will be discussed later. The broader point to be made at this juncture is that *it must be possible to extract all the broad heads of expenditure and revenue from the budget documents* and ideally a *key or guide should be provided to enable the interested scholar/reader to veer around some of the obvious problems that are likely to emerge in getting the numbers right*.

The G budget consistently shows capital surpluses. The capital surpluses as proportion of DDP have, however, shown a decline since 2001/02 when it reached a peak. Revenue surpluses are noticed continuously. It also needs to be kept in mind that there is a World Bank contract with a caveat that there would always be a surplus in this part of the budget. Nevertheless there is something seriously wrong here if there is surplus on capital account in the G budget when we know that the hundred year old water and sanitation system in Mumbai is in serious need of massive investment. One also fears that the numbers do not completely reflect reality and this has something to do with the accounting system and/or the artificial attribution with *tacit understanding that there would be limitations on the extent of spending by the officers in the water department*. While one hopes that these fears are completely wrong the situation warrants rational explanation.

Figure 5



III.2 Some more Disaggregated Analysis: The Second Cut

Having taken stock of the overall picture reflected via surpluses and deficits in the four budgets, we proceed to a somewhat more detailed examination of the structure of spending, especially on public goods (variously defined), so as to enable us take a view of the role that the local government has been playing in the city of Mumbai. Let us first as an aside provide some theoretical underpinning to our work that follows.

A public good (to be distinguished from a publicly *produced* good) has the following characteristics: Non-Exclusion (NE) and *Joint* Consumption (JC). However, not all public goods are characterized by NE and JC to the same extent. Further, the benefits of certain public goods are spatially restricted. Such goods are known as local public good (LPUG). LPUG shares the characteristic of NE with public goods. For instance, no ULB makes provision of streetlights contingent on payment. However, the number of beneficiaries cannot be increased indefinitely: at some point, an individual reasonably far away from the street light will not receive any benefits at all. The benefits are restricted by considerations of space in a way that benefits of public goods are not: the benefits of defence expenditures are available to any individual, located anywhere in India. Thus, operationally, *Core Local Public Goods* (CLPUG) includes storm water drains, traffic and roads, solid waste management, fire brigade (expenditures on all of which are included in budget A)

The definition of *Core Local Public Goods* was *extended* and broadened to include education, both the contributions made from budget A to budget E for primary and secondary education and the expenditure incurred in the E budget itself (ELPUG1).

The above (extended) version was further broadened and extended to include water (ELPUG2), which can be metered and charged.

Table 4

LOCAL PUBLIC GOODS

	1999-2000	2000-2001	2001-02	2002-03	2003-04	2004-05	2005-06 (RE)	2006-07 (BE)
AS % of Revenue Expenditure (Aggregate of A,B,E and G budgets)								
Core Local Public Good (CLPUG)	23.47	25.38	25.31	21.61	20.19	17.45	20.39	21.72
Extended to include education (ELPUG1)	49.30	49.37	47.98	42.77	42.09	35.03	41.74	41.30
Extended to include water (ELPUG2)	69.57	71.77	68.09	61.25	60.72	52.08	60.31	58.16
AS % of Capital Expenditure (Aggregate of A, B, E and G budgets)								
Core Local Public Good (CLPUG)	28.61	19.54	29.72	27.41	36.30	55.43	34.95	17.95
Extended to include education (ELPUG1)	40.80	29.28	38.68	33.29	48.49	70.98	95.02	50.10
Extended to include water (ELPUG2)	89.12	92.28	95.52	89.82	84.88	97.40	126.01	78.77

Note:
CLPUG= Exp. on storm water drains, traffic and rds, solid waste mgt, fire brigade (all these included in budget A)
ELPUG1= CLPUG + exp. on public health, medical relief and education (education here refers to contribution from A) for primary edu + Exp. of primary education in E budget
ELPUG2= ELPUG1 + expenditure on water in G budget

The share of the different variants of local public goods (on revenue account) in total revenue expenditures shows a declining trend. The RE for 2005/06 shows an increase in these proportions. BE 2006/07 expects a marginal increase in these proportions, with the exception of ELPUG2, which is expected to decline by two percentage points. *The moot question here is whether the requisite maintenance is* *being undertaken (by undertaking works and hiring persons) and if the service quality is being compromised or indeed if it is keeping in tune with the revenue increase.* These questions are important but their analysis will take us far away from our focus, not to mention the fact that such data are not readily available.

On capital account, the share of expenditure on local public goods, core (CLPUG) and extended (ELPUG1), show an increasing trend since 2001/02. When capital expenditures on water are added (ELPG2), the proportion shoots up to 89% in 1999/00. This share continued to rise to reach 126% in RE 2005/06. The BE of 2006/07 expects this ratio to fall to 78%. *The general point we can make here is that whereas the capacity for taking up new projects has increased with most departments, much more needs to be done. The graphs based on the above table appear below:*

Figure 6

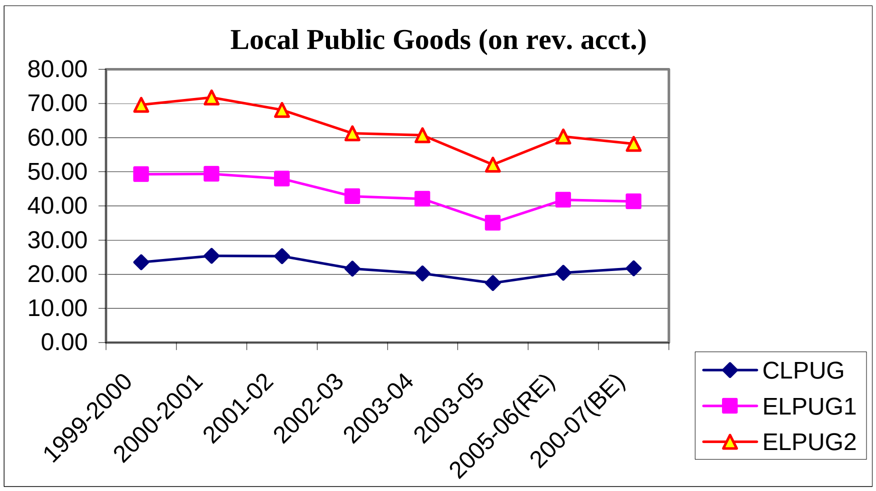
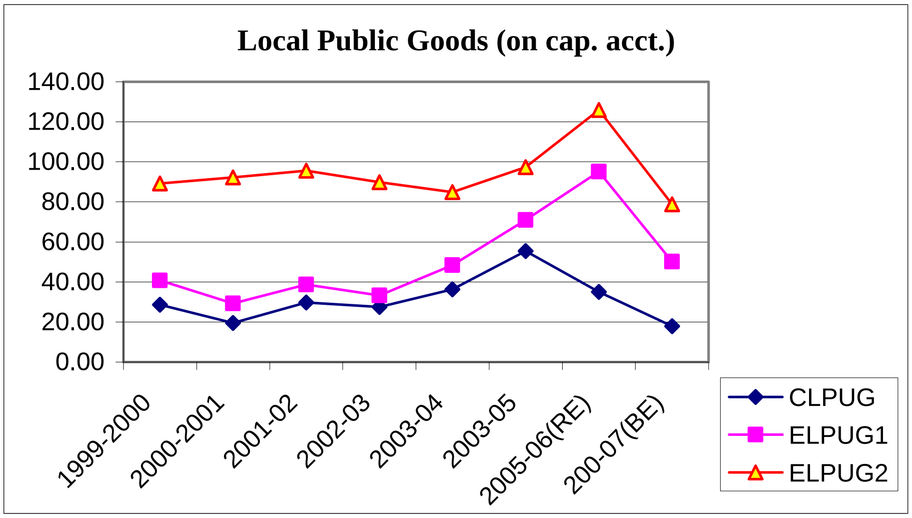


Figure 7



Having observed the trends in spending on local public goods, it would be interesting, on the other hand, to observe the proportions that are allocated to wages (using these as proxies for the size of personnel and thus expenditure on administration). Table 4 below shows the proportions of revenue receipts allocated to wages, pensions and other employee costs in budget A, G and E separately and in the aggregate. Wages of A, G and E budgets together constituted 70% of revenue receipts in 1999/00. This share has since then witnessed a decline but budget 06/07 continues to place this number at 50%. A similar trend and proportion is noticed in Budget A where the proportion has reduced from a maximum of 65% in 2000/01 to 50% in BE of 2006/07. The maximum share of revenue receipts is taken up by wages in Budget E, the education budget. The share, which was 81% in 1999/00 has declined marginally to 79.8% in BE of 2006/07. With the salaries of teachers (especially in this category) having hardly kept pace with that in the corporate sector, the fact that they constitute almost 80% of revenue receipts is a clear indication of the receipts of the E budget not having risen proportionately. Revenue receipts of E budget have recorded an average growth rate of 11% vis-à-vis that of A budget (19%) and that of B budget (20%).

Table 5
Wages as Per cent of Revenue Receipts
(Budgets A, E and G)

(%)

	1999-2000	**2000-2001**	**2001-02**	**2002-03**	**2003-04**	**2003-05**	**2005-06(RE)**	**200-07(BE)**
Wages A/Rev. rec of A	87.49	65.81	54.88	46.41	42.48	42.74	46.35	50.08
Wages G/Rev. rec of G	23.57	20.30	16.84	19.25	20.44	19.84	24.94	24.69
Wages E/Rev. rec of E	81.11	76.10	78.48	75.93	74.92	79.65	80.90	79.83
Total Wages (A+G+E)/Rev. Rec. (adj)	70.23	53.03	46.98	44.19	42.44	41.88	47.05	49.44

Having spoken at length about spending on crucial local public goods and employee costs, we turn now to an important aspect on receipts side of the budget. Tax revenues, borrowings and grants are essentially the three broad categories of revenue for all levels of government. It is now well established and accepted that one of the characteristics (and flaws) of how decentralization has progressed in the Indian context, is that revenue decentralization has not kept pace with expenditure decentralization. The tax sources available to local governments where they exist lack buoyancy. The limited tax base is under constant threat of being further eroded by higher level of government. Property taxes and Octroi have been the mainstay of tax revenue of MCGM.

It came as a surprise (putting it rather mildly) that the crucial number of *Property Tax collection could not be read off straightaway from the budget documents.* Apart from being an important source of revenue, collection of property taxes, both current and arrears, also serve as an important indicator to assess the performance of the government. Consequently, it is difficult to comprehend *why* actual collection of property taxes do not find a place in the budget documents or in an otherwise detailed budget statement. It may be pointed out that, statistically there is nothing wrong with the aggregate number on receipts, as the property tax collections do form a part of the aggregate revenue collections in the A budget and are a part of broad heads like ‘general tax’ amongst others. Also, the *budget estimate* for property tax collections do appear in the budget statements. However, *actual* collections of the previous years are not reported alongside as is done for other taxes and sources of revenue.

No budget analysis of M.C.G.M could be complete without reporting the collections from property tax. Consequently, a visit to the office of Brihanmumbai Mahanagarpalika was necessitated. Contrary to the usual expectations, the Assessment and Collection Section at the M.C.G.M office was extremely co-operative and detailed information concerning property tax collection, both current and arrears, for the past five years were made available. While one sincerely appreciates and acknowledges the assistance provided, it does in no way obviate or mitigate the obvious lacuna in the budget documents. *To us, this missing number of actual property tax collection from budget documents appears more an act of commission than of omission.*

Tabulated below (table 6) is the budget-wise classification of the property tax collections for the last five years that were obtained from the office of the M.C.G.M.

Table 6
Property Tax Collections
(Rs. Crs)

year	PAST & PREVIOUS	CURRENT	TOTAL	As % of Total Receipts	
				CURRENT	TOTAL
2000-01	146.3	782.13	928.43	22.98	27.28
2001-02	177.94	854.95	1032.89	20.35	24.58
2002-03	279.12	948.74	1227.86	18.69	24.18
2003-04	225.19	1056.79	1281.98	19.83	24.06
2004-05	235.56	1179	1414.56	19.25	23.10
growth rate	*61.01*	*50.74*	*52.36*		

Over the five-year period from 2000/01 to 2004/05 total property tax collections, both current and arrears, have recorded a growth rate in excess of 50%. As a proportion of total revenue receipts, current collections of property tax constituted 31% in 2000/01. It share in total revenue receipts, however, shows a declining trend. The share of total collections (including arrears) in revenue receipts recorded a maximum of 37% in 2000/01. Since then the proportion too has shown a declining trend and stood at 28% in 2004/05. Problems with stagnation in the tax base on account of Rent Control Act are well known and much discussed (see Karnik et. al. 2004). Faced with the problem of stagnant tax base and the need to raise revenue the M.C.G.M. has continuously raised tax rates. Whether the ratable value represents a rational basis for tax or should we switch over to capital value is a much researched and debated question. *The important point to remember here is that not only do we get the property tax rate/ collection wrong but this also ramifies through to other user charges which piggy back on property tax.* A revealing statistic here is that of the repair cess for non-residential ‘A’ category of building has increased from 48% of ratable value in 1980 to a whopping 1150% of the ratable value since April 1994! This represents a huge challenge for reform and we are convinced that till such time as we are not able to get the housing and land market functioning on established economic (market) principles we will not be able to exploit the rich potential of this source of revenue to the fullest. Some of these things are likely to happen if they appear as essential pre-requisites for attracting funds under the newly launched urban renewal mission.

The other important sources of revenue of the M.C.G.M are Octroi, Water tax, Water charge, external grants and loans. Obtaining an overall picture of the grants and loans that flow into Mumbai city would once again require an aggregation across the different budget documents. For the moment we defer this exercise and discuss the contribution of these other sources of revenue in the following sub-section, which looks at each of the budgets separately. *The general point that we would like to emphasize here is the urgent need to rationalize user prices/ taxes and simplification through cutting clutter of add-ons and attributions. This will not only increase the revenue collections but also clean the books. The point here is not that through such revenue increases the problems of scarce resources (especially for investment purposes) will be solved but rather that such a action will get a better rating for the MCGM and hence allow for easier and less costly access to capital markets.*

Let us now turn, by way of a brief illustration, to the issue of accessing financial markets for resources by MCGM. This has been a recurrent theme in the literature and we have ourselves had something to say in this context (see www.mu.ac.in/departments/economics/publications). Apart from loans and aid from international agencies, it is important to exploit the debt market through issuance of muni-bonds. Such bonds we may mention form 80% of the debt market in the U.S.A. There is a huge potential here that is as yet untapped and if some regulatory changes are made that will enable the local bodies, then this will prove to be an accountable way to go forward for undertaking major projects. The computation is done in a standard way with the presumption that debt by the third tier of government is treated as government debt and that the revenue surplus can be sustained. Thus, the borrowing/ debt raising capacity of MCGM is calculated as the annuity or net present value of 50 percent of the Revenue A/C Balance (Revenue receipts - Revenue expenditures), and under the presumption that the debt is to be repaid over 15 years. By way of illustration, three scenarios have been created, by making the realistic assumption of interest rates to be pegged at 8%, 9% and 10%. The numbers obtained are reported in the table 7 below. What it reveals is that, given our assumptions, prima-facie, MCGM is in a position raise resources through the issue of bonds (say) to the tune of around rupees thousand crores, that, we may dare add, has potential for tremendous increase.

Table 7

Borrowing Capacity of MCGM: 3 alternate Scenarios

	Revenue surp(+)/def(-)	NPV (10% rate of interest)	NPV (9% rate of interest)	NPV (8% rate of interest)
2001-02	-223.99	-851.84	-902.75	-958.61
2002-03	420.26	1598.27	1693.80	1798.61
2003-04	797.40	3032.56	3213.81	3412.68
2004-05	854.59	3250.05	3444.31	3657.44
2005-06 (RE)	1077.60	4098.17	4343.11	4611.86
2006-07 (BE)	910.72	3463.50	3670.52	3897.64

Let us now turn to looking at each of the budgets A, B, E and G separately.

III.3 Disaggregated Look at Budgets A, B, E, & G: The Third Cut

This sub-section takes a more detailed tour of each of the budgets and the composition of revenue and capital expenditures and receipts.

Budget A is also known as the 'General Budget' is in some ways the father of all other budgets. It is the main budget of the corporation. It consists of Part I and Part II. Part I represents Service departments like Conservancy, Engineering, Market, Fire Brigade, Garden etc. Part II represents the Health & Medical Services and also Medical Education. It consists departments like Health Department, Hospitals, Maternity Homes, Dispensaries and Medical Colleges. The provisions under Part I & Part II are further divided on area basis into Divisions: Division I (City proper from Colaba to Sion on the Eastern side and upto Mahim on the Western side)

Division – II (Western Suburb from Bandra to Dahisar) and

Division – III (Eastern Suburb from Kurla to Mulund).

As per the M.M.C. Act, it is mandatory to maintain a minimum closing cash of Rs. 1 lakh consequently, this budget cannot be a deficit budget. Budget A covers general administration and all infrastructure and services provided by the Corporation except for Water supply & Sewerage, Education, Improvement schemes and Public Transport. It includes services and activities such as street lighting; solid waste collection, transportation and disposal; roads; town planning; fire fighting; public health; general administration etc .Tax sources such as Octroi, General (property) tax, and other assigned or shared taxes/grants for these activities are sources of revenue for A-Budget.

Since Budget A is the main budget of M.C.G.M we take a look at the details of this budget more closely than we do of the other three budgets. In the first two years i.e. 1999/00 to 2000/01 a budget deficit on revenue account was recorded in budget A. Subsequently a surplus on revenue account was registered in the next three years (i.e. 2001/02 to 2003/04). Table 6 below tabulates revenue receipts, expenditure (they are *net* figures i.e. excluding the opening balance) and surplus and deficit on revenue account of budget A.

For the time period under consideration (1999/00 to 2006/07(BE)), annual growth rates of revenue receipts and expenditure of Budget A were computed. They appear in Table 8 below

Table 8
Budget A: Growth Rates

(%)

	2000-2001 (Actuals)	2001-02 (Actuals)	2002-03 (Actuals)	2003-04 (Actuals)	2004-05 (Actuals)	2005-06 (RE)	2006-07 (BE)	AVERAGE
Revenue Receipts	24.95	29.50	36.62	11.52	9.29	10.74	12.84	**19.35**
Revenue Expenditure	-3.89	12.97	31.63	11.46	20.35	5.71	13.75	**13.14**

The table above shows that average growth of revenue receipts clearly surpassed that of revenue expenditures. The BE of 2006/07 in fact projects a higher growth rate for revenue expenditures than revenue receipts. The pattern allows us to make a couple of noteworthy points. One, there appears to be a sudden spurt in 2002-03 and two, that there appears an effort to keep revenue expenditures under check although the growth rate of expenditures overshot that of revenue receipts in a big way. The RE of 05/06 once again signals a check on expenditures. *The moot point here being whether this check in expenditures was done with prudence and through administrative reforms or through ad-hoc cuts across board, which is a rather harmful way of doing things.*

In the remainder of this sub-section we trace the growth path of some of the major components of revenue receipts and expenditures of A, B, E and G budgets. Towards this end, we compute the shares of various components of revenue receipts and expenditures. Technically speaking, perhaps, the ratio of the contribution of an item of revenue receipts, such as octroi, should be computed as a proportion of the 'total' revenue receipts of M.C.G.M. However, as noted in the previous sub-section the budgets are bifurcated and no attempt made to obtain any 'totals' (indeed we have mentioned that it is not possible to add-up in a straightforward way to arrive at such totals). While this study does make an attempt at such an aggregation, as spoken of at length earlier and tabulated in Table 2, we thought it appropriate here, to restrict ourselves to officially documented numbers when computing shares of various components of revenue and expenditure. Consequently, to reiterate, we have considered the contribution of Octroi et al., to the total revenue receipts of the *A budget alone and not total revenue receipt*. Needless to say that the ratios reported would appear smaller if the 'total' revenue receipts been considered. The same procedure has been followed when considering the composition of revenue and capital receipts of each of the other three budgets viz., B, E and G.

Table 9 below tabulates the share of the major constituents of revenue receipts in the total revenue receipts of A budget.

Table 9

Budget A: Composition of Revenue Receipts
(As % of Total Revenue Receipts)

(%)

	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (RE)	2006-07 (BE)
Octroi	52.94	50.79	40.26	42.45	42.55	44.14	45.37	43.56
Fees & charges	4.26	4.38	3.98	2.29	2.33	2.03	2.60	8.57
Grants	5.82	6.26	8.08	7.27	2.63	0.54	1.75	1.04

In 1999/00 and 2000/01 *Octroi* constituted over 50% of the revenue receipts of Budget A. A minimum share of 40% was reached in 2001/02. The next two years saw a rise in this share. The BE of 2006/07 in fact projects a lower proportion of income accruing from octroi vis-à-vis the '*actuals*' of 2004/05 and RE of 2005/06. It can be seen that the contribution of octroi is substantial. Economic 'pundits' have arrived at a consensus that this is a *bad tax* and it has indeed been abolished for all Municipal Councils. The large magnitude, we suspect, is the reason for its continuance for M.C.G.M; for the state government is clearly in no position to make in-lieu grants of this order of magnitude to the M.C.G.M.

The share of *fees and charges* has hovered around 4% till 2001/02 with a reduction in the share till 2004/05. The RE of the 2005/06 has seen this share pick up by 0.5 percentage points to 2.6%. The BE of 2006/07 expects this share to shoot up by 5 percentage points to 8.5%. There is a huge scope for augmenting this source of revenue and only way forward is through rationalization of user charges as hinted earlier.

The share of *grants* in revenue receipts of A stood at 5.8% in 1999/00. This share has risen to a maximum of 8% in 2001/02 but stood at a mere 0.54% in 2004/05. The RE of 2005/06 and BE of 2006/07 expects this share to cross the 1% mark. This source of revenue, as per our reckoning, and with good reason, has no scope for too much upward increase. This is because, given the scarcity of resources available for devolution as a consequence of macro-fiscal-tightening, a strong metro like Mumbai will be ignored in favor of more deserving and weaker ULBs.

Clearly, an increasing share of grants and reduced share of own sources of revenue like octroi and property tax – albeit marginally – is a worrisome trend suggesting an increasing dependence on others for (revenue side) funds. We seem to have taken a wrong turn at a crossroad, and before it is too long it is essential to retrace our steps, it is imperative that necessary steps be taken push tax reforms, increase own sources of revenue.

Having taken a somewhat detailed look at revenue receipts, we proceed to taking a look at the composition of revenue expenditure under the A budget. The shares of the various components of revenue expenditure appear as shown in table 10 below.

Table 10
Budget A: Composition of Revenue Expenditure
As % of Revenue Exp. of A budget

(%)

	1999-2000	2000-2001	2001-02	2002-03	2003-04	2004-05	2005-06 (RE)	2006-07 (BE)
Wages	59.91	58.58	56.00	49.16	45.01	41.13	47.96	50.09
Debt charges	12.26	15.53	14.40	12.81	11.08	8.29	8.68	7.68
Contribution to Budget ‘E’	12.76	9.35	9.22	9.82	10.36	6.75	8.40	6.62
Contribution to Budget ‘B’	2.11	2.41	3.03	3.01	4.42	2.58	5.60	3.02
Note: Budget Statements from which this data has been extracted does not provide revised estimates for these expenditure categories for the year 2004-05								

Wages contributed almost 60% of revenue expenditure of A budget in 1999/00. Subsequently, a declining trend has been noticed but it continued to constitute as much as 48% in RE 2005/06. This reduced share is undoubtedly a step in the right direction, suggesting that some amount of downsizing has indeed been witnessed. However, the proportion of wages needs to be further pruned so as to accommodate other maintenance expenditures. Also, it is necessary to see that this is being done by not hiring inessential personnel only and not by arbitrarily allowing vacancies to continue even when the positions are functionally crucial in the overall scheme of things.

The share of *debt charges* in revenue expenditure of A budget rose from about 12% in 1999/00 to over 15% in 2000/01. Since then a declining trend is discernible. In 2003/04 this proportion stood at 11%. The BE of 2006/07 expects this proportion to be 7.6%. Declining trend in interest rates is a possible explanation for this reduced share of debt charges. The other possible explanation for reduced debt charges is that borrowings itself reduced, and then the further question would be if as a consequence, have some essential projects/ investments suffered? However, whether borrowings have in fact shown a declining trend is something that would become clear when we look at capital receipts of a budget.

The share of contribution from Budget A to Budget B in revenue expenditure was 2.1% in 1999/00. This share has doubled to 4.4% in 2003/04. The BE of 2006/07 expects a 2 percentage point reduction. The share of Contributions from A to budget E constituted almost 13% of revenue expenditure of the A budget in 1999/00. This share steadily declined to reach 10.36% in 2003/04. As per RE of 2005/06 this share is expected to reach 8.68%. The BE of 06/07 expects this ratio to further decline by 1 percentage point. Contrary to normal belief we find this worrisome, especially if as we suspect, it is leading to less maintenance in 'education'. As mention previously, these contributions, while merely administrative transfers from one account to another of the government are recorded as expenditures from one budget and receipts of another. *It is our view that these contributions must be recorded separately as transfers and not as expenditures of two budgets (from where the contribution is made and where the expenditure is finally incurred) as is currently being done. This leads to unnecessary confusion and makes a simple aggregation exercise an uphill task.*

In addition to the above classification the budget documents also provide us with an activity-wise break up of the revenue expenditure of A budget. The composition of each of these activities in A budget is tabulated 11 below:

Table 11

Budget A: Activity-wise Composition of Revenue Expenditure
(% of Total Revenue Exp. of A budget)

	1999-2000	2000-2001	2001-02	2002-03	2003-04	2004-05	2005-06 (RE)	2006-07 (BE)
Medical Relief	16.14	18.86	16.92	13.58	12.39	10.66	13.30	12.76
Public Health / Air Pollution	2.56	3.02	2.84	2.18	1.98	1.76	2.53	2.52
Primary Education (Contribution)	12.76	9.35	9.22	9.82	10.36	6.75	8.67	6.62
Secondary Education	1.53	3.50	1.87	1.45	1.42	1.22	1.75	1.40
Medical Education	1.35	1.92	1.90	1.43	1.35	1.13	1.54	1.71
Solid Waste Management	13.76	17.80	15.68	13.03	12.20	11.23	14.54	15.70
Traffic Operations, Roads/Bridges	12.43	14.66	13.86	11.04	10.18	8.20	9.25	8.42
S. W. Drains	3.42	1.55	3.18	2.68	2.57	2.15	2.73	3.16
Markets and Deonar Abattoir	2.00	2.42	2.22	1.71	2.00	1.63	1.60	1.53
Fire Brigade	1.70	1.88	1.84	1.49	1.37	1.19	1.41	1.57
Gardens, etc.	1.34	1.57	1.52	1.22	1.11	0.93	1.11	1.23
Licenses	0.56	0.65	0.57	0.48	0.46	0.38	0.86	0.71
Buildings, etc.	1.92	2.22	1.73	1.48	1.32	1.08	1.17	1.11
Properties under Budget 'B' (Contribution)	2.11	2.41	3.03	3.01	4.42	2.58	3.58	3.02

Note: Budget Statements from which this data has been extracted does not provide revised estimates for these expenditure categories for the year 2004-05

Broadly speaking, a declining trend is noticed in the proportions spent on medical relief, public health, contribution to primary education, traffic operation, roads, bridges and storm water drains. *Especially worrisome for us is the low proportions in the case of health and education.* The RE for 2005/06 and BE of 2006/07 expects some of these proportions like medical relief and public health be raised. However, *for public health, these expectations are in fact lower than the 'actuals' of 3% attained in 2000/01. For contribution to primary education, the proportion expected for 2006/07is in fact the lowest since 1999/00.*

On the capital side of the budget (Table 12) we find that capital receipts have shown a three-fold increase and capital expenditures a five fold increase. Given that the A budget is the main budget, it is not surprising that the pattern of capital surplus/deficit is broadly similar to that obtained in the previous sub-section where we presented the macro picture. Lack of absorptive capacity suggested by capital surplus have presumably been rectified and capital deficits have emerged since 2003/04 with an intent (expressed via RE and BE for recent years) to carry on with this trend.

Table 12
Budget A: Capital Receipts and Capital Expenditure

(Rs. Crs.)

	1999-2000	2000-2001	2001-02	2002-03	2003-04	2004--05	2005-06 (RE)	2006-07 (BE)
Capital Receipts	410.57	141.55	291.20	332.00	369.99	586.3	791.21	2396.47
Capital Expenditure	251.95	213.82	281.93	267.95	387.60	453.72	982.43	2396.1
Capital Surp(+) /deficit(-)	158.62	-72.27	9.27	64.05	-17.61	132.58	-191.22	0.37

Table 13 below gives the composition of capital expenditures:

Table 13
Budget A: Composition of Capital Expenditure
(As % of Capital Exp. of A budget)

(%)

	1999-2000	2000-2001	2001-02	2002-03	2003-04	2004--05	2005-06 (RE)	2006-07 (BE)
Traffic Operations,Roads & Bridges	47.97	53.28	39.90	37.04	47.69	40.62	39.70	37.38
Solid Waste Management	1.82	3.33	2.15	1.19	3.91	5.21	7.06	5.23
Buildings etc.	2.10	-0.31	0.11	1.53	4.05	12.19	9.17	9.12
Markets and Deonar Abattoir	6.28	1.72	0.81	1.45	0.73	1.10	1.50	0.53
Public Health, Medical Relief & Education	17.50	20.68	15.47	8.96	12.50	10.70	10.02	7.32
Storm Water Drains	13.93	3.42	33.70	35.39	24.26	19.16	13.30	16.30
Gardens, etc.	7.40	2.53	2.55	1.57	1.49	1.28	1.90	4.02
Other Works	3.00	15.35	5.32	12.85	5.36	14.35	17.35	20.10

Almost half the amount of capital expenditure was on *traffic operations, roads and bridges* in 1999/00. This share rose to cross the 50% mark in 2000/01 but dipped in the next two years. In 2003/04 once again almost 48% of capital expenditures was incurred on this category. The share of *solid waste management* rose to over 3% in 2000/01, dipped in the next two years but has once again reached almost 7% in 2005/06. The ratio is expected to decline by 2 percentage points to 5% as per BE of 06/07. This reduction comes as a major surprise and a dampener especially with Mumbai city not having quite recovered from the trauma of 26th July 2005. Massive increase is noticed under the category of 'other works'. This kind of miscellaneous/ contingency item should be kept to a minimum for it does not auger well for transparent and accountable budgetary process.

On the capital receipts front, Table 14 below points to sharp spikes and dips in the share of loans. Total loans under the A budget constituted as much as 82% in 1999/00. This has dipped to 2% in 2003/04 as no number appears against the heading 'internal loans'. The figures leave us wondering if no internal loans were raised in those years or do the numbers appear elsewhere and it is some accounting change that has occurred. *This statistic (or in fact its absence) yet again drives home the point we have been making about clear pointers (even if they are by way of footnotes) to explain any such outliers.*

Table 14
Budget A: Composition of Capital Receipts
(As % of Capital Receipts of A budget)

(%)

	1999-2000	2000-2001	2001-02	2002-03	2003-04	2004 -05	2005-06 (RE)	2006-07 (BE)
Total Loans	340	97.25	201.59	27.21	7.96	9.27	57.96	755.1
(i) Internal Loan	340	95	159	-	-	0	0	749.2
(ii) Loan from M.M.R.D.A.	0	2.25	42.59	27.21	7.96	9.27	57.96	5.9
Share of loans in capital receipts of A	**82.81**	**68.70**	**69.23**	**8.20**	**2.15**	**1.58**	**7.33**	**31.51**

Broadly speaking, the pattern of surpluses and deficits of Budget A mimics the macro picture obtained in the previous sub-section. The share of important taxes show a declining trend. This trend is worrisome. To reiterate, reforms on the tax front need to be taken up on a priority basis. On the expenditure side, the trend of reduced share of wages is heartening but it still constitutes much too high a proportion for us to sit back and stop worrying. The way forward has to be sought through innovative means of taking bank loans exposure and putting out muni-bonds, not just as IPOs. Of course this will require some (regulatory) enabling changes in the environment and for that the MCGM has to be proactive in bringing about such changes.

Having taken stock of the main budget, we move on to **Budget B,** also known as **Improvement Budget.** It came into existence since 1933 after transfer of properties belonging to Bombay Improvement Trust to Municipal Corporation as per the **Bombay Improvement Trust Transfer Act (Amended) 1933**. It has four broad heads namely

1. Improvement Schemes
2. Slum Clearance (City)
3. Slum Clearance (Suburbs)
4. Slum Improvement

All these parts are further divided into revenue account and capital account. The major item of income for Budget B under revenue account is rent of buildings which has remained static for the last 37 years and we are required to contribute heavily from Budget A to wipe out the revenue deficit in Budget B. Capital Account includes the works of the nature of construction of new buildings and structural repairs to the existing properties, providing civic amenities to slums, demolition and reconstruction of Aqua Privy/Water Closets in slums.

Table 15
Budget B - Receipts and Expenditure

Shares as % of total income of Budget B	**1999-2000**	**2000-2001**	**2001-02**	**2002-03**	**2003-04**	**2004--05**	**2005-06 (RE)**	**2006-07 (BE)**
Net Income of Budget 'B'	35.26	26.25	23.62	31.89	16.63	24.52	10.95	16.56
From Budget 'A'								
(1) Statutory contribution	17.35	20.10	16.62	12.81	11.62	16.38	9.71	15.58
(2) Special contribution	47.39	53.65	59.76	55.30	71.75	59.10	79.34	67.87
Exp. under each scheme as % of total exp. of Budget B								
Improvement Schemes	73.25	73.36	67.86	52.86	41.17	52.54	34.43	60.29
Slum Clearance (City)	4.27	1.79	0.79	0.50	0.41	1.58	0.40	0.88
Slum Clearance (W.& E. Suburbs)	2.44	1.71	1.00	1.40	0.83	1.34	0.72	1.23
Slum Improvement	20.03	23.14	30.35	45.24	57.59	44.53	64.44	37.60
Contribution of Budget A in each Acct. (as % of total income of each account)								
Improvement Scheme acct.	66.95	72.74	81.10	79.77	81.97	72.35	83.10	89.58
Slum Clearance (City)	36.14	48.70	11.43	0.00	0.00	0.00	0.00	0.00
Slum Clearance (W.& E-.Suburbs)	23.93	81.82	79.55	84.53	79.02	0.00	81.56	83.81
Slum Improvement	23.43	32.44	45.40	45.79	79.22	73.22	90.66	76.75

The net income of Budget B as per cent of its total receipts indicates the extent to which Budget B is self-sustaining. This proportion has witnessed a steady decline from 35% in 1999/00 to 16.6% in 2003/04 (Table 15 above). The RE of 2005/06 saw it fall to about 10%, but the BE of 2006/07 expects it to rise to 16%. Clearly the dependence of Budget B on Budget A has risen. A look at the contributions from Budget A shows that the proportion of statutory contribution in total income has shown a steady decline and it is the special contributions which have risen from 47% of total income to 79% in the RE of 2006/07. While we are certain that it may not be very difficult to obtain the information as to what exactly constitutes statutory and special contributions (especially the latter), the fact remains we are yet again left groping with questions. For example, are these contributions made using some norms or rules or at least making use of some underlying principles or are they made on purely ad hoc basis? O*nce again this brings us back to our point of greater clarity and transparency. These we suggest could be brought about by way footnotes, endnotes or annexures or a separate 'key' as is the* *practice with the central government budget, so that the need for the interested to visit the office of M.C.G.M is minimized.*

Of the four heads under which expenditures are incurred in the B Budget, Improvement Schemes constituted 73% in 1999/00. This proportion has declined to 34% in RE of 2005/06. Slum Improvement, on the other hand, which constituted 20% of total expenditure in 1999/00 has risen to 91% in RE of 2005/06. *The slum related expenditures are low, hence the hike is perhaps understandable, since the problem is so huge and complex and multiplicity of solutions sought perhaps requires an off budget SPV route.*

We turn now to **Budget E** - the Education Budget. It is meant for primary education, which is an obligatory duty of the Corporation as provided under section 61(q) of the M.M.C. Act. This mainly includes

I-Municipal Primary School

II- Private Primary Schools Grant-in Aid

The budget is divided into two parts viz. revenue account and capital account. In case of revenue account, it is necessary to maintain a minimum closing balance of Rs. 20,000 as per provisions of the Mumbai Municipal Corporation Act i.e. this budget also cannot be a deficit Budget.

Table 16

Budget E - Revenue Receipts and Expenditure

(Rs. Crs)

	1999-00	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004--05**	**2005-06 (RE)**	**2006-07 (BE)**
Revenue Receipts	349.09	371.39	407.6	472.78	531.66	508.62	596.09	715.34
Revenue Exp.	352.29	349.09	371.39	407.6	472.78	508.62	647.03	715.34
Surplus(+) / Deficit (-) as % of DDP	-0.01	0.04	0.06	0.10	0.08	0.00	-0.05	0.00

The E budget of M.C.G.M showed a revenue deficit in 1999/00. But since the beginning of the decade revenue budgets have become surpluses and these surpluses have risen over the years. The Revised Estimate of 200-06 showed a revenue deficit after six years. The BE of 2006/07 expects a balanced budget. In the context of the E budget revenue surpluses may not necessarily be a ‘good’ thing. If these surpluses have occurred on account of reduced employment of teachers or lack of maintenance of the school, then these surpluses would certainly be unwelcome. For a more meaningful picture we take a look at the broad components of revenue receipts and expenditures. The composition of Revenue Expenditure is as shown below (Table 17):

Table 17

Budget E - Revenue Expenditure and its Composition

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
							(BE)	(BE)
Revenue Exp.	352.29	349.09	371.39	407.6	472.78	508.62	645.96	715.34
As % of total Revenue Exp.								
Wages	81.11	76.10	78.48	75.93	74.92	79.65	74.65	79.83
Debt charges	2.30	2.32	3.05	2.91	2.50	2.21	1.81	1.63
Grant to Pvt. Primary aided schools	11.85	16.18	13.12	12.47	11.75	12.24	12.13	11.25
Repairs	0.46	0.47	0.33	0.16	0.10	0.10	0.31	0.28
Text books	0.50	0.54	0.50	0.44	0.11	0.05	0.28	0.12

The above table suggests that the share of wages in revenue expenditure was as high as 81% in 1999/00. This proportion reduced to a low of 77% in RE of 2004/05. The BE of 2006-07 expects the proportion to be about 79%. While this is undoubtedly a welcome sign, it must be borne in mind that the head ‘wages’ clubs together the wages of teachers and the administrative staff. The salaries of teachers may be thought of as productive expenditure and cuts on this front may have a detrimental effect. A reduction in administrative staff, on the other hand, does appear on our wish list. However, in the absence of any such bifurcation it is difficult to comment on whether it is reduction, which has occurred due to reduced recruitment of teachers or administrative staff.

Both, repairs and text books which constituted less than 0.5% of revenue expenditure of B budget in 1999/00 has further reduced to 0.31% and 0.28% respectively as per the RE of 2006/07. The BE of 2006/07 expects a further reduction in these proportions. This once again is not a desirable feature.

The moral of the story here is that revenue surpluses too are not necessarily always desirable. The key to understanding whether the moves made to achieve the end of revenue surplus lies in its composition.

On the revenue receipts front, table 18 below looks at the growth path and its composition:

Table 18

Budget E - Revenue Receipts and its Composition
As % of total Income on Revenue Acct. – E budget

(Rs. Crs.)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004--05	2005-06 (RE)	2006-07 (BE)
Education Cess	19.37	23.94	25.59	26.25	25.11	28.83	25.28	25.11
Statutory Cont. from Budget A	8.29	8.70	8.98	8.76	9.45	10.78	9.41	9.29
Spl. Contribution from Budget A	66.46	40.82	41.28	51.98	54.03	41.24	44.78	34.35
Grant-in-aid from Govt.	5.20	25.52	23.34	12.11	10.61	16.76	19.47	30.61

A few observations from the above table:

(a) Share of education cess in total revenue income of E budget has shown a steady increase and risen from 19% in 1999/00 to 25% in RE of 2005/06. *The important point to be made is that there is a need to tie up this cess-revenue to some 'productive' item of educational expenditure otherwise it may, in the nature of things be frittered away on unwarranted expenditure.*

(b) Share of statutory contributions from budget A has shown a steady increase. From 8% of the total revenue income of E budget, the proportion has reached 9.4% in the RE of 2005/06. The share of special contribution from budget A has declined from 66% in 1999/00 to 44% in RE of 2005/06. The point made in the context of contributions to the B budget is valid here too*. Greater transparency is called for in the budget about the principles or norms underlying such contributions so as to make the documents self-contained and do not necessitate visits to the concerned departments for simple clarifications.*

(d) Share of grants-in-aid from government has risen from 5% in 1999/00 to 25% in 2000/01. Since 2001/02, however, a declining share is noticeable. The RE of 2005/06 expects it to increase to 19% and the BE of 2006/07 expects a sharp hike to 30%. *While self-dependence and reduced reliance on grants must be the general motto, clearly if there is one area where grants are justified it is primary education. A reduction of the* *share of grants from government in total revenue receipts of E budget clearly calls for correction.*

Moving on to the capital side of the E budget, in 1999/00 and 2000/01 deficits on capital account was recorded 2003/04 and 2004/05 (Table 19 below). Capital surplus emerged as per the RE of 2005/06. As mentioned in the context of other budgets *capital surpluses are not a good sign, but they are worse when it comes to E budget which concerns itself with a merit good of primary education.*

Table 19

Budget E - Receipts and Expenditure on Capital Account

(%)

	99-00	**00-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
							(RE)	*(BE)*
Receipts	24.35	19.8	22.25	18.35	40.89	14.03	43.17	64.34
Expenditure	24.35	19.81	20.8	18.34	50.26	43.08	29.93	64.17
Surplus(+) / Deficit (-)	0.00	0.00	0.00	0.00	-0.01	-0.03	0.01	0.00

Having looked at the three of the four separate budgets we finally come to **Budget G –**Water Supply and Sewerage Department Budget. Since 1974 -75, water supply and sewerage has been separated from A Budget and termed as G Budget. This Budget is divided into seven divisions namely:

I- General Management

II- Common Services

III- Finance and Administrative Wing

IV- Water Project

V- Sewerage Project

VI- Water Operation

VII- Sewerage Operation

This budget came into existence in 1974 when major Water Supply & Sewerage Disposal Projects were undertaken with the financial assistance of the World Bank. Consumers have to pay water and sewerage charges when the connection is metered, water and sewerage tax when the connection is not metered and water and sewerage benefit tax for all consumers. The accounting system adopted for this budget is commercial or accrual accounting. The rates for water tax and water benefit tax tabulated in Table 20 below clearly show that cross-subsidies are the rule as industrial and commercial establishments have to pay much higher rates than domestic connections. The general point that is to be made here is that a ‘incidence’ study is needed to find out as to who ultimately pays for the water, because many a time such a strategy is put into practice in the name of the poor. While some amount of cross subsidization could be justified, the extent of it that prevails perhaps is not. The rate of water benefit tax is double for non-residential consumers and that of water tax is more than double.

Table 20
Water Tax on Annual Ratable Value: M.C.G.M

Nature of premises	Water tax rate (%)	Water benefit (%)
(1)	(2)	(3)
Residential	20	10
Non-residential	45	20

G budget has consistently shown surpluses, both on revenue and on capital account for all the years between 99/00 and 05/06 (RE) (Table 21 below). Both revenue and capital surpluses show a similar pattern of increase till 2001/02 and a reduction from there on, although revenue surplus still constitutes 0.68% of DDP in 2004/05 and capital surplus 0.27% of DDP. Budget 06/07 expects a capital deficit for the first time and this is a welcome sign.

Table 21

G Budget - Receipts and Expenditure

(Rs. Crs)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (RE)	2006-07 (BE)
Revenue Receipts	971.21	1231.35	1320.07	1313.84	1386.70	1459.82	1486.05	1568.64
Revenue Expenditure	547.04	617.44	604.21	699.15	783.71	862.86	1016.83	1043.40
Capital receipts	500.01	715.08	862.65	669.52	654.05	427.33	561.97	825.47
Capital exp	271.21	413.95	408.45	406.87	294.76	194.32	534.58	1053.62
Revenue surp(+) /deficit(-) as % of DDP	**0.78**	**1.18**	**1.19**	**0.93**	**0.79**	**0.68**	**0.48**	**0.48**
Capital surp(+) /deficit(-)as % of DDP	**0.42**	**0.58**	**0.76**	**0.40**	**0.47**	**0.27**	**0.03**	**-0.21**

G budget with consistent revenue surplus which fund capital expenditure in a way reflects an '*ideal*' budget. However, the fact that capital surpluses continue too is where improvements are called for, especially when casual empiricism leads us to believe that there is much to be done urgently that comes under the purview of this budget.

The capital receipts of G budget and its composition is tabulated in Table 22 below. The share of revenue surpluses from G has been the major source of capital receipts of the G budget. It constituted as much as 84% of the capital receipts in 1999/00 and further rose to almost 92% in the 2003/04. The RE of 2005/06 puts this figure at 75% and BE of 06/07 expects it to further decline to 57%. Total loans which constituted 15% in 1999/00, fell to 4% in 2003/04. This proportion has risen to 18.5% in the RE of 2005/06. BE of 06/07 expects this ratio to decline to 8.4%. The category 'other external sources' which constitute grants and contributions have risen from a mere 0.12% in 1999/00 to 6.9% in 2005/06 (RE) and is expected to contribute 34% in 2006/07(BE). An increasing proportion of external sources suggests a reduction in self-reliance and is a matter of some concern.

Table 22

Budget G - Capital Receipts and its Composition

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (RE)	2006-07 (BE)
Revenue surp. After meeting operational exp.	424.17	613.57	715.86	614.69	602.99	370.73	419.22	475.24
Total loans	75.24	98.56	146.22	44.07	28.3	30	104.04	69.51
Other ext. sources	0.6	2.95	0.57	10.76	22.76	26.6	38.71	280.72
CAPITAL REC. (Total)	500.01	715.08	862.65	669.52	654.05	427.33	561.97	825.47
As % of Capital receipts								
Revenue surp. After meeting operational exp.	84.83	85.80	82.98	91.81	92.19	86.75	74.60	57.57
Total loans	15.05	13.78	16.95	6.58	4.33	7.02	18.51	8.42
Other ext. sources	0.12	0.41	0.07	1.61	3.48	6.22	6.89	34.01

Apart from the importance of examining the trend in composition of capital receipts, the problems encountered in putting together the above table provides us with one final opportunity to underline the significance of simplifying the budget documents.

No ‘actuals’, only revised and budget estimates of capital receipts of G budget are available in an otherwise detailed budget statement. Having noted the composition of capital receipts we looked at the Budget document of G budget. In the ‘statement of sources and application of funds’ of the capital budget two components viz., loans and ‘other external sources’ were easily spotted but obtaining the category ‘revenue surplus after meeting operational expenditure’ needed considerable effort. This was required to be computed from the ‘operation budget’ as:

> *Revenue surplus after meeting operational expenditure* = revenue income – expenses chargeable to operation budget – provisions/ contributions for bad and doubtful debts and provision for consolidated loan fund (this final item is provided in capital budget)

One cannot help but wonder about why ‘actual’ figures are not provided upfront for a macro category such as capital receipts of the G budget when its budget estimate is provided.

The one major recommendation that flows out of the unnecessary complexity that we encountered in an analysis of BMC budgets, is that simplification of the budget documents and providing some sort of a ‘key’ is a necessary first step that needs to be taken at the earliest.

IV. In Conclusion: The Epilogue

In the course of writing this fairly long paper – and we had not bargained for the level of difficulty and labor when we committed to it – we have made several comments (general as well as specific) that need to taken up so that the budget becomes altogether more simple and comprehensible. We certainly do not wish to sum them up here again. There are a few closing comments that we will confine to.

- The budget format requires a major re-haul. This involves standardization and interconnectivity, most suited to the e-form.
- The data availability to the interested public in convenient form needs to be addressed through data warehousing which will go towards empowered and participative budget making.

- It may be pointed out that one is left feeling that there is no single captain whose vision is being articulated through the vehicle of the budget. One gets the feeling all these different budgets are being independently made and then just put together.
- Connected with this are the twin processes that are currently being initiated, one moving over to the international standard of accounting and computerization and connectivity for better information flows within the different departments of MCGM.
- Given the data and reporting problems, we have not attempted any exercise in evaluating fiscal marksmanship. We mention this particularly because any budget analysis normally undertakes such an exercise (indeed we have done so ourselves for the central budget on an earlier occasion) but we have not thought it prudent to do it here.
- Some the comments about structure of revenue and expenditure streams and non-absorption of capital surpluses need perhaps to be tackled through a capacity building strategy as well as those related to the simplification of processes (process re-engineering).
- As a related aside, serious efforts have to be made at rationalization of user charges in general and property tax in particular. This we believe will not only lead to simplification (reduction in confusing clutter) and increase in revenues but also set the stage for the MCGM to access financial markets (via loan exposure and muni-bonds).
- More importantly and going slightly beyond our brief in this paper, attention needs to be paid to translating the budgetary intentions (qualitatively and quantitatively) into actual delivery of services to the citizens, which we dare suggest is not entirely satisfactory.
- Finally, all of these comments have to viewed organically as part of the overall urgent need for major reforms the arena of Urban Governance. Whilst that another story given that one needs to credibly start somewhere, we would very much suggest MCGM budget to be a fit case as a starting point.

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