



FINANCIAL POSITION OF THE ULBS WITH SPECIAL REFERENCE TO MUNICIPALITIES IN THE ANDHRA PRADESH

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Abstract

The Urban Local Bodies (ULBs) in recent years have played a vital role in urban transformation. The 74th Amendment to the Constitution of India has vested constitutional status to impart certainty, continuity and strength, for devolution of powers to the ULBs and for allotment of adequate resources. In Andhra Pradesh, the ULBs have been instrumental in promoting various socio-economic development programmes. The state has adopted three-tier ULBs in the state. The broad objective of this paper is to examine the financial position of the ULBs and the extent of devolution in the state of Andhra Pradesh, particularly, since 2014, when the Residuary State of Andhra Pradesh came into being. Using a mixed-method approach, it argues that the resource base of the ULBs need to be improved substantially to deliver proper services to the urban population. This has serious implications for Urban Governance.

Keywords: *Finance, Devolution, Municipalities.*

Introduction

The 74th Amendment to the Constitution of India has vested constitutional status to Local Self Government to impart certainty, continuity and strength, for devolution of powers to the ULBs and for allotment of adequate resources. As per Article 243-W of the Constitution of India, the State Legislature has to specify and entrust to the ULBs (Municipal Corporations, Municipal Councils and Nagar Panchayats) with such powers and responsibilities on the 18 subjects included in the 12th Schedule. Thus, the ULBs have to discharge their duties covering both obligatory as well as discretionary functions. Further, Under Article 243-X, the Legislature of the State may authorise ULBs to levy, collect and appropriate certain taxes, duties, tolls and fees; assign to ULBs such taxes, duties, tolls and fees levied and collected by the State Government; and provide for grant in aid to ULBs.

The provision of 73rd and 74th Amendment Acts also talk about the constitution of the State Finance Commission (SFC) at a regular interval for every five years by the states. Besides tax sharing, the SFC is assigned the task of reviewing the financial position of the Local Bodies (PRIs and Urban Local Bodies) and making recommendations on the assignment of various taxes, duties, tolls, fees and grants-in-aid to be given to these bodies from the consolidated fund of the state. The most important function of the SFC is to determine the fiscal transfer from the state to the LBs in the form of revenue sharing and grants-in-aid. Article 243 I and 243 Y of the Indian Constitution prescribes that the Governor of a state shall, as soon as may be within one year from the commencement of the Constitution (Seventy-third and Seventy-fourth Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitute a Finance Commission to review the financial position of the ULBs and to make recommendations to the Governor on these matters. Articles 243 G, H, I, W, X and Y make it compelling to have a review of the performance of state finances.

Considering the provisions of the 73rd and the 74th CAAs, amendment of Article 280 of the Indian constitution was carried out for inserting section 3 (bb) and 3 (c) in the Indian Constitution. It was



aimed to empower the CFC to augment the consolidated funds of the states to supplement the resources of the Panchayats and Municipalities based on the recommendations of the SFC of the states. This provision emphasises CFCs constitutional responsibility to make recommendations based on SFC reports, thereby creating a healthy constitutional practice of resource sharing. As a result of this provision there have been initiatives of devolving fiscal powers and resources to the Local Governments

Review of literature

While on the one hand fiscal decentralisation based on inter-governmental fiscal transfers received much emphasis on the other hand raising revenue from their own sources received equal emphasis. Both the initiatives have far larger implications of making finances of the local governments effective. Adequacy of Local Governments' resources depends to a large extent upon the willingness and ability of them to raise revenue from their own sources as well as transfer from the state and central governments (Jena and Gupta, 2008). These can be done effectively through the constitutional provisions as well as creating institutions such as the CFC and the SFC. The constitution provides for the setting up of the CFC and the SFC.

Considering the works of the CFCs and the SFCs, a growing literature has presented their role in strengthening fiscal federalism in India. These studies mostly contribute to understand the role of them from two dimensions: (i) to strengthen the fabric of Indian fiscal federalism through restoring budgetary balance and maintaining macroeconomic stability (Gupta and Sarma, 2022) and (ii) devolution of funds to the Local Governments to empower them (Reddy and Mohapatra, 2023; Pethe and Lavani, 2022; Prasad and Chary, 2015). Few studies also highlighted approaches of them in devolution of funds (Reddy and Mohapatra, 2023; Dwivedi et.al. 2022) and the conditions put on them to receive these funds.

The state of Andhra Pradesh, a key state located in southern location in India presents a unique feature in ULBs governance system. In recent years a number of research studies carried out to understand nature and extent of fiscal decentralisation and finances of the ULBs in the state (Reddy & Mohapatra, 2017). Looking into increasing involvement of them in the process of urban transformation, these studies have shown growing importance of fiscal transfers to the ULBs. Since the importance of the ULBs in delivering goods and services in urban areas enhanced with the expansion of urban areas and rapidly increasing urban population, an increasing attention paid to examine these issues. Rapidly changing urban ecosystem, emergence of various legal provisions and the constitution of the SFCs can be considered few important initiatives. However, there is lacking systematic analysis of finances of the ULBs with a theoretical focus of functional-financial interactions. This research problem stems from established scholarly practices of understanding the issue from a co-operative federalism perspective. As a result of this, examining ULBs finances through presenting cases of few ULBs, has not significantly gained currency. However, any research on co-operative federalism based on inter-governmental finances can be systematic without focus on functional-financial interactions based on field reality. This paper addresses this particular research problem through providing a systematic analysis of ULB finances in Andhra Pradesh and highlighted the finances of few ULBs.

Objectives

1. To study the concept of constitutional amendment 74th.
2. To analyse the present financial aspects of ULBs in Andhra Pradesh.



Methodology

The study extensively used both secondary data (State Budget Documents, CFCs and SFCs) as well as primary data collected from the selected Municipal Corporations, Municipalities and Town Panchayats. Besides large amount of secondary sources on ULBs in AP, Primary data collection was also undertaken selecting few Municipal Corporations, Municipalities and Town Panchayats in the State.

Fiscal situation of Andhra Pradesh

State reorganisation encumbrance the strings in altering the resources, expenditures, deficits and debts, in short, public finances of the states. This, in turn, depends on the economic activities (public or private) located in respective reorganised states. For bifurcation of the state (Andhra Pradesh Reorganisation Act, 2014 (APRA, 2014)), Andhra Pradesh received the President's assent on 01 March 2014. The "appointed day" for the new States' formation was 02 June 2014. United Andhra Pradesh state, which had 23 districts, at present consists of 13 districts in Residuary AP. Recently AP Government has increased to the number of districts to 25.

Overall Fiscal Situation 2014-15 To 2019-20

The broad categories of total receipts are revenue and capital. Revenue receipts consists of own revenues (own tax and own non-tax) and central transfers (share in central taxes and grants-in-aid). Capital receipts consist of debt and non-debt capital receipts. Similarly, the broad classification of expenditure includes (a) revenue expenditure (b) capital expenditure (c) loans and advances and (d) capital disbursements.

Total receipts for the 10 months of the financial year (2 June 2014–31 March 2015) amounted to Rs. 87472.26 crores of which Rs. 65695.40 (75 percent of the total receipts) comes from revenue receipts and remaining amount (25 percent) pooled from capital receipts which are mostly borrowings (Table-2). In the fiscal years 2015-16 and 2016-17, the relative share of revenue receipts in total receipts constituted 59 percent and remaining 41 percent is drawn from capital receipts. In 2017-18, there is a significant improvement in the relative share of revenue receipts constituting nearly 72 percent of total receipts. Though its share was 70 percent in 2018-19RE, it is estimated to increase to 78 percent in 2019-20BE. Obviously the dependency of the state on capital receipts.

In 2014-15, total receipts constituted 16.66 percent of GSDP of which the major segment is revenue receipts (12.51 percent) followed by capital receipts with 4.15 percent. In 2015-16, the revenue receipts/GSDP (15 percent) and capital receipts /GSDP (10 percent) together accounted to nearly 25 percent (Table-3). Thereafter both revenue and capital receipts w.r.t. GSDP showed a declining trend during 2016-17, 2017-18 and 2018- 19RE and hence the total receipts/GSDP.

ULBs in Andhra Pradesh: Legal Provisions and Devolution of Functions

The ULBs in Andhra Pradesh are involved in the process of urban transformation through providing a number of services at their level. Their role in delivering goods and services in urban areas of the state has enhanced with the expansion of the urban areas. In this context, the state government has also taken various initiatives for devolving powers and responsibilities to these bodies in order to make them as institutions of self government.



There are three types of ULBs viz (i) the Municipal Corporations, (ii) the Municipalities and (iii) the Town Panchayats. Data presents in Table 4 reveals the profile of the ULBs with a particular presentation of population, area and numbers of the ULBs in the State. Currently there are 16 (14.16 percentage) Municipal Corporation, 76 (67.26 percent) Municipal Councils and 21 (18.58 percentage) ULBs are Town Panchayats (Table-4). The total urban population is 14.6 million which is 29.6% of total population of the State (2011 census). However, in terms of population and area, in Municipal Corporations, population is 49.11% but total area is only 29.70% of total urban area whereas in Municipalities the total population is 38.42% with a geographical area of 50.83%.

The 74th Amendment Act and ULBs in the State

The 74th Amendment to the Constitution of India has given constitutional status to ULBs, for devolution of powers to these bodies and for allotment of adequate resources. As per Article 243-W of the Constitution of India, the State Legislature has to specify and entrust to the ULBs (Nagar Panchayats, Municipalities and Municipal Corporations) with such powers and responsibilities on the 18 subjects included in the 12th Schedule. Thus, the ULBs have to discharge their duties covering both obligatory as well as discretionary functions. Further, Under Article 243-X, the Legislature of the State may authorise ULBs to levy, collect and appropriate certain taxes, duties, tolls and fees; assign to ULBs such taxes, duties, tolls and fees levied and collected by the State Government; and provide for grant in aid to ULBs. Thus, the ULBs are entrusted with the duties of collection (Income) and spending (Expenditure).

In the case of Andhra Pradesh, the ULBs have been devolved various powers and functions to function as institution of self-government. For this purpose, the government has framed legal provisions and brought out operational guidelines during different years. The ULBs in Andhra Pradesh are governed by the Andhra Pradesh Municipalities Act 1965 as amended from time to time. The Municipal Corporations are governed by the Municipal Corporations Act of 1994, Government of Andhra Pradesh. All the provisions of the 74th Amendment Act, 1992, of Indian Constitution are incorporated in the above mentioned acts.

Finances of the Municipalities

The financial position of the Municipalities, based on data collected from three municipal councils, revealed Revenue Income-tax and non-tax revenue plays a key role in shaping the financial position of the Municipalities. As far as the income is concerned, the key sources are (i) Own Source Revenue of the Municipalities, (ii) Transfer of Assigned Revenue from the State Government, (iii) Grants from Central Finance Commission, (iv) Grants from the State Finance Commission and (v) other State Government transfers. Further, (i) Transfer from the Central Government and State Government under various schemes and programmes and (ii) other Capital Income of the Municipalities such as (a) Sale of Municipal Land and (b) Loans from State Government and Bank are key financial sources of the Municipalities.

Data shows the status of transfer to the Municipalities under these heads from the year 2014-15 to 2018-19. It shows that own revenue constitutes 66.41% of total revenue of the Municipalities remaining 33.59% derived from three major sources -Assigned Revenue (9.99%), Central Transfers (14.76%) and State Transfers (8.84%). If we compare the own revenue of the Municipalities (as presented in Table-12 with Municipal Corporations, it is quite clear that own revenues of the Municipal Corporations higher than the own revenue of the Municipalities given the fact the MCs population and area are more than the Municipalities.



Conclusions

The analysis financial position of the selected ULBs shows that after three decades of the implementation of the 74th CAA and after constitution of the four SFCs, the financial position of the ULBs not progressed much in Andhra Pradesh. ULBs revenue constitutes only 4% of the State's own revenue. Of the total municipal revenue of all ULBs in the state, own revenue only constitutes 59.5% whereas the 40.5% derived from the sources of intergovernmental transfers and borrowings. Though the transfers from the Central Government constitutes only 10.2% for all ULBs in the state, but in study area it is 7.92% for the Municipal Corporations, 14.76% for the Municipalities and 31.37% for the Nagar Panchayats. Own Source Revenue (OSR) constitute a key component (77%) of their Revenue Income and this is quite true in the case of the Municipal Corporations. However, the pattern of expenditure of each Corporation is different. Further revenue expenditure is higher than capital expenditure. The finances of Town Panchayats also more or less present similar situation like Municipalities. On the whole, the low financial status of the ULBs in Andhra Pradesh during the years (post bifurcation) 2014- 15 to 2018-19 has impacted urban governance in terms of service delivery functions. This calls for greater urban decentralisation as enshrined in 74th Amendment Act in the true spirit of the Act.

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