

GOVERNMENT OF INDIA
MINISTRY OF HOUSING AND URBAN AFFAIRS
RAJYA SABHA
UNSTARRED QUESTION NO. 1496
ANSWERED ON 09/12/2024

FINANCIAL AUTONOMY OF URBAN LOCAL BODIES (ULBs)

NO. 1496. SHRI K.R. SURESH REDDY:

Will the Minister of Housing and Urban Affairs be pleased to state:

- (a) whether Government is intending to increase the financial autonomy of ULBs as have been recommended by several researchers and experts over the years; and
- (b) whether it is a fact that the sustainable model for ULBs is to be solely dependent (more than 80 per cent) on grants by the Centre and State for their functioning?

ANSWER

**THE MINISTER OF STATE IN THE MINISTRY OF HOUSING AND URBAN AFFAIRS
(SHRI TOKHAN SAHU)**

(a) The 74th Constitutional Amendment Act (CAA) of 1992 was a transformative step aiming to empower Urban Local Bodies (ULBs) by decentralising decision-making. It established ULBs as a third tier of governance with legislative authority over 18 municipal functions. While state governments ratified the 74th CAA, functional devolution to ULBs hasn't been supported by adequate transfer of revenue sources. As per FY 2020-21 data of 2,646 ULBs on cityfinance.in portal, property tax and user charges are the largest components of ULBs' own source revenues, with significant variations across population classes. While million-plus cities have diversified revenue streams, smaller ULBs remain reliant on grants for basic service delivery. To strengthen these revenue streams, the Government has introduced key reforms under various schemes, including mandatory property tax floor rates and incentivization of year-on-year growth in property tax collections as part of 15th Finance Commission's recommendations.

Additionally, initiatives like the Property Tax Toolkit, AMRUT 2.0, and special assistance schemes for the year 2023-24 have been implemented to augment the revenue and the creditworthiness of ULBs. These efforts aim to reduce dependence on grants and promote financial sustainability of ULBs in a phased manner.

(b) It is not sustainable for the ULBs to be solely dependent on grants from Center and State for their functioning. The ULBs can enhance their own sources of revenue through reforms in property tax, rationalisation of user charges, and better collection mechanisms. The ULBs can also boost their non-tax revenue streams through periodic adjustments in user charges/fees for services such as water supply, sanitation, and waste management to ensure cost recovery while also bringing about improvements in the provision of services to the public. Larger ULBs generally use municipal bonds for financing some of their infrastructure projects. Other ULBs can also explore municipal bonds and innovative financing instruments for capital investment for diversification of their funding sources.
