Fiscal independence to Urban Local Bodies

Introduction
- When talking about India, local bodies are at the forefront of administration and directly influence the welfare of the inhabitants.
- Urbanization and economic growth are intertwined, as the impetus for growth generally comes from the urban sector.
- Currently, urban spaces in India accommodate about 31% of India’s current population and contribute almost 63% of the GDP.

Need for making local bodies self-governing
- It is necessary for enhancing revenue mobilisation and accountability.
- It will contribute to the larger goals that underlie the Constitution (seventy-fourth) Amendment Act.
- Provision of adequate infrastructure requires huge finances.
- Rapid urbanization is putting pressure on available infrastructure facilities such as water, housing, sanitation, schools, hospitals, transport, etc.

Present status

<table>
<thead>
<tr>
<th>Year</th>
<th>As % of GDP</th>
<th>Municipal taxes as % of combined tax revenues of the Centre, states and local bodies</th>
<th>Municipal own revenues to transfer ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Municipal revenues</td>
<td>Municipal expenditure</td>
<td></td>
</tr>
<tr>
<td>2002-03</td>
<td>1.05</td>
<td>1.08</td>
<td>2.4</td>
</tr>
<tr>
<td>2007-08</td>
<td>1.02</td>
<td>1.09</td>
<td>1.7</td>
</tr>
<tr>
<td>2012-13</td>
<td>1.05</td>
<td>0.83</td>
<td>1.8</td>
</tr>
<tr>
<td>2017-18</td>
<td>1.00</td>
<td>0.78</td>
<td>1.8</td>
</tr>
</tbody>
</table>

- Resource base of ULBs generally consists of their own sources, the state revenue, government grants, loans that are garnered from state governments and market borrowings.
- ULB revenues are stuck at an incredibly low level of about 1% of GDP compared with levels ranging 4-7% in several emerging economies.
- Tax share of ULBs has dipped to a historic low of 1.8% from a high of 4.2% in the early 1990s.

Role of Finance Commission
- Finance Commissions (FCs) have been engaged with the finances and functioning of ULBs for 26 long years during which they have
  - dispensed a basic grant-in-aid
  - supplemented it with a performance grant
  - capped it with a slew of recommendations for bringing about improvements in ULB finances and functioning.
- Annual average grant-in-aid for ULBs has risen from Rs 250 crore in 1996 to Rs 29,250 crore in 2020.
Various initiatives to refurbish the finances of ULBs

- Property Tax Boards have been established in a few states.
- Several states have introduced changes in the accounting system of local bodies.
- Listing of municipal debt securities in the stock market being one such recent initiative.

Concerns / Challenges

- Most of the ULBs are lacking mobilization of resources and also financial autonomy.
- ULBs sometimes are not even aware of the available opportunities and avenues that can be explored for generating revenues through taxes and even non-tax charges.
- Most ULBs today suffer from a wide gap between the need for services that are perceived and the financial resources that are provided to them.
- Transfers from the higher governmental tiers including grant-in-aid from the FCs seem to have undercut local revenue-raising efforts.
- A methodology that will allow the FCs to systematically assess the requirements of ULBs has not emerged.
- There is misallocation of functions and revenues allotted to urban governments.
- Inadequate exploitation of the tax resources that are existent, due to the inefficiency of municipal functionaries.
- Property tax is one of the biggest contributors to ULBs revenue and the coverage of properties is relatively low.

Way Forward

- Use an index of local revenue effort with a substantial weightage as a key criterion in the interstate allocation of the recommended grant-in-aid.
- Provide a dedicated grant-in-aid window for ULBs to implement those 12th Schedule functions.
- RBI can publish a volume on municipal finances, complementary to that on state finances. It is an essential step to assessing the fiscal health of ULBs.
- Urban reforms need to address these issues systematically
  - improvement in the responsiveness of the service providers
  - adoption of efficient and cost-effective practices
  - efficiency of tax collection
  - promotion of policies that actually enhance local initiative
- Information and technology can improve the efficiency of delivering public services, make the delivery process transparent, and also enhance revenue collection for urban local bodies.
- Geographical Information System can be used by ULBs to extend the coverage of water supply and solid waste management, reduce power losses and also increase property tax collection.
- One of the most significant revenue potentials the GIS can improve the coverage of, is property tax.
- Once the GIS is integrated with the property tax database, it is able to show details of tax liability such as the amount paid and amount due.
- Municipal finances cannot be harnessed to its full potential without the necessary administrative and institutional reforms.