

Financial Health of Municipal Bodies

Why in News?

As the monsoon sweeps across India, Cities in particular, bear the brunt of the fury of rains and Municipal corporations find themselves perennially underprepared for these seasonal crises.

What are urban municipal bodies?

- **Urban Local Self-Governance** - It is a system of governance of urban areas through the representatives elected by the people.
- **Urban Municipalities** - They are *lowest unit of governance* in cities and towns.
- They are also known as *Urban Local Bodies* (ULBs)
- **Indian Constitution** - The *original constitution doesn't contain* the provisions for Municipal bodies.
- **74th Constitutional Amendment Act of 1992** established a framework for Municipalities
 - **Part** - IX A
 - **Articles** - 243P to 243ZG
- This amendment, also known as *Nagarpalika Act*, came into force on 1st June 1993.
- **Constitution of Municipalities - Article 243Q** deals with the constitution of Municipalities in urban areas in every state
 - **Nagar Panchayat** - For a transitional area, an area in transition from a rural area to an urban area.
 - **Municipal Council** - For a smaller urban area
 - **Municipal Corporation** - For a larger urban area
- According to the constitutional mandate, they are constituted under specific laws enacted by the state legislature to govern cities, towns, and other urban localities.
- **Powers and functions** - They are constituted for *local planning, development and administration* in the urban areas.
- They are tasked with *providing essential civic amenities* such as water supply, sanitation, roads, public health, and urban planning within their jurisdiction.

How do they manage their finances?

- Fiscal governance - It involves managing revenue and expenditure to ensure ***effective governance and service delivery*** at the local level.
- State legislatures may authorize a Municipality to levy, collect, and appropriate taxes, duties, tolls, and fees.
- It may assign to a Municipality taxes, duties, tolls, and fees levied and collected by the State Government.

Revenue	Expenditure
<ul style="list-style-type: none"> • Tax Revenue • Non-tax Revenue • Other receipts • Shared Revenue • Grants in aid • Loans 	<ul style="list-style-type: none"> • Public Services • Social services • Infrastructure Development • Administrative costs • Maintenance Costs • Debt Servicing

Revenues Sources of Municipal Bodies

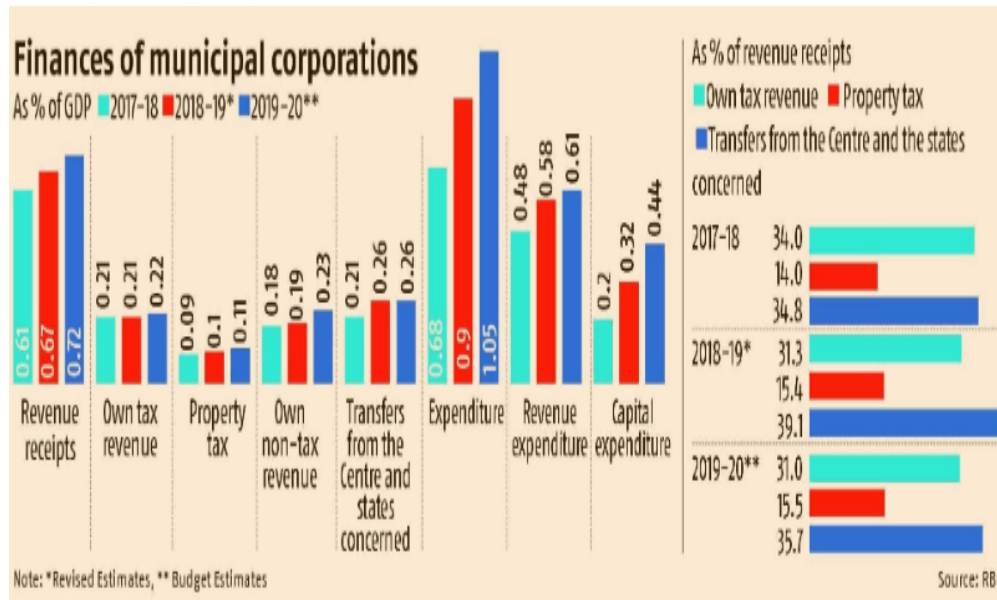
- **Tax revenues** - Property taxes, advertisement taxes, taxes on animals, vacant land taxes, taxes on carriages and carts.
- **Non-tax revenue** - User charges, municipal fees, sale and hire charges, lease amounts.
- **Other receipts** - Fees, fines, lapsed deposits, rent on tools and plants, etc.
- **Shared revenue** - Entertainment tax, surcharges on stamp duty, professional tax, and motor vehicles tax.
- **Grants-in-aid** - Plan grants made available through planned transfers from upper tier of government under schemes.
- Non plan grants are made available to compensate for the loss of income and some specific transfers.
- **Loans** - They are borrowed for capital works from the central and state governments, banks and other government agencies.

Expenditures of Municipal Bodies

- **Public services**- Funding for emergency services, waste management, street lighting, and public transportation.
- **Social services**- Funding for social programs such as housing subsidies, public health initiatives, and recreational facilities.
- **Infrastructure development**- Construction and maintenance of roads, bridges, public buildings, parks, and utilities like water and sewer systems.
- **Administrative costs**- Salaries, benefits, and operational expenses.
- **Debt servicing**- Payments towards interest and principal on loans and bonds issued.
- **Maintenance costs** - Regular maintenance of public facilities, and infrastructure to ensure longevity and safety.

What are their financial challenges?

A recent study by ICRIER, based on data from 37 of the 53 municipal corporations with populations exceeding 1 million, revealed a decline in total municipal revenue as a percentage of GDP from 0.49% in 2012-13 to 0.45% in 2017-18.



- **Financial inadequacy** - Until 2019-20, municipal corporations' revenue receipts accounted for *less than 1% of India's GDP*.
- **Decline in own revenue collection** - ICRIER study reveals that municipalities' ability to raise their own revenues saw a sharper *decline from 0.33% of GDP to 0.23%* in the same period.
- A significant portion of these revenues, nearly one third comes from their own tax revenue (OTRs), with property taxes constituting almost half of this segment.
- *Property tax figures dwarfed the entire OTRs* of municipal corporations in Delhi, Bangalore, Chennai, and Hyderabad.

Property taxes contributed just 13.19% of revenue receipts for the Brihanmumbai Municipal Corporation (BMC), India's wealthiest local body, over the past five years.

- **Higher dependence on transfers** - Transfers from the central and state governments form a slightly larger share in revenue receipts than OTRs.
- The dependence on state and central transfers underscores a *persistent vulnerability*.
- **Impact of GST** - The implementation of Goods and Services Tax (GST) has *subsumed several taxes*, such as Octroi, which were the prerogative of municipal corporations, exacerbating their dependence on state and central transfers.
- **Lesser allocations** - While the 15th Finance Commission, in its 2nd report, recommended grants amounting to 4.36 trillion for local governments from 2021-22 to 2025-26, *up to 67% was earmarked for rural local bodies*.
- **Lower disbursement of funds** - The actual disbursement has *lagged recommendations by about 15%*, primarily due to municipalities failing to meet stipulated conditions, as per RBI report on municipal finances.
- **Non-constitution of SFCs** - Many states have not established State Finance Commissions in a timely and regular manner.
- **Insufficient capital expenditures** - Currently, capital expenditure constitutes about half of the total expenditure of most corporations, though it still *falls short in places*

like Chennai.

- Capital expenditure, crucial for urban development and disaster preparedness, remains a miniscule portion of the country's economic size.

What lies ahead?

- Increase the revenue assigned to urban local bodies from states as they are highly vulnerable during extreme weather events.
- Reduce the regulation norms for disbursing the full allocated funds.
- Promote selling of municipal bonds.

Municipal bonds are debt securities issued by municipal authorities to fund public projects such as infrastructure development, public schools, and utilities.

- Form partnerships with private sector entities can bring in expertise and funding for infrastructure projects.

References

1. [Business Standard| Finance of Municipal bodies](#)
2. [The Hindu| Municipal Bodies](#)
3. [MoSPI| Local bodies](#)

