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Physical and Fiscal Consolidation for Global Positioning: A Case Study of Chennai, India

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Globalisation and deepening democratisation, together with rising incomes, especially of the middle-income group of countries, has activated demands for fiscal decentralisation across the world (Tanzi 2000). In India, a major improvement in the potential for fiscal federalism resulted from the 73rd and 74th Constitutional Amendments (CAA) in 1992. These consist of: a) provision to constitute State Finance Commissions (SFC) under Article 243-I, and b) Amendment of Article 280 of the Indian Constitution by inserting Section 3C that requires the Central Finance Commission to suggest measures augmenting the consolidated fund of the States to supplement resources devolved to municipalities on the basis of respective SFC recommendations (Mohanty et al. 2007).

Transparent and participatory budgeting processes are important in promoting efficient and good governance (Bhanu 2007). In India, the process of budget preparation lacks transparency and participation. Prior to the Constitutional Amendment Act in 1992, there were both two- and three tier systems in various states in India, which led the government to legislate for more fiscal decentralisation. Internationally, Bird and Slack (2007) and Slack and Chattopadhya (2009) identify four types of municipal governance models. These include One Tier, Two Tiers, the voluntary Co-operation Model and the Special-Purpose District Model (Alm 2010: 23). Following this international model, state governments in India are now proposing a model on a level above local municipal corporation level; the Metropolitan Planning Committee, which consists of many local authorities in an agglomeration. Also there are Special Area Authorities within a metropolitan area, making the governance model a multi-institutional type.

Regardless of the system of Municipal Governance, dependency on Central Government for funding differs little between developing and developed countries (18.4% of OECD Countries to that of 22.4% for transition countries during 1990-2000) over the decades (Alm: 2010, P.20). Within the group of BRICS, South Africa's Provincial Equitable Share (PES) considers five aspects of Education, Health, Institutional Component, Economic Output, Poverty and basic share ((Alm: 2010,P.21), and historically Brazilian experienced extreme fiscal decentralisation, allowing the States to tax exports, way back in 1891. By 1937 more powers were given to the Brazilian Central Government because of the States' failures In meeting their debt burden of financing local infrastructure loans raised through international markets (Alm 2010: 36). Ashworth and others conclude (Ashworth, et al. 2012) that the size of local government goes down when its dependency on the central state is reduced, suggesting increased efficiency.

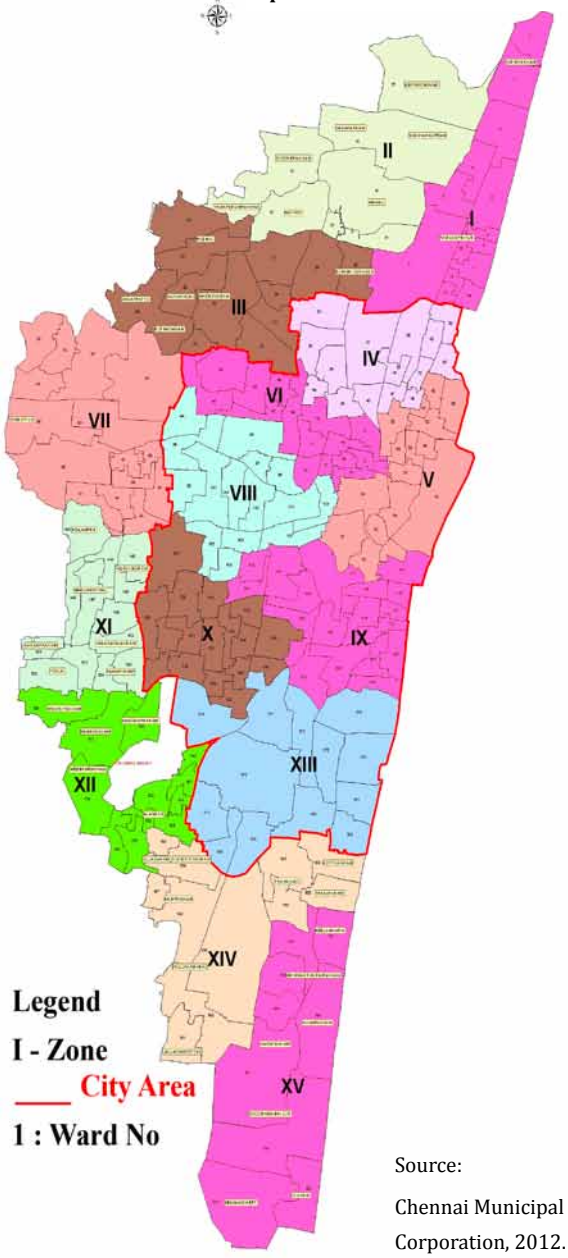
This paper brings out to what extent decentralisation occurs in the case of Chennai, going into the extent of dependency on higher levels of government for funding, the degree of participatory modes in budget-making processes and how the funding programmes are managed. It combines a use of local-level secondary data to analyse dependency, with a primary survey of elected representatives to analyse the construction of knowledge surrounding local budget processes and issues.

Political Economy of Expanding the Chennai Municipal Area & Decentralisation Arrangements

In Tamil Nadu each municipal corporation has its own Governing Act, in contrast to other states (except in the case of Delhi – a city state). Chennai is the foremost corporation in the country set up in 1919 by the British under the Chennai City Municipal Corporation Act, 1919. Chennai Municipal Corporation (CMC) functions directly under the municipal administration and water supply department of the State Government of Tamil Nadu. The decision to expand the area of CMC was enacted in the state assembly in 2011. This was based on the work of a three-member committee set up under chairpersonship of the Chennai Metropolitan Development Authority (CMDA) vice-chairperson in 2007. The area increased from 174 to 424.45 sq. Km. The decision to merge adjoining villages and municipalities was taken in a participatory way as per the government notification of December 2009. It explains that expansion was needed to provide water & sewerage systems, solid waste management, and other services such as roads, streetlights, etc. The resolutions by various municipalities submitted to the state government show that a participatory approach was followed to arrive at the merger decision in which the general public, elected representatives from various levels, administrative staff and commissioners participated. In addition, at the city level, a meeting of stakeholders was organised in which all the para-statal agencies in Chennai city area, confederation of Indian industry (CII) representative, trade union officials and other stakeholders were invited to express their views on the merger of surrounding areas into CMC. As per the amalgamation nine municipalities, eight town panchayats, and 25 village panchayats (Panchayat means Assembly) were set to be included in Chennai municipal corporation area (G.O. (MS) no. 256, MA& WS (election) department dated 26.12.2009). As the same political party ruled the State and the local bodies surrounding Chennai, there was a consensus in merging into the larger area of Chennai Municipal Corporation.

Devolution of tasks to urban local bodies is done according to the 12th

Expansion of Cennai - Zone Wise



Source:

Chennai Municipal Corporation, 2012.

schedule of the CAA, which outlines 18 possible functions. In Chennai, only 12 functions were transferred to the CMC. For the CMC area, the subject of water supply and sewerage was vested with the CMWSSB. The State Government releases funds to the CMC based on the SFC's recommendations. Loans and grants are released for various schemes (Govt. of India grants) on the basis of i) CFC's recommendation, and ii) for implementation of specific Central government schemes, including poverty alleviation programmes. In addition, CMC receives the Collector's development fund (2nd finance commission) since 2007, and the MLA's constituency development fund. Of the total money received by CMC, 10% of the money allocated for CMDA is designated for the Water and Sewerage Board - CMWSSB.

The Third State Finance Commission of Tamil Nadu recommended: A) Rural – urban sharing of revenue (vertical sharing) in the ratio of 58:42; B) Horizontal sharing: 30% for municipal corporations, 41% for municipalities, and 29% for town panchayats within the state; C) 5% incentive fund out of the total devolution to come under pool b (own-source funding of the TN Govt.); D) Loan deduction from urban local bodies should not exceed 25% of gross devolution; E) SFC recommended that the state should take up the matter of amending Article 285 of the Constitution, empowering local bodies to levy service charges for central government buildings in view of the Supreme Court judgement. In addition, as in the case of Bangalore Municipal Corporation, property mapping by using Geographic Information Systems in underway in Chennai to assess unassesed and under-assessed properties.

Knowledge Construction Around the Budget

The Third TN State Finance Commission came out with the suggestion of the Panruti model of a computer-fitted mobile van and cell phones for collecting municipal tax dues, computerisation and e-governance for tax administration with the help of TNDUP III assisted programme. It was suggested that the earlier abolished Taxation appeal tribunal be reincorporated in the Tamil Nadu Urban Local Bodies Act, 1998 with the provision of full remittance of tax dues, pending disposal of the appeal by individuals. Individuals themselves can assess their property tax and any wrong information provided to local government is punishable with severe penalties. Vacant land tax for properties in residential area, main roads and bus route roads other than those which lead to arterial road, arterial roads, main road and bus route roads which lead to arterial roads can be re-introduced by taxation on square foot rate basis with a minimum of Rs. 0.30 to a maximum of Rs.1.50 per square foot in Chennai depending on their location. The Chennai metropolitan water supply and sewerage Board was allowed to increase its charges by 30% from 2007 onwards with a 5 to 10% increase annually. In fact, the CMWSSB has been given blanket powers to fix the water rates in such a way that it could meet both revenue expenditure and create surplus for capital investment requirements.

Fiscal Responsibility, Audit Mechanism and Community Participation

Though there is a national Fiscal Responsibility Management Act, in Tamil Nadu there is no such Act (like some states – e.g. Andhra Pradesh – which have it to regulate the public expenditure programme). The 3rd TN SFC suggested Fiscal Responsibility and Budget Management (FRBM) legislation for urban local bodies to take the structural reforms down to the third tier of the government. It suggested analysis of credit worthiness of the local body by reputed credit rating agencies and also suggested fixing a ceiling for borrowing by urban local bodies.

The SFC also suggested concurrent auditing through e-mode to reduce the burden on the local fund audit Directorate. Following the neighbouring state of Andhra

Pradesh, the Tamil Nadu SFC suggested a Community Participation Law with area Sabhas represented by RWAs, NGOs, SHGs, and meeting twice a year to review the budget and scheme implementation. It went on to suggest project planning to be done by area Sabhas.

Currently, the financial power delegation being followed in CMC is as follows:

Financial limit	Sanctioning authority
Up to rs. One lakh	Ward committees
Rs. 1 – rs.35 lakhs	Commissioner
Rs. 35 – rs. 40 lakhs	Standing committees (sc) except sc (taxation and finance)
Rs. 40 – rs. 45 lakhs	Standing committee (t & f)
Rs. 45 – 50 lakhs	Council
Above rs. 50 lakhs	Government

Powers for issue of technical sanctions	
Up to rs. Two lakhs	Assistant executive engineer
Rs. Two lakhs to rs. Five lakhs	Executive engineer
Rs. Five lakhs to rs. 25 lakhs	Superintending engineer
Above rs. 25 lakhs	Chief engineer

Source: Local Fund Audit Department (2006): 'Audit Report of the urban local bodies for the year ended March, 2005', government of Tamil Nadu, Chennai.

The Ward/Zonal Committees (15 in Chennai) were allowed to approve the tenders up to Rs.40 lakhs.

3rd SFC strongly suggested the constitution of the Chennai Metropolitan Planning Committee (CMPC) with CMDA functioning as a secretariat for it. The present system of resource sharing from the local bodies within CMDA to CMDA should be dropped. It advised 75% of development charges to be passed on to respective urban local bodies within CMDA, and 0.25% of collected revenue income for CMDA should be abolished. The **most important recommendation is to declare the entire CMDA area an urban area by merging all the villages into nearby municipalities**. The main implication of this move is an increase in land values, and the resultant levels of property tax for the urban local bodies.

To make the budget process more participatory the 3rd SFC suggested abolishing the Collector's Development Fund. MLA constituency development schemes should be from the projects identified by the urban local bodies and not on an ad-hoc basis, and 30% of the fund should be for core civic services. However, participation took a back seat when the merger of surrounding municipalities and villages with the CMC occurred. A Government Order (GO (Ms.) No.136 dated 12th September 2011) came out, setting up a Wards Committee in each of the Zones (combining 7 to 18 wards in one committee), The total number of wards and zones in the erstwhile Corporation area was reduced to seven zones and 107 wards, against 10 zones and 155 wards earlier, increasing the size of each unit and the population represented. In the newly merged areas, which consisted of separate municipalities with their own budgets (such as Ambattur), the whole municipal area was merged as one ward leaving little scope even for political participation in the budget-making process. In fact, the community's fiscal capacity is restricted by the new municipal structure that allows no incentives for spatial

competition (Karuppusamy & Carr 2012). Erstwhile Municipalities such as Alandur had a history of participatory community funding (now being advocated by the Central Government through its Community Participation Fund), which is now discontinued because of the new municipal structure within CMC.

Of the current total 200 councillors, 30 councillors were surveyed in Chennai to gain their views on decentralisation, participation, the Millennium Development Goals (MDGs) and sustainability. In fact, none of the Councillors are aware of the MDGs and they all revealed that there is no ward-level budgeting process in CMC. Not many are aware of the new City Development Plan (CDP) which suggested a total budget of Rs.123,207 million for the year ending 2026, devoted to various projects. They are also not aware of the per capita expenditure of Rs. 22,184/- suggested by CDP. In fact, they were furious about the question of how the CMC will pay back this amount, which is largely funded by the Central Government. Similarly many councillors are not aware of their own roles and responsibilities. Taking this cue, Transparent Chennai has produced a pamphlet, which many councillors read and welcomed. Transparent Chennai's analysis of participation by the 200 councillors shows that on an average the councillors participated and raised issues only 16 times from 2007 to 2011 (Transparent Chennai 2012). This shows the extent of political participation in Chennai's budget-making process. Under the new State regime that comes out with frequent threats of dissolving the Municipal Corporation (See The Hindu: June 20, 2012) the councillors were afraid to discuss anything openly. But they agreed with the Chief Minister about the corruption and transparency issue that she raised.

An analysis of Councillor and Mayor Funds by Transparent Chennai (Meryl 2011) showed that out of the total allotted amount of Rs.108.5 million, 70% was used. Each councillor was allotted Rs. 0.7 million in 2007 which was increased to Rs.1.5 million in 2008-9 during which period the total expenditure reduced to 63.5%. In 2009-10, the councillor funds were increased to Rs.2.5 million and the spending fell to 41%. However, the study observed that the spending increased to 63% in 2010-11, due to elections. In the case of Mayor Funds, the study observed that out of Rs.5 million, only Rs.1.84 and Rs.1.3 million were spent during 2007-8 and 2008-9. This decreased to Rs.0.9 million when the actual allotted funds increased to Rs.20 million in 2010-2011 (Ibid 2011).

A quick analysis of the CMC budget shows that Chennai's per capita average capital expenditure was Rs.1204/- and the per capita revenue expenditure of Rs.2461/- as compared to that of Mumbai's Rs.3433 and Rs.9888/- respectively during the period 2007-2010 (Sridhar 2012). Wages that accounted for 49% of the total revenue expenditure in 2003-4 are slowly coming down to near 30% in 2009-10 (CMC Budget 2011-12). Chennai received around 21% of centrally sponsored project funds, and 19% of the State-sponsored funds for various infrastructure projects during the same period. Central Finance Commission's fund (13th CFC) to the tune of Rs.270.14 million was allocated to CMC during the fiscal year 2012. These were based on City Development Plan (CDP) projects and not allocated through participatory process as envisaged in the 3rd State Finance Commission.

Conclusion

The State's strategy of bringing more area under the Corporation, may not lead to efficient government or more citizen participation in the long-run though it might increase the overall revenue of the Corporation due to an increase in the property tax base. Wards Committees that were formed are yet to be effective in planning and monitoring various projects. The capacity of the councillors needs to be built around budget formulation from the grass-root level and to address MDG issues. Considering the low resource mobilisation capacity of the CMC, future projects will need to be self-sufficient but the

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Chance2Sustain examines how governments and citizens in cities with differing patterns of economic growth and socio-spatial inequality make use of participatory (or integrated) spatial knowledge management to direct urban governance towards more sustainable development.

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element of greater equity will still remain, in terms of spatial equity between the core and periphery, and formal and informal access to various infrastructure initiatives within the CMDA.

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