



URBAN GOVERNANCE DIALOGUE

Transforming Urban Governance

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Fiscal Empowerment of City Government- Provisional Phase II Report

CITIES COVERED UNDER THE FISCAL EMPOWERMENT STUDY



Praja Foundation undertook the [Urban Governance Index \(UGI\)](#) study to map and monitor the implementation of the urban governance reforms across states in India. The team undertook in-depth research in one of the four themes of UGI; Fiscal Empowerment of the City Governments as a result of the observation that the municipal finance domain is plagued with a lack of useful data and knowledge resources. The initiative was started in collaboration with the **National Institute of Urban Affairs (NIUA)** and an advisory group of domain experts.

The Pan-India study is conducted in 3 Phases covering a total of **44 cities across 28 states, National Capital Territory Delhi and Union Territory of Jammu and Kashmir**. The [Phase I study](#) included 14 cities across 7 states while in the phase II, the team studied 31 cities across 18 states. The Municipal Finance study aims to monitor the financial strength of the city governments and focuses on various governance indicators like devolution of financial powers and

financial transparency. Through the study, the team tries to understand the Property Tax Mechanism and Innovative Financing Methods that are enabling the financial growth of the city governments.

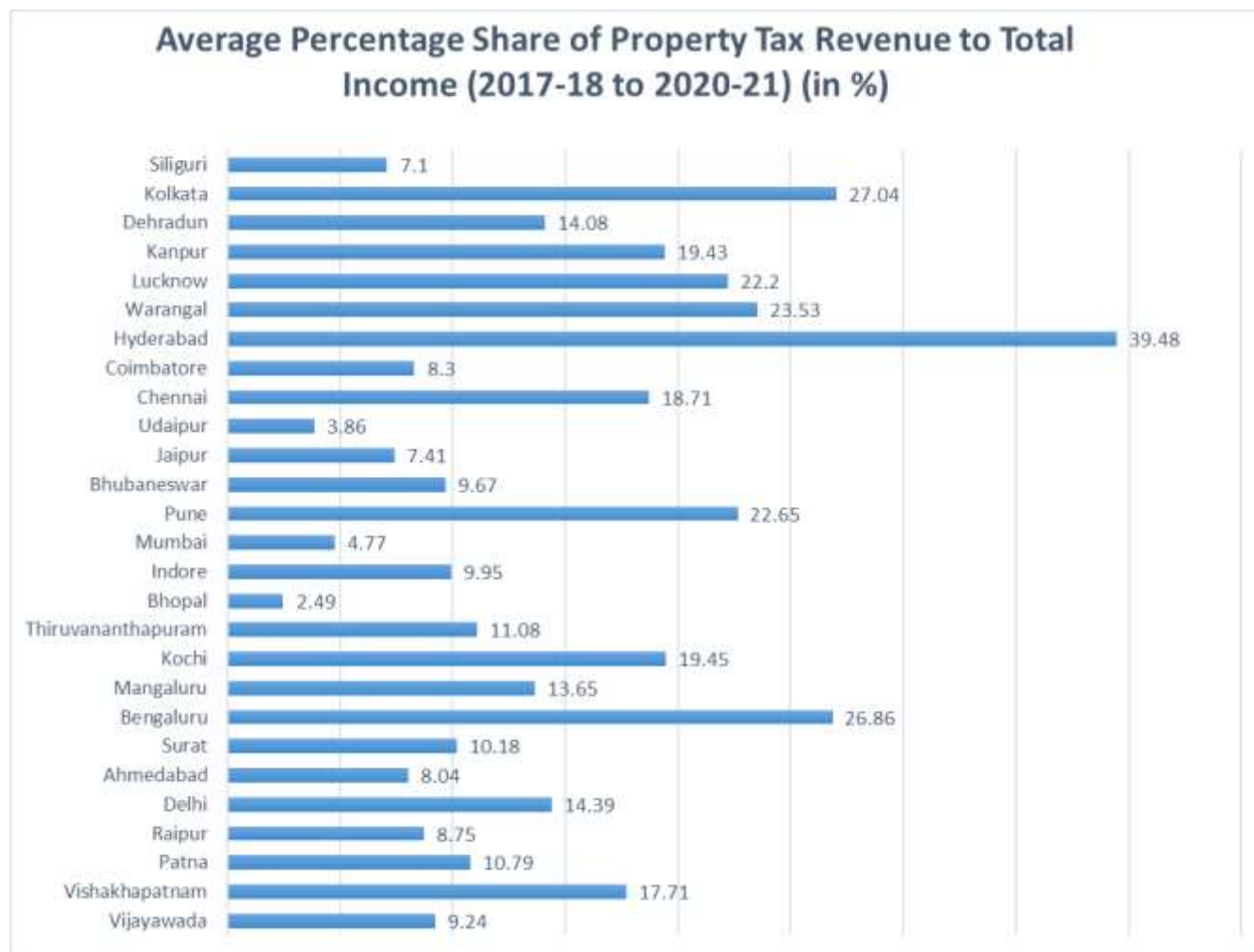


The National Consultation for the [Phase II of the Fiscal Empowerment of the City Governments](#) was held on the 25th November, 2022 at New Delhi. The Provisional Phase II Report was presented in the opening session of the National Consultation. **Kunal Kumar**, Joint Secretary, Ministry of Housing and Urban Affairs, Govt. of India, **Hitesh Vaidya**, Director, National Institute of Urban Affairs, **Debolina Kundu**, Professor, National Institute of Urban Affairs, **Nitai Mehta**, Founder and Managing Trustee and **Milind Mhaske**, CEO, Praja Foundation were present for the occasion.

The National consultation was attended by **84 participants** from **16 cities**. **Kunal Kumar, Joint Secretary, Ministry of Housing and Urban Affairs, Govt. of India** made the welcome address to the National Consultation. He said, “The data on Municipal Finance is scattered and not available at a single source. Praja has been able to collect the budget data from the Municipal Corporations thus, the efforts by Praja are note-worthy in the field of Municipal Finance.” In the session on Strengthening Municipal Finance REVENUE, **Surendra Kumar Bagde, Additional Secretary, MoHUA** spoke the relationship between rise in urban infrastructure and increased Municipal Finance. **Bibek Debroy, Chairperson, Economic Advisory Council to Prime Minister** gave the valedictory address stressing on the need to establish equilibrium between city elected representatives and administrators of the city governments. He made a case to empower the own source revenues of the city governments.

The city governments hold responsibility to deliver services to the residents thus, it is necessary to strengthen and study their financial mechanisms. The accountability of the city governments can be effectively ensured and necessary policy reforms can be initiated if financial data of city governments is available in public domain. The Property Tax Revenue generated by the Municipal Corporation forms a major proportion of the Total Income generated therefore the team has studied it in detail exploring the sources of revenue for the city governments. The total Tax Revenue and Non-Tax Revenue together make the Own Source Revenue of the city governments. It can be an effective tool in mapping the financial independence of the Municipalities.

1. AVERAGE PERCENTAGE SHARE OF PROPERTY TAX REVENUE TO TOTAL INCOME

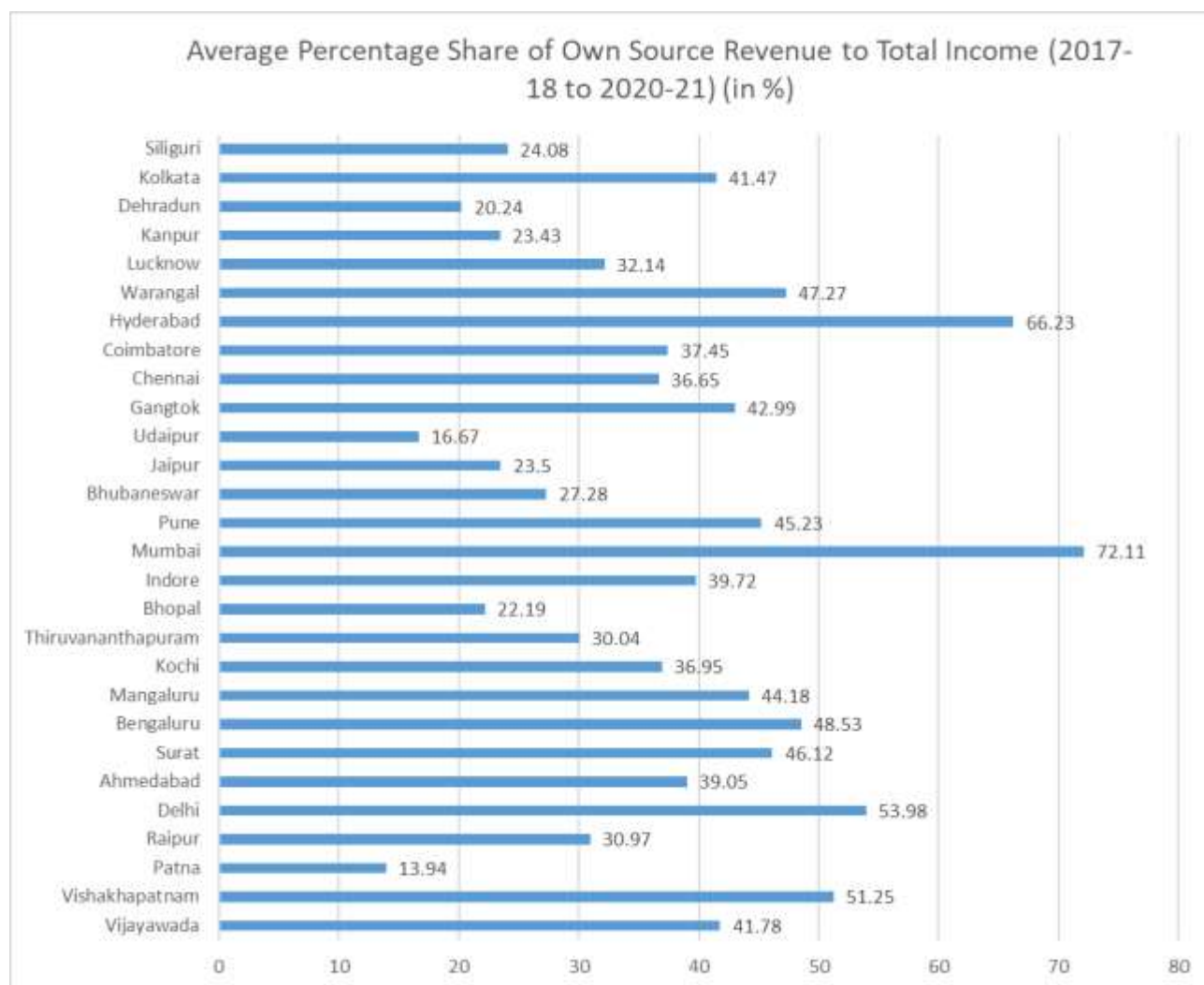


Key Observations:

- Hyderabad has the highest Average Percentage Share of Property Tax Revenue to Total Income of 39.48%. It has an electronic tax management system for property tax collection mechanism with real-time data availability.
- Presently, Property Tax is not applicable in Gangtok and Srinagar. Srinagar has received the authorisation to levy property tax and user charges in the city as per Jammu & Kashmir Municipal Corporation Act 2019, Section 84 (1). Jammu & Kashmir Property Tax Board Act, 2013 mandates to constitute a Property Tax board, which is under consideration and being processed. While Gangtok also plans to levy property tax soon.
- Bengaluru has the Average Percentage Share of Property Tax Revenue to Total Income of 26.86%. Bruhat Bengaluru Mahanagar Palike introduced Self-Assessment Method (SAS) with an idea to bring transparency in the assessment method, easy of payment of tax and to increase coverage with consequently increased revenue. It also included slum households under property taxation base and charged Rs 500.

- Kochi has the Average Percentage Share of Property Tax Revenue to Total Income of 19.45%. In 2016, Kochi Municipal Corporation introduced Self-Assessment Method for property tax collection. Citizens receive 'Door Number' after the assessment of property is completed. To ensure that everyone pays property tax, citizens can only avail for services like water supply, electricity etc. if they have received their Door Number. Kochi Municipal Corporation has been upgrading their property tax survey for mapping real time payment and survey data. This initiative has led an increasing growth in Property Tax revenue over the years from Rs 7,402.77 lakhs in 2016-17 to Rs 11,545.25 lakhs in 2020-21.
- Property Tax makes up one of the highest proportions of the total Tax Revenue collected by the City Governments. Cities like Jaipur (House Tax and Urban Development Tax) and Hyderabad (Property Tax) impose Property Tax as the only source of the Tax Revenue highlighting the importance of Property Tax for the city governments.

2. AVERAGE PERCENTAGE SHARE OF OWN SOURCE REVENUE TO TOTAL INCOME



Key Observations:

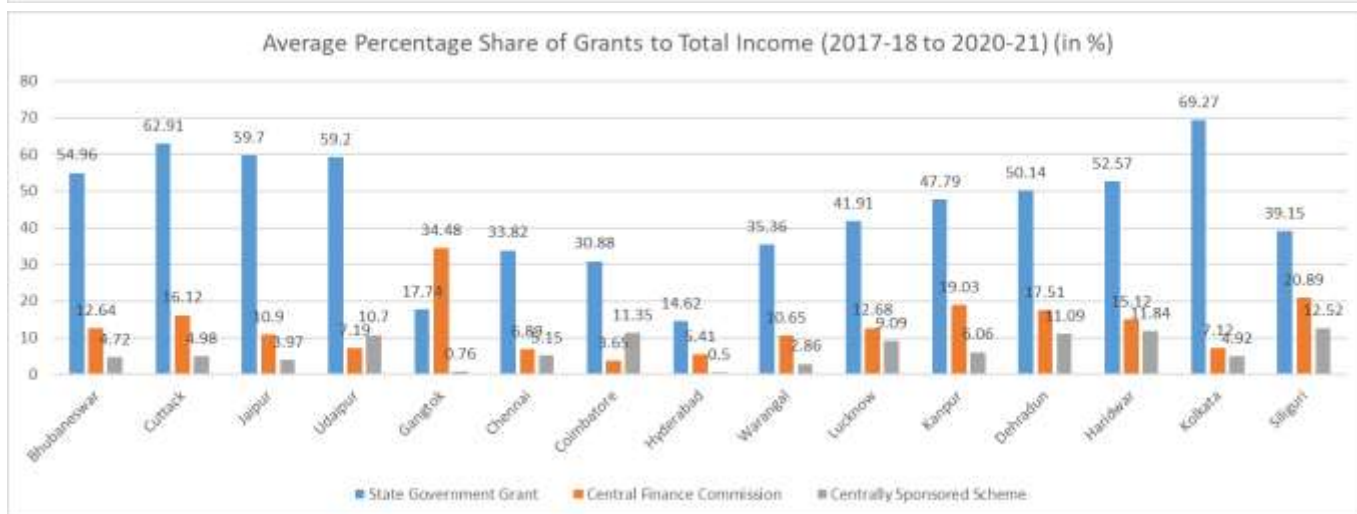
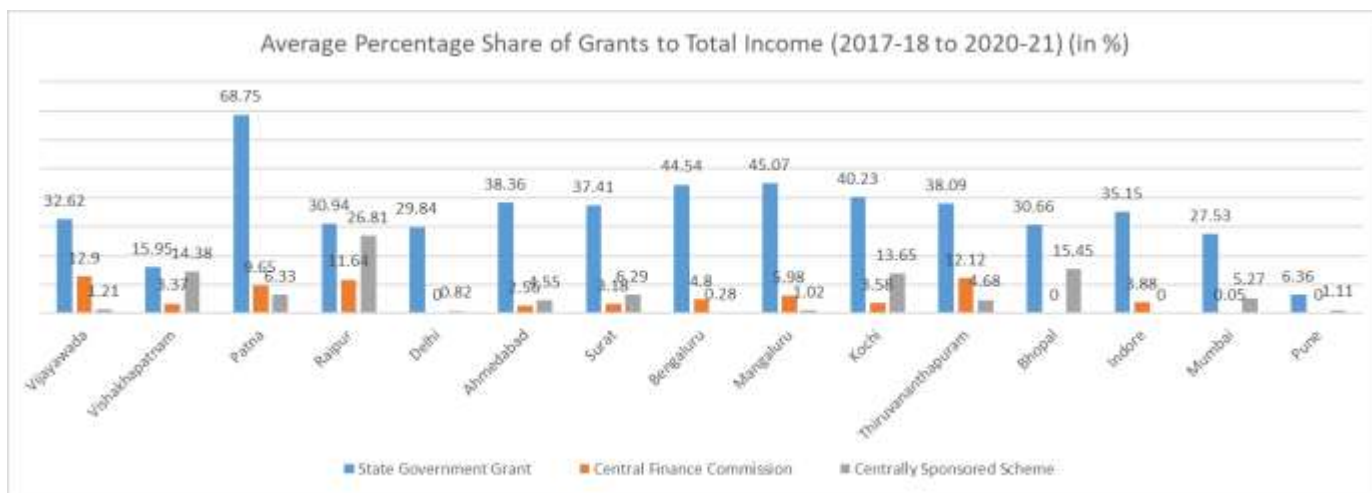
- Mumbai has the highest Average Percentage Share of Own Source Revenue to Total Income of 72.11% followed by Hyderabad (66.23%) and Delhi (53.98%).
- Thiruvananthapuram has Average Percentage Share of Own Source Revenue to Total Income of 30.4%. It has witnessed high non-Tax revenue due to the innovative methods and effective administrative reforms by the Municipal Corporation. Thiruvananthapuram Municipal Corporation (TMC) imposes Rs 50,000 fine for dumping waste in public areas. It earns revenue from auctions held on shopping complexes, coconut trees, mango trees, etc. For TMC timber tax contributes significantly in the overall tax revenue collected. Additionally, TMC levies service tax of 33% to 75% on the actual property tax on semi-government buildings instead of property tax.
- The Average Percentage Share of Own Source Revenue to Total Income of Bengaluru is 48.53%. The Bruhat Bengaluru Mahanagar Palike aims to impose taxes on construction waste and collect solid waste management tax based on the quantity of waste generated to increase their non-Tax revenue collected. The officials also suggest including Garbage Tax as one of the components under the Property Tax as it would be easier for the citizens to pay the tax as one destination and the administration can ensure compliance of tax payment.
- Only 4 cities (Mumbai, Hyderabad, Delhi and Vishakhapatnam) out of 31 cities have their Average Percentage Share of Own Source Revenue to Total Income more than 50%.
- Own Source Revenue is the only source of revenue under the control of the city government and administration other than Grants received. The officials are required to estimate and plan their revenue expenditure within the revenue collected to continue the self-sustainability of the city government. Many cities lack own source revenue leading to limited funds for establishment and administrative expenses. This leads to the cities being dependent on the state and central government for the day-to-day expenses.

Innovative Financing- Municipal Bonds

Some cities have developed innovative method of obtaining additional financial resources by issuing municipal bonds and by borrowing from the international credit market.

- In January 2019, **Ahmedabad Municipal Corporation**, raised Rs 200 crore for 'green projects' by issuing municipal bonds. The city government aims to use the funds for waste management, water supply and other infrastructure projects, including the cleaning of its Sabarmati River; as a part of its share towards Urban Development under AMRUT Mission.
- ☑ **Pune Municipal Corporation (PMC)** has issued bonds in 2017, raising Rs 200 crore to finance its [24x7 water supply project](#).
- ☑ The **Greater Hyderabad Municipal Corporation (GHMC)** has raised [Rs 200 crore](#) through municipal bonds in February 2018. Within four months, GHMC raised Rs 195 crore via municipal bonds seeking to use it for roads project.

3. AVERAGE PERCENTAGE SHARE OF GRANTS TO TOTAL INCOME



Key Observations:

- Kolkata (69.27%), Patna (68.75%) and Cuttack (62.91%) have the highest Average Percentage Share of State Government grants from amongst all the 31 cities under the study to the total income of the city governments. During the budget study it was observed that Kolkata received grant funds for various city development projects such as riverfront projects. Whereas, Patna budget showed various development funds granted to the city by the state government.
- Hyderabad (14.62%), Vishakhapatnam (15.95%) and Gangtok (17.74%) have the lowest Average Percentage Share of State Government grants amongst all the 31 cities.
- Raipur (26.81%), Bhopal (15.45%) and Vishakhapatnam (14.38%) have the highest Average Percentage Share of Centrally Sponsored Schemes to the Total Income of the Municipal Corporation amongst all the 31 cities.
- Gangtok (34.48%), Siliguri (20.89%) and Kanpur (19.03%) have received the highest Average Percentage Share of Central Finance Commission to Total Income amongst all the 31 cities.
- Ahmedabad (1.96%), Surat (3.18%) and Vishakhapatnam (3.37%) have received lowest Average Percentage Share of Central Finance Commission to Total Income amongst all the 31 cities.

- The city governments receive grants from their respective state governments, fund recommendations from the Central Finance Commission (CFC) and funds from Centrally Sponsored Schemes. Significant large-scale capital infrastructure projects in the city often are a result of these grants. The Municipal Own Source Revenue has limited revenue generation power to initiate large capital works. Thus, it is necessary to fiscally empower the city governments.

Methodology of the study

- A total of **504 budget** documents for 6 Financial years (2017-18, 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23) and **18 audit account** documents were analysed for the study for 31 cities.
- The research team conducted **122 interviews** of key stakeholders to comprehend the budgetary procedures in the cities.
- The **31 cities** are divided in **four groups** based on their total population to provide a comprehensive assessment of the municipal finance of the city governments. The cities above 30 lakh population, cities between 10 to 30 lakh population and cities below 10 lakh population were grouped together. Mumbai was analysed as a separate unit considering the total population and financial resources with the Municipal Corporation.
- The financial ratios were calculated on **Nominal values** (Actual Budget values) and **Real values** (Inflation Adjusted Actual Values) in the report.
- The team categorised the budget heads as per the suggestions of the **National Municipal Accounting Manual (NMAM)**. To achieve a standardized and comprehensive data on all indicators as an effort to create one stop dashboard on Municipal Finance for cities across India.

Challenges occurred during the study:

- All cities do not publish and upload their budget documents on the municipal corporation website or in public domain. Only 10 out of 31 cities (Mumbai, Ahmedabad, Mangaluru, Warangal, Patna, Coimbatore, Pune, Chennai, Kolkata, and Hyderabad) published all six budget documents from 2017-18 to 2022-23 on the website.
- The changes in the municipal boundaries of the city governments could not be factored for per capita financial calculations due to unavailability of segmented data.
- Many cities do not include 'Budget at A Glance' and summary of Revenue and Capital Income/Expenditure in their budget documents.
- Out of 31 cities, only 17 cities publish their budget documents according to the account head format. While the 13 cities publish budget data according to the departments in the Municipality.
- Language barrier has been one of the limitations during the budget study. The cities such as Ahmedabad, Mangalore and Coimbatore have budget documents for few years published in their respective regional language.
- The city governments follow different accounting formats for budget preparation. It was noted that multiple elements of non-tax revenue such as fees and charges and revenue sharing like GST compensation and octroi compensation were mentioned under Tax revenue in some cities.

Key Recommendations

During the National Consultation significant reforms were suggested by the experts to enhance municipal finances and fiscally empower the city governments. Some of the **key recommendations** from the National Consultation are:

- The necessity to have municipal finance data in public domain ensuring transparent and accountable city government.
- The city governments should follow the recommendations of the National Municipal Accounting Manual (NMAM) and move towards standardised budget accounting.
- Need to streamline administrative procedures relating to preparation and presentation of budget documents.
- There is need to check leakages in revenue usage and equip information technology while revenue collection.
- There is need to bring fundamental changes at city government level and remove bottlenecks for the Municipal Corporation to excess funds for the city.
- City Governments should improve their credit ratings to improve their credibility in the borrowings market and increase own source revenue.
- Increase devolution of powers and funds to city governments by state government.

The report on the Fiscal Empowerment of City Governments is a novel initiative to strengthen the financial powers and functions devolved by the 74th Constitutional Amendment of 1992. Fiscal Empowerment and financial sustainability can strengthen the city-level governance mechanism and infrastructural development easing the lives of the citizens.

We would like to know your views and feedbacks based on the above information shared. Feel free to reach us at info@praja.org

Kind Regards,



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