UN-HABITAT
FOR A BETTER URBAN FUTURE

Discussion Paper – September 10, 2018

Municipal Finance in India[1]

Introduction

This discussion paper brings together the Indian experience on municipal finance to flag emerging issues for wider consideration among urban sector stakeholders across the countries in line with New Urban Agenda (HABITAT III) and its emphasis on sustainability, self-sufficiency and vertical /horizontal balance in the municipal finance.[2] The paper examines the status of municipal finance with a particular reference to, financial management, mobilization of funds from own/external sources and expenditure management. Finally, a list of lessons drawn and points to probe is given for necessary follow up and feedback.

Municipal Finance as part of urban development is a state (provincial government) subject in the federal structure of India. Accordingly, respective states devolve fiscal powers as per article 243 of Indian Constitution and specify revenue base along with the functional domain of Urban Local Governments (ULGs). As elsewhere, India also initiated a process of empowerment of ULGs in early nineties through promulgation of the 74th Constitution Amendment Act (74th CAA) of 1992[3].The amendment distinctively includes fiscal decentralization covering financial management, devolution of funds to ULGs and efficiency in municipal expenditure (Box1).

Box-1: Fiscal Decentralization to Empower ULG's in India

Historically, a reference to municipal finance in India began with Lord Rippon's Resolution of 18 May 1882 on local self-government which specified finances, functions and powers of local bodies. Specific follow up in the current context emerged from promulgation of the 74th CAA of 1992 to engage, guide, support and motivate states (provincial governments) to initiate necessary follow up. The amendment added schedule XII in the article 243W with a list of 18 functions which included environment, disaster management, land, town planning, poverty alleviation, preparation of development plan etc. The amendment also incorporated constitution of State (provincial) Finance Commissions (SFC) as per article 243Y to be constituted after each five-year period to suggest (i) the modalities to share proceeds from state taxes/fee (ii) determination of taxes/fee and grants in aid to be assigned to ULGs, (iii) overall improvement in the financial management and (iv) any other matter as may be referred in the interest of sound finance of municipalities.

Furthermore, insertion of sub clause (c) in the clause 3 of article 280 was made to supplement along with the resources of municipalities of the province from divisible pool of Government of India (GoI) on the basis of recommendations of state finance commission indicating a database on fiscal requirements at state level. However, due to discretionary powers of SFC recommendations and devolution of functions under Schedule XII along with a go-slow approach of respective provincial governments, the fiscal self-sufficiency and balance between funds and functions at ULG level are not achieved as per expectation.

Source: *74th CAA of 1992, Pandey K. K., (2013) Administration of Urban Development and IIMB-WP 493.*

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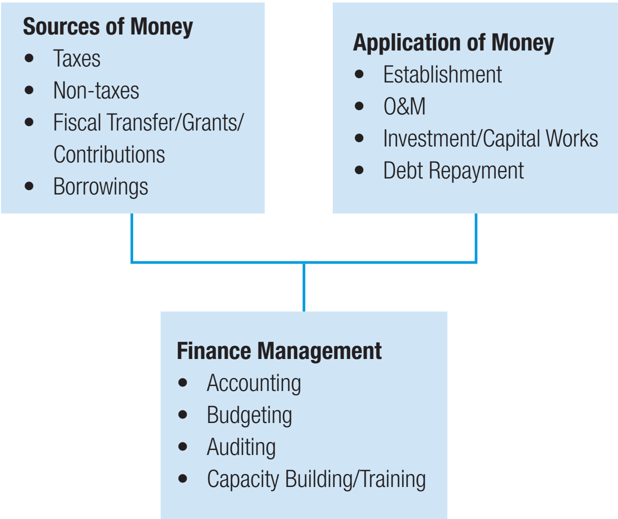
2 The New Urban Agenda point 15(lv) says "supporting effective, innovative and sustainable financing frameworks and instruments, enabling strengthened municipal finance and local fiscal systems in order to create, sustain and share the value generated by sustainable urban development in an inclusive manner.". The agenda is part of global follow up on Habitat I held (1976), Habitat II (1996). UNHABITAT also brought out the guideline (2007) on decentralization and the strengthening of local authority in which section D is exclusively devolved to municipal finance

3 74th CAA of 1992 covers amendment in the article 243 of the constitution of India to decentralize powers at the level of urban local governments.

Structure of Municipal Finance in India

Structure of municipal finance includes Taxes, Non-Tax, Fiscal Transfers and Loans/Grants, Capital Receipts and Contributions.[4] Similarly, application of money includes expenditure on establishment, operations and maintenance, capital projects and debt repayment (Figure 1). Furthermore, the powers to levy taxes as assigned by states as per article 243X are not exclusive and are limited to a few taxes.[5] Normally, quite a few taxes are levied which include Professional tax, Taxes on land and buildings, including trades and Callings, Property tax (PT), Entertainment tax, Advertisement tax etc. On the other hand, as many as 25 taxes are included in the list of taxes as per respective municipal Acts. It is also noted that municipal fiscal powers do not include instruments of value capture finance (VCF) such as valorization, exactions, impact fee, betterment levy, etc.[6]

Figure 1: *Structure of Municipal Finance in India*



Therefore, De-jure and De-facto fiscal powers vary significantly among Indian ULG's from one state to the other. Yet, the Property Tax (PT) is the mainstay of municipal finance.[6] Non-tax includes fee, rents and prices/charges. Water charges (wherever the service is delivered by ULG), Building license fee and development charges are normally levied by ULGs. Water charges are not linked with unit cost of production.[7] Furthermore, rates are not revised periodically and only a part of operating cost is recovered through direct pricing.

Fiscal transfers include revenue sharing from national and provincial governments. The 74th CAA has rationalized the transfers and has made them transparent and normative.[8] These transfers cover untied funds and grants based on performance, specific purpose and capital projects.[9]

Borrowing powers of ULGs are governed by Local Authorities Loan Act 1914. Loan finance is largely restricted to soft loans and priority sector landing.[10] Commercial loans are normally not extended to ULGs due to lack of financial discipline, creditworthiness and weakness to implement bankable projects.[11] The incidence of market borrowing is gradually emerging in line with the application of Double Entry Accounting System (DEAS) associated with municipal rating.[14] GoI issued guidelines in 2001 for tax free municipal bonds defining the concessions, conditions, credit rating, exemptions and the process of approval, monitoring and listing of bonds.[12] Subsequently, Ministry of Finance has issued elaborated guidelines in 2017. Funds are also mobilized from convergence and synergy from a range of stakeholders such as (i) constituency funds of members of parliament, legislative council, Corporation Social Responsibility funds and local elasticity (contribution from citizen in the form of cash, labour and management responsibility).[13]

Size of Municipal Finance

The municipal finance in India has not grown commensurate to expenditure requirements. Actual municipal revenue as compared to normative revenue expenditure is reported to be only 28% whereas municipal capacities to augment the revenue expenditure, using efficiency on coverage and collection, are noted to be 59%.[14] There is, thus, scope to double the size of municipal finance within the current system of municipal finance itself. The size of municipal own sources in India has declined from 60% of GDP to 53% of GDP during 2007-12.[15] Similarly, municipal revenue in GDP has also declined from 1.08 to 1.03 during the same period.[16] Furthermore, the municipal expenditure shrank from 1.74% of GDP in India in 1999 to 1.54% in 2008[17]. On the other hand, global average of local government finance in the global economy is as high as 12.7%.[18] These trends confirm that revenue generating potential of ULG's in India is not increasing as per requirements and potential of Indian/city economy. On average, ULG's in India access around 1% of GDP whereas the scope could be 6% of city GDP.

Financial Management

Indian ULGs conventionally suffer from an underdeveloped financial management system based on single entry cash-based accounting along with line item incremental budgeting. Accordingly, financial management was one of the initial steps to undertake reforms in municipal finance.These included Double Entry Accounting System, Normative Budgeting, Asset Management, participatory resources, Innovative Auditing and efficiency in expenditure with the help of National Municipal Accounting Code (NMAC) and Guidelines for Municipal bonds, 2001 and Model Municipal Law (MML), 2002. Yet, DEAS is not used by all ULGs. Municipal accounting code and online system is not fully applied for DEAS. Most cities have line item incremental budgeting (fixed addition over last year's figure), which ignores the actual requirement and availability of funds and shows actual (s) significantly lower than budget estimates.

4 GoI:2016; India HABITAT III, National Report; p.118

5 GoI:2012; Report of NDC sub-committee on urbanization issues; p.24

6 NIUA, 1989, Resource Mobilisation by Local Bodies in NCR; p.10

7 Pandey K. K., 2012, Stimulating Revenue Base of ULBs, IIPA; p.49

8 IIM(B):2015: Finance Urban Local Bodies in India, Working Paper No. 493; p.11&12

9 Pandey, K. K., (2012), Administration of Urban Development and Urban Service Delivery; p.22

10 RBI:2007: Municipal Finance in India: An Assessment; p.84

11 GoI, Ministry of Finance, 2017, Guidance for use of Municipal Bonds; p.12&13

12 GoI (2001) Guidelines for Municipal Bonds; p.3-7

13 Pandey KK, 56(2), City Resource Pool from Sustainable Habitat in India The Administrator 56(2), July 2015; p.6&7

14 ADB (2013), Municipal Finance Matters –TA 7334: 2013; p. 6 and p.93

15 ASCI, (2014), Municipal Finances and Service Delivery in India; p.92

16 Mohanty, P. K. (2017) Financing Cities in India: Fiscal Accountability and Urban Infrastructure, Sage Publications, p.23

17 MoF, GoI, (2010) Thirteenth Finance Commission Report, p. 154

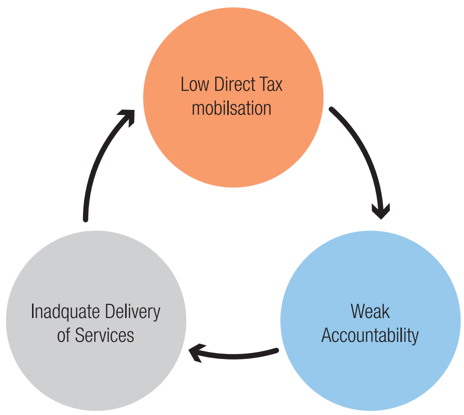
18 RBI (2008) Municipal Finance in India: An Assessment,p.161

Conventional auditing was replaced by assignment of technical guidance and supervision of municipal finance to controller and Auditor General of India (CAG) as per recommendations of XII National Finance Commission (NFC). Yet, a recent survey shows that over 33,000 unanswered audit observations on ULG finance are found across 16 provinces.[19] Cities report significant difference between budgeted amount and actual (s) (declining curve) adversely affecting regular replacement and repair in their operations and maintenance activities.[20] Furthermore, the municipal capacity to incur expenditure is fairly low. The pioneering programme of JNNURM (Jawaharlal Nehru National Urban Renewal Mission-2007-2012) reported only 62% of disbursement against the target of INR 60,000 million. Accordingly, 2013 was exclusively kept for capacity building of ULG's by government of India.[21]

Resource Mobilisation

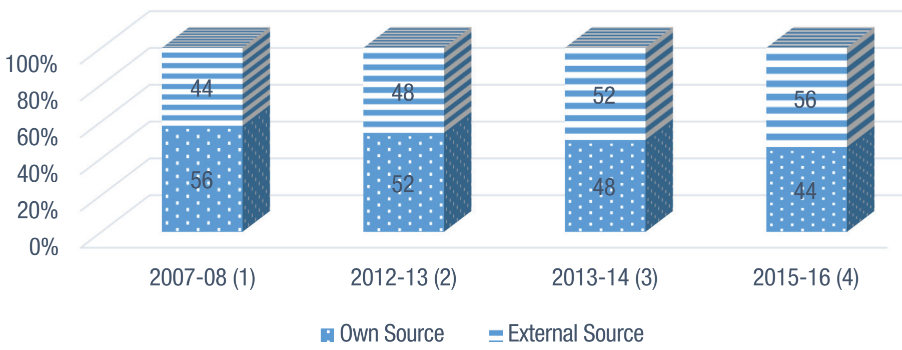
ULGs in India have a narrow revenue base coupled with inadequate revenue certainty and buoyancy. This reflects a trap of gaps in services, accountability and revenue generation. The recent economic survey (2017-18) of GoI reaffirms a low equilibrium trap (LET) at ULG level showing inadequate delivery of services – Low Direct Tax Mobilisation – Weak Accountability – Inadequate Delivery of Service.[22]

Low Equilibrium Trap



LET is mainly caused by a constant decline in the share of own revenue and inadequate financial management. Municipal own sources as part of total municipal revenue have declined from 56% in 2007-08 to 52% in 2012-13, 48% in 2013-14 and 44% in 2015-16 indicating an overwhelming municipal reliance on external sources and lack of liquidity (availability of funds) and solvency (generation of enough cash).

Figure 3



1&2: *Study by Administrative Staff College of India (ASCI) Hyderabad 2015)*

3&4: *2013-14 & 2015-16 is from Economic Survey 2017-18 which covers 18-19 major cities constituting around 20 per cent of urban population in India.*

Resource mobilisation and expenditure potential, however, vary across towns. Cities with over 1 million people have significantly high share of municipal finance. The per capita municipal expenditure of 19 such cities, which cover around 20% of urban population of India, is 3% of urban GDP.[32] On the other hand, the share of municipal expenditure in GDP as per XIV NFC data is only 1.09% of GDP.[33] Similarly, the municipal corporations with their 41% population incur 72% of ULG expenditure whereas other ULGs with 59% urban population incur only 28% of municipal expenditure.[34] Hence, the smaller and medium-sized cities have relatively limited capacity/availability of funds for their mandated services.

Table 1: *Composition of municipal finance*

	2007-08	2012-13
Own Sources	**56**	**52**
Taxes	37	32
Property Taxes	17	16
Other Taxes	21	16
Non-Taxes	19	20
External/Other Sources	**44**	**48**
GoI transfers (schemes/programmes)	7	6
NFC (national Finance Commission)	2	4
State Assignment/transfers/grants	35	38

Source: *Study by Administrative Staff College of India, Hyderabad 2014 (Based on data from XIV Finance Commission)*

As the level of urbanization and provincial GDP have a positive relationship, spatial dispersal of economic activities among secondary and smaller size of towns is needed to correct regional imbalance. In this regard, ULGs have special role in generation of income and employment (Box 2). The role of ULGs is also emerging in circular economy to reduce, recycle and recover the resources (waste management etc.) to generate income and employment.

[19] Janagraha, 2017, Annual Survey of Indian City Systems p.3

[20] Pandey, K. K. (etal), (2017), Making Gurugram: A Millennium City; p.7

[21] Report of CAG on JNNURM (2013), p.v

[22] Economic Survey, Ministry of Finance, Govt. of India, 2017-18; p.65

Box 2: Spatial Dispersal of Economic Activities

Data from Indian census 2011 and national income suggests a positive relationship between level of urbanisation and provincial GDP. Nearly 90 percent taxes are collected from urban centres and 86 percent GDP is contributed by industries/manufacturing and services concentrated within and around cities. Accordingly, spatial distribution of economic activities is needed to correct imbalance in the economic development. Keeping this in mind a nationwide programme for local economic development among urban centre is implemented since couple of decades.

The current programme which has subsumed earlier initiatives tend to create local abilities to generate income and employment under Deen Dayal Antyodaya Yojana -National Urban Livelihood Mission (DAY NULM) with the support of community structures on thrift and credit mechanism and skills, raw material, marketing facilities and City Livelihood Centre(CLC). Efforts are made to also link local business with corporate sector for mutual benefit and synergy. Furthermore, the awareness on role of ULGs and scope of circular economy is gradually emerging as per UN SDGs and informal sector, waste management and urban mining are getting due attention.

Source: *Pandey K. K. (20012) Administration of Urban Development and services and http://mohua.gov.in/cms/about-day-nulm.php*

Tax Revenue

Taxes transfer the purchasing power to have equalisation of municipal services. Data on municipal finance suggests a decline in the taxes from 37% to total revenue in 2007 to 32% in 2013, which is largely attributed to the stagnating/declining share of Property Tax (17% and 16% for 2007 and 2013, respectively) and substantial decline in the share of other taxes from 21% to 16% to total municipal revenue during the same period (Table 1). Property tax is a benefit tax and an important land-based instrument. But it is not adequately utilized. Only a small proportion of PT potential (2010) is utilized by city governments in a range of 8-10% of market value of respective property. Another study suggests that only 5 - 20% of potential of PT is utilized by select ULGs.[23] The under utilization of PT base in India is also confirmed by share of PT in GDP being point 23% in 2010 as compared to developing economies average (0.60) whereas global average is 1.04%. The land value gains captured by development authorities and housing boards within and around administrative city are not shared with city governments.[24]

Non-Tax Revenue

The non-tax sources have shown minor increase in their share in the total municipal revenue confirming that the cities continue to make efforts on collection of charges, fee and rents within their limited scope of augmentation. The continuity of elected body of city governments as per 74 CAA and consistent engagement for reforms have yielded positive results (Table 1). The share of non-tax sources has not declined and gone up marginally from 19 - 20%.

External Sources of Municipal Finance - Rationalization of Transfers

External sources of municipal finance cover overwhelming majority of funds available in the kitty of ULG's. The transfers from provincial governments have increased from 32% to 34% whereas transfers from national government have also increased from 9% to 10% to total municipal revenue during 2007 to 2013 (Table 1). During last three decades the intergovernmental fiscal devolution has undergone a shift from discretionary to normative allocation. There is a marked departure in the nature, size and impact of fiscal transfers from centre and states to city governments. There has been a quantum jump in the receipt of transfers by ULG's, they know in advance the amount of transfers and these are quite often linked with reforms in the financial management of ULGs.[25]

National and State (Provincial) Finance Commission (NFC/SFC)

The process began in early nineties with the insertion of clause (c) in the article 280 of Indian Constitution. Accordingly, for the first time in the history of municipal finance in India, X NFC (1995-2001) included a direct allocation to ULGs from the divisible pool of taxes and fee of government of India. A quantum jump in the annual allocation was recommended by respective NFCs from INR 2000 million in 1995-2000 (X NFC) to INR 170000 million in 2015-20(XIV NFC). The successive NFCs have tried to link transfers with mobilization of own sources and delivery of services. The XIV NFC moved a step further and increased the allocation from INR 231110 million to INR 871440million and linked the allocation with general grant (80%) and performance grant (20%).This has engaged ULG's to link systematic reforms with revenue mobilization and level of services.[26]

Box 3: Constitutional of Provincial (State) Finance Commission (SFCs)

Article 243Y as amended as per 74CAA (1992) made it compulsory to constitute SFC by each province to determine (i) the principles to govern the distribution and allocation of the taxes, duties, tolls and fees levied by the state, and the allocation between the panchayats/ local governments of such proceeds,(ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the local governments (iii) the grants-in-aid to the local governments from the Consolidated Fund of the state (iv) the measures needed to improve the financial position of the panchayats/municipalities and (iv) any other matter referred to the SFC by the governor in the interests of sound finance of the panchayats/local governments.

Source: *Successive finance commissions*

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[23] GoI, MoF, 2016-17; Economic Survey; p.xiv

[24] MoF, GoI, (2010) Report of Thirteenth Finance Commission, p.172

[25] Pandey, K. K.; (2018), City GDP for Municipal Finance; Financial Express; 28 April 2018; p.10

[26] MoF, GoI, (2015) Report of xiv Finance Commission, p.172.

Overwhelming majority of states (provinces) have not constituted all five SFC's. Only five states out of 29 constituted all five SFCs. As recommendations of SFCs are not a binding to states the implementation varies from state to state (Box 3). SFC's were also supposed to be synchronized with NFC and provide a data base of municipal finance for a more logical consideration for sharing the central revenue. Due to mis-match in the timing and backlog in the setting up of SFC along with a lack of appropriate terms of reference, the data base could not be developed so far. The NFCs, accordingly, do not have a clear picture and made broad assumptions in the absence of global data on municipal finances and services. The municipal finance data is still a matter of concern. The recent Economic Survey of GoI (2018) specifically indicate the need for better data and evidence of the performance so that a balance between funds and functions can be examined and planned.[27]

Municipal Borrowings & Access to Capital Market

As the borrowing powers are limited, ULGs largely depend on soft loans extended by GoI/states including the assistance under bi lateral and multilateral cooperation in a project specific manner.[28] However, the incidence of commercial loans including the capital market is emerging as part of reform process. Application of DEAS follow up statements/ analysis, asset management, budgeting and other systemic reforms are enabling rating and appraisal for commercial loans. Ahmedabad Municipal Corporation was the first city to apply DEAS, qualify rating and issue of municipal bonds. AMC got rating, issued bonds and used municipal stadium as collateral for commercial loans.

The growth of municipal bond market, however, has witnessed a limited success with a total 22 municipal bonds amounting to INR 12.24 billion by 1997(India Habitat III). Subsequently, the cities of Pune and Hyderabad have also issued municipal bonds recently to the tune of INR 2000 million each.[29] Indore municipal corporation has also issued bonds to raise INR 1000 million on 26 June 2018. These bonds are issued as General obligation bonds / revenue bonds take out finance / refinancing instrument to minimize construction risk. In case of Madurai INR360 million were raised to repay short-term loan used to complete the project prior to issuance of Bond. In line with the reforms under GoI sponsored schemes/Programmes (100 Smart Cities and 370 towns under AMRUT -Atal Mission for Rejuvenation and Urban Transformation) ULGs are using DEAS and creating Special Purpose Vehicles to expedite the process of demand for investment (municipal rating and issuance of bonds). It is important to mention that 91 smart cities have already created SPVs.[30] The efforts to raise municipal bonds are a result of overall improvement in resource mobilization (Box 4).

Box 4: City Innovations in Municipal Finance and Partnerships

The cities of Hyderabad, Ahmedabad and Indore have recently issued bonds after a gap of 15 years in the municipal debt market in India. This is a result of overall reforms in financial management covering DEAS, follow up statements, asset management and mobilisation of property taxes. It has enabled revenue account surplus and a dedicated flow of funds to qualify rating.

Hyderabad municipal Corporation (HMC) has carried out reforms in the database for property taxes and also collection of impact fee to recover value addition due from municipal investment. Ahmedabad has improved PT collections using GIS, automation, online collections and decentralized collections centres to expand base and thaw the arrears. PT revenue in the city has gone up from INR 2690 million in 2003 to INR 7750 million in 2014. AMC has also created two special purpose vehicles for River Front Development and BRTS (Bus Rapid Transport System). AMC has also implemented non-conventional PPP projects (Kankaria Lake Development Project) enabling additional liquidity for ULG. The city of Indore is also one of initial cities to apply DEAS and community participation for local elasticity in the municipal finance.

ULGs are using PPP for Water supply (treatment plant in Delhi), Sewage (Ahmedabad and Bengaluru), Roads (Madurai) etc. In June 2018, a project on Design Build Operate and Transfer basis to treat sewage of a million plus (Mathura) city using Hybrid Annuity based PPP (40% amount construction and 60% amount for O&M) is taken up to treat sewage /keep the river water safe for improved environment and public health. The PPP projects bring resources and efficiency whereas equity is maintained by ULGs through contract document, operating standards and monitoring.

Source: *HSMI, Training Module on PPP under World Bank assisted program of TNUDPII (2001) and, Pandey K. K. Municipal Agenda for XVFC, Financial Express 20 July 2018*

Expenditure Management

Expenditure management and mobilization of resources are mutually reinforcing (pie saved is pie earned). Fiscal stress leads to a mismatch between financial planning and actual expenditure. Half of the 23 front line cities constituting 20% urban population in India do not have own source income adequate to pay salaries to municipal staff.[31] Two of the three municipal corporations in Delhi quite often have problem of regular payment of salaries. At the same time, a third of municipal staff positions remain vacant. ULG's have poor excess manpower if the norms to productivity are applied in the current context of technological innovation.[32] They do not have a financial plan, manpower is highly inadequate and available manpower is not trained.

Participatory Delivery of Services

It is also noted that across the cities the incidence participatory delivery of infrastructure is fairly weak. PPP and outsourcing projects lead to substantial reduction in the O&M expenditure and generate Revenue Account Surplus (RAS).[33] It is also noted that cities with substantial RAS also lead to incur non-conventional expenditure covering mobility, tourism, environmental promotion and medical facilities of high order. Yet, nearly half of expenditure in a year is incurred towards last year's liabilities limiting the municipal ability to spend money for the annual work-plan.

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[27] Ibid 31; p.65 and Pandey, K. K, Financial Express,20 July 2018.

[28] Pandey, K. K. (2014), Potential for Financing City Infrastructure; IIPA; p.12&13

[29] Pandey, K. K., FE,25 April,2018; p.10 and Indian Express,20, June 2017 and Hindu,15, February 2018

[30] MoHUA, GoI, Press notes, 17 May 2018, p.2

[31] Mint 10 April 2018(https://www.livemint.com/Politics/aPNlkAptjRXiDGJnvN4fJO/Pune-tops-urban-governance-survey-of-23-major-Indian-cities.html) as on 15 June 2018

[32] IIPA (2018) Programme report under AMRUT, Patna, May 29-30, 2018

[33] Pandey kk (2018) Governance for Sustainable Cities, IIPA, p.7

Local elasticity as part of participatory delivery of services is emerging at grass root level. Empirical evidence suggests that community has shown its ability to join hands with ULGs for participatory delivery of services through local elasticity.[60] It is seen that local elasticity exists in the consumer surplus, labour and management responsibilities[61]. Further, the local ownership and sense of belonging is also achieved. City of Indore used local elasticity for community contribution towards roads, streets, foot paths and social forestry (adoption of plants/trees). Provincial governments have initiated similar schemes to use local elasticity to finance municipal functions.[62] The city of Bengaluru also has involved citizen to maintain lakes, parks, roundabouts etc.[63] Participatory planning and partial funding are essential components to attract local elasticity for municipal services.

Lessons Learned

The presentation of municipal finance in India provides a couple of fundamental lessons and a set of questions to assess municipal finance in respective context (Box 5).

I. Exclusive fiscal powers need to be devolved to ULGs to have a balance between funds and functions at municipal level.

II. The Discretionary powers to higher layers of government minimize ULG access to remunerative functions (land, town planning and water supply).

III. ULGs revenue base (property tax, Advertisement tax etc.) need to be liberated from low coverage, under assessment and low recovery with the help of Improved financial management (Double Entry Accounting System, asset management and auditing, budgeting).

IV. City GDP has vast potential to fund ULGs using Value Capture Finance (VCF)/ monetization of land (Exactions/Impact fee/ Betterment levy and Valorization.

V. ULGs need suitable hand holding to build their revenue base through spatial dispersal of economic activities which may include circular economy in the areas of waste management to enhance income/employment and resource efficiency.

VI. Uniform formats on municipal finance and services need to be developed for intergovernmental reference and sharing of resources.

VII. PPP/out sourcing bring resources/efficiency, reduction in size of municipal staff and revenue surplus for better/additional coverage of services.

VIII. Local elasticity in the form of individual/community contribution in cash, kind (labour), management responsibility and CSR funds have vast potential to improve liquidity of municipal finance.

IX. Suitable mechanism should be evolved to share intergovernmental resources to minimize vertical and horizontal gap in municipal finance. Fiscal transfers should be linked with (i) ability to meet salary budget from own sources, systemic reforms in the financial management and benchmarking of services.

X. Urban sector capacity building including handholding on experience and expertise on municipal finance is necessary to disseminate information and adaptation of best practices.

Box 5: Points to Probe

I. Are the exclusive fiscal powers assigned to ULG's to levy taxes and fee to maintain a balance between municipal funds and functions?

II. Do the ULGs have access to certain remunerative functions (land, town planning and water supply) that have strong urban bias?

III. To what extent the potential of city economy is captured in the kitty of municipal finance? Does the revenue base, rate (assessment) and collection have requisite elasticity and buoyancy?

IV. Are the secondary/ smaller size towns able to generate adequate municipal income?

V. Do the cities have necessary data base on municipal finance (Accounting codes, asset management, balance sheet, statements, asset accounting and rating) using contemporary devices (GPS, GIS and other e-governance tools) for mapping tax potential), grievance redressal etc.?

VI. Have ULGs changed line item incremental budgeting into a normative, participatory and performance budgeting?

VII. Are the ULGs using PPP (Public Private Partnership), outsourcing, CSR funds and community participation to achieve a balance between funds and functions?

VIII. Do ULGs issue municipal bonds (Green Bonds/ take out finance, pooled finance, general obligation and revenue bonds)?

IX. Have the ULG's applied alternative auditing (internal/ intergovernmental/environmental energy/third-party) to promote fiscal discipline/and efficient resource mobilization?

X. Do the municipal tax base, rates and user charges have adequate buoyancy?

XI. Are the fiscal transfers given on normative and performance basis? Do ULGs have autonomy to decide priorities for spending transfers?