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Current trends in expansion of Municipal corporations and their financial sources in India

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Abstract: Municipal Corporation of India is very much responsible for taking care of public transportation, roads, water supply, birth, death records (delegated from central government Registration Act), sewage, sanitation, flood control, drainage, and other public safety services such as ambulance and fire services in the locality. Currently, the capacity of municipalities to generate resources from their tax and non-tax bases is grossly limited. According to the Thirteenth Finance Commission, in 2007-08, municipal revenue constituted 0.94% of GDP (at market prices) in India. This is well below that of other emerging economies like Brazil and South Africa, where corresponding figures are 5% and 6% respectively.

Key words: Municipal Corporation, sewage, sanitation, flood control, drainage

Introduction

Municipal Corporation of India is very much responsible for taking care of public transportation, roads, water supply, birth, death records (delegated from central government Registration Act), sewage, sanitation, flood control, drainage, and other public safety services such as ambulance and fire services in the locality. Urban or Municipal governance in India has been in existence since the year 1687 with the formation of Madras Municipal Corporation and then Calcutta and Bombay Municipal Corporation in 1726. In early part of the nineteenth century almost all towns in India had experienced some form of municipal governance. In 1882 the then Viceroy of India, Lord Ripon's resolution of local self-government laid the democratic forms of municipal governance in India. In 1919, a Government of India act incorporated the need of the resolution and the powers of democratically elected government were formulated. In 1935 another Government of India act brought local government under the purview of the state or provincial government and specific powers were given. As a result of economic development in India, urbanization is proceeding at a very rapid rate. Cities and towns contribute to more than 60% of the GDP,so one can understand the strong co-relation between urbanization and economic development. So it is imperative to develop an efficient urban or municipal government.

Municipal Governance - Main Features:

The purpose of municipal governance and strategic urban planning in a country is to create effective, responsive, democratic, transparent, accountable local governance framework organised according to a rational structure that promotes responsiveness and accountability; to provide responsive policy guidance and assistance to sub-national entities; to strengthen the legal, fiscal, economic and service delivery functions of municipalities; and to foster greater citizen participation in the governance of local bodies.

Similar to the Panchayati Raj system, the Nagar Palika Act or the Municipalities Act, 1992 set up through the 74th Amendment Act also provides for a three tier municipal system in the urban centres. The size and criteria of these municipal bodies are decided by the state legislature as it is set up under an Act of the state legislature. The Twelfth Schedule of Constitution (Article 243 w) provides an illustrative list of eighteen functions that may be entrusted to the municipalities. Reservation of seats for ST,SC,OBC & women are similarly provided as is for the Panchayati Raj system. The Nagar Palikas/Municipals are to work as instruments of development and planning and also to handle funds for local activities.

Current scenario of Municipal corporations in India:

In India out of the total population of 1210.2 million as on 1st March, 2011, about 377.1 million are in urban areas. The net addition of population in urban areas over the last decade is 91.0 million. The percentage of urban population to the total population of the country stands at 31.6. There has been an increase 3.35 percentage points in the proportion of urban population in the country during 2001-2011. The provisional results of Census 2011 reveals that there is an increase of 2774 towns comprising 242 Statutory and 2532 Census towns and 220 Municipal corporations over the decade. Growth rate of population in urban areas was 31.8%. Further the number of million plus cities/urban agglomeration (UA) has increased from 35 in Census 2001 to 53 in Census 2011.

Table1. No. of Municipal corporations in India

State	No. of. MCs	State	No. of. MCs	State	No. of. MCs
Andhra Pradesh	16	Jharkhand	08	Rajasthan	07
Assam	04	Karnataka	11	Sikkim	01
Bihar	13	Kerala	06	Tamil Nadu	12
Chhattisgarh	12	Madhya Pradesh	14	Telangana	06
Goa	01	Maharashtra	26	Tripura	01
Gujarat	08	Manipur	01	Uttar Pradesh	16
Haryana	10	Mizoram	01	Uttarakhand	06
Himachal Pradesh	02	Odisha	05	West Bengal	16
Jammu & Kashmir	02	Punjab	10	Delhi	04
				Chandigarh	01
Total =220					

Source: https://en.wikipedia.org/wiki/List_of_municipal_corporations_in_India

Sources of Finance of Municipal Bodies

Finances supplied to the Municipal bodies are determined and regulated by the respective state governments as per the 74th amendment act. Article 243x states that a state may by law authorize a Municipality to levy and collect property taxes, duties, tolls and fees. The state will lay down the procedure also for the same along with accounting methods.

Also as per the 74th Amendment act, the Indian Constitution has made it mandatory for every state to constitute a State Finance Commission to review the financial position of the Municipalities and make recommendations regarding distribution of taxes between the states and municipalities. It is also expected to look into the criteria for grants-in-aid and suggest measures needed to improve the financial position of the Municipalities.

Finance Municipal Corporations

(a) Tax Revenue: The major proportion of income of corporations flows from taxes. It ranges from anything between two-fifths and three-fourths of total income. A corporation generally has the power to levy the following taxes:

1. Property tax
2 Profession tax
3 Sanitation/ Conservancy Tax
4 Scavenging tax
5 Latrine tax
6 Drainage tax
7 Education tax
8 Entry/Terminal tax
9 Taxes on vehicles
10 Advertisement tax
11 Entertainment tax
12 Pilgrim tax
13 Environment tax/Land Revenue
14 Betterment/Development tax
15 Passengers & Goods Tax
16 Timber tax
17 Tax/toll on animals
18 Cable Operator Tax
19. Toll/Tax on bridges/Vehicles
20. Octroi

(b) Non-tax Revenue: The non-tax revenue includes fees and fines, grants and contributions from the Government. Among its extraordinary sources may be listed loans, deposits, receipts on capital account, grants for capital works, etc.
1.Sanitation/ Conservancy Charge
2. Water charges
3. Surcharge on Sales Tax
4. Birth/Death Registration fees 5. Betterment fees
6. Mutation fees
7. Dangerous and Offensive Trade License Fees
8. Slaughter house fees 9. Market fee
10. Fee for fire services
11. Fees on dogs
12. Fees for Registration of animals etc.
13. Parking fees
14. Fee on building application
15. Duty on transfer of immovable property
16. Penalty for late tax payment
17. Stamp Duty
18. Rent from Municipal Properties
19. Receipts from Fines
20. Receipts from Interest

Current State of Municipal Finance

Most studies have pointed out to the grossly unsatisfactory state of their finances, attributing it partly to the internal management of fiscal resources and in part to state policies towards them. Suggestions for improvement in their finances have been crafted accordingly.

Currently, the capacity of municipalities to generate resources from their tax and non-tax bases is grossly limited. According to the Thirteenth Finance Commission, in 2007-08, municipal revenue constituted 0.94% of GDP (at market prices) in India. This is well below that of other emerging economies like Brazil and South Africa, where corresponding figures are 5% and 6% respectively.

Figure -1: Source of Finance to the Municipal Corporations

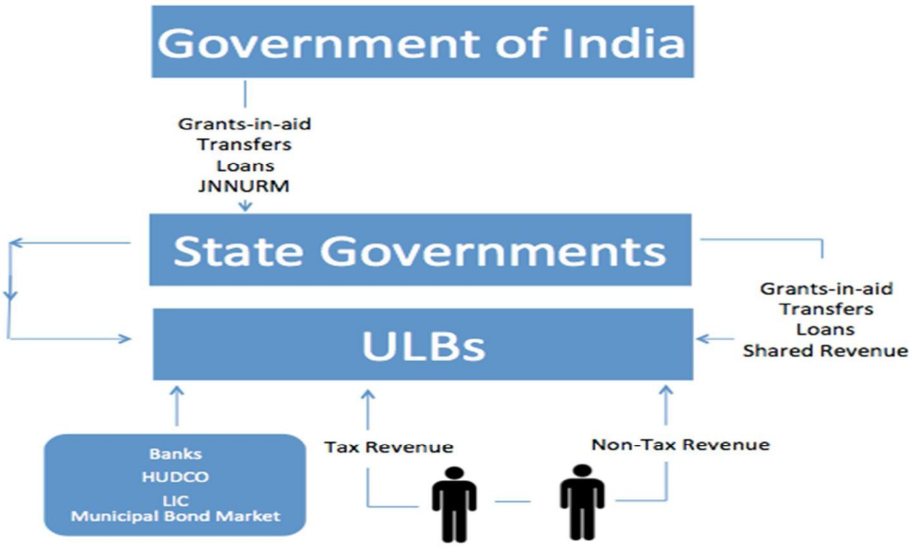
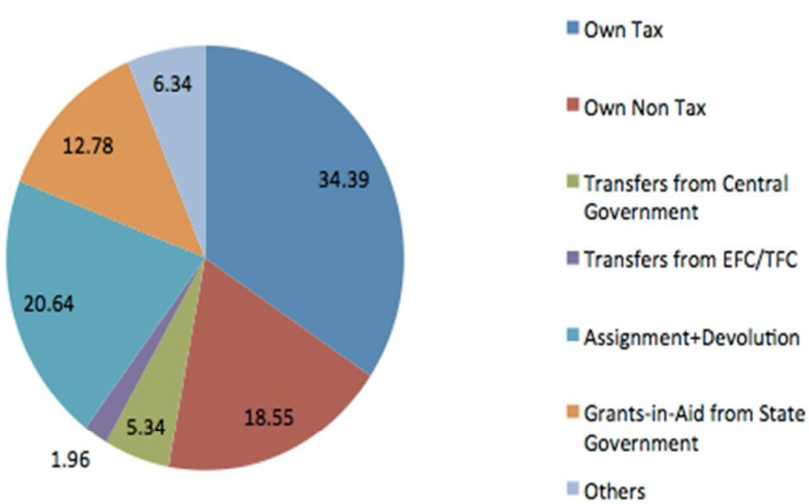


Figure 2: Current State of Municipal Finance



Source: Thirteenth finance commission

In several states - majority of these being low income and low urbanized states - it was half the national average. The share of municipalities in the country's total tax resources too has continued to stagnate (1.7%), despite a country-wide trend towards improved tax to GDP ratio. Decentralization as embodied in the 74th Constitution Amendment, 1992 has made little difference to the tax raising effort of municipalities; their tax base continues to be narrow and marked by low buoyancy. As this study will demonstrate, the existing municipal system is vastly inefficient, with municipalities unable to optimally utilize their revenue-raising powers. Estimates made in this report indicate that municipalities have the potential of raising revenues significantly (about 110 percent) without any fundamental change in the system of property valuation or the design of tax rate structure.

The Report on Indian Urban Infrastructure and Services (2011) points out that the 74th Constitutional Amendment Act did not create for a separate 'municipal finance list' to match the municipal functions listed, hence making an 'incomplete devolution' package. Endogenous reasons include inefficient tax administration, low cost recovery and poor quality expenditure. The Report also projects that investment requirement on urban infrastructure over the next 20 years is Rs. 39.2 lakh crores. There is a declining trend in share of own revenue in total revenue. As the Report notes, "*The overall average does not convey the gravity of the situation in many municipal bodies where ULBs are virtually reduced to becoming state government departments since even the salaries are paid by state governments.*" Mohanty (2007) points out that there is high positive correlation between under-spending and dependency ratios (share of grants a Municipal Corporation receives in relation to total expenditure). High dependency ratios and declining own revenue shares have been an impediment to ULBs accessing municipal debt markets. Till date, there have been 22 bond issues (Taxable-9, Tax-free-11 and Pooled bonds-2) in India, mostly met with partial success. These bonds have been able to raise Rs. 1224 crores. Small and medium ULBs are unable to access the municipal debt markets due to their weak balance sheets and high cost of transactions. Tamil Nadu and Karnataka have issued pooled bonds by combining many ULBs.

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched in December 2005 with the aim to encourage reforms and expedite the planned development of identified cities. The Mission consists of four programs- Scheme for Urban Infrastructure and Governance (UIG) and the Scheme for Basic Services to the Urban Poor (BSUP) for funding basic urban services and urban infrastructure in identified cities and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) and the Integrated Housing and Slum Development Programme (IHSDP) covering non-Mission cities and towns with the aim of providing basic entitlements and services to all including the urban poor. As of December 2010, the Mission had released funds equal to Rs. 28650 crores. Funding for the project is conditional on a set of mandatory reforms, accompanied by a set of optional reforms. However, JNNURM faced a trade-off between creating a moral hazard (by disbursing money to ULBs that had not undertaken reforms) and letting important infrastructure projects languish. Consequently, most ULBs have not undertaken even the mandatory reforms and the moral hazard has disincentivised ULBs from accessing debt markets for funding.

Conclusion:

This paper has attempted to review the state of municipal finance in India. With the help of the available literature, we find a wide diversity in the functions and thus revenue handles of municipalities. *Most studies have pointed out to the grossly unsatisfactory state of their finances, attributing it partly to the internal management of fiscal resources and in part to state policies towards them.* The extent of decentralization is not uniform across states. The compositions of revenues are diverse, with differing trends in the growth patterns of revenues. Expenditures in general fall short of their requirements. A good performance in municipal resource management could be the key to attract educated mass which in turn can bring about more revenues to the municipality. Given the industrial performance, population growth, employability, a good performance in municipal resource utilization and management can bring about a huge change in municipalities.

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