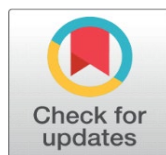
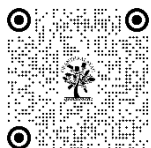


MUNICIPAL FINANCE IN KERALA: COMPOSITION AND TRENDS IN REVENUE RECEIPTS OF CORPORATIONS

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ABSTRACT

Municipal corporations in Kerala, play a crucial role in providing essential public services to citizens. However, their financial sustainability is a concern due to inadequate revenue, inefficient expenditure management, and poor governance. This study examines the composition and trends in revenue receipts of municipal corporations in Kerala, with a focus on identifying the key sources of revenue, trends, and patterns. The study uses a descriptive and analytical approach, combining data from secondary sources, including annual reports and financial statements of municipal corporations, with primary data collected through surveys and interviews with municipal officials. The findings reveal that tax revenue is the primary source of revenue for municipal corporations in Kerala, followed by non-tax revenue and grants-in-aid. The study also identifies significant trends and patterns in revenue receipts, including an increasing reliance on non-tax revenue sources and a decline in the share of tax revenue. The study's findings have implications for policymakers, practitioners, and researchers seeking to improve the financial sustainability of municipal corporations in Kerala.

Keywords: Municipal Finance, Revenue Receipts, Tax Revenue, Non-Tax Revenue, Grants-in-Aid

1. INTRODUCTION

Understanding municipal corporations' financial structure and trends is crucial for assessing their fiscal health and sustainability. This study aims: to examine the composition and trends in revenue receipts of municipal corporations in Kerala. By analysing these receipts, we gain insights into local government bodies' financial strategies, dependencies, and autonomy (Bandyopadhyay, 2015). The structure of revenue receipts gives an idea of the sources through which municipal corporations generate money for operations and development projects. Revenue receipts, comprising tax and non-tax revenues and transfers from higher levels of government, are essential to attain day-to-day functioning (Mohanty et al., 2007).

Local self-government bodies can be very helpful in creating a development plan to address recent problems with urban infrastructure. Additionally, it addresses the issues of increasing urbanization and promotes favorable conditions for economic growth. For India's urban local bodies, the fast urbanization has created a number of difficulties. As a result, ULBs are becoming a more significant component of the Welfare State. As a result, the ULBs are given a lot of functional

tasks. Urban local bodies had little financial autonomy for their development because they were ranked third in the democratic system. The revenue base for ULBs is not specified in the Indian constitution. The State government is in charge of deciding its revenue basis.

2. IMPORTANCE OF THE STUDY

One of the most important developments in India in recent years has been urbanization. As urban centers develop, a lot of issues are being brought about by the fast rate of urbanization. Urban areas may account for roughly 65% of India's GDP by 2011. However, in order to support and maintain such economic activity, Urban Local Bodies must invest more in civic infrastructure. ULBs are clearly inadequate to handle the growing infrastructure demands at this time. This is due in part to the excessive expenses and insufficient earnings. The ULBs must increase their earnings in order to have more autonomy. Only when municipalities are permitted to impose their own taxes and fees will they be able to accomplish this. It's also critical to have an open system for grant distribution. This report provides information on Kerala's Municipal Corporations' revenue situation for the previous nine years.

2.1. OBJECTIVES

The main objective of the present work is

- To examine the composition and trends in revenue receipts of municipal corporations in Kerala.

2.2. HYPOTHESIS

Transfers from higher levels of government dominate the revenue receipts of municipal corporations in Kerala, and their share has increased over the study period while their revenue has declined in relative importance.

3. RESEARCH METHODOLOGY

3.1. DATA SOURCES

The analysis is based on aggregate data collected from the six municipal corporations in Kerala—Thiruvananthapuram, Kollam, Kochi, Thrissur, Kozhikode, and Kannur—covering the fiscal years from 2014–15 to 2022–23. The data include detailed financial information on revenue receipts extracted from these corporations' official records and financial statements.

3.2. REVENUE VARIABLES CONSIDERED

The vital financial variables analysed in this study are:

1) Revenue Receipts:

- **Tax Revenue:** Income generated from municipal taxes.
- **Non-Tax Revenue:** Income from sources other than taxes, such as fees and fines.
- **Own Revenue:** The combined total of tax and non-tax revenues.
- **Transfers:** Financial support from state and central governments.

3.3. METHODOLOGICAL APPROACH

Given that the data represent the entire population of municipal corporations in Kerala, no significant inferential statistical analyses are relevant and have not been performed in this study. The analysis employs descriptive statistical methods to examine the composition and trends of revenue and capital receipts. Visual representations, such as figures and tables, illustrate changes over the study period. The Compound Annual Growth Rate (CAGR) is estimated using a semi-log trend equation to assess the long-term growth patterns of each receipt component.

4. COMPOSITION OF REVENUE RECEIPTS

Revenue receipts, including tax revenue, non-tax revenue, and transfers from state or central governments, are critical for municipal corporations' operational sustainability. They fund essential services, administrative expenses, and maintenance activities. Analysing the composition of these receipts provides insights into these corporations' financial strategies and dependencies. Table 1 presents a comprehensive overview of the composition of revenue receipts for municipal corporations in Kerala from 2014-15 to 2022-23.

Table1

Composition of Revenue Receipts of Municipal Corporations in Kerala (2014-15 to 2022-23)

Year	Tax Revenue	Non-Tax Revenue	Own Revenue	Transfers	Total Revenue Receipts
2014-15	294.98 (29.95%)	114.30 (11.60%)	409.27 (41.55%)	575.66 (58.45%)	984.94
2015-16	315.61 (27.87%)	103.95 (9.18%)	419.57 (37.06%)	712.71 (62.94%)	1,132.27
2016-17	332.30 (28.39%)	144.18 (12.32%)	476.49 (40.70%)	694.16 (59.30%)	1,170.65
2017-18	323.84 (23.59%)	149.39 (10.88%)	473.22 (34.48%)	899.32 (65.52%)	1,372.54
2018-19	380.37 (18.46%)	168.89 (8.20%)	549.26 (26.66%)	1,511.00 (73.34%)	2,060.25
2019-20	326.75 (22.32%)	173.54 (11.86%)	500.28 (34.18%)	963.35 (65.82%)	1,463.64
2020-21	408.61 (17.33%)	143.27 (6.08%)	551.87 (23.40%)	1,806.42 (76.60%)	2,358.29
2021-22	440.71 (20.84%)	153.82 (7.27%)	594.54 (28.11%)	1,520.49 (71.89%)	2,115.03
2022-23	493.41 (25.90%)	181.05 (9.50%)	674.47 (35.40%)	1,230.71 (64.60%)	1,905.18

Note. All figures are in ₹ Crores. Figures in parentheses (percentages) indicate the share of each component in the total revenue receipts for that year.

Source: Author's calculations based on data from municipal corporations in Kerala (2014-15 to 2022-23).

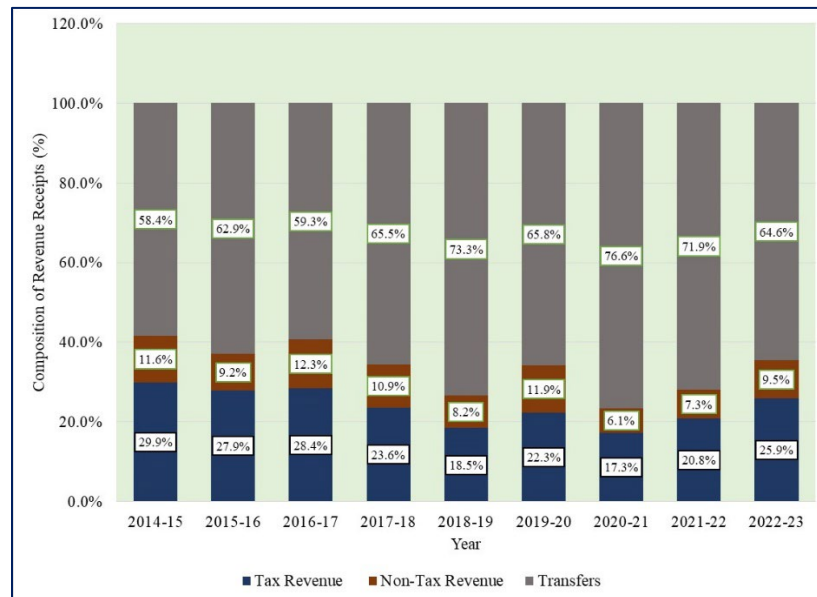


Figure1 Composition of Revenue Receipts of Municipal Corporations in Kerala (2014-15 to 2022-23)

Source: Based on data from municipal corporations in Kerala (2014-15 to 2022-23).

Over the nine years, a significant shift in revenue structure is evident, reflecting broader changes in financial strategies and dependencies. One of the most notable trends is the increasing reliance on transfers from state and central governments. Transfers have progressively become the dominant revenue source, overshadowing locally generated

funds. This growing dependence on external funding sources suggests a potential decrease in the financial autonomy of municipal corporations, as they increasingly rely on allocations and grants from higher levels of government.

Conversely, the proportion of revenue derived from local sources (own revenue), such as tax and non-tax, has generally declined relative to total revenue. This shift indicates challenges in strengthening internal revenue generation capabilities. The diminishing emphasis on own revenue underscores the increasing importance of external support in maintaining the financial stability of these bodies.

Figure 1 further illustrates the changing composition of revenue receipts over the study period. The visual representation highlights the rising share of transfers and the corresponding decline in the relative contribution of local revenues. These trends underscore the evolving revenue structure of municipal corporations in Kerala, with significant implications for long-term fiscal sustainability and governance capacity.

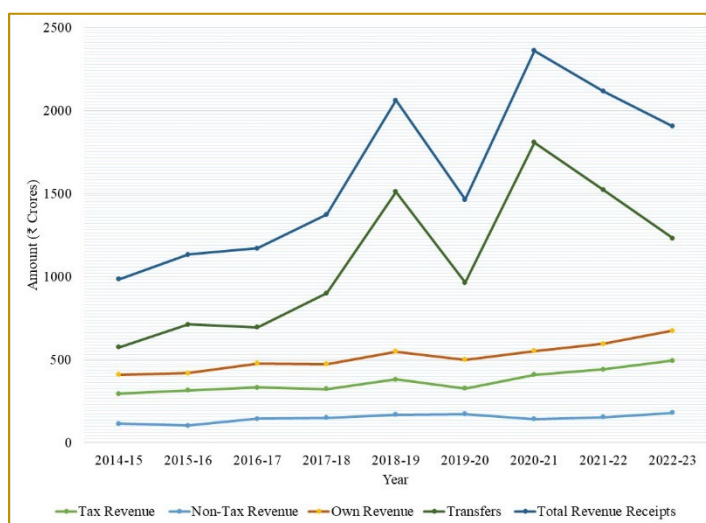
In summary, the analysis reveals a critical transition in the revenue structure of Kerala's municipal corporations. The growing reliance on transfers and the diminishing role of locally generated revenues indicate an increasing dependency on external financial sources. This dependency could impact these municipal bodies' fiscal independence and operational flexibility.

5. TRENDS IN REVENUE RECEIPTS

This section examines revenue receipts trends for municipal corporations in Kerala from 2014-15 to 2022-23. The analysis highlights changes in critical components of revenue receipts.

Figure 2

Trends in the Revenue Receipts Components in Municipal Corporations in Kerala (2014-15 to 2022-23)



Source: Constructed from data from municipal corporations in Kerala (2014-15 to 2022-23).

Figure 2 illustrates the trends in tax revenue, non-tax revenue, own revenue, transfers, and total revenue receipts for municipal corporations in Kerala. Tax and non-tax revenue, collectively constituting own revenue, show a generally upward trend over the study period. Tax revenue exhibits steady growth with modest increases year by year, while non-tax revenue fluctuates slightly more but follows a similar upward trend. The combined growth of tax and non-tax revenue contributes to a consistent rise in own revenue over time.

Transfers emerge as the most volatile component, demonstrating substantial growth, particularly between 2018-19 and 2020-21. This period saw a sharp spike in transfers, culminating in the peak of total revenue receipts in 2020-21. The growth in transfers significantly influences the overall trend of total revenue receipts, reflecting the critical role of external financial support in municipal finances. Although total revenue receipts dipped slightly after the 2020-21 peak, own revenue continues to increase steadily, suggesting a gradual strengthening of internal revenue sources.

Table 2 reveals that revenue components show steady growth, with transfers exhibiting the highest growth rate among all revenue components, reflecting an increasing reliance on external financial support. Own revenue, comprising

tax and non-tax revenue, demonstrated more moderate growth, suggesting that municipal corporations face challenges in expanding their internal revenue base. While tax revenue grew steadily, the increase in non-tax revenue was slightly lower.

6. CONCLUSION

This study has examined the composition and trends in revenue receipts of the six municipal corporations in Kerala from 2014-15 to 2022-23. The findings reveal a significant shift in the financial structure of these corporations, highlighting the increasing reliance on external funding sources and a corresponding decrease in financial independence.

The composition of revenue receipts shows that transfers from state and central governments have consistently been the dominant component, particularly in recent years. As predicted in Hypothesis , transfers have grown in relative importance, with their share rising steadily over the study period. Conversely, own revenue—comprising tax and non-tax revenues—has diminished as a proportion of total revenue receipts. This finding underscores the growing dependency of municipal corporations on external financial support, raising concerns about their long-term fiscal autonomy. The diminishing role of locally generated revenue signals challenges in enhancing internal revenue generation, which may limit the corporations' capacity to fund their operations independently.

Overall, the findings from this chapter support the hypotheses that transfers and loans have become increasingly important components of the financial structure of municipal corporations in Kerala. The growing reliance on external funding sources, particularly from higher levels of government and through borrowing, poses challenges to long-term financial sustainability and autonomy. Municipal corporations must enhance internal revenue generation capacities and manage their borrowing practices more effectively to ensure future fiscal health and operational flexibility.

CONFLICT OF INTERESTS

None.

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