UNIT 7  URBAN LOCAL GOVERNMENT: FUNCTIONS, FUNCTIONARIES AND FINANCE*

Structure

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7.0 OBJECTIVES

After studying this Unit, you should be able to:

- Discuss the scope of activities of Urban Local Government;
- Explain, how the functions have been devolved to Local Government;
- Describe the manpower issues in discharge of functions;
- Examine the adequacy of financial resources for Urban Local Bodies to function effectively; and
- Highlight the challenges in devolution of 3 Fs- Functions, Functionaries and Finance.

7.1 INTRODUCTION

It has been widely recognised that the cities are engines of economic growth. Presently, urban areas contribute about 63 percent to the GDP of India, which is expected to reach almost 75 percent by 2030. Further, as part of structural transformation, most of the GDP from non-farm sector, which constitute around 86 percent of GDP is generated within and around cities particularly among census towns and outside the ULB areas in the urban agglomerations. This offers opportunity of employment to millions of unemployed. People migrate from rural areas to urban areas and from smaller urban areas to bigger cities and towns in search of livelihood and better standards of living. This puts pressure on the civic agencies of the cities. They face the challenge

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of providing basic services, at least, and more depending on their resource position.

The Urban Local Government as a nodal agency is expected to perform functions, which make life of residents comfortable. The context determines the scope of responsibilities and corresponding functions. Besides the reason of economy, the principle of subsidiary also makes Urban Local Government an automatic choice for certain functions like water supply and sewerage, waste management, horticulture etc. However, the power to assign functions to Urban Local Bodies (ULBs) is vested in the State government as per article 243X of the Constitution of India.

The 74th Constitutional Amendment Act (CAA) of 1992 granted Constitutional status to the ULBs as a viable unit of Local Self-Government. As the municipal bodies in any State, they derive their powers and responsibilities from the municipal laws framed by the respective states, the legal and institutional framework in the respective state must provide for adequate and effective devolution of functions, functionaries and funds to the Urban Local Bodies for effective, efficient, responsive, transparent and accountable urban governance. However, there is no uniformity in this regard across the country, as states have resorted to varying levels of devolution.

7.2 FUNCTIONS OF THE URBAN LOCAL GOVERNMENT

Municipal functions are generally classified as:

i) Obligatory functions - The obligatory functions are those that an ULB is supposed to necessarily perform like water supply, sanitation, roads, etc.; and

ii) Discretionary functions - These are the functions that a municipality may take up, if there is demand from the citizens and resources are available like construction of community centres, public parks and gardens, organising cultural activities, etc. These functions in terms of their application have one or more of the three components investment or capital works, O&M and regulation.

The 74th CAA provided 18 broad categories of functions, listed in Schedule 12(Article 243W), to be devolved to the municipal governments by the state governments for economic development and social justice, which are depicted in Unit 4.

The states have incorporated the provisions of the 74th CAA in their respective state Acts, but most of them adopted a go-slow approach and many of these functions have not been given to the Local Bodies. A sizable number of states have expressed administrative or legislative constraints in devolving all functions. These functions have evolved over a period of time. They can be linked to political and administrative expediency, technological developments, and people's desire to have a wider choice in matters affecting them in their daily lives. For example, Madras Municipal Corporation was established in 1688 with the limited purpose of conservancy and to levy rates
upon the inhabitants for the building of schools, a town hall and a jail. Today
the activities of Greater Chennai Corporation have increased manifold in
terms of scope and people's aspirations.

Similarly, Ahmedabad Municipal Corporation has a lot more obligatory and
discretionary functions in the 21st century, which are mentioned below:

**Functions of the Ahmedabad Municipal Corporation**

**Obligatory Services**

- Erection of boundary of city, defining city limits
- Sewage services -watering, scavenging and cleansing of all public streets
  and places
- Drainage services
- Fire services
- Health & Medical services
- Street Lighting services
- Maintenance of monuments & open spaces
- Identification of streets & houses
- Regulation and abatement of offensive and dangerous trades or practices
- Maintenance of burial houses and funeral homes
- Construction or acquisition of public markets and slaughter houses
- Construction or acquisition of cattle-pounds
- Primary education services
- Health and hygiene services
- Construction, maintenance and alteration of bridges
- Water supply services
- Preventing and controlling the spread of dangerous diseases
- The securing or removal of unsafe buildings and places, and construction
  of conservancy staff quarters
- Maintenance of relief works in scarcity, floe etc.

**Discretionary Services**

- Construction and maintenance of maternity homes & infant welfare
  houses, and maintenance of central laboratories
- Tree plantation on road sides
- Construction and maintenance of public parks and gardens
• The holding of exhibition, athletics or games
• The maintenance of an ambulance services
• Construction and maintenance of theaters, community halls and museums etc.
• Maintenance of public transport facilities, construction and maintenance of educational institutes, and infirmaries and hospitals
• The destruction of animals and birds causing a nuisance.
• Construction and maintenance of factory for the disposal of sewage
• The building or purchase and maintenance of suitable dwellings for the poor and working classes
• Provision of shelter to homeless persons and poor relief
• Surveys of buildings or lands
• Measures to meet any calamity affecting the public in the city and measures to promote public safety, health, etc.

In fact, the responsibilities of the municipalities have increased further in view of the newer challenges like disaster management, climate change, water resource management etc. For example, the municipalities now are actively engaged in identifying and ranking all known and suspected emerging hazards and risks to community safety. In South Africa, the Overstrand Municipal Government has been managing the process of water resource management and development, since 2001. In Canada, the amount of untreated wastewater that is, spilled into watercourses is recorded for follow up. In New Zealand, Local Governments play an important role in facilitating adaptation to climate change at the community and regional level. Manual for the Development of Municipal Energy Efficiency Projects, 2008 states that the ULBs in India can realise tremendous benefits by adopting and executing Municipal Energy Efficiency Programme.

The working group for the 12th Five-Year Plan was of the view that there was a need to have a fresh look at all the functions sought to be devolved upon the local bodies. It suggested activity mapping of the 18 functions to assess as to which functions have been easier for the states to assign to the local bodies and those that the states have found difficult to transfer.

It was recommended, “the ULBs should be empowered by different mechanisms to deliver effectively the core services and functions such as water supply, sanitation, sewage and planning and development functions”. It also suggested empowering the ULBs for effectively coordinating and controlling the role and functions of various parastatals and agencies.

**Measures needed for devolution of functions**

Given the importance of functions and responsibilities entrusted to the ULBs, it is necessary that political and administrative problems are taken care of. Some necessary steps are mentioned below:
i) There is overlapping in the functioning of many agencies at the city / town level. For example, development authorities and town planning departments share responsibilities with municipal authorities. Similarly parastatals like water and sanitation boards and the ULBs have shared responsibilities. In all the functions, where there is multiplicity of agencies, a proper coordination mechanism needs to be devised to ensure a coherent strategy.

ii) For long, it has been recognised that political considerations have often hampered the devolution of functions to the ULBs. Local level politicians are seen as a potential power-center and threat to political aspirations of the state and national level politicians. A political consensus needs to emerge for ensuring such devolution.

iii) Each function necessitates resources. The ULBs since beginning have been having very weak resource base. A clear line of revenue sources needs to be identified for each function. It may require innovative approaches to ensure sufficient and sustainable resources being available for each function.

iv) Increasing complexities associated with each of the 18 functions needs capable manpower to respond to the needs and challenges.

7.3 FUNCTIONARIES OF THE URBAN LOCAL GOVERNMENT

Local Government being a state subject in the Constitution, adopted after independence, gave states the power to look into the issue of manpower requirement of the municipalities. As scant attention was paid to urban areas, the personnel system in municipalities was also not properly planned, though issues were raised at several platforms. Increasing aspirations of the citizens and complexities in city management require a municipal cadre, which is capable of responding efficiently and effectively. Report of the NITI Aayog, highlights that an organisational strategy for urban capacity building at the state and ULB level is lacking. It further states that it is evident through the absence of formal structures, dedicated cadres, staffing norms, organisational procedures, job descriptions and pay scales.

Need for dedicated municipal personnel system was expressed in the first conference of the Local Self-Government Ministers held in 1948. It resolved, “there should be provincial cadres for the higher executive and technical staff employed by local bodies”. The same was reiterated in 1954 in the second such conference. A Central Council of Local Self-Government was set up in 1954 under Article 263 of the Constitution of India to look into wide variety of issues concerning urban sector.

Rural-Urban Relationship Committee had been set up in 1964 with one of the references being effective and efficient functioning of the ULBs. It had noted too, “overwhelming majority of respondents wanted to have state cadres for certain categories of staff i.e. Executive Officer/Secretary, Engineers,
Health/Medical Officer, Accountant/Auditor, Valuation/Taxation Officer and Education Superintendent/Officer. This was considered necessary:

i) to achieve efficiency in administration,
ii) to attract suitable persons,
ii) to have uniformity in execution, and
iv) for impartial implementation of policies.

The committee had recommended, “there should be a common cadre of class I and class II officers of all ULBs. Recruitment to the common cadres should be made through a Municipal Service Commission to be constituted for the purpose. Transfer should also be effected by Government in consultation with the Mayor and the Municipal Commissioner”. Further, it added “detailed rules for recruitment, qualifications, training, promotion, disciplinary control and annual assessment of work should be framed by state governments for subordinate services”.

At the 9th meeting of the Central Council of Local Self-Government in 1963, the Himachal Pradesh government put up a note stating, “inefficiency among the staff of Local Bodies was due to the fact that qualified persons were not attracted to join service under them because of the low pay scales and disparity in the emoluments between employees of local bodies and government employees”. This paved the way for consideration of municipal cadre and in the 10th meeting of the Council in 1965, a committee was set up for looking into the service conditions of the municipal employees. The committee was required to go into the following matters:

i) The question of improvement of service conditions of municipal employees; and
ii) Suggesting a pattern of organisation for state-wide municipal services.

A broad survey of the personnel policies by the Committee revealed three definite types of personnel systems in the ULBs

i) A separate personnel system in which each local authority appointed and administered personnel, who were not automatically transferable to another jurisdiction.

ii) A unified Local Government service in which all or some categories of personnel of local authorities constituted a career service for the entire state. It was administered and controlled by an agency at the state level; and the personnel were transferable between local authorities only.

iii) An integrated service in which the personnel of the state government and that of the local authorities formed part of the same service and transfers were possible not only between local authorities but also to appropriate departments of the State Government.

In some states, there was a combination of these types of systems. Some municipal Acts had the provision of appointments being made by the
municipalities in consultation with the Public Service Commission in respect of posts that carried salary above a prescribed limit. The committee recommended a system of state-wide cadres, to which recruitments should be made on merit through rules for recruitment in consultation with the State Public Service Commission or a special Municipal Service Commission. At the same time, it felt that there ought to be a system of consultations with the council while posting individual officers through transfers.

The Rural-Urban Relationship Committee had recommended the division of municipal services in three grades – Special grade, grade I and grade II while grouping them as:

i) Administrative Service

ii) Engineering Service

iii) Medical and Health Service

iv) Education Service.

The Committee on service conditions had also suggested that states may move towards having integrated municipal services with corresponding categories of state service in order to ensure that the personnel available for municipal employment would have the desired competence and prestige enjoying appropriate conditions of service.

Third Five-Year Plan talked of strengthening municipal administration. It mentioned that there were no standards of ethical or occupational conduct, training, recruitment norms, qualifications, remuneration, classification and grading of staff, and service conditions. Thereafter also, as the urban sector did not receive adequate attention, the issues concerning municipalities continued to aggravate. The 74th CAA was expected to bring in necessary reforms, but personnel problem remained as it was. Thereafter, Jawaharlal Nehru National Urban Renewal Mission (JNNURM) can be said to be the first major programme for urban development. Municipal staff was entrusted with several responsibilities in planning and execution of small to large projects. Lack of capacity noticed during the implementation was attempted to be addressed in the 12th Plan.

The 12th plan had recommended creation of municipal cadre. Arun Maira Committee (Unpublished, 2013-14) observed that given the poor financial condition of ULBs, many States/ULBs may not be in a position to recruit municipal cadres. In this regard, the Committee recommended creation of appropriate municipal cadre as a mandatory reform under the JNNURM.

For the short and medium-term, it suggested, “allowing the ULBs to hire required personnel and for the long run, efforts should be made to create a professional cadre. This may also require that while undertaking the reforms of transfer of 18 functions listed in 12th schedule of the Constitution to municipal bodies, the states may transfer the personnel and posts deployed in the Departments which are currently looking after these functions”.


Some states like Karnataka, Tamil Nadu, Maharashtra, Andhra Pradesh have taken measures for improving personnel system in municipalities. For example, there are three following services in Andhra Pradesh, which cater to the personnel requirement of municipalities:

i) State service to cater both for municipalities and departments of government.

ii) State Municipal Subordinate Service consisting of middle level officers on state-wide basis.

iii) Municipal Service to cater to the requirements of each municipality at the lower levels.

Andhra Pradesh has well-defined roles and responsibilities of various functionaries and also has provision for a channel of promotion from Municipal Service to State (common) Municipal Service and finally to State Service, providing career growth path to municipal employees of all sections.

The Working Group for 12th plan had suggested for Recruitment Rules to provide for at least 25 percent direct recruitment in category A posts and 50 percent in category B. It had suggested separate municipal cadres- one for the Municipal Corporation and the other for the Municipal Council and Nagar Panchayat. In 2014, Report on Approach towards Establishing Municipal Cadres in India under Capacity Building for Urban Development project supported by MoHUA and the World Bank, noted the following:

i) States which do not have exclusive municipal cadres, performance in terms of reform implementation, innovations, revenues, attracting investments are lagging behind (for instance, Bihar, Assam, Odisha, etc.).

ii) Availability of functionaries is inadequate to deliver the devolved functions, and creating municipal cadres could be a strong option.

iii) Staffing norms exist in all states irrespective of having municipal cadres or not. However, there is no evidence that any scientific study of manpower requirement or work study done in any state except Assam, to assess the human resource requirement.

iv) Key leadership positions are occupied by the IAS officers followed by the State Civil Service officers. However, major critical expertise like Urban Planning, Transportation, IT and Public Finance etc. are still unavailable for the urban development. Currently states are drawing these talents from open market on consultancy, outsourcing or on Public-Private Partnership (PPP) mode.

v) Ad-hoc methods of augmenting lower-level staffing requirements are followed in states. Besides regular and deputation staff, sizable number of employees are engaged in Group C and D on daily wages in the ULBs. In all states, recruitments on compassionate grounds were the only source to fill vacancies due to ban on recruitment for decades. Compromising merit, lack of training had rendered most of these staff
grossly inadequate in their competence. Staff on daily wages, outsourcing without clear guidelines, adhoc methods of engagement are prevalent in most states. There are many court cases that Karnataka, Bihar, West Bengal are facing owing to such practices.

vi) Direct recruitments to the ULB positions are done by State Public Service Commissions except for group D. Well prescribed selection methods are followed. However, enormous delays occur in the process owing to which ULBs suffer for want of manpower. Sometimes, irregularities in examinations lead to re-examination thus, causing further delay. There is no institution for exclusive recruitment of municipal cadres like railway recruitment, banking recruitment, police recruitment etc.

vii) Promotion rules are robust and well established. Eligibility criteria include seniority, passing of departmental exams, performance appraisal scores, etc. However, merit is not given due consideration as the method of performance evaluation does not provide for tracking individual performance against targets.

viii) Political interferences, corrupt practices, vested interests, lobbying etc. are prevalent in some degree in most states while posting, transfer of employees.

ix) Training is ad-hoc and inadequate. There is no mandatory induction/foundation training or in-service training for directly recruited officers.

x) There is a need to revamp the Appraisal system to make it more reflective of performance. Current Annual Confidential Report (ACR) system does not give any scope for motivation as there is no provision for quantitative assessment, self-appraisal and feedback. For group C and D, there is no system of assessing performance.

xi) Insufficient ULBs revenues including grants are the major reasons for not launching municipal cadre in its full form. Many states have over one-third positions going vacant and have no revenues commensurate to the growing employee costs. State and Central funds to the tune of 65 percent being spent on staff costs leaving only 35 percent for service delivery. It may be noted that among some states, one Executive officer is holding charge of more than one ULB.

Atal Mission for Rejuvenation and Urban Transformation (AMRUT), was launched in 2015, which emphasises on having a professional municipal cadre for better municipal governance, financial management and service delivery system. It suggests assessment for having municipal cadre to be based on the following features:

- Cost of services of cadre to be borne at the state level and not at the ULB level,
- Services of the officers/staff to be transferable among the ULBs, and
State level Recruitment Rules for each cadre.

It puts the cadre in following three functional groups:

i) **Municipal Administrative Service** – taking care of Executive, Social Development and Staff Services,

ii) **Municipal Technical Service** – responsible for Urban planning, Engineering, Transportation and e-Governance Services.

iii) **Municipal Finance Service** – handling Accounts, Revenue & Financial and Audit Services.

**Current Situation**

However, the situation still remains grim across states. It can be gauged from an example of Himachal Pradesh. In January 2020, there was an acute shortage of staff. There are 54 municipal councils in the state but there were just 12 regular Executive Officers to manage their affairs. Tehsildars were given the administrative charge of the municipal councils. Similarly, there were just 5 posts of Assistant Engineer in the entire state to manage the work of 54 municipal councils. The junior engineers are facing stagnancy in their careers, as there has been no promotion in their cadre in last 20 years (Mohan, 2020).

Establishing a Municipal Cadre is a necessity, but as discussed above, that needs a proper assessment of manpower requirement and also the identification of capacity gaps. This would require continuous upgradation of skills. It was in this background that JNNURM programme had been extended for two years especially focusing on capacity building of the stakeholders because it was found that necessary capacities are not available at the local level. The present programmes of Smart Cities Mission and AMRUT have component of capacity building as part of the programmes.

The government has introduced “Mission Karmyogi” in 2020. However, it is important to take measures to link performance to these capacity building programmes. The states may devise a strategy based on their socio-economic conditions. But it is equally important that there should be clear identification of sources to support manpower costs.

**Check Your Progress 1**

Note: i) Use the space given below for your answers.

ii) Check your answer with those given at the end of the Unit.

1) What are the measures needed for devolution of functions?

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2) What are the functional groups of municipal functionaries suggested under AMRUT?

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7.4 FINANCES OF THE URBAN LOCAL GOVERNMENT

The ULBs in India, in general, have always been under fiscal stress. Even after independence, their sources of revenue were limited and often meager, except in case of some big cities like Mumbai. The Taxation Enquiry Commission (1953) had recommended the following taxes for exclusive reservation and utilisation by/or for local bodies:

i) Taxes on lands and buildings

ii) Tax/ duty (octroi has been abolished by all the states)

iii) Taxes on vehicles other than those mechanically propelled

iv) Taxes on animals and boats

v) Taxes on professions, trades, callings and employments

vi) Taxes on advertisements other than advertisements published in newspapers

vii) Theatre tax or show tax

viii) Duty on transfer of immovable property (levied along with the Stamp Duty collected by the Government)

ix) Taxes on goods and passengers carried by roads or inland waterways.

The Commission had also suggested to give encouragement to municipalities to develop and expand their non-tax sources of revenue.

Reluctance to impose new taxes or increase the tax rates was another reason, which kept their revenues at low levels. It was assumed that 74th CAA would improve their fiscal health, but situation remains far from satisfactory. Mathur (2011) states that:

i) Internally generated revenue by municipalities are inadequate to meet revenue expenditures,

ii) Nature of transfers and grants-in-aid is ad-hoc and discretionery,
iii) Expenditure on establishment (wages and salaries) is very high vis-a-vis expenditure on operations and maintenance of services, and

iv) There is lack of adequate finance data.

To understand the resource base of ULBs, we need to examine their sources of funds and the investment requirement in the urban areas.

**Sources of funds**

The sources of funds for ULBs can broadly be classified as follows:

i) **Tax Revenue**

There are some taxes that are levied by the ULBs. These include property tax, profession tax, entertainment tax, advertisement tax among others. Property tax remains major source of income for majority of the local bodies. It contributed about 60 percent to municipal tax revenue in India in 2017-18. But it was only 0.15 percent of GDP, which is far below the level of 1 percent estimated for recurrent taxes on immovable property in OECD countries (Ahluwalia et al, 2019). The tool kit of government of India (September 2020) expect states to double the property tax collection from Rs.200000 million (2019) to Rs 400000 million by 2024. Accordingly (i) PT base needs expansion with GIS mapping, cross-checking with building licenses, ration cards, mutations, electricity/gas accounts, review of exemptions and covering all government properties as per GoI circular 2009, (ii) revision in the guiding value for rent or unit area e.g.Delhi rates are fairly low, and (iii) Collection needs automation and online system, attractive concessions and incentives, Always Best Control (ABC) analysis to specially target top 10-20 percent properties and attachment of Bank account.

High Powered Expert Committee, 2011 estimated that the total municipal revenue for the country as a whole was about Rs. 1 lakh crore and bulk of this goes towards staff salaries, pensions and operational expenses. Municipal revenue as a share of GDP in India has remained stagnant at around 1 percent from 2007-08 to 2017-18. It was only 0.43 percent of GDP in 2017-18.

ii) **Non-tax Revenue**

Rent from municipal properties, user charges for water and sanitation, etc. are the major sources of non-tax receipts for the ULBs. The share of non-tax revenue in the own sources has increased significantly from 33 percent in 2007-08 to 41 percent in 2017-18. However, it is also a fact that there is huge potential of increasing revenue through user charges. The current realisation does not cover the full cost of service delivery. The JNNURM had attempted to correct this anomaly through reforms, it could not be implemented fully across the country. Similarly, attention needs to be paid to other non-tax sources, which may increase the receipts of the ULBs.
In this regard, local fee/charges also have big potential such as (i) recovery on user charges (water etc.), which is only @ 20 percent (ii) right of way from gas/electricity and fibre optic lines, (ii) cell tower, (iii) leasing electricity poles (iv) and giving maintenance of parks to RWAs like Delhi @ Rs 8000 per park, which is much lower than having a municipal employee.

Similarly Advertisement fee need to be levied in line with Thirvananthapuram (listing the sites and plugging the leakages for 33170 unauthorised boards to double the income during 2018 to 2019. South Delhi MC has achieved three time increase with revision of rates in a ratio of 1:8 as per location and dividing city into clusters.

iii) **Devolution of funds from the State Government** – It is largely dependent on the recommendations of the State Finance Commission (SFC). Article 243 Y provides for the creation of Finance Commission and also review the financial position of the municipalities and make recommendation to the Governor as to:

a) the principles, which should govern:
   - the distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this Part and the allocation between the Municipalities at all levels of their respective shares of such proceeds;
   - the determination of the taxes, duties, tolls and fees, which may be assigned to, or appropriated by, the Municipalities; and
   - the grants in aid to the Municipalities from the Consolidated Fund of the State.

b) the measures needed to improve the financial position of the Municipalities.

c) any other matter referred to the Finance Commission by the Governor in the interests of sound finance of the Municipalities.

However, there is considerable divergence between the Constitutional provisions and the working of the SFCs on the ground. The states have not paid adequate attention to this potentially important institution. Many times they take long in submitting the report. Chakraborty et al (2018) analysed that the SFCs in 12 states took more than 30 months to submit their reports. The SFCs in general face the problems of non-availability of data, office space and technical staff. The implementation of the recommendations has also been found tardy, which affects the adequate devolution of funds to the ULBs.

iv) **Grants from the Union Government for Development Schemes**

Since the implementation of JNNURM, there has been substantial increase in financial assistance by the Union Government to the states
and the ULBs through various centrally sponsored schemes like Smart Cities Mission, AMRUT, Pradhan Mantri Awas Yojana, etc. At the same time, the states and the ULBs are expected to contribute their share for these schemes. This puts the responsibility on the ULBs to generate required quantum of funds through sources such as borrowings, municipal bonds, etc.

v) **Grants based on the Recommendations of the Central Finance Commission**

From the Tenth National Finance Commission (NFC) onwards, due to Amendment in Article 280 after the 74th CAA, the CFCs started recommending grants to be transferred directly to the Urban Local Bodies. The 14th FC distributed the grants between the Rural and Urban Local Bodies in the ratio of 70:30. For the ULBs, the grant was in two parts – a basic grant (unconditional) and a performance grant (conditional) in proportion of 80:20. The NFC devolution, since, has gone up from Rs 1000 Crores to Rs 29000 Crores (during 1995 to 2020).

Keeping in mind the growth in urban population and the changing sectoral composition of GDP, the 15th FC has proposed the increase in the share of ULBs to 40 percent over the medium term. The inter se distribution of grants for Local Bodies has been proposed to be based on population and area in the ratio of 90:10. The 15th FC has also proposed differentiated treatment for fifty million-plus urban agglomerations/cities excluding Delhi and Srinagar and all other cities and towns with less than one million population. The grants for million-plus cities are for ambient air quality, conservation, supply and management of water, and solid waste management. In the other local bodies, the grants are- (i) 50 percent for basic grants and (ii) 50 percent tied to drinking water and solid waste management. It has also specifically mentioned that these grants shall not be used as a substitute for either the Central Sector Schemes like Swachh Bharat Mission, AMRUT, etc. or any scheme of the State Government.

vi) **Borrowings**

In view of the fewer sources of revenue and lower levels of receipts, the ULBs need to resort to borrowing from the capital market. But for that the ULBs need to prove their credit-worthiness. Bigger municipalities may manage this, but it is difficult for the smaller cities and towns. The Government of India had suggested reforms and handholding to improve the credit-worthiness of municipalities. Cities like Ahmedabad could issue bonds and raise Rs. 100 crores in 1998. Since then it has raised money five times through issuance of bonds. The previous was in 2019, when it raised Rs, 200 crores.

Credit rating agencies like ICRA assess the credit rating of an ULB on the basis of following factors:

- Inter-governmental fiscal relationships,
• Economy of the municipal area,
• Operational efficiency of the ULB,
• Municipal finances,
• Project pipeline and execution track record,
• Management quality and reform orientation, and
• State government’s credit quality.

NITI Aayog has recommended “adequate financial accountability” requiring adhering to Fiscal Responsibility and Budget Management Act, 2003 that provides for finances and borrowings to remain within manageable limits.

**Investment Requirement**

Accurate municipal level data in a uniform format across the country is almost non-existent. That makes it difficult for any agency to work out approximate details of expenditure needed for works in urban areas. However, some normative estimates have been made. High Powered Expert Committee (HPEC) (2011) had estimated the investment requirement for urban infrastructure services to the tune of Rs. 31 lakh crore (at 2009-10 prices) for eight sectors of urban infrastructure for the period from 2012-2031. The HPEC had indicated that investment in urban infrastructure should increase from 0.7 percent of GDP in 2011-12 to 1.1 percent of GDP by 2031-32.

**Empowering the ULBs Financially**

There is a view that the “new wealth being generated by the substantive economic growth of urban areas is not being taxed effectively”, which hampers providing even basic services like water supply, sanitation, transport, etc. According to Pandey (2011), “given a chance (with better financial management and devolution or powers to collect revenue from city potential) the ULBs can mobilise as high as 6 percent of city income.” The following measures may augment the resources of the municipalities:

i) Property tax reforms as indicated in the Toolkit of GoI need to be given, a push to double the proceeds from 20000 Crores to 40000 crores by 2024, as it is a major source of revenue for the ULBs. The coverage of properties that are assessed for tax also needs to be increased through use of technologies like GIS and household surveys. The Ministry of Housing and Urban Affairs, Government of India has suggested the states to look into the issue of low property tax rates, which may be periodically revised. The 14th Finance Commission suggested states to do objective determination of the base and its regular revision to adjust for inflation.

ii) There is also need for devolving enough taxation powers to the Local Bodies, so that they can explore other avenues for taxation.
iii) Identifying non-land based sources of revenue can be sustainable as it would be comparatively free of politics. The 14th Finance Commission had suggested to the states to consider steps to empower the Local Bodies to impose advertisement tax and entertainment tax. NITI Aayog stated, “the ULBs are sometimes not even aware of the opportunities and avenues of generating revenues through taxes and non-tax charges. Even if they are aware, they do not have the skill to optimise tax collection”.

iv) User charges for various services do not cover even the operation and maintenance costs. Under the JNNURM, the states were obliged to undertake the related reforms. However, a lot of resistance from the beneficiaries has led to very low level of realisations. The 14th Finance Commission re-emphasised the need for recovering at least O&M costs.

v) The ULBs can also augment their finances through other alternate sources such as municipal bonds, pooled financing and urban infrastructure funds.

vi) Goods & Services Tax (GST) reform has affected the already weak resource base of the ULBs. The mechanism may be devised to compensate the municipalities.

vii) e-governance tools like online procurement, tenders and online expenditure reports may bring in efficiency in the system.

Check Your Progress 2

Note: i) Use the space given below for your answers.

ii) Check your answer with those given at the end of the Unit.

1) Enumerate the taxes recommended by Taxation Enquiry Committee?

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2) Explain the tax revenue and non-tax revenue.

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7.5 CONCLUSION

Habitat III (2016) UN states, “urban governance systems in most countries are currently not fit for purpose and need critical reform to enable sustainable urban development”. The 74th CAA was expected to devolve sufficient powers to the Urban Local Governments to enable them to function as institutions of Self-Government. However, they continue to be plagued by the problem of 3Fs- Functions, Functionaries and Finance. The present situation and reasons thereof have been discussed above. While there is increasing realisation of the necessity of reforms to devolve adequate power to these bodies, a strong political commitment would be needed to sustain it.

7.6 GLOSSARY

Devolution: It refers to the transfer of authority to subordinate levels of the Government.

Structural Transformation: Shifting of work force from one to other sectors of economy such as Agriculture, Manufacturing and Services.

7.7 REFERENCES


ICRA. (2016). Rating methodology for Urban Local Bodies. New Delhi, India: ICRA.


### 7.8 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

**Check Your Progress 1**

1) Your answer should include the following points:

- Overlapping in the functioning of many agencies.
- A political consensus needs to emerge for ensuring such devolution.
- Innovative approaches to ensure sufficient and sustainable resources being available for each function.
- Increasing complexities associated with each of the 18 functions need capable manpower to respond to the needs and challenges.

2) Your answer should include the following points:

- Municipal Administrative Service — taking care of Executive, Social Development and Staff Services;
- Municipal Technical Service — responsible for Urban planning, Engineering, Transportation and e-Governance Services; and

**Check Your Progress 2**

1) Your answer should include the following points:

- Taxes on lands and buildings
- Tax/ duty
- Taxes on vehicles
• Taxes on animals and boats
• Taxes on professions, trades, callings and employments
• Taxes on advertisements other than advertisements published in newspapers
• Theatre tax or show tax
• Duty on transfer of immovable property
• Taxes on goods and passengers carried by roads or inland waterways.

2) Your answer should include the following points:

• Tax revenues include property tax, profession tax, entertainment tax, advertisement tax among others.

• Property tax remains major source of income for majority of the local bodies.

• Rent from municipal properties, user charges for water and sanitation, etc. are the major sources of non-tax receipts for the ULBs.