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Metropolitan Finances in India: The Case of Mumbai City Corporation

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Metropolitan Finances in India: The Case of Mumbai City Corporation

by

M. Govinda Rao⁺

Introduction

It is widely recognized that cities are the leading edges of economic dynamism in every country. They create agglomeration economies for enterprises and individuals. They generate externalities that facilitate transactions, production and distribution activities and create network economies to facilitate and centres of knowledge and innovation (Bird and Slack, 2007, Rao and Bird, 2012). The importance of cities is further emphasized by the adoption of Sustainable development Goals for 2030 by more than 150 countries at the United Nations Sustainable Development Summit and these include achieving sustainable cities and communities, (Goal 11), eradication of poverty (Goal 1), provision of clean water and sanitation (Goal 6), and creating enabling environment of industry, innovation and infrastructure Goal 9) (Bahl, 2018).

The extent to which the cities can become agents of transformation towards achieving the sustainable development goals, however, depends on creating an enabling environment that can swiftly respond to the changing requirements and the provision of a wide range of urban infrastructure and services that promote both private sector activities and the well-being of the urban population and these include water, sewers, garbage collection and disposal, drainage systems, police and fire protection, affordable housing and transportation. The High Powered Expert Committee had estimated the investment requirements of Rs, 30.2 trillion (USD. 8 Trillion) for creating the required urban infrastructure in India for the period from 2010 and 2030. Almost 44 per cent of this is to augment the transport infrastructure, 20 per cent for water supply, sewerage, solid waste management and storm water drains and almost 50 per cent of this is estimated for operation and maintenance (including those of transport infrastructure and water supply, sewerage and drainage).

⁺ The author is grateful to Abhay Pethe for useful discussions and meticulous reading of the draft of the paper. He also shared his papers which provided very useful insights into the problems of public service delivery. Thanks are also due to Richard Bird and Zheng Jian for their detailed comments on the earlier draft of the paper. However, he alone is responsible for the shortcomings.

According to the 2011 population census, India had 370 million urban residents spread over 7935 cities and towns constituting about 31 per cent of the population. It is estimated that urban population will exceed 600 million in 2031. There were 53 cities with more than one million people constituting about 43 per cent of the urban population and produce three-fifths of GDP in the country. There were three cities mega cities with more than 10 million people namely, Mumbai, Delhi and Kolkata. Considering these, the annual Economic Survey put out by the Ministry of Finance, Government of India for 2016-17 states, “By all accounts, urbanization will define the trajectory of Indian development. The exodus of rural Indians into the cities over the coming decades will pose tremendous challenges for governments, particularly the municipalities who will be primarily responsible for providing the services that the new migrants – and established residents – will need. Success in overcoming these challenges will be vital if the nation is to seize the opportunities that migration to the centres of economic activity can create”. (p.300. India, 2017).

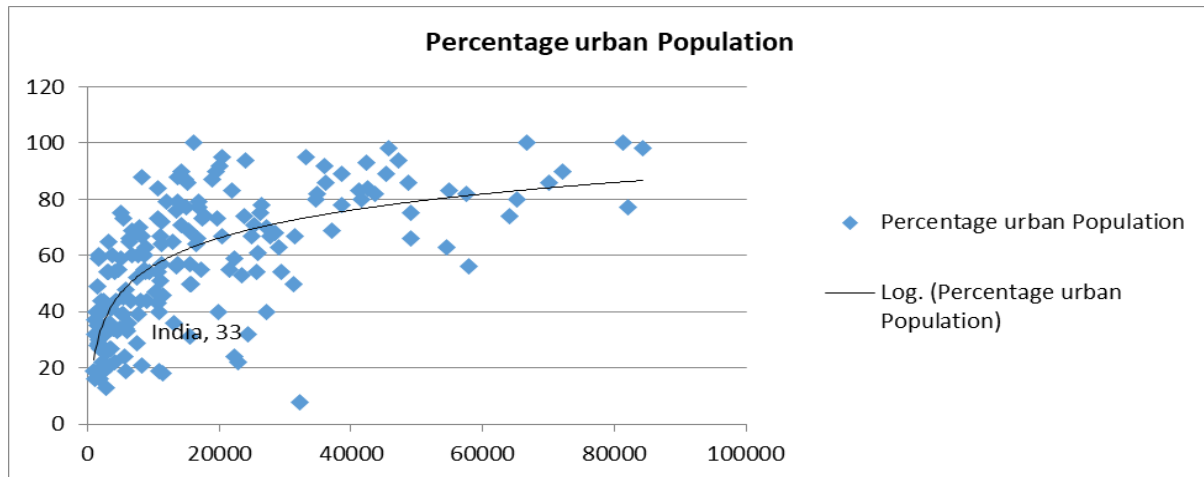
A comparative analysis shows that Indian urbanization is lower than what it should be for its level of per capita GDP. The log-linear regression of proportion of urban population with per capita GDP (PPP terms) of 180 countries shows the predicted value for India is 44 per cent as compared to the actual 33 per cent (Figure 1). The plausible explanations for this include, inherent bias which underestimates urbanization¹, high transaction cost of labour migration to the cities including housing and distorted rental market and poor access to information on employment opportunities, slower growth of manufacturing sector as compared to services and lower employment avenues for the relatively unskilled migrants from rural areas. Besides, there are a number of rural oriented programmes including employment guarantee and food security schemes discouraging migration to cities. However, in the coming years, urbanization is likely to increase at a fast pace as the manufacturing growth picks up and employment avenues are created in the cities.

Achieving sustainable development requires particular attention to the provision of public services in large metropolitan cities. The objective of this paper is to analyze the finances of Mumbai, the largest Indian city. The population in the core city (central business district) of Mumbai has actually shown a decline between 2001 and 2011 census, and the population in the area covered under the Municipal Corporation of Greater Mumbai (MCGM) which includes suburban areas has increased at just 1.2 per cent over the 10 years. This however, does not mean there has been any abatement of migration in search of employment. Most of the migrants have been settling down in the MMR region due to non-availability affordable rental housing within the city. Mumbai has been a centre of economic dynamism, but its future vibrancy depends improving its efficient public service delivery. The study will analyze the finances of the MCGM with a view to identifying areas of reform to enable to create the required agglomeration economies. Section 2 will provide a brief history of Mumbai, its evolution as a major metropolis, its importance in the State and national economy. Section 3 will analyze the assignment of functions and sources of finances of Mumbai Municipal Corporation. Sections

¹ Ellis and Roberts (2016) using agglomeration index estimates India’s urbanization at 55 per cent in 2010.

4 will identify and analyze the problem areas and list the challenges before the MCGM. The final section lists the major initiatives required to reform the city finances in Mumbai. In identifying reform areas, the paper will also attempt to draw lessons from some of the successful experiments in other cities in the country.

Figure 1. Urbanization and Per capita GDP in Different Countries, 2015



The estimated equation is $\text{Ln (Urban)} = \text{Ln}1.3777 + 0.2768 \text{ Ln PGDP}$

(The coefficients are significant at 1 per cent level)

Adj. R Squared: 0.39. Number of Observations: 180.

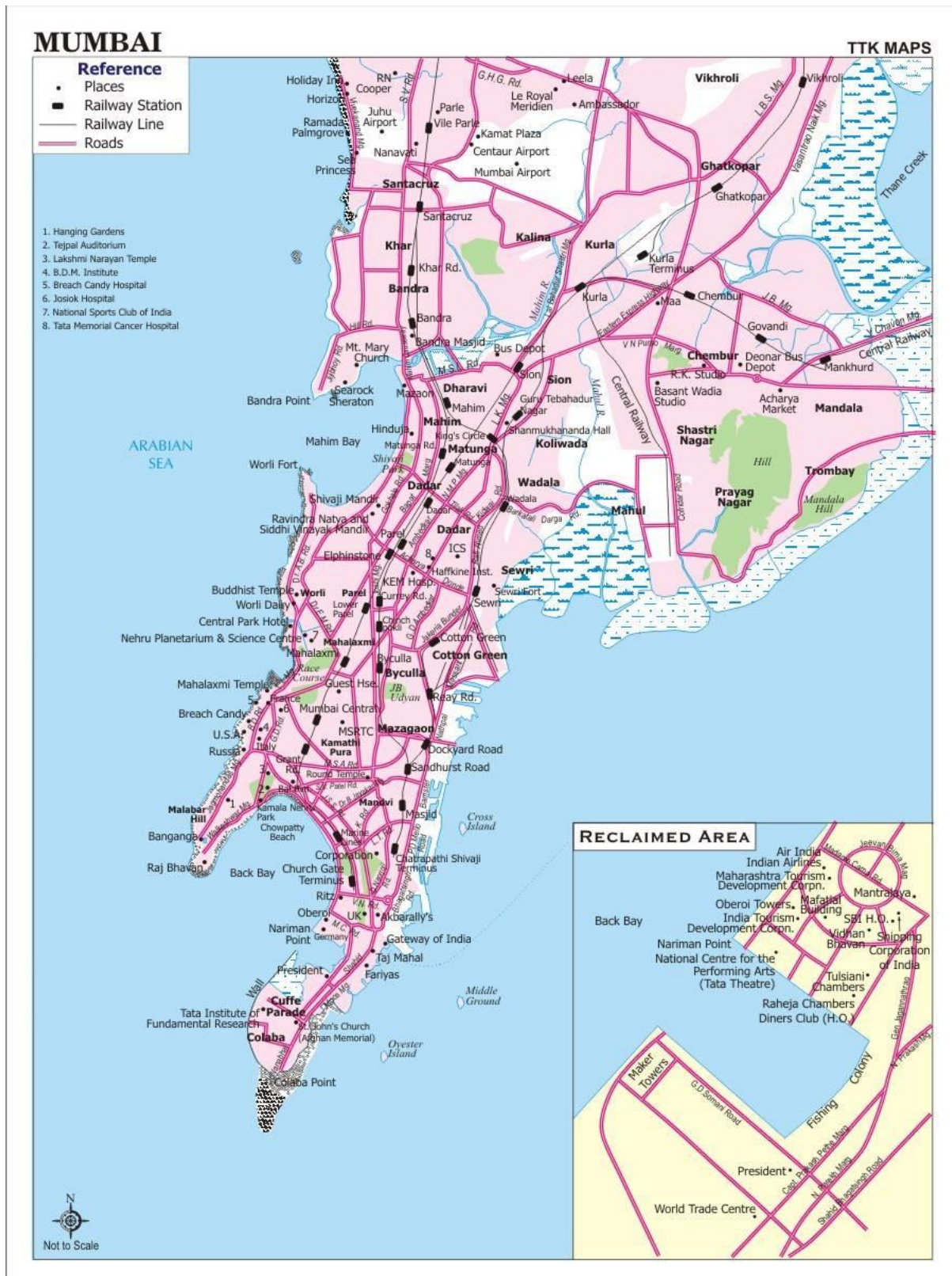
Source: World Development Indicators, 2017; Washington D.C.: World Bank.

I. Mumbai – The Maximum City

The city of Mumbai is the most globalized city in South Asia. It is the financial centre, a commercial hub and the entertainment capital of the country. It is a successful city and yet, underperforming. The New World Wealth Report ranks the city as the 12th richest, but its rank according to urban infrastructure and services is 50 and in terms of quality of life, a lowly 154th. The city is plagued by poor infrastructure, defective and deficient urban planning (Pethe, 2010), creaking public transport, lack of affordable and accessible rental housing and proliferation of slums. The city was a centre for the manufacture of textiles in the 1970s and 1980s and after the labour unrest and decline in the fortunes of the textile industry and environmental regulations, the textile mills faced their closure. At the same time, the service sector emerged as the major player and presently accounts for 80 per cent of the economic activity in the city.

The city of Mumbai has had a long history. It is made up of seven islands in India's West Coast in the State of Maharashtra. For centuries it was ruled by the indigenous Koli rulers. After the Portuguese landed in Goa in 1498 and spread the sphere of their influence, the islands were ceded to them by the native rulers. The islands were gifted by the Portuguese to the British as a part of the dowry when Prince Charles II of England married Princess Catherine Braganza of Portugal in 1661. The seven islands were inter-connected by razing most of the 22 hills on the shallows to create an island city of Mumbai. Central business district was developed in the

overcrowded island with a narrow stretch to the mainland underlining the heavy reliance on transportation. The spread of economic activity over the years spilled over to create a large urban agglomeration namely, the Mumbai Metropolitan Region (MMR).



The MMR spread over 4355 sq. km area consists of 8 municipal corporations², nine municipal councils³, along with more than 1000 villages in Thane and Raigadh districts. According to the 2011 Census 20.75 million people lived in the region and the current population is estimated at 22 million. By any reckoning MMR is the largest and economically most powerful urban agglomeration in the country. With just 2 per cent population, it contributes to 7 per cent of GDP of the country and contributes to about 12 per cent of the national tax revenue. The per capita GDP in Mumbai in 2016-17 at Rs. 279965 was 2.7 times higher than the average of the country (Rs. 103219). It is predominantly a service sector economy with over 80 per cent of GSDP originating from the sector. The responsibility of planning for the MMR is entrusted to Mumbai Metropolitan Region Development Authority (MMRDA). While the provision of local public services is entrusted to the municipal corporations, municipal councils and the village panchayats in the MMR, there are parastatals such as Maharashtra State Road Transport Corporation, Maharashtra Housing and Area Development Authority (MHADA) and Slum Rehabilitation Authority set up by the Department of Housing for providing affordable housing and slum rehabilitation in the region. In addition, the central government agencies such as the Airport Authority of India, the Port Trust and Railway Boards also provide some local public services within their jurisdictions. A detailed analysis of the finances and problems associated with the provision of public services of urban local bodies within the MMR is well beyond the scope of this paper⁴.

The focus of this paper is on the finances of Municipal Corporation of Greater Mumbai (MCGM). With an area of 437 square kilometers, MCGM has one – tenth of the area of MMR, but its population in 2011 at 12.3 million was 53 per cent of the population of MMR. The density of population in 2011 was one of the highest in country at 28575/sq.km which was almost 6 times the density in the MMR (4765/sq.km). Over the period, 2001 and 2011, the population has registered a negative growth -7.6%) in the central city and 8.3 per cent in the suburbs and the aggregate growth in the MCGM area has increased by 3.9 per cent over the ten years between 2001 and 2011. Thus, much of the population growth has been in the urban agglomeration has been outside the MCGM. Consequently, the share of MCGM population in MMR declined from 67 per cent in 1991 to 53 per cent in 2011. The increase in population, particularly in the MCGM area is predominantly due to the in-migration of people seeking livelihood opportunities.

The geography coupled with the building regulations and rent control laws have contrived to create a huge shortage of affordable rental housing within the MCGM area. The narrow stretch of land in the overcrowded central business district can support additional population only with

² These are Greater Mumbai, Thane, Kalyan-Dombivali, Navi Mumbai, Ulhasnagar, Bhiwandi- Nizamapur, Vasai-Virar and Mira-Bhayandar.

³ These are. Ambarnath, Kulgaon-Badalapur, Matheran, Karjat, Panvel, Khopoli, Pen, Uran, and Alibaug, along with more than 1,000 villages in Thane and Raigad Districts. MMRDA is responsible for the balanced development of the MMR

⁴ For an incisive analysis of the finances of the urban local bodies within the MMR, see Pethe (2013)

vertical growth of buildings. With 28575 people per sq.km, MCGM area has one of the highest population densities and the infrastructure in the area and astronomical land values do not support additional people. In addition, outmoded rent control laws prevalent in the state constrain the supply of affordable housing. The stipulation of uniform floor space index (FSI) constrains the vertical growth of buildings and restricts the supply of built in housing area. This is contrary to the general norm of having high FSI in the central business district and tapering off as the distance from the central district increases (Pethe, 2018a). The scarcity of affordable housing has resulted in informal settlements and the slum population in the MCGM area in 2011 was estimated at over 40 per cent.

Slack (2007) describes the governance system in Mumbai as a “one tier fragmented government model” as described above, the MMR region has a number of autonomous local government units or special service bodies with each delivering services within its own boundaries. Even within the Greater Mumbai area whether most decisions are taken by the municipal corporation, there are a number of specialised and often overlapping agencies, providing specified services. The Maharashtra State Road Development Corporation is under the State government’s Department of Public Works entrusted with the task of developing roads, bridges and overpasses in MMR. The Maharashtra Housing and Area Development Authority and Slum Rehabilitation Authority are responsible for providing affordable housing and rehabilitating the slums. The Mumbai Metropolitan Regional Development Authority (MMRDA) is responsible for planning for the region. The Metropolitan Planning Committee (MPC) set up following Article 243ZE of the 74th Constitutional Amendment Act to facilitate better coordination at the MCGM level. It comprises elected representatives from all the ULBs and has the mandate of preparing a draft development plan for the metropolitan region. Thus, the regional planning by the MMRDA and planning done for the MCGM area by the MPC have considerable overlapping and often are in direct conflict with each other. Further, the constitution of MMRDA as a regulator and planner comes in direct conflict with MPC which is essentially a planner. Thus, overlapping of the function in this one tier fragmented governance model poses a serious challenge of coordination and ambiguity in the functional assignments raises questions of accountability.

II. The assignment system and the sources of metropolitan finance

An important implementable rule of fiscal decentralization is the clarity of assignments and assignments according to comparative advantage. There must also be a system of coordination to deal with any overlapping assignments. Similarly, it is important to ensure the “Wicksellian Link” linkage between revenue raising and expenditure decisions. Thus, the local governments must have revenue handles to finance the functions assigned to them at least at the margin. However, invariably, being closer to the people, the local governments have heavy expenditure responsibilities but for reasons of comparative advantage the broad based and redistributive taxes are assigned to the higher level governments. This makes making intergovernmental

transfers inevitable, but it is important to ensure that these transfers do not have perverse incentives.

The formal recognition urban local bodies as institutions of self-government came in with the 74th Constitutional Amendment in 1992. The amendment resulted in the insertion of articles in the Constitution (243 I to 243 ZF) defining the role and functions of municipal bodies, their governance systems, tenure in office, modality of elections and reservation in seats, and appointment of the State Finance Commission for determining transfers. It inserted Schedule 12, listing out 18 functions which the States may devolve to the municipal bodies but this is only indicative. It is an omnibus list for urban local bodies of all sizes. There is no separate list of taxes assigned to the municipal bodies. However, Article 243-X provides for the States to authorise municipal bodies to levy, collect and appropriate specified taxes and duties subject to prescribed procedures and restrictions, assign taxes and duties, make grants in aid and create funds for financing municipal functions. The amendment also requires the Governor of the state to appoint the State Finance Commission every five years to make recommendations on the transfers to be made to the municipal bodies to carry out the functions devolved to them. Furthermore, it prescribes that the Central Finance Commission to recommend measures to augment the consolidated funds of the States to supplement the resources of municipal bodies based on the recommendations of the State Finance Commissions.

Ambiguity in the assignment of functions is a major shortcoming in Indian fiscal decentralization in India. The matters pertaining to the local governments are entirely assigned to the State government Under Entry 5 of the State List of the Seventh Schedule. Under Article 243-W, the municipal bodies are required to perform the functions and implement schemes as entrusted to them by the States including those included in the 12th Schedule. The States may devolve these functions and even the functions outside this list at their discretion. Although in Mumbai all the 18 functions have been devolved most of these have to be undertaken concurrently with Central and State government departments or their parastatals. While some subjects in the 12th Schedule like urban planning including town planning, water supply, fire services, public health sanitation and waste management, slum improvement and upgradation, urban amenities, burial grounds and crematorium and fire services are local public or merit goods, others such as regulation of land use, planning for social and economic development, urban poverty alleviation have to be provided concurrently with Central and state government agencies or the city governments may have to implement them as agencies. Besides, for functions like water supply and transportation, the State has appointed the parastatals which are directly accountable to the State government rather than the Municipal Corporation. The ambiguity in the assignment system could result in under provision of the public service and more importantly takes away one of the important advantages of decentralization – accountability to the people.

As regards to the devolution of functions are concerned, the State of Maharashtra in which Mumbai is the capital, all the 18 functions have been devolved to the MCGM. These include such items as primary education, health (in case of MCGM only; for other councils in MMR it

is looked after by the State), street cleaning and lighting, water and sanitation, fire brigades, and museums and public libraries. However, all these functions have to be performed concurrently with the State government or through a special purpose agency appointed by the State. Thus, urban planning including town planning function overlaps with the planning done for the MMR by the MMRDA and the MPC. This creates a power conflict between the two agencies and defeats the purpose of having an integrated planning. As mentioned earlier, there is a separate agency created by the State for road development, housing and area development. In addition, there are agencies created by the Central government such as the Airport Authority of India, the Mumbai Port Trust, the Railway Boards and others located in the region. The system has resulted in lack of standardisation, ambiguity and overlapping to lack of accountability to a considerable extent.

Although there is a workable division of functions in practice, ambiguity is unavoidable particularly when the service delivery system breaks down and blame has to be apportioned. The overlapping system of assignments is in part a result of history and partly as the Constitution places the responsibility for local government in the State List and the latter is reluctant to fully devolve the functions. This is also due to State and Central level politicians trying to dominate service delivery decisions at the local level.

There is no clear assignment of the revenue sources either. The State government under the Bombay Municipal Corporation Act (1888) amended from time to time including the Bombay Municipal Corporation (Amendment) Act, 1960, and the Bombay Provincial Municipal Corporations Act (1949); have authorised the MCGM to levy specified taxes, levy user charges and collect fines and fees subject to the ceiling rates. It has also formulated the rules for collection and appropriation. All changes in the base or rate of the tax have to be approved by the State government. The prominent among the taxes devolved are the property tax and the tax on the entry of goods into the local area for consumption, use or sale called "Octroi". The last tax has been abolished as a part of the nation-wide tax reform of replacing the multiple domestic trade taxes with the Goods and Services Tax with effect July 1, 2017. As the tax constituted over 27 per cent of the MCGM's own revenue, the state government has agreed to pay compensation for the loss of revenue from the tax enhanced at 7 per cent every year to the MCGM.

The non-tax revenues of MCGM comprises of charges for public services provided, fees, fines and forfeitures, parking fees, advertisement fees on hoardings license fees on shops and establishments, fees for approval of buildings and rents from letting out properties. Any change in them has to be approved by the State government. In most cities, parking charges are abysmally low and these are controlled, even in many city centres. Consequently, there are no private investments in parking lots resulting in parking by the roadside obstructing the flow of traffic.

III. Fiscal trends in MCGM

Table 1 presents the broad fiscal trends in MCGM from 2013-14 to 2016-17. MCGM is one of the oldest and the most prosperous City Corporations in India. This is probably the richest corporation in terms of revenue as compared to most others and therefore, may not be entirely representative. The island nature of the geography and the concentration of the central city in the small geographical area pose challenges for housing and transportation which the two other major cities of Delhi and Kolkata do not have. Nevertheless, there is considerable similarity with other Corporations in delivering public services.

The analysis of expenditures of the MCGM presented in Table 1 brings out some important features:

- (i) The overall expenditures of the MCGM as a ratio of District Development Product (DDP) is around 6.5 per cent.
- (ii) (ii) The expenditure –DDP ratio shows a steady decline from 8.6 per cent in 2012-13 to 6.5 per cent in 2016-17.
- (iii) The decline is seen both in revenue and capital expenditures but as the latter decelerated at a faster rate, the ratio of capital expenditure in the total has declined from 21.1 per cent in 2012-13 to 15.3 per cent in 2016-17.
- (iv) The administration and establishment expenditures as a ratio of total expenditure have remained stable at about 35 per cent throughout the period.
- (v) The capital expenditures are financed mainly by the revenue surpluses and contributions from various funds created and the MCGM. The Corporation does not borrow to finance its capital expenditure.
- (vi) The fact that the budget of the MCGM is in balance should not be taken to mean that the MCGM has exhausted the revenue raising potential. According to Pethe (2013) the MCGM exploits only a tenth of the revenue raising potential. Not surprisingly, the volume of capital expenditures has been much lower than what is required. Thus, urban public services and infrastructure are inadequately provided. On the contrary, the budget balance represents a low level equilibrium as the provision of many urban public services such as water supply, sanitation, storm water drainage, affordable housing and transportation is inadequate and sub-optimal.

Table 1. Fiscal Trends in MCGM (Per cent of Gross District Development Product)

Particulars	FY13	FY14	FY15	FY16	FY17
Sources of Revenue					
(i) Tax Revenue	3.96	3.61	3.42	3.33	3.13
(ii) Assigned Revenues & Compensation	0.00	0.01	0.01	0.02	0.00

(iii) Rental Income from Municipal Properties	0.03	0.02	0.02	0.02	0.02
(iv) Fees & User Charges	1.94	2.43	2.40	2.46	1.93
(v) Sale & Hire Charges	0.00	0.00	0.01	0.01	0.01
(vi) Rev Grant, Contribution & Subsidies	0.12	0.13	0.13	0.12	0.09
(vii) Income from Investments	0.55	0.44	0.44	0.49	0.49
(vii) Interest Earned	0.03	0.05	0.05	0.04	0.03
(viii) Other Income	1.60	1.49	1.71	1.34	1.25
Total Revenue Receipts	8.23	8.19	8.19	7.83	6.95
Items of Expenditure					
1. Revenue Expenditure					
(i) Establishment Expenses (mainly salaries)	2.79	2.50	2.54	2.27	2.07
(ii) Administrative Expenses	0.19	0.17	0.21	0.18	0.21
(iii) Operations & Maintenance (civic amenities)	0.71	0.70	0.71	0.68	0.67
(iv) Interest & Finance Expenses	0.04	0.04	0.04	0.02	0.01
(v) Programme Expenses	0.04	0.04	0.04	0.04	0.05
(vi) Rev Grants, Contribution & subsidies (contribution to funds)	2.46	2.95	2.78	2.35	2.11
(vii) Provisions and Write off	0.08	0.02	0.12	0.03	0.05
(viii) Depreciation	0.49	0.47	0.41	0.36	0.36
(ix) Total- Revenue Expenditure	6.79	6.88	6.84	5.91	5.52
2. Total Capital expenditure	1.81	1.43	1.65	1.39	1.00
Total Expenditure	8.61	8.31	8.49	7.30	6.52

Source: MCGM

<https://portal.mcg.gov.in/irj/portal/anonymous?NavigationTarget=navurl://bcc32fc85b60627fbee93c1100f07989>

The per capita expenditure of MCGM presented in Table 2 shows that the aggregate expenditures increased from Rs. 16905 in 2012-13 to Rs. 20084 in 2014-15, but thereafter declined sharply to Rs. 18242 in 2016-17 even in nominal terms (Table 2). Considering the inflation rate of 13.2 per cent⁵ during the 4 years, the decline in the actual per capital expenditures has been much sharper. This is particularly true of capital expenditures which in per capita terms declined from Rs. 3563 in 2012-13 to Rs. 2800 in 2016-17.

Table 2. Per Capita Revenues and Expenditures in MCGM (Rupees)

Particulars	FY13	FY14	FY15	FY16	FY17
Sources of Revenue					
Tax Revenue	7780.58	7853.65	8103.01	8526.68	8766.23
Assigned Revenues & Compensation	1.54	17.70	19.27	46.85	8.11

⁵ Refers to All India Consumer Price Index for Industrial Workers in Urban Areas.

Rental Income from Municipal Properties	50.00	51.27	55.02	55.85	66.96
Fees & User Charges	3807.70	5287.72	5674.07	6317.20	5391.73
Sale & Hire Charges	6.00	7.57	14.61	13.65	20.56
Revenue Grant, Contribution& Subsidies	225.99	291.89	318.05	320.24	265.35
Income from Investments	1086.25	957.44	1040.76	1245.77	1380.88
Interest Earned	67.24	113.96	122.44	113.81	80.06
Other Income	3137.55	3243.43	4038.31	3426.10	3490.51
Total Revenue Receipts	16162.86	17824.62	19385.54	20066.15	19470.40
Revenue Expenditure					
Establishment Expenses (mainly salaries)	5470.77	5438.71	6017.11	5818.54	5781.72
Administrative Expenses	377.97	362.11	492.27	460.25	575.26
Operations & Maintenance (civic amenities)	1397.27	1519.59	1675.86	1732.95	1863.43
Interest & Finance Expenses	70.26	80.80	97.68	50.70	38.98
Programme Expenses	71.49	87.52	93.79	90.29	128.39
Rev Grants, Contribution& Subsidies (contribution to funds)	4824.89	6410.20	6568.42	6025.58	5906.25
Provisions and Write off	157.79	39.90	282.92	67.75	145.43
Depreciation	971.45	1021.36	958.89	916.28	1002.40
Total Revenue Expenditure	13341.88	14960.18	16186.94	15162.35	15441.89
Total Capital expenditure	3563.53	3118.60	3897.19	3553.78	2799.93
Total Expenditure	16905.41	18078.78	20084.13	18716.13	18241.82

Source: MCGM: (As in Table 1)

The details of revenue receipts of MCGM presented in table 3 bring out the composition of various tax and non-tax sources as well as transfers received from the State and central government. The total revenues of the MCGM as a ratio of DDP have shown a steady decline from 8.3 per cent to 6.95 per cent. The share of tax revenues collected by the MCGM declined from over 48 per cent in 2012-13 to 45 per cent in 2016-17. Revenue from property taxes (including water and sewerage taxes) constituted just 10-15 per cent of the total revenue in contrast to the pattern in most cities where it predominates. Octroi, the tax on the entry of goods into a local area for consumption, use or sale was the most important tax contributing over 27 per cent of the revenues of the MCGM. The goods and services tax (GST) subsumed most of the domestic trade taxes including octroi on July 1, 2017. With that the MCGM lost control over the most lucrative, buoyant and liquid revenue source. The State government has agreed to provide compensation to MCGM with 7 per cent enhancement every year on the base year revenues of 2016-17.

It is generally expected that at the metropolitan level, revenue from fees and user charges should constitute a high proportion. Most services provided at the metropolitan level are of quasi –public nature and can be priced. These include charges for providing services such as water supply, sanitation, parking fees, advertisement hoardings and license fees. In the case of MCGM, the charges and fees constituted 27.7 per cent of the total revenues collected in 2016-17 and this was much lower than 32 per cent collected in 2012-13. Other income shown in the table is essentially transfers from the various funds with the MCGM. It is also seen that the grants from the State government constitutes a very small proportion of the total revenue of the MCGM because the State government thinks that Mumbai, being an affluent city can take care of itself.

Despite several attempts at reform, the budgets of the MCGM are not easy to understand. The budgets for different departments are titled as “A”, “B”, “E”, “G” and “Tree Authority”. In fact, the revenue and expenditure estimates presented are statements of intentions rather than scientifically worked out estimates. The Commissioner of MCGM, while presenting the budget to the standing committee in 2017-18 stated, “budget had, over the years become huge, unwieldy and unintelligible to the laymen” and it had become, “.....an accountant’s delight and layman’s nightmare”. He had set in motion the reforms to make it laymen friendly but it will take considerable effort to simplify it.

Table 3. Income of MCGM from different sources (Per cent of DDP)

Particulars	FY13	FY14	FY15	FY16	FY17
Per Cent of DDP					
Property Tax	0.34	0.34	0.37	0.40	0.34
Water Tax	0.31	0.28	0.35	0.39	0.31
Sewerage Tax	0.24	0.27	0.32	0.40	0.30
Octroi & toll	2.66	2.37	2.10	1.80	1.88
Miscellaneous	0.41	0.34	0.29	0.34	0.31
Total tax revenue	3.96	3.61	3.42	3.33	3.13
Fees & User Charges	1.94	2.43	2.40	2.46	1.93
Income from Investments	0.55	0.44	0.44	0.49	0.49
Revenue Grants	0.12	0.13	0.13	0.12	0.09
Miscellaneous Income	0.06	0.09	0.09	0.09	0.06
Other Income	1.60	1.49	1.71	1.34	1.25
Total Non-tax revenues	4.27	4.58	4.77	4.50	3.82
Total Income	8.23	8.19	8.19	7.83	6.95
Per Cent of Total					
Property Tax	4.13	4.19	4.52	5.13	4.83
Water Tax	3.76	3.41	4.22	4.96	4.48
Sewerage Tax	2.96	3.30	3.92	5.08	4.32
Octroi & toll	32.31	28.96	25.61	23.02	27.00
Miscellaneous	4.98	4.20	3.53	4.30	4.40
Total tax revenue	48.14	44.06	41.80	42.49	45.02

Fees & User Charges	23.56	29.67	29.27	31.48	27.69
Income from Investments	6.72	5.37	5.37	6.21	7.09
Revenue Grants	1.40	1.64	1.64	1.60	1.36
Miscellaneous Income	0.77	1.07	1.09	1.15	0.90
Other Income	19.41	18.20	20.83	17.07	17.93
Total Non-tax revenues	51.86	55.94	58.20	57.51	54.98
Total Income	100.00	100.00	100.00	100.00	100.00

Source: MCGM.

<https://portal.mcgm.gov.in/irj/portal/anonymous?NavigationTarget=navurl://bcc32fc85b60627fbee93c1100f07989>

One important problem with the budget is that both revenues and expenditures shown are over estimates. The budget estimate for 2016-17, for example, was Rs. 370.52 billion and the actual spending in the year was only 68 per cent of the budgeted at Rs. 251 million. The difference was mainly due to lower capital expenditure. As the Commissioner states while presenting the 2018-19 budget, “Departments tend to grossly overestimate the Capital Expenditures. This results in large withdrawals from the Capital Accounts in the Capital Income side. However, the capacity of the departments to spend these amounts is limited and as a consequence the Capital Expenditure is far less than expected”. The budget capital expenditure was Rs. 130 billion but the actual was only 39 billion. This results in poor budgetary discipline and presents an incorrect picture of the projected capital works.

Equally important problem in the budget is the issue of carryover works and pending bills. In 2017-18 for example, of the proposed capital expenditure of Rs. 77.88 billion, the pending bills and spillover work amounted to Rs. 33 billion liabilities or 42 per cent. In the first six months of the year, 26 per cent of the budgeted expenditure was executed and of this 91 per cent was accounted for pending bills and spillover works. The trend of increasing pending bills year after year has continued to make the entire capital expenditure implementation inefficient. In 2013-14, the pending bills were just 150 million and this has ballooned to 11.7 billion in 2017-18. This much of the capital expenditure in recent years has been to clear mostly the pending bills!

There has been an attempt at reforming the budget to make it simpler, avoid duplication, make it more realistic, impart transparency accountability and link the budget with the Development Plan prepared for the city since 2017-18. Not surprisingly, the budget size for 2017-18 was reduced by Rs. 123 billion in 2017-18 (Rs. 247.77 billion) as compared to the budget estimate of 2016-17 (Rs. 370.52 billion). The issue of budget reform at the MCGM level has to face both political and bureaucratic challenges and will be time consuming. This is despite the massive reform initiatives for the officials and capacity building initiatives undertaken in 2016-17.

IV. Major issues in infrastructure and public service delivery

The requirements of funds for providing local public services and infrastructure are large in a major and dynamic city corporation like the MCGM. However, due to the constraints of revenue the MCGM has been languishing in a low-level equilibrium. The finance required to meet infrastructure requirements are large and growing. The MCGM has adopted a development plan for 20 years and the funds required for it is estimated at Rs. 910.80 billion for the 20-year period from 2014-2035 at 2014-15 prices. This is in addition to the funds that would be available from non-financial tools such as leveraging the floor space index (the relaxation of floor space index at a price)⁶. An overwhelming proportion of the funds are required for land acquisition (Rs. 672 billion) new roads (Rs. 94 billion) widening of roads (Rs. 57 billion) and construction of buildings (Rs. 74 billion). Obviously, this does not take into account requirements for the regular public service provision or housing.

The city is faced with a number of problems in public service delivery which can only be solved by a combination of large additional investments and legal and governance reforms. The most important reform is needed to free the affordable housing market from the clutches of outmoded regulations. In particular, the affordable rental housing market has been distorted by a combination of laws and it is important to reform them. The two important instruments to plan the city were the floor space index (FSI) and transferable development rights (TDR). FSI refers to the stipulated ratio of built up space to the plot size and this is determined by the State government. For a long time, this was kept constant at 1.33 for the island city. The ostensible reason for keeping it low was to control the density of population by limiting the housing area. The idea was to keep the population density to conform to the carrying capacity of the prevailing infrastructure. In the event, this caused severe shortage in rental housing and in the absence of affordable rental housing and given the fact that the central city is covered in three sides by the sea, enormous pressure on transportation infrastructure in a narrow corridor. This is also one of the reasons for the proliferation of slums in the island city. Not surprisingly, the value of land gained astronomical value in the island city.

The State government approved an additional FSI of 0.5 for the suburbs in December 2015, on payment of a premium. For the island city, the FSI was changed in January 2018 to 1.83 on payment of a premium at 60 per cent of ready reckoner rates⁷. The owners of property will have to pay the additional value to construct additional floor spaces. They can also sell this to builders for development under Transferable development Rights. This is one of the ways in which the government has decided to claim a part of the high economic rent from ownership of land from the owners.

The important point to note is that the FSI is fixed by the State government and if it so decides can transfer a portion of it to MCGM. The premium amount from the additional approval of

⁶ In fact, there are questions raised in using function-based premiums and converting planning tools into fiscal instruments which can lead to morphological development of the city space.

⁷ Ready reckoner rate is the guidance value prescribed in various parts of the city to facilitate registration of property transactions.

FSI approved by the State government in January 2018 is proposed to be shared equally between MCGM, Dharavi Development Project and Maharashtra State Road Development Corporation (MSRDC) for the Bandra-Versova sea link project.

Despite the recent increase, the FSI is the lowest among the cities in India. This is also contrary to the general principles in other countries where the central city is allowed to have a higher FSI than in the suburbs to enable high rise buildings to augment the supply of housing (Pethe, 2014, 2018). Considering this and the fact that the land values in Mumbai city are some of the highest in the world, it is possible to permit FSI at a premium and use the funds to further strengthen the urban infrastructure and carrying capacity of the island city. However, it must be noted that the MCGM does not have any authority either to decide the FSI or to use the proceeds from the premium. It gained from the decision only when the state government gives a share of the premium collected.

To make matters worse, the persistence of the Rent Control Act, ostensibly enacted to protect the interests of the tenants has completely distorted the rental housing market. The Bombay Rents, Hotel and Lodging House Rates Control Act, 1947 froze the rents at the 1940 rates or the rates decided by the courts. The Maharashtra Rent Control Act, 1999 replaced the earlier Act, but retained the controls. The consequence is that the (shadow) market rents are more than 1000 times the rents subject to control and this naturally led to the shrinkage in rental housing supply and proliferation of informal market. In 1961, the proportion of rented and owner-occupied houses in the central city of Mumbai were equal, but in 2010, almost 95 per cent of the houses were owner occupied and only 5 per cent were rented. It is also seen that a large proportion of houses constructed have remained unoccupied. The attempts to do away with the rent control act during the last three years have been thwarted as those tenants gaining from the rent control constitute larger vote bank than the landlords who have leased their buildings. In the prevailing situation even though complete abolition of the Act, though desirable, may not happen and only marginal changes are likely. There have been some changes allowing the landlords to change the rents with a cap linked to market rents, but the basic distortions remain.

These policies have led to a number of unfortunate consequences. First, most of the residents of Mumbai in the island city have been priced out of the housing market and they have to move eastwards and northwards and this puts heavy pressure on transportation as those living in the suburbs have to commute to the city to work. Second, there has been a perpetuation of informality not only on housing markets but also as the pendency of case in the courts is large, informal market for renting and eviction has grown. In fact, most of the political parties are active participants in this informal rent seeking activity. The third unfortunate consequence of the policies is the proliferation of slums. The slum population according to the 2011 census in the MCGM area was 42 per cent of the population of the city. This seems to have increased to 52 per cent in 2017. Interestingly, 50 per cent of the land on which slum encroachment is seen is private land (Pethe, 2018). The fourth undesirable consequence has been the extreme pressure on the transport system which is already bursting at the seams as most people have to commute daily for work from far flung areas. Finally, the Rent Control Act has constrained the

ability of the Corporation from raising revenues from property tax. This will be discussed in greater detail in the next section.

Thus, shortage of affordable housing in the Mumbai city is an important issue. The policy distortions on the one hand and cartel like situation in the housing sector on the other have priced out most low- and middle-income earners from the central city areas. Curiously, while the demand – supply imbalance continues, there are increasing numbers of unsold and vacant dwellings. In the prevailing environment, most low- and middle-income people are forced to buy houses outside the municipal limits. The ambitious Prime Minister's Awas (Housing) Yojana (Plan), a centrally sponsored scheme promises to provide affordable housing for all by end March 2022. The programme seeks to enable the urban residents with income up to Rs. 60000, by providing interest subsidy of 6.5 per cent on loans for houses up to 20 years or construction of houses. The MHADA has been entrusted with the task of implementing affordable housing projects in the state of Maharashtra. However, it is unlikely that the basic problem of affordable housing in Mumbai city can be solved within the foreseeable future.

Closely linked to the housing problem is the proliferation of slums⁸. According to Census 2011, 42 per cent of the population in MCGM live in slums. Most houses in the slums do not even have proper doors, or individual taps and toilets and 78 per cent of community toilets lack water supply and 58 per cent of the houses do not have access to electricity. Dharavi slum located in the heart of Mumbai city is the largest in Asia. Besides accommodating the people, a number of business and small industries thrive in these slums besides people. The Slum Development Authority set up in 1990 has been given the task of rehabilitation but the progress has been slow.

Providing uninterrupted water supply in Mumbai is a big challenge due to high investment needs; depleting water resources, pollution levels of surface water bodies, and ground water. The daily requirement of water is estimated at 3900 million litres/day according to the WHO norm of 50 litres/person/day, but the actual supply at about 3000 million litres/day. 95 per cent of the households use less water than the WHO recommended norm. Aging pipe water network leads to contamination, unreliability and irregular supply. Only a few slums get water, that too only for 1-2 hrs. During monsoons, 50 per cent of the water gets contaminated. On the demand side, installation and maintenance of metres, designing a telescopic tariff policy and more importantly, augmenting supply of water are the main issues.

Sewerage system in Mumbai has been in operation for over 130 years, but the progress in covering the city with underground sewerage has been tardy. This is the largest sewerage system in the world. The MCGM area has been divided into 7 sewerage zones. After completing the work of Stage I, sewerage master plan was prepared way back in 2002. However, serious work on this started only in 2016. The discharge norms have been finalised

⁸ The United Nations Habitat program defines slums as informal settlements that lack one or more of the following five conditions: access to clean water, access to improved sanitation, sufficient living area that is not overcrowded, durable housing and secure tenure.

only recently and the work contract is expected to be awarded in the fiscal 2018-19. This perhaps reflects the poor capacity of the administration.

Solid waste management is another major challenge where the MCGM has been found wanting. Failure to have a proper planning and implementation of solid waste management in the city led to Public Interest Litigation and the Bombay High Court banned the construction of houses in Mumbai in March 2016 for its failure to comply with solid waste management policy. The ban was lifted in March 2018. Interestingly, the Supreme Court has again banned construction activity in a number of States including Maharashtra, Madhya Pradesh, Chattisgarh and Uttarakhand on 31st August 2018 for the same reason⁹. This is a typical case of judicial intervention when the executive failed in its task.

It must be mentioned that two areas the MCGM scores creditably are in public health and secondary education. In the municipal hospitals have done reasonably well in providing healthcare facilities particularly to the poor and have entered into agreement with private hospitals for providing specialised healthcare under public private partnerships (PPP). Similarly, there are PPP initiatives in secondary education which has been beneficial. Of course, these are not mandatory services and have put pressure on resources.

V. Reform challenges in metropolitan finance and service delivery

Mumbai, one of the five mega cities of South Asia and the second largest city in India (after the National Capital Territory) is a complex metropolis. The peculiar geography of the island city and legacy of history of the policies and institutions impose formidable challenges to the governance and public service delivery. In some ways this creates some unique challenges to Mumbai, but most of the problems pointed out in the paper relating to public service delivery are applicable to other mega cities in India too to a considerable extent.

The concept of a municipal corporation itself is artificial and is different from the organic growth of the cities we see. In the case of Mumbai, the island city is covered by sea on three sides physically allowing the city to grow only in one direction (see the map). While the economic activity is concentrated in the island city, people reside in MMR mostly outside the MCGM jurisdiction. This puts pressures on transportation and local public service delivery in both MCGM area and in the rest of MMR. The important problems associated with metropolitan public finances in general and finances of Municipal Corporation of Greater Mumbai in particular along with the reforms needed are discussed in the following:

- (i) The lack of clarity in the assignment system is the first major problem in metropolitan public finances and this is true of not only in Maharashtra. Schedule 12 which gives the list of 18 functions to be devolved to the urban local bodies is only indicative. Although in Mumbai all the 18 functions have been devolved most

⁹ Nes item in Business standard, September 4, 2018).

of these have to be undertaken concurrently with Central and State governments. Besides, there are parastatals of the State government and Central government agencies involved in providing some of the local services. The ambiguity in the assignment system could result in under provision of the public service and more importantly takes away one of the important advantages of decentralization – accountability to the people. It is important to clearly specify the functions even in regard to those which have to be performed concurrently with higher level governments. It is useful to bring about clarity through activity aping and making it transparent.

- (ii) There is no clear list of taxes and non-tax sources assigned to the urban governments and they have to depend upon the revenue sources assigned to them by the State governments and this is also true of Mumbai city. Even in regard to the sources that are assigned, changes in the base and rates have to be approved by the State government. The most important revenue source assigned to MCGM is Octroi which after the introduction of GST was merged with the GST. Although from the point of view of the country, abolition of this distorting tax is important, this will have significant adverse effect on the finances of MCGM. The State government has promised compensation at 7 per cent escalated every year over the base year collections of 2016-17. Curiously, the State has been promised compensation by the Centre for the shortfall in revenues escalated at 14 per cent every year for the five years from 2016-17 but the State government has promised a buoyancy of only 7 per cent! The important point to note is that there should be clear assignment of revenue sources to the city governments and they should have full autonomy to decide the base and rate structures. While most of the local tax bases are likely to be narrow, it is important that there should be at least one broad base tax is assigned to municipal governments (Bird, 2008, Rao and Bird, 2014). There must be a clear list of taxes leviable by the MCGM and the city should have complete autonomy in regard to undertaking discretionary measures to change the bases and rates as well as administer the tax.
- (iii) There is considerable confusion on the development plans prepared by MPC and MMRDA as often these plans may not be in harmony. The slum rehabilitation department has its own plans. Moreover, the development plans are merely physical plans dealing primarily with the land use pattern. There is hardly any vision of development or projection of infrastructure and service needs and investment requirements, prioritising projects and linking investment for them in annual budgets for the projected population.
- (iv) One of the major problems in planning and providing public services at the city level is the poor system of budgeting. Like in most other cities, MCGM budgets are more aspirational than realistic assessment of the work that can be carried out during the year. It appears that various works are included in the budgets to satisfy

different corporators (elected representatives) but as these cannot be executed either for want of funds or due to capacity constraint, the actual expenditure incurred turn out to be much less than the budgeted. There is also the problem of taking too many projects and spreading resources thinly and the funding for carry over projects and clearing the unpaid bills constitute overwhelming proportion of capital expenditures. It is not difficult to estimate the recurring expenditure on establishment and administration. It is also not very difficult to estimate expenditure for the maintenance of assets. The cost of the new projects to be executed during the year matched with the plan for financing them must be estimated in a realistic manner. The budget speech refers to the reforms under way to make the budget simpler, transparent and realistic and this should be carried through.

- (v) Although Mumbai city fares much better than most Indian cities in the volume and quality of local public services delivered, it suffers from a low level equilibrium. The problems are not only due to the constraints on finances but also due to a set of poor policies and bad regulations. As detailed in the paper, the regulations of FSI and the Rent Control Act have been primarily responsible for the predominance of informality in the housing market and acute shortage of affordable rental housing in the city. This has meant shrinkage of population in the central city, explosion of population in the suburbs and significant pressure on transportation. More importantly, these policies have led to the most people unable to access rental housing and crowding in the slums. The slums have spread throughout the MCGM area and it is estimated that they constitute 52 per cent of the population in the city in 2018. They live in inhuman conditions without access to adequate services like water supply, sanitation and electricity. Nor it is possible to recover costs on whatever services are rendered. The progress in rehabilitating the slums has been slow and it is not clear how the sustainable development goals will be met in the city,
- (vi) There is considerable gap between the established norms and actual provision of services like water supply and sanitation in MCGM. As already stated, the municipal corporation is unable to provide water supply according to the WHO norm to over 95 per cent of the population. The problem is particularly acute in slums. Most of them do not have a piped water supply and have to depend upon private vendors who supply untreated water at a high cost. Even in places where there is piped water supply the supply is only for 1-2 hours. The supply is irregular and unreliable and due to aged piping network, there is leakage and contamination particularly in the monsoon season. There was a large project funded by the World Bank which had to be suspended and renegotiated several times due to the inability of the MCGM to comply with conditions. In the case of sewerage system, the progress in underground coverage has been tardy and even the implementation of the master plan prepared in 2002 is yet to take off demonstrating the poor capacity

to implement in the MCGM. There is considerable need for augmenting investment as well as capacity development in the MCGM in these areas. Funds for these can be raised through development charges from the residents.

- (vii) With the abolition of Octroi as a part of the GST reform, the movement of vehicles into the MCGM area has become free and frictionless there has been a considerable gain to the business and people at large in terms of free movement of goods, reduced rent seeking at the octroi gates and overall improvement in efficiency and productivity. However, this has robbed the MCGM of a very buoyant and liquid source of revenue. In the absence of any other broad-based tax, this severely constrains the fiscal autonomy. While the state government has agreed to compensate for the loss of revenue calculated at seven per cent increase over the 2016-17 base year collections, this is much lower than the 14 per cent increase in the state tax revenues (including octroi) promised by the Central government. Considering the large expenditure needs to provide basic local services, the state government should allow the MCGM to piggyback on the State GST.
- (viii) In all city governments, the property tax is a major revenue handle. However, the property tax collection in Mumbai falls well short of its potential. In fact, the revenues collected from property tax in 2016-17 at Rs, 12.3 million (excluding water tax and sewerage tax) is less than a half of what is collected in the much smaller Bruhat Bengaluru Mahanagara Palike (BBMP) or Bangalore City Corporation. The BBMP is a much smaller city having only 68 per cent of the population of the former and much less commercially developed metropolis. In fact, analysis shows that the collection efficiency of property tax in MCGM is just about 40 per cent. According to the Economic Survey 2017-18, even the BBMP's collection of property tax is only about 25 per cent of the potential. This implies that the actual collection of property tax in Mumbai is only a fraction of the potential. The Commissioner, in his budget statement has proposed to adopt 360 degree Laser Imaging Detection and Ranging (LIDAR) of all properties excluding the slums to compare the actual position of the properties as detected in the imaging with the assessment records. The basic problem of determining the proper base – be it rental value-based or capital value based in the presence of rent control is still a challenge and it would be advisable for MCGM to reform the property on the lines of BBMP to move over to the area based system with guidance value used to determine the registration fees for property transfers. The Bangalore experience should be used along with the readily available GIS tools. Even in the Bangalore experiment, the revisions have to be made every five years to take into account of inflation and this could meet political obstacles. One way out of this is to index the property tax automatically to increasing housing values reported by the National Housing Bank every year for selected cities in the country. Even so, when the development of different areas within the city is different, it may require reclassification of areas itself and that could be revisited every five years.

- (ix) There is a dictum, “everyone wants decentralisation, but only up to his level” (Chelliah, 1991). While the States in India have been complaining against the Centre for constraining their autonomy, they have similar approach when dealing with the local governments. This is particularly true in assigning revenue handles to the city governments. Apart from requiring them to seek approval for any changes in the base or rate structures in the tax handles assigned to them, many of the taxes in which local governments have a comparative advantage in the levy and collections are simply retained by the States. In most other States, the power to levy profession tax is assigned to the city governments. Furthermore, the revenue from stamps and registration in immovable properties within the city limits can be assigned to the city governments, but the States do not part with this lucrative source of revenue. The entertainment taxes can also be assigned to the city governments, but the States are reluctant. Considering the fact that the cities are engines of growth and the future development depends on adequately funding them, they should be allowed to piggyback on the SGST as mentioned above.
- (x) As far as non-tax revenues are concerned, the revenue from advertisement hoarding and parking fees are important. Controlling parking fees at abysmally low rates result in inadequate investment in parking lots. The MCGM does not have money to develop them and the control over prices does not make private investment viable. With public transportation system unable to meet the transportation requirements and with inadequate parking areas available, the parts of roads get used as parking lots hindering the smooth traffic flow in many areas of the city. This is a problem common to most cities and MCGM is not an exception to this. The entire approach to determining the parking rates at abysmally low levels needs a relook. Equally important reform is to revise the user charges on service delivery some of which have been fixed long time ago. Ability to collect higher user charges partly will depend upon the improvement in the services delivered.
- (xi) One of the major problems faced by MCGM is that it has to predominantly depend upon its own resources. The transfers from the state government constitute less than 2 per cent of its revenues. Moreover, these are ad hoc and unpredictable. The Constitution provides for a mechanism to appoint the State Finance Commission (SFC) every five years to assess the requirements of local governments and recommend transfers to them. In Maharashtra, the SFCs are appointed regularly, but the decisions on their recommendations are placed in the State legislature when the award period is nearing its end! So far, the recommendations of none of the four SFC’s reports submitted so far have been accepted by the State government (Pethe, 2013).
- (xii) Public Private Partnership (PPP) is potentially an important source of financing urban infrastructure, but in Mumbai, recourse to this mode has not been important. In fact, a recent report of a Committee appointed by the Ministry of Finance stated

that there are about 400 cities with more than 100000 population facing severe deficiencies in services, finances and governance issues. It further stated, "...The approach to developing urban infrastructure calls for an integrated development strategy, which includes mass rapid transport systems, drinking water and sanitation, solid waste management, urban roads, and other city infrastructure with involvement of citizens and participation of the private sector. The Department of Economic Affairs has an ongoing pilot scheme for municipal bond financing of ring-fenced PPP projects which could become the model for future ULB project delivery" (India, 2015; p. 58). However, there have been attempts to have PPPs in healthcare and education. In 2004, the MCGM entered into agreements with 20 private players to run maternity care centres under PPP by giving them plots of land at a nominal rate of Re. 1/sq.ft. There was hardly any monitoring and supervision of the arrangement and in 2014 at the direction of the High Court, the review done showed that only five of the hospitals were found to comply with the agreement. One of them did not even bother to pay the property tax, leave alone complying with the agreements¹⁰. In 2015, concerned with the shortage of qualified doctors in civic hospitals, the government decided to give land to the hospitals at commercial rates in return for reserving 25 per cent of the beds at prescribed rates for the patients from civic hospitals. Following the pilot, the health department of MCGM is set to share 180 beds in the intensive care units of speciality hospitals under PPP for specialised treatment of economically backward sections in 2018¹¹. In the education sector too, there have been attempts to access private participation to improve the quality of municipal schools right from 2006. Some private sector agencies have been taking initiatives to partner with MCGM schools to improve the quality of teaching and facilities. Three different models have been adopted to involve private sector participation and these are (i) school adoption; (ii) school partnerships and (iii) school support.

On the whole however, like other cities, MCGM has not exploited the PPP route for providing infrastructure and services to any appreciable extent. There are examples of successful PPP in water supply scheme in Gulbarga, Belgaum and Hubli-Dharwar in Karnataka (Ahluwalia, 2014). There is also a case of PPP in municipal solid waste management in Chennai by a Singapore based company ONYX. The scope of privatization includes activities such as sweeping, collection, storing, transporting of municipal solid waste and creating public awareness in three municipal zones. This initiative was cancelled with the change in the government. Thus, PPP route remains a relatively unexploited area for delivering public services.

¹⁰ See, <https://indianexpress.com/article/cities/mumbai/ppp-model-bmc-plans-to-charge-market-rates-from-private-hospitals-using-its-land/>

¹¹ See, <https://indianexpress.com/article/cities/mumbai/ppp-model-bmc-plans-to-charge-market-rates-from-private-hospitals-using-its-land/>

- (xiii) Another important area for financing civic infrastructure is through borrowing. Unlike the developed economies, the municipal bond market in India has not developed partly because, the state governments have to give them the permission to borrow and partly because they need to have a regular revenue source to pledge the escrow account. The first city to try issuing municipal bond was Ahmedabad and this was followed by Surat, Chennai, Madurai. Some state governments such as Andhra Pradesh, Karnataka, Tamil Nadu and Maharashtra too have floated bonds to finance water supply and sanitation projects. The total amount of funds raised through bonds is negligible. MCGM has not ventured into accessing funds from this source as it has been able to generate the required funds for investment from its various funds it has namely such as reserve fund, infrastructure development fund; asset replacement fund and Land acquisition and development fund.
- (xiv) One of the most important and yet neglected matter in most urban agglomerations is the creation of an urban data warehouse/observatory. The observatory would make real time data available with the policy makers to make it possible for them to evaluate and monitor and take well informed decisions without much loss of time. In fact, it would be advisable to have this arrangement for the entire MMR rather than just the MCGM to ensure orderly development of the urban agglomeration.
- (xv) Monetising the land has been one of the important means of financing city infrastructure in many urban agglomerations. Of course, cities like Delhi and Bangalore have their own development authorities which undertake the job of creating housing, create infrastructures in areas where the new housing colonies and building complexes are developed. In Mumbai, it is important that there should be clear policy on monetising land and the proceeds should be shared with the MCGM to create augment resources for funding urban infrastructure and services.

VI. Concluding remarks

The efficient functioning of cities as engines of growth depends on the standards of quality of local public services delivered by the municipal corporations. Mumbai is variously described as “Urbs Prima” and “maximum city” and reaping its agglomeration economies for development and therefore, analysis of the public services delivered and the sources of finance are important. There are several areas of reforms in legal, regulatory, governance systems besides the raising resources needed to improve the quality of public services.

The paper has brought out a number of issues relating to public service delivery and municipal finances in Mumbai. The public service delivery in the city is constrained by the wrong policies, legal and regulatory system as much as finances and therefore, solutions to deal with them will have to be multi-faceted. The acute shortage of rental housing and the proliferation slums are, to a considerable extent, outcomes of the FSI regulation and Rent Control Act. The

unique geography combined with these regulations has also resulted in the need for large scale daily commuter transportation. The paper brings out the problems in the delivery of local public services such as water supply, sanitation and solid waste management as well as the reforms needed to augment revenues through various tax and non-tax measures.

It must be stated that despite languishing in a low-level equilibrium, the volume and quality of public services provided in MCGM are superior to most other cities in India. The other cities are starved of funds and are dependent on the state governments for financing their expenditures even more. In the case of MCGM, until recently, MCGM had a productive and liquid tax revenue handle in Octori and its dependence on the State government for financing local public services was not significant. Although the state government has agreed to pay compensation to MVGM for the loss of revenue from this source, it remains to be seen how far the promise will be fulfilled. This underlines the urgency for undertaking reforms in other taxes, particularly the property tax in the city, the potential of which has been significantly underutilised. It is also important to impress upon the state for giving a revenue handle in terms of a piggy-backed levy on GST.

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