



# Fiscal Empowerment of City Governments

As a part of carrying the research on Urban Governance reforms forward, we have deep dived into 'Fiscal Empowerment of City Governments' to create a comprehensive and standardised database of indicators to facilitate informed policy decision. This will help in addressing the gap of standardised data being available and also help in identifying necessary reforms to be undertaken to improve the financial health of urban local bodies. The study is planned to take place in 3 phases covering total **44 cities** across **28 states, NCT of Delhi and Union Territories of Jammu & Kashmir**. The objectives of the study are to assess the data availability and financial growth of the city government. The study also focuses on the various governance indicators like devolution of financial powers and financial transparency.

This study is being conducted in partnership with National Institute of Urban Affairs (NIUA). We would also like to sincerely thank the members of the Advisory Committee comprising of Mr. Ashwini Kumar, Dr. Debarpita Roy, Dr. Debolina Kundu, Mr. Hitesh Vaidya, Mr. Milind Mhaske, Mr. Nitai Mehta, Dr. O.P. Mathur, Dr. Partha Mukhopadhyay, Dr. P.K. Mohanty, Dr. Ravikant Joshi and Dr. V.N. Alok for their continuous support and guidance since the beginning of the study.

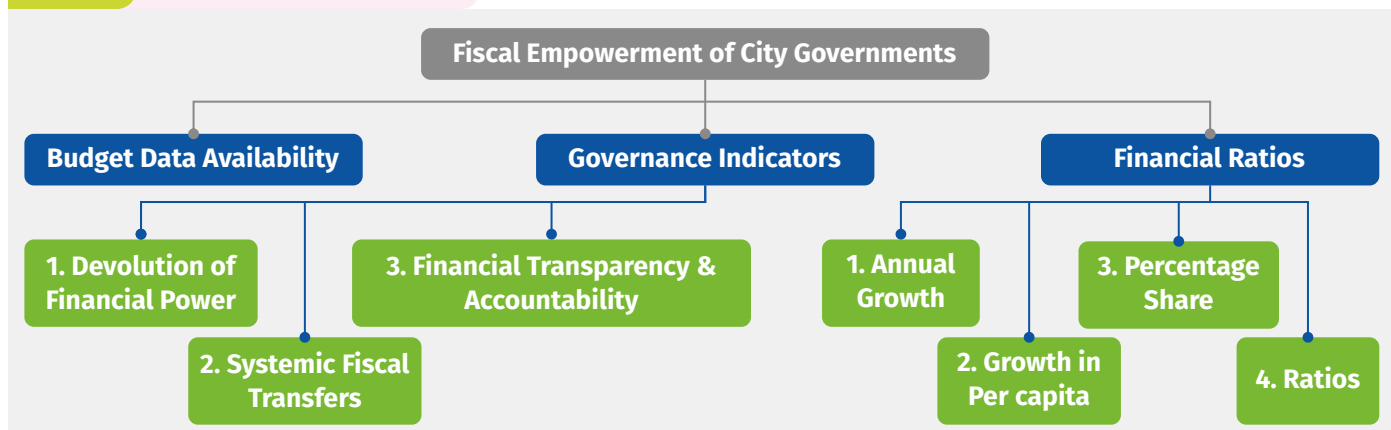


After the first phase of the study, we held a consultation on December 3, 2021 which was guided by Mr. Durga Shankar Mishra, Secretary, Ministry of Housing and Urban Affairs, Government of India. Participants discussed the status and reforms on various indicators of financial health.



'Fiscal Empowerment' primarily involves **independent financial powers to raise financial resources**, and **receipt of systematic and predictable rule based fiscal transfers** to enhance the financial resources of the City Government. Apart from the above, the **efficiency of financial management** should also go hand-in-hand to uphold full-fledged fiscal empowerment of the City Government.'

**Chart 1 Framework for the Study**



1. BUDGET DATA AVAILABILITY

Data has gained enormous importance in today's world. It can be considered to be the 'Oil of the Future'. In the same line, transparency of data is a crucial aspect of governance. Availability of budget and account documents in the public domain allow for better transparency of any corporation. But there is no common format for budget documents across cities. Some cities publish budget data department-wise, where consolidated figures for various account heads are not found. For the same, we analysed the budget data availability on the municipal website.

**Table 1** Data Availability: Budget Documents/Data Available Online

State	Cities	Budget Document/Data Availability Online				
		17-18	18-19	19-20	20-21	21-22
Gujarat	Ahmedabad	●	●	●	●	●
	Surat	●	●	●	●	●
Karnataka	Bengaluru	●	●	●	●	●
	Mangaluru	●	●	●	●	●
Kerala	Kochi	●	●	●	●	●
	Thiruvananthapuram	●	●	●	●	●
Madhya Pradesh	Bhopal	●	●	●	●	●
	Indore	●	●	●	●	●
Maharashtra	Mumbai	●	●	●	●	●
	Pune	●	●	●	●	●
Odisha	Bhubaneswar	●	●	●	●	●
	Cuttack	●	●	●	●	●
Tamil Nadu	Chennai	●	●	●	●	●
	Coimbatore	●	●	●	●	●

Available Online	●
Not Available Online	●

**STUDY OBSERVATIONS**

- Surat Municipal Corporation website does not have budget documents but has budget figures on the website for the year 2020-21 and 2021-22.
- Kochi Municipal Corporation has budget documents available for all years considered for the study, except for 2020-21 where only budget speech is available.
- Indore Municipal Corporation does not have budget documents available online for any of the five years.

**RECOMMENDATIONS**

1. There should be a National Model Municipal Budget made by the Central Government.
2. There should be a monitoring agency to monitor the transparency of the government.
3. National Municipal Accounting Manual should be referred to, as the base document for budget structures.
4. A pilot study should be conducted with a few City Governments on the format of the budget to standardise the common structure, which can make data collection easier for researchers and citizens.
5. Micro-level data from City Governments could be uploaded on the common Management Information System (MIS)-online platform.

## 2. GOVERNANCE INDICATORS

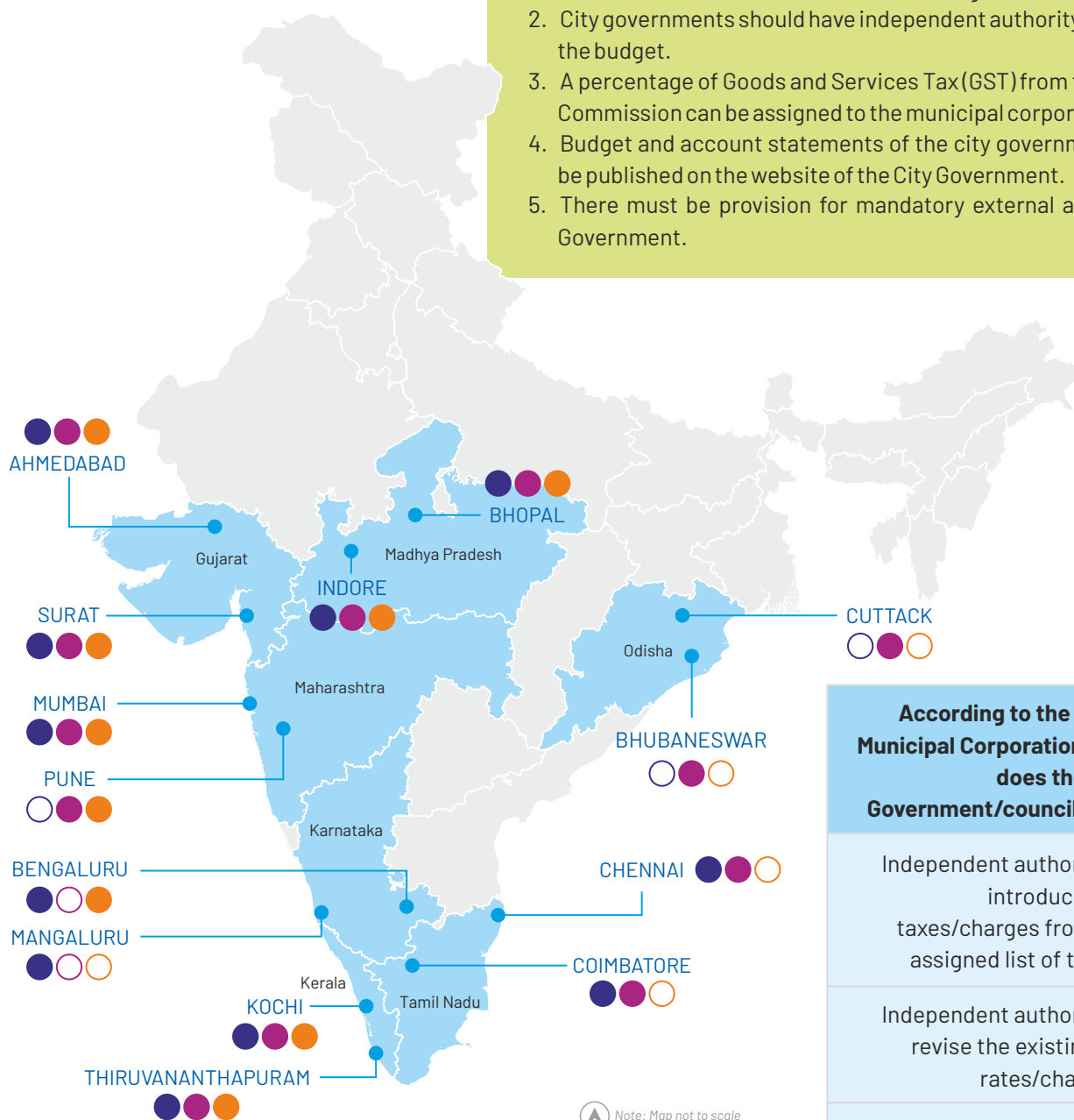
Article 243W of the Constitution (Seventy-fourth Amendment) Act, 1992 has recommended the State Governments to devolve 18 functions listed in the Twelfth Schedule to the City Governments. However, it has been more than 25 years since the Constitutional Amendment came into force and the 18 functions have not been completely transferred to the City Governments. The listed functions are of high importance; therefore, the State Governments need to ensure that devolution of the listed functions to City Governments is done at the earliest.

### STUDY OBSERVATIONS

- 3 out of the 14 cities (Pune, Bhubaneswar and Cuttack) do not have independent authority to introduce new taxes from the assigned list of taxes according to the respective Municipal Acts.
- 2 out of the 14 cities (Bengaluru and Mangaluru) do not have the independent authority to revise existing tax rates/ charges according to the respective Municipal Acts.
- 5 out of the 14 cities (Mangaluru, Chennai, Coimbatore, Bhubaneswar and Cuttack) do not have independent authority to approve budgets according to the respective Municipal Acts.

### RECOMMENDATIONS

1. City governments should have independent authority to introduce new taxes and revise the existing tax rates.
2. City governments should have independent authority to approve the budget.
3. A percentage of Goods and Services Tax (GST) from the Finance Commission can be assigned to the municipal corporations.
4. Budget and account statements of the city government should be published on the website of the City Government.
5. There must be provision for mandatory external audit of City Government.



According to the State Municipal Corporation Act, does the City Government/council have	Yes
Independent authority to introduce new taxes/charges from the assigned list of taxes?	●
Independent authority to revise the existing tax rates/charges?	●
Independent authority to approve the budget?	●

**3. PROPERTY TAX AND INNOVATIVE FINANCING**

Property Tax is the major source of own revenue for City Governments. But the values indicate that the collected tax is less than the estimated collection. An increase in their own source revenue would enable City Governments to become financially independent and not depend heavily on transfers. Innovative methods of property tax collection and municipal financing can boost the revenue and ensure complete tax collection takes place.

**Case Study on Bengaluru Property Tax Mechanism**

Bruhat Bengaluru Mahanagara Palike (BBMP) introduced the Self-Assessment Method (SAS) with the idea to bring transparency in the assessment method, ease of payment of tax and to increase coverage and consequently increased revenue. SAS Method boosted property tax revenue by 3.5 times in 2008-09. In 2008-09 the tax collected was Rs.748 Cr. and this increased to Rs. 2668 Cr. by 2019-2020. Additionally, slum households were also charged a minimum of Rs 500 as property tax. Under the SAS system the Ready Reckoner Rates (RRR) were taken for formulating 6 zones. Furthermore, modifications in Annual Rental Values (ARV) system to cap higher zones was initiated.

Introduction of GIS mapping and physical inspection of properties has led to the growth in coverage in Bengaluru. BBMP also incentivises tax payers who pay early within a specific date (5% slash). The new regions/areas which were added under the Corporation’s jurisdiction in 2007 were included in the Unit Area Value System of Property Taxation. The Municipal Act Amendment made the provision that the property tax rates can be revised every 3 years. However, no changes were made until 2016.

**RECOMMENDATIONS**

1. Technology like Geographic Information System (GIS) and ground survey should be used adequately for better property tax collections.
2. Strict internal audit should be conducted for property tax department.
3. Electricity and water bills to be connected with property, to ensure payment of taxes.
4. Capacity building needs to be done for officials and collectors in the Property Tax Department.
5. Green buildings should be given a rebate on taxes.
6. Professional training and capacity building for property tax collectors should be held.
7. Property tax is majorly collected from authorised colonies, hence reforms to tap into unauthorised colonies should be made.

**Following the report on 7 states and 14 cities, the study will continue further in Phase II with 10 more states (16 cities) and Union Territories of Jammu & Kashmir, and Phase III of the study will be covering the remaining states. In accordance to the guidelines and suggestions given in this report, the study will analyse the said indicators with the aim to empower city governments and strengthen their financial health.**



**Fiscal Empowerment of City Governments: Phase 1 Key Insights**

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