

Local Public Finance

8 July 2020

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Creation of local government

- National Constitution – Brazil, Denmark, France, India, Italy, Japan, Pakistan, Sweden
- State Constitution- Australia, The US
- Central government legislation – New Zealand, UK, many other
- Provincial legislation- Canada
- Executive Order - China

Back to the future!

- “My idea of village swaraj (independent republic) is that it is a complete republic, independent of its neighbors for its own vital wants, and yet interdependent for many others in which dependence is a necessity”. *Mahatma Gandhi*
- Self-governing village communities in India in 1200 BC.

An approach that worked

Athenian Oath: “We will strive increasingly to quicken the public sense of public duty; That thus... we will transmit this city not only not less, but greater, better and more beautiful than it was transmitted to us”

Principle of Subsidiarity

Whatever can be done best at the lower level must necessarily be done at that level. Only that which cannot be effectively implemented at a lower tier might be taken to a higher tier

Population size of local governments

- Population < 10K : France, Switzerland, Austria, USA, Italy, Norway, Rural India, Kazakhstan, Indonesia
- Population 10K-20K: Finland, Norway, Belgium, Netherlands, Denmark, Germany, Argentina, Poland
- Population 20K-60K: Sweden, Portugal, Japan, Spain, Canada, Brazil
- Population 60K-130K: Chile, Urban India, China, UK
- Population >200K: South Africa, Uganda
- Average: Industrial countries: 10K; Developing countries:79K

Source: Anwar Shah (2006)

11th Schedule (India)

- **Core Functions**

- Drinking Water.
- Roads, culverts, bridges, ferries, waterways and other means of communication.
- Rural electrification, including distribution of electricity.
- Health and sanitation, including hospitals, primary health centres and dispensaries.
- Maintenance of community assets.

- **Welfare Functions**

- Rural housing.
- Non-conventional energy sources
- Poverty alleviation programme.
- Education, including primary and secondary schools.
- Technical training and vocational education.
- Adult and non-formal education.
- Libraries.
- Cultural activities.
- Family welfare.
- Women and child development.
- Social welfare, including welfare of the handicapped and mentally retarded.
- Welfare of the weaker sections, and in particular, of the Scheduled Caste and the Scheduled Tribes
- Public distribution system.

- **Agriculture and Allied**

- Agriculture, including agricultural extension
- Land improvement, implementation of land reforms, land consolidation and soil conservation.
- Minor irrigation, water management and watershed development.
- Animal husbandry, dairying and poultry.
- Fisheries.
- Social forestry and farm forestry.
- Minor forest produce.
- Fuel and fodder.
- Markets and fairs.

- **Industries**

- Small scale industries, including food processing industries.
- Khadi, village and cottage industries.

12th 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.

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 LGs in revenue capacities.
- Little clarity over common property resources
- Dated asset registers.
- No norms for revenue mobilization & expenditure on services & maintenance

Sources of local government finances

- Own source revenues
- Borrowing
- Schemes by Union and State Government
- Devolution and grants from
 - Union 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

Own source revenue of municipalities

Level of Municipalities	Per cent to total revenue (2012-13)
Municipal Corporations	42
Municipal Councils	6
Nagar Panchayats	1
Source: ASCI (2014)	

How to strengthen own revenues?

- Vacant land tax
- Part of land conversion charges from State
- Advertisement tax
- Entertainment tax
- Profession tax (from 2500 to 12000)
- Rationalization of service charges
- Service charges on government properties

Borrowings

- Local Authorities Loans Act 1914, a Central Act does exist enabling the grants of loans to local authorities including panchayats
- National Commission headed by Retd. Justice Venkatachaliah recommended to allow all local authorities to borrow from the state government and financial institutions.

Borrowings and PPP

- Floating bonds in the market – A'bad, Bengaluru, Chennai, Madurai, Hy'bad, Nagpur, Nashik, Visakhapatnam
 - SEBI has allowed these bonds to be listed
- Bonds subscribed by national and state level land development agencies [DDA, HUDA etc]
- Invest idle funds of Provident Fund, other Trusts etc., to subscribe to the Bonds
- People might prefer to subscribe their own city/state bonds

Government of India support

- Government of India support by way of Viability Gap Financing (VGF) up to 40% of capital cost wherever required [solar projects]
- Viability Gap support to be shared between GoI, States and municipalities
- Pooled Municipal Debt Obligation [PMDO] of several banks to finance infrastructure projects in urban areas such as public transport, drinking water, SWP. Present corpus is Rs 50000 crore till 31 March 2019.

Some Schemes by Union Government

Panchayats have involvement in:

- Mahatma Gandhi National Rural Employment Guarantee Scheme [MGNREGA]
- Sarva Shiksha Abhiyan [financed from Education Cess]
- Mid Day Meal
- Cess backed allocation to Pradhan Mantri Gram Sadak Yojana
- National Rural Drinking Water Programme
- Swaccha Bharat Abhiyan (rural)
- National Health Mission
- National Land Records Modernization Programme
- National Rural Livelihood Mission
- Rural Housing
- Integrated Child Development Service
- Rajiv Gandhi Khel Abhiyan

Some Schemes by Union Government

Municipalities have involvement in:

- Sarva Shiksha Abhiyan [financed from Education Cess]
- Mid Day Meal
- Swaccha Bharat Abhiyan [urban]
- Atal Mission for Rejuvenation and Urban Transformation
- National Health Mission
- National Land Records Modernization Programme
- National Urban Livelihood Mission
- Pradhan Mantri Awas Yojana - Housing for All
- Integrated Child Development Service
- Smart City - ???

Union Finance Commission

- Article 280 (3) [bb &c] stipulates Union Finance Commission “*to suggest measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and the Municipalities in the State*”

The Constitution 73rd Amendment Bill

Report of the Joint Committee

- *“Apart from augmenting internal resources, methods need to be devised for enlarging the area of assured devolution and quantum of assistance that will flow from the Centre to States and from States to the Municipalities”*

Union FC Grants to Local Governments

Rs Crore

Finance Commission	Panchayats	Municipalities
10 th [1995-00]	4381	1000
11 th [2000-05]	8000	2000
12 th [2005-10]	20000	5000
13 th [2010-15]	63051 [% of the divisible pool]	23111 [% of the divisible pool]
14 th [2015-20]	200292 for GP only [basic 90: performance 10]	87144 [basic 80: performance 20]
15 th [2020-21]	60750 for one year	29259 for one year

Horizontal Allocation (for local)

Criterion	11th FC	12th FC	13th FC	14 th 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	-	-	5	-

Share in State pool by recent SFCs

SFC of	Per Cent	Acceptance
<u>Total Revenue of state</u>		
Andhra Pradesh (II)	10.4	No
<u>Own Revenue of State</u>		
Karnataka (III)	30	N.A.
Sikkim (IV)	2	Yes
Uttar Pradesh (IV)	15	Modified
<u>Own Tax revenue</u>		
Assam (IV)	15	Yes
Bihar (IV)	7.5	Yes
Haryana (IV)	2.5	Modified
Kerala (IV)	19.7	Yes
Odisha (IV)	3	Yes
Rajasthan (IV)	5	Yes
Rajasthan (V)	7.2	Yes
Tamil Nadu (IV)	10	Yes
West Bengal (III)	5	Yes

Thanks