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MOBILISATION AND MANAGEMENT OF FINANCIAL RESOURCES BY URBAN LOCAL BODIES

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ABSTRACT

Local Self-Government Institutions or Local Bodies in India, being at the cutting edge level of administration, directly influence the well-being of the people by providing civic services and socio-economic infrastructure facilities. The Constitution (74th Amendment) Act, 1992 has mandated grass root level democracy in urban areas by assigning the task of preparation and implementation of plans for economic development and social justice to elected municipal councils and wards committees. It has incorporated the Twelfth Schedule into the Constitution of India containing a list of 18 functions as the legitimate functional domain of Urban Local Bodies (ULBs) in the country. In view of this position, the demands placed by the public on municipal authorities for the provision of various civic services have increased considerably. Urban local bodies/municipalities play an important role in the planning and development of urban areas. However, most studies undertaken to assess the functioning of municipalities in India point out that the performance of municipalities deteriorate over time. It is noted that municipalities in India are confronted with a number of problems such as inefficiency in the conduct of business, ineffective participation by the weaker sections of the population in local governance, weak financial condition, and lack of transparency in the planning and implementation of projects etc. which affect their performance adversely. The present paper critically examines the devolution of functions and finances of the urban local bodies.

KEYWORDS

Local bodies, Local Governance.

INTRODUCTION

Until 1992, local governments were not part of the Indian government's planning and development strategy. A dramatic change in the federal system of India came with the introduction of the Constitution Amendment Act of 1992 conferring the status of the third level of government to local bodies. This amendment took Indian democracy one step forward and added a new dimension to the federal system of government. Through this amendment the establishment of a local representative government empowered with administrative and financial abilities to deliver mandated services to its citizens came into force. It transferred responsibilities for services to urban local bodies that elect their own representatives and gave them the power to raise their own revenues and authority to make investment decisions.

The Constitution Amendment Act aimed to introduce strong grassroots level democracy through the establishment of urban local bodies, but left the issues of their empowerment and operationalization to the discretion of the state governments. The state governments, as a part of municipal governance reforms, should amend their municipal legislation to comply with the spirit of the Constitutional Amendment. However, state municipal legislation mainly covers electoral reforms and there has been little effort towards widening the functional and financial domain of urban local bodies.

74th Amendment Act provides for the constitution, by every state, of a State Finance Commission, within one year of the amendment and thereafter every five years, regarding the financial resources of local bodies. Unfortunately, the recommendations of the Commission are not binding on the respective states. But still the Municipalities blame the State Governments that they are not getting the required finances to run the urban body. In spite of the fact that the 74th Amendment visualizes the 'people's participation' as one of the main objectives, the people actual participation in the municipal affairs of the city is still limited. Major cause of this attitude is that the people look towards the municipal bodies with inherent suspicion and take it for granted that their problems and grievances will not be taken care of.

Urban local bodies are in need of substantial funds to execute their constitutionally assigned functions. The legislature of a state may, by law, authorize an urban local body to levy and collect taxes, duties, tolls and fees. Central and state governments may also provide grants-in-aid to their urban local bodies. Thus there are two main sources of revenue for urban local bodies, internal and external. Internal source revenue is commonly known as own source and it includes income generated from various taxes and non-taxes levied on the citizen. External source revenue mainly includes funds obtained from the central and state governments in the form of grants or loans. There may be other external sources of funds, for example, loans from domestic institutions or financial intermediaries. Some urban local bodies have also chosen to raise money from capital markets by issuing bonds.

In the case of ULBs in India, the 74th Amendment to the Constitution of India, 1992 identified enormous responsibilities for the urban local governments. Besides the 18 items listed as municipal responsibilities in the Twelfth Schedule of the Constitution, the Legislature of a State, by law, can assign any tasks relating to: (i) the preparation of plans for economic development and social justice; and (ii) the implementation of schemes as may be entrusted to them.

OBJECTIVES OF THE STUDY

1. To describe salient features of 74th constitutional amendment.
2. To discuss the status of devolution of functions of the urban local bodies.
3. To examine the financial resources practiced by the urban local bodies.

METHODOLOGY

The present study is conducted with the help the secondary data. The secondary data was collected from the annual reports, books, web site and other available literatures.

TYPES OF LOCAL GOVERNANCE

- 1) Constitutional status has been accorded to Urban Local Government bodies. Three tier structures has been envisaged, whereby there would be municipal corporations, for larger areas, municipal councils for smaller areas, and nagar panchayats for villages in transition to becoming towns. Since, "Local Government" is a state subject, the state legislatures have been left within their powers to define the details of the powers and functions of different units of urban government institutions whose broad outline only has been drawn by the Parliament.
- 2) Direct election to these Municipal bodies by the people in the manner as the elections are held for the Lok Sabha and State Assemblies has been provided. For the purpose of elections, the Municipal elections are to be conducted by the State Election Commission.
- 3) Reservation of one-third of seats for women including women belonging to Scheduled Castes and Scheduled Tribes is ensured.
- 4) The State Finance Commission would ensure financial viability of the Municipalities. Municipal funds have been augmented through taxes, tolls, duties and fees, grants-in aid.
- 5) Urban municipal institutions of self-government have been endowed with power and authority to formulate and implement schemes for economic development and social justice on 18 subjects.

- 6) Developmental Committees, namely, (DPC) and Metropolitan Planning Committees have been constituted. Thus, planning in India has been decentralised up to the grassroots level.
- 7) For better proximity with citizens, wards committees have been constituted. 8) The 74th CAA and also the 73rd CAA (on Panchayats) have created local self government institutions throughout rural and urban India with powers (29 for rural and 18 for urban) delineated, devolution, deliberative and executive wings of government created, authority and responsibilities defined, developmental committees (DPC, MPC) and Finance Commission constituted; and within each Municipality, Wards Committees and Zonal Committees have been constituted.

TYPES OF URBAN LOCAL BODIES

The following types of urban local bodies are found in India:

1. Municipal Corporation- Municipal Corporation is established by the Act of state government for the big cities of states and by the Act of Parliament for the big cities of Union Territories. A corporation has three authorities. First is the corporation council headed by the Mayor, who is assisted by the Deputy Mayor. The councillors and Mayor are directly elected by the people. Council is a deliberative and legislative organ of the corporation. Second organ of the corporation are the standing committees to deal with various activities like health, education, public works and are empowered to take decisions in their respective fields. The third authority of the Corporation is the Municipal Commissioner, who is a government officer and is responsible for the implementation of the decisions taken by the council and standing committees.
2. Municipalities- They are setup by the Acts of state legislature for the administration of small cities or towns. It also has three authorities. First the municipal council is the legislative branch of the municipality, and is headed by the Chairman, who in turn is assisted by a Deputy Chairman. The standing committees facilitate the work of municipality in various fields such as health, taxation finance etc. The third authority of the municipality is the Chief Municipal Officer, who is appointed by the state government and is responsible for the general administration of the municipality. The municipality may be known by other names also such as Municipal Board, Municipal Council or Municipal Committee etc.
3. Notified Area Committee- This may be created either in a town which is fast developing or which may not fulfil the conditions for the creation of a municipality. It is known as Notified Area Committee because it is created through a notification of the state government published in the official gazette. It is not a statutory body and all its members and chairman are nominated by the government. It performs similar functions as performed by a municipality.
4. Town Area Committee-It is created by a separate Act of state government for the administration of small towns. It performs a limited number of functions like street lighting, drainage etc. As provided in the Act, it may be wholly elected or totally nominated or partly elected or partly nominated body.
5. Cantonment Boards- They are established to perform municipal functions for civilian population living in cantonment or military areas. Its noticeable feature is that it is created and works under the central Act of 1924 under the administrative control of Ministry of Defence. There are three types of Cantonment Boards depending upon the number of civilian population in the Cantonment Area. It consists of partly elected and partly nominated members. The members are elected for a three year term. The military officer commanding the cantonment station is the ex officio chairman of the Cantonment Board.
6. Townships- Townships are established by a public sector undertaking as its housing colony to provide civil amenities to its employees living in township. It has no elected members and its affairs are managed by a Town Administrator appointed by the public sector undertaking.
7. Port Trusts- Such urban bodies are established by an Act of the Parliament to manage and protect ports and to provide civic amenities to the port area. It is headed by an official appointed by the central government. It has both elected and nominated members.
8. Special Purpose Agencies- The state governments establish some special purpose agencies to perform some specific functions of municipalities. They function as separate bodies not under the control of municipalities. They may be created either by an act of State Legislature or by an order of the executive. Some of these agencies are Housing Board, Water Supply Undertaking, Electricity Supply Undertakings, and Urban Development Authorities etc.

FUNCTIONS OF URBAN LOCAL BODIES

1. Urban Planning including town planning;
2. Regulation of land use and construction of buildings;
3. Planning for economic and social development;
4. Roads and bridges;
5. Water supply for domestic, industrial and commercial purposes;
6. Public health, sanitation conservancy and solid waste management;
7. Fire services;
8. Urban forestry, protection of the environment and promotion of ecological aspects;
9. Safe-guarding the interest of weaker sections of society, including the handicapped and mentally retarded;
10. Slums improvement and upgrading;
11. Urban poverty alleviation;
12. Provision of urban amenities and facilities such as parks, gardens, playgrounds;
13. Promotion of cultural, educational and aesthetic aspects;
14. Burials and burial grounds; cremations, cremation grounds and electric crematoriums;
15. Cattle pounds; prevention of cruelty to animals;
16. Vital statistics, including registration of births and deaths;
17. Public amenities, including street lighting, parking lots, bus stops and public conveniences; and
18. Regulation of slaughter houses and tanneries.

In the case of ULBs in India, the 74th Amendment to the Constitution of India, 1992 identified enormous responsibilities for the urban local governments. Besides the 18 items listed as municipal responsibilities in the Twelfth Schedule of the Constitution, the Legislature of a State, by law, can assign any tasks relating to: (i) the preparation of plans for economic development and social justice; and (ii) the implementation of schemes as may be entrusted to them.

FINANCES OF URBAN LOCAL BODIES

It should be noted that urban local bodies prepare their Budgets on annual basis in the forms prescribed by the state government. Before execution, the Budget is to be submitted to the state government in February for its approval. Only after the approval of the state government the Budget of a local body is implemented. The Budget is prepared on the basis of priority areas and availability of finances.

Generally the sources of finances of a urban body are Of four types:

1. Collection of Local Tax Revenue- Urban local bodies levy some taxes in their area; such as octroi, property tax, profession tax, entertainment tax, advertisement tax, animal tax, market tax, water tax, pilgrim tax, toll on new bridges etc. The revenue from taxes constitutes the two-third of the total revenue of urban local bodies. Octroi has been abolished in some states which was a major source of income.
2. Non-Tax Revenue- It consists of fees, receipts, fines or income from remunerative activities of the urban local bodies. The fees is collected through various forms and processing fees. These bodies also collect some non-tax revenue through parks and exhibition grounds.
3. Grants-in-Aid- The state government gives grants-in-aid to the urban local body for special purpose. Under the 74th Amendment, a State Finance Commission is established to recommend the principles governing the grants-in-aids to the urban local bodies by the state governments.
4. Loans- Under the respective Municipal Acts, the urban local bodies are entitled to raise loans from the state governments. The loans are to be paid back within prescribed time limit along with the interest. The proposals of loans are to be cleared by the Reserve Bank of India.

FINDINGS

1. In the wake of growing urbanization, it has been facing serious challenges to meet the requirements of urban infrastructure, municipal services, environmental conservation, and urban poverty alleviation. Historically, local self-governments depend on financial transfers from the higher levels of government namely, the state and/or the central government. The finances of municipalities are in a very bad condition. Infact the financial position of majority of the Urban Local Bodies is so poor that they are hardly in a position to meet the ever rising demand of funds for rendering municipal core services. Most of the urban local bodies are constrained in discharging their obligatory functions due to a limited resource base. Rapid growth of cities and towns is not matched by a corresponding increase in the revenue of ULBs.
2. The poor quality of services rendered by the ULBs is due to not only by a constraint of resources but also due to poor staffing and poor quality of management, among other reasons. The resource potentials of ULBs do not match with their functional responsibilities, leading to near absolute fiscal dependence on State Government. Most of the ULBs are financially weak, generate negligible own resources considering the work they are expected to do, and hence are heavily grant dependent. Obligatory taxes (like house tax etc.) are grossly under exploited and have never been given a fair chance of implementation as per Rules prescribed by the State Government itself.
3. Local Bodies are faced with the uphill task of managing the rapid growth. Scarcity of resources, lack of knowledge and technology are hampering their ability to respond to the challenges faced. Information crisis and lack of endeavors to take innovative steps, is aggravating the situation. Moreover, there is little appreciation and support to indigenous efforts made to tackle the problem effectively
4. Local finance is thus characterized by a mismatch between functions devolved to ULBs and the devolution of tax authority. This mismatch is exacerbated by lack of (i) buoyancy and elasticity in local fiscal instruments, (ii) lack of taxes with wide base, (iii) abolition of buoyant and elastic source of revenue as in India- (Octroi), and (iv) dependence on only one or two taxes that are not easy to implement.

SUGGESTIONS

1. There is lack of comprehensive and consistent municipal finance database. There is an imperative need to develop robust database for municipal finance and the same may be made public on a regular basis. In the absence of reliable data source for the ULBs, accurate plan and innovations cannot be framed. For this, National Municipal Accounting Manual may be adopted and enabled for developing an online Municipal Finance Information System.
2. In order to improve municipal amenities provided by ULBs, they need to be made professional institutions. They have to play a specific role in reducing the unbalanced growth of urban areas.
3. There is a need to specify the amount required and the expenditure to be incurred for providing basic services and as to which are the resources to be devolved to lower level governments.
4. There is no inbuilt freedom in devolving grants. Hence the lower level government should gradually increase tax effort and encompass new revenue collection avenues, project loan and public donations etc.

CONCLUSION

Indian urban local bodies have the status of third tier local government. The imbalances in the functions and finances have made the urban local bodies dependent on grants from upper tiers of government. In addition there are urban local bodies that have insufficient financial resources due to their failure to adequately exploit existing sources of revenues. However, the local level governments do not have a defined power structure, functional/fiscal domain, and capacity like the higher levels of government. Historically, the provincial governments have controlled the urban local self-governments and have not devolved adequate powers and responsibilities to them. The capacity of the urban local self-governments has still not been strengthened to cope with the growing challenges of urbanization, poverty, environment, infrastructure, and services.

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