

Governance and Financing  
Mechanism for Implementing Urban  
Resilience in India:  
Spl. Reference to Uttarakhand

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# The federal ensemble in India comprises:

- Union Government
- Twenty Nine States
- Two UTs with legislatures
- Five Other UTs
- Rural local self governments
- Urban local self governments

# Fiscal behaviour of local government

- Low incentive to raise revenues
- Below cost user charges
- Priorities for grants – UFC, SFC, Plan grants
- Deficits met by grants
- Reluctance to engage pvt in service delivery
- Disparity among LBs in revenue capacities.
- Little clarity over common property resources
- Dated asset registers: (Asset Soft).
- No norms for revenue mobilization & expenditure on services & maintenance

# 12<sup>th</sup> Schedule (India)

## **Core functions**

- Roads and Bridges
- **Water supply for domestic, industrial and commercial purpose**
- **Public health, sanitation, conservancy and solid waste management**
- Burial and cremation grounds and electric crematoria
- Public amenities including street lighting, parking lots, bus stops and public conveniences

## **Welfare functions**

- Safeguarding the interests of weaker sections of society, including the handicapped.
- Slum improvement and up gradation
- Urban poverty alleviation
- Provision of urban amenities and facilities such as parks gardens, playgrounds
- Promotion of cultural, educational and aesthetic aspects
- Cattle pounds; prevention of cruelty to animals

## **Development functions**

- Urban planning including town planning
- Regulation of land-use and construction of buildings
- Planning for economic and social development
- Fire services
- **Urban forestry, protection of the environment and promotion of ecological aspects**
- Vital statistics including registration of births and deaths.
- Regulation of slaughter houses and tanneries.

# Sources of local government finances

- Own source taxes
- Borrowing
- Centrally sponsored schemes
- Devolution and grants from
  - National Finance Commission
  - State Finance Commission

# Traditional own source revenues

- Property Tax: Residential, Non-Res.
- Octroi/ Entry Tax
- Profession Tax (Up to Rs. 2500 p.a.)
- Pilgrim Tax
- Tax on Bicycles, Rickshaws, Boats/Ferries
- User/ Service charges: Water, Sanitation

# Fiscal Transfers to Local Governments by Union Finance Commission of India

- Grants of a token nature so far
- Grants of Rs 250 billion by the 12thFC was 1.24% of the divisible pool
- Allocated money through other windows, *i.e.*, part of Rs 150 billion for roads and Rs 50 billion for public buildings
- It works out to about 2% of the divisible pool

## Revenue Transfers from Union to States (%)

Period	FC	Plan Grants	Non Plan Grants	Total	% of GDP
1989-95	61.46	35.91	2.63	100	4.89
1995-00	68.61	29.52	1.87	100	4.09
2000-05	69.38	28.65	1.97	100	4.16
2005-10	68.91	28.34	2.75	100	4.86
2010-15	67.44	31.14	1.41	100	4.95

Source: Report of the 14<sup>th</sup> Finance Commission



# Horizontal Distribution (for States)

Criteria	11 FC	12 FC	13 FC	14 FC
Population	10	25	25	17.5
Income	62.5	50	-	50
Area	7.5	10	10	15
Index of Infrastruc	7.5	-	-	-
Tax Efforts	5	7.5	-	-
Fiscal Discipline	7.5	7.5	17.5	-
Fiscal Capacity	-	-	47.5	-
Demo Change	-	-	-	10
Forest Cover	-	-	-	7.5

# Horizontal Allocation (for local)

Criterion	11th FC	12th FC	13th FC	14 <sup>th</sup> FC
Population	40	40	50	90
Area	10	10	10	10
Distance	20	20	20	-
Decent/Devolution Index	20	-	15	-
Revenue Efforts	10	20	-	-
Deprivation Index	-	10	-	-
Grant Utilization Index	-	-	5	-

# 13<sup>th</sup> Finance Commission (2010-15)

- General Basic Grant - 1.5% of previous year divisible pool to all States
- General Performance Grants – 0.5% (1<sup>st</sup> year) to 1% of previous year divisible pool
- The performance grants from 2011-12 for those states that meet the targets by 31<sup>st</sup> March for the succeeding year

# Nine Conditionalities of the 13<sup>th</sup> FC

- Supplement to the Budget for Local Govt
- Annual Report of Director Local Fund Audit
- Independent Local Govt Ombudsman
- Electronic transfer of Funds to Local Govt
- Act to prescribe SFC members' qualifications
- All Local Govt be enabled to levy property tax
- State Property Tax Board
- Standards for the core civic services delivery
- Fire mitigation plan for all one million cities

# Union FC Grants to Local Govt

Rs Crore

<b>Finance Commission</b>	<b>Panchayats</b>	<b>Municipalities</b>
10 <sup>th</sup> [1995-00]	4381	1000
11 <sup>th</sup> [2000-05]	8000	2000
12 <sup>th</sup> [2005-10]	20000	5000
13 <sup>th</sup> [2010-15]	63051	23111
	[% of the divisible pool]	[% of the divisible pool]
14 <sup>th</sup> [2015-20]	200292 for gram panchayats only	87144
	[basic 90: performance 10]	[basic 80: performance 20]

# Eligibility for performance grants of the 14<sup>th</sup> FC

- Audited accounts of receipts and expenditure
- Improvements in own revenue
- Municipalities to measure and publish service level benchmarks for basic services

# Share of Uttarakhand in 14<sup>th</sup> FC Grants for Local Governments

(Rs. Crore)

<b>Basic Grants</b>		<b>Performance Grants</b>	
2015-20	Avg. per annum	2016-20	Avg. per annum
653	131	163	41

# SFCs: Some general observations

- States have been, with few exceptions, being regular in constituting the SFCs
- Defaulters: Jharkhand, Manipur
- SFCs take 1 to 5 years to submit reports.
- States take 3 months to 2 years for ATRs or do not submit e.g. Karnataka, Maharashtra
- Reluctance of non Part IX/IXA N-E States on SFCs!
- Availability of SFC Reports & ATRs etc.: Website



# Recommendations of SFC can be grouped into –

- Global sharing of revenue from state to local
- Assignment of taxes to local governments
- Grants-in-aid from state to local governments
- Others

# Global share by SFCs

<b>State</b>	<b>%</b>	<b>Acceptance</b>
<u>Total Revenue of state</u>		
Andhra Pradesh (I)	39.2	No
Andhra Pradesh (II)	10.4	No
Assam	2.0	Yes
Goa	36.0	No
<u>Own Revenue of State</u>		
J&K (I)	13.5	No
M.P. (I)	11.6	Modified
<u>Own Tax revenue</u>		
Kerala (IV)	9.0	Yes
Rajasthan (I)	2.18	Yes
Rajasthan (II)	2.25	Yes
T.N.	8.0	Yes
U.P. (I)	10.0	Yes
U.P. (II)	12.5	Yes
W.B.	16.0	Yes

# 3<sup>rd</sup> Uttarakhand Finance Commission (2011-12 to 2015-16)

## Resource Sharing:

- 10.5% of State's own revenue to ULBs and PRIs equally.
- 0.25% over and above 10.5 % as grant in aid to ULBs and ZPs

## Assignment of Taxes:

- Replacement of C&P tax with professional tax
- Assignment of professional tax to ULBs and ZPs
- ULBs should get share of conversion charges over change of land

# 3<sup>rd</sup> Uttarakhand Finance Commission (2011-12 to 2015-16)

## Allocation:

- Nagar Palika: 25%
- Nagar Palika Panchayats: 60%
- Nagar Panchayats: 15%

## Grants:

- ULBs with 10% increase in own revenue will get 5% increase in their share of devolution upto 25%
- Incentive for full utilisation of 13<sup>th</sup> Finance Commission grants:

# 3<sup>rd</sup> Uttarakhand Finance Commission (2011-12 to 2015-16)

Nagar Nigams	50 Lakhs
NPPs with pop. More than 1 lakhs	40 lakhs
5000 to 1 lakh	30 lakh
20000 upto 50000	20 lakhs
Below 20000	10 lakhs
NPs	5 lakhs

# 3<sup>rd</sup> Uttarakhand Finance Commission (2011-12 to 2015-16)

- Rs.15 lakh to ZP Uttarkashi
- Rs. 1.68 cr. For constructing the ZP building in Champawat
- Rs.25 lakh for disposal of solid waste
- Rs. 5 lakh for institutional arrangement of solid waste in kausani
- Rs. 50 lakhs for NPP Nainital for repairs, renovation and modernization of Durga Sah Memorial Library
- Rs. 25lakh to Uttarakhand Academy and administration for capacity building/research work

# 3<sup>rd</sup> Uttarakhand Finance Commission (2011-12 to 2015-16)

## Policy:

- Unit Area System of computation of property tax based on self assessment principle be started in Dehradun, Haridwar, Haldwani, Nagar Nigams and roorkee, Kahipur, NPPs, and to other NPPs & NPs
- Regular system of recruitment and training
- Periodic revision of master plan
- Need to strengthen financial management system

# Issues

- Predictable and consistent allocation
- Timely release of funds
- Fiscal Autonomy
- Legislative, political, fiscal and administrative dimension be integrated with sequencing
- Autonomous institutions
- Fiscal capacity
- Accountability of local governments
- Ability of upper level government to monitor and evaluate the system



# Issues

- Strong fiscal information system
- Panchayat authority to identify needs
- Gram Sabha and Ward Sabha be energized
- Unconstrained powers of local governments to collect tax and non-tax revenue to finance civic services and borrow for infrastructure
- Too many windows to transfer funds

**Thank You!**