

## Financial Performance Evaluation of Municipal Corporations in the States of Haryana and Punjab: A Comparative Analysis

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### ABSTRACT

This paper will compare and contrast the financial performance of the municipal corporations that function in the religious states of Haryana and Punjab, India. The study focuses on comparing the trends of income generation and expenditure management based on secondary data in terms of five years between 2017-18 and 2021-22. Reported data were used that comprised data published and found in the respective Directorates of Economics and Statistics of both state governments. The results show that the general trend of the revenues and expenditure of both states is on an upward trend over the period under examination with the expenditure continually surpassing the revenues. The paper identifies the financial weakness of the urban local governments by showing the shortcomings of their structure and the necessity of structural reforms in fiscal management.

**Keywords-** Municipal Corporations, Income, Expenditure, Haryana, Punjab, Urban Local Bodies, Fiscal Management.

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### 1. Introduction

Municipal corporations form the basic unit of the urban governance in India which deals with administration of cities of over 300,000 inhabitants. These institutions are constitutionally recognized structures by the 74th Amendment Act of 1992, which expect them to provide a wide assortment of civic amenities with minimum limits of sanitation and public health to educational amenities and urban community planning. The biggest ones of them the ones that govern Mumbai, Delhi, Kolkata and Chennai have massive budgets and administrative capabilities that match the magnitude of the tasks they need to perform.

India is experiencing one of the fastest urbanization bursts ever to take place in history. Reports indicate that 17 out of the 20 fastest growing cities in the world will be found in India in the year 2019 through 2035. Such population imbalance exerts an unprecedented burden on the infrastructural systems of cities such as housing and transport infrastructures, as well as water supply system, healthcare, and safety. Flooding, severe heat waves, and cyclonic disturbances are some of the climate change vulnerabilities which have complicated the situation, requiring planning of adaptation in advance at the local governance level.

The economic well-being of the municipal corporations would present an issue of critical policy importance in this regard. These bodies are unable to perform their required mandate in the absence of sufficient and self-managed fiscal resources. Municipal financiers should be fortified with increased sources of own-generated revenues, moderate expenditure, and open-book accounting, is thus a prerequisite in the inclusive and strong urban development.

### **1.1 The Urban Local Bodies and the Panchayati Raj Institutions.**

The sub-national governance structure of India has two main types, that is, Urban Local Bodies (ULBs) and Panchayati Raj Institutions (PRIs). Municipal populations of Urban scale are served by ULBs, composed of municipal corporations, municipal councils and nagar panchayats. The financial data that concerns the ULBs is mostly unavailable though it has constitutional backing. Most Indian municipalities are yet to adopt accrual-based accounting systems as opposed to the cash-based accounting systems and their balance sheet is hardly in the public domain.

Such transparency of financial reporting renders effective performance evaluation challenging. Furthermore, the lack of accounting standardisation across and within the states leads to inconsistencies which prevent the inter-municipal comparisons. The majority of municipalities restrict their financial undertaking to the preparation of annual budgets and account of actual against expected values, but without using principle audited statements to manage their balance sheet or cash flow strategically which only contributes to cause inefficiencies and lack of accountability.

### **1.2 Accounting Reforms and Constitutional Mandate.**

The 73 rd and 74 th Constitutional Changes made the local self-governance institutionalized in India. The Amendment numbered 74 gave a list of 18 functions (as listed in the 12th Schedule) which state governments can devolve to municipalities. Nonetheless, this has been done inconsistently. The amendment failed to push the states to relinquish authority to raise revenue and as such, the majority of the municipalities continued to rely on upper forms of government financially.

The Constitution provides under Article 243Y that State Finance Commissions (SFCs) have a duty of prescribing the distribution of tax revenues and grants between the state governments and municipal authorities. These transfers, in practice, have failed to compensate in sufficient amounts the not very substantial revenue bases at the disposal of the urban local bodies. Own-source revenues in municipalities are heavily dependent on property taxes and little exploitation of other available resources like the advertisement taxes, solid waste user charges and value capture financing.

In order to resolve deficiencies in accounting, in 2002, a Task Force was established by the Comptroller and Auditor General (CAG) of India, which in turn recommended the adaptation of accounting system to accrual basis of all urban bodies. The result of this suggestion was the development of National Municipal Accounts Manual (NMAM) in the year 2004 in December. Although this effort was made, the latest CAG reports indicate that only 9 of 14 states have taken the step of adopting a state-level Municipal Accounts Manual. There is no standard accounting code imposed on the municipal corporations in the country.

## **2. Local Government Revenue Structure.**

Municipal corporations are obliged to rely on a mixed and limited set of sources of revenue. These may be very broadly classified as follows:

Tax revenue Tax revenues: property tax and advertisement tax, which comprise majority of own-source revenue in most Indian municipalities.

User fees and service tariffs: Collection of civic services like water, solid waste and parking facilities.

Intergovernmental transfers: Grants-in-aid and central and state devolved funds which constitute a disproportionately large portion of total municipal revenues in India.

Capital receipts: Borrowings, municipal bonds, and project related financing which is still young and a niche within some financial advanced corporations.

The Indian municipality fiscal architecture is structurally lean in the favour of transfer dependency. Unlike in the Nordic and other modern economies where local governments have access to wide and elastic tax bases such as personal income tax, Indian municipalities have narrow statutory levels of operation. This unequal distribution of devolved responsibility and financial autonomy is the fundamental institutional problem of Indian municipal finance.

### **3. Literature Review.**

The analysis of scholarly and policy literature on municipal finance in India has shown that there is a set of structural issues and the new agenda on reform.

In a detailed financial analysis by Nena (2019), six municipal corporations of Gujarat had been included such as Ahmedabad, Vadodara, Bhavnagar, Jamnagar, Rajkot, and Surat, respectively that span the period between 1996-97 and 2005-06. The analysis involved the average revenue income, revenue expenditure, capital income and capital expenditure of all the six entities. Some of the main suggestions included adopting universal accounting systems, as well as improved transparency in the budget of the municipal bodies.

Serageldin (2020) identified challenges linked to the structure of funding urban development in the realm of globalisation and recorded how a lack of trade barriers and change of economic base has made municipal revenue planning complex, especially in developing economies with constrained institutional capacity.

Mehta Ketan J. (2021) evaluated the budget activities of Rajkot Municipal Corporation in 2007-08 to 2011-12. Although the company observed growth in all key financial parameters, that is, in revenue income, revenue expenditure, capital income and capital expenditure, the study revealed that expenditure expressed itself higher in terms of income by a range of about 1.91 percent and is a characteristic of many Indian municipalities, which is a tendency in structural deficit.

Ahluwalia (2021) provided an inclusive evaluation of the systematic flaws of Indian urban local governments, mentioning as the main causes disabling municipal financial independence excessive state government overtake on taxes, rates, and borrowing. Dependence on the transfers centralisation and limited access to access to capital markets were among the negatively mentioned effects of the study as well.

### **4. Objectives of the Study**

It is against this background that the current study will be informed by the following objectives:

To analyze the trends of the income and expenditure of municipal corporations in Haryana and Punjab in the year 2017-18 to 2021-22.

To draw comparison of the financial trends of municipal corporations in the two states.

To determine the levels of convergence or divergence in the fiscal performance of Haryana and Punjab.

To determine policy implications of structural financial difficulties as stressing on the municipal governance of sixty cities in northern India.

These findings are also placed in the wider context of the municipal finance reform discussion as discussed in the article, specifically, the necessity of diversified revenue bases, better fiscal administration, and broader access to long-term credit by municipalities.

## **5. Theoretical Framework**

This is based on the normative theory of municipal finance, which argues that local governments are in the best place to offer public goods and services in a certain geographical area jurisdiction-- good of which residents are willing and able to pay. This theoretical tradition finds its basis on three principles.

Principle of Subsidiarity has the view that governmental decisions in administrative processing need to be delegated to the lowest level of the government that can undertake a specified task to a commendable level. The central or state governments should only be left with the mandate base on tasks which the local governments are shown to be incapable of performing. Municipal devolution has its basis on this principle.

Principle of Fiscal Equivalence: This concept was developed by economist Mancur Olson in the year 1969; the principle holds that the scope of benefits of a good should be commensurate with the geographical area under which its benefits are enjoyed. Centrally provided goods are those with wide externalities and locally delivered and funded at the local level are those with locally beneficial goods.

Principle of Correspondence takes this reasoning further asserting that the geographical distribution of beneficiaries should be usually reflected in the jurisdictional boundary of the governing body. These three concepts aid one another to constitute the theoretical basis of the fiscal decentralisation theory, which aims at aligning the functions with financial powers at the different levels of the government.

The disparity between these ideals in theory and practice is immense in the Indian situation. The formal devolution that was envisaged by the 74 th amendment has been patchily applied and there has been no full and final fiscal devolution processed, since the municipal corporations remain financially constrained to their mandates which have to be considered.

## **6. Research Methodology**

### **6.1 Research Design**

This research will take an ex-post-facto research design where secondary data that show historic financial performance will be analysed to show trends and attraction of inferences. The events captured in the course of the study do not entail experimental control of variables as the events that are being measured have already taken place. The type of analysis is descriptive in nature whereby the purpose is to record and explain the dynamics of income and expenditure within a specified period. The comparative analysis element is also present in the study as the researchers compared financial dynamics of municipal corporations in two neighboring states.

### **6.2 Hypothesis**

H 0: There have been generally close trends in the financial issues of income generation and expenditure control in the municipal corporations of Haryana and Punjab.

### **6.3 Sample and Geographic Scope**

This is a geographically demarcated study to two states of northern India of Haryana and Punjab. These states were chosen due to their relatively close location, similar administrative systems, and other similarities in their historical antecedent, which makes cross-state comparison significant.

### **6.4 Data Sources and Period**

The research utilizes only secondary sources but official reports released by the Governments of Haryana and Punjab respectively in the role of source of secondary data. The period of the study will be the five financial

years of 2017-18 to 2021-22, which will be sufficiently long in time to detect some significant trends but will not exceed the limits of data quality.

## 6.5 Profile of Study Areas

### 6.5.1 Haryana State

Haryana is a landlocked state located at North India which was a creation of what was once Punjab on 1 November 1966. It occupies an area of 44212 sq. km. and it has 22 administrative districts. The state has a population of about 73.25 million people making it the fifth country in terms of the per capita income 2,64,206 and the twelfth most populous in terms of Gross State Domestic Product. Haryana borders Himachal Pradesh, Uttar Pradesh, Rajasthan, and Punjab and enjoys a geopolitical economic location in terms of its location to the National Capital Region (NCR). The state economy still depends mostly on agriculture, which an approximate of 70 percent of the population works in; key products of agriculture are wheat, rice, sugarcane, cotton and oil-seeds.

**Table 1: Income and Expenditure of Haryana State Municipal Corporations (₹ Crore)**

S.No.	Financial Head	2017-18	2018-19	2019-20	2020-21	2021-22
1	Total Revenue	4,731	5,532	7,954	9,472	10,784
2	Total Expenditure	5,973	6,321	7,892	10,398	12,593
	Surplus / (Deficit)	(1,242)	(789)	62	(926)	(1,809)

Source: Directorate of Economics and Statistics, Government of Haryana

### 6.5.2 Punjab State

Punjab is a state in northwestern India, historically renowned as one of the country's most agriculturally productive regions. Bounded by Jammu and Kashmir to the north, Himachal Pradesh to the east, Haryana to the south, and Rajasthan to the southwest, the state draws its name from the five rivers that traverse its landscape — the Sutlej, Ravi, Beas, Chenab, and Jhelum. Spanning 50,360 sq. km. across 22 districts, Punjab ranks 20th by area and 16th by population (approximately 27.74 million) among Indian states. Chandigarh serves as the shared capital of both Punjab and Haryana. Beyond agriculture, Punjab has a diversified industrial base, with notable contributions from textiles, machine tools, bicycles, sugar production, and scientific instruments. The state ranks ninth among all states on the Human Development Index.

**Table 2: Income and Expenditure of Punjab State Municipal Corporations (₹ Crore)**

S.No.	Financial Head	2017-18	2018-19	2019-20	2020-21	2021-22
1	Total Revenue	6,572	7,659	8,854	10,763	12,461
2	Total Expenditure	7,945	8,452	9,641	11,392	13,971
	Surplus / (Deficit)	(1,373)	(793)	(787)	(629)	(1,510)

Source: Directorate of Economics and Statistics, Government of Punjab

The municipal corporations in Punjab have been portrayed with the image of a steady fiscal deficit throughout the period of the study. The compound growth rate in terms of revenue is about 17.4 percent as revenue increased to 12,461 crore in the year 2021- 22 compared to 6,572 crore in 2017-18. Nonetheless, spending continued to exceed income increasing between 7,945 crore to 13,971 crore. In 2020-21, the deficit has decreased to 629 crore but it has returned with a huge problem of 1,510 crore in 2021-22 indicating fresh financial strain.

### **Comparative Analysis**

The comparison of municipal finances in Haryana and Punjab is done on a cross-state basis and it shows a few important patterns. First, municipal corporations of Punjab have a bigger size of the aggregate revenues and expenditures, which is in line with the fact that the state has a bigger urban population base. Second, the two states share a structural deficit pattern as both states have continuously recorded higher expenditure in comparison with own source revenues, requiring them to resort to the use of state and central government transfers.

Third, there is a slight variation on the rate at which Haryana has grown its revenue (around 22.9% CAGR) compared to that of Punjab (around 17.4% CAGR) throughout the period of study, which implies there were relatively increased revenue mobilisation efforts in the State of Haryana. But Haryana was in fact increasing its expenditure by a quicker rate which is reflective of infrastructure investment pressure related to its closeness to the NCR. Fourth, the two states have registered their largest losses in 2021-22, presumably due to the fiscal after-shocks of the COVID-19 pandemic on the finances of urban local bodies.

The conclusions are widely in agreement with the national trends that were recorded in the existing literature and support the conclusion that structural reform within the framework of municipal finance as opposed to gradual changes is the only way of establishing fiscal sustainability.

### **Conclusion and Policy Implications.**

Municipal corporations take a central role in the India governance system. That they form the major interaction point between citizens and the state in urban areas gives them the responsibility of providing a expansive range of the essential civic services such as solid waste management and the state of health to the maintenance of roads and the planning of cities. It is not only an administrative issue but a decision-maker in the quality of life in the city and socioeconomic inclusion.

The results of this study prove that in the municipal corporations of Haryana and Punjab, there is a sustained fiscal deficit and that expenditures are always much and differentiated in comparison with revenues during the study period. The deficit trend together with excessive dependence on intergovernmental transfers are an indication of structural frailty of the revenue structures of these institutions. Having a fundamental restructuring of municipal finance: enlarging the tax base, enhancing collection, acquisition of a municipal bond market, etc.: these corporations will not be able to fund themselves the infrastructure projects that are being demanded by growing urban populations.

There are a number of policy interventions that should be taken into consideration. To begin with, property tax reform by self-assessments schemes, mapping by GIS, and stronger collections can raise own-source revenue to a significant level. Second, transfer dependency can be mitigated with the diversification of revenues by adding user charges on water, sanitation and parking service, advertisements fees and lease related on municipal assets. Third, transparency and accountability can only be assured by professional capacity building in municipal finance management, such as use of accrual accounting and use of digitalized

financial reporting systems. Fourth, open access to capital market by means of credit-rated municipal bonds can enable capital expenditure in the long term without enhancing dependency of transfers.

Summing up, the financial viability of municipal corporations in Haryana, Punjab, as well as India as a whole requires a serious and consistent policy solution. These two twin demands of further fiscal decentralisation and enhancement of financial management capacity should go hand-in-hand so that such institutions could execute their constitutional mandate and play a significant role in ensuring that India achieves her urban development objectives.

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