# IV Way Forward

*Robust municipal finances assume critical importance, with cities emerging as engines of growth and embodying growing aspirations of residents for good quality public services. Municipal corporations need to boost their own sources of revenue through tax reforms, rationalise user charges, and strengthen collection mechanisms. Timely and direct transfers from State governments to urban local bodies remain crucial. Streamlining committed expenditures through digitalisation and process automation can further enhance scope for capital expenditure. Adhering to standardised accounting practices and enhanced transparency in financial information would facilitate funding through sources like municipal bonds.*

IV.1 Amidst the growing pace of urbanisation, and the rising demand for more efficient public services, the responsibilities of municipal corporations (MCs) are expanding fast. With urban areas emerging as key engines of growth, the administrative and financial capacities of city authorities need continuous augmentation to meet public aspirations.

IV.2 The MCs need to enhance their own sources of revenue through reforms in property tax, the rationalisation of user charges, and better collection mechanisms. The elasticity of property tax revenues, the predominant source of tax revenue, can be improved through adopting property tax formulae which are more reflective of property valuation. The introduction of GIS-based property tax mapping and digital platforms for tax collection can help improve compliance and plug revenue leakages.

IV.3 The MCs can 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. Better monitoring to stop pilferage, use of technology for enhanced efficiency, and public communication campaigns can also augment collections of user fees and charges.

IV.4 Timely and direct transfers from the State governments to the MCs remain crucial for their financial stability and effective service delivery. It is essential that the MCs are compensated adequately and predictably through a clearly defined formula that accounts for the revenue foregone, adjustments for inflation, and the growth potential of the city economy. SFCs, which recommend the magnitude and frequency of the grants and transfers from the State governments to the MCs, ought to be formed regularly, with their reports tabled in State assemblies and the recommendations implemented in a time-bound fashion.

IV.5 Streamlining committed expenditures, mainly through digitalisation and process automation, can free up additional resources for capital expenditure. The creation of public-private partnerships (PPPs) for infrastructure projects, particularly in sectors like urban transport, waste management, and renewable energy, will also help attract private investments, and permit the MCs to deliver more effectively on their objectives.

IV.6 While the larger MCs are already using the municipal bonds for financing some of their infrastructure projects, other MCs can also explore municipal bonds and innovative financing instruments for capital investment for diversification of their funding sources. Creating mechanisms that allow MCs to pool resources for large-scale infrastructure projects will help overcome the fiscal constraints of individual corporations (Chattopadhyay, 2015). Some MCs are exploring opportunities to access climate finance through national and international funds dedicated to sustainable economic development. Urban planning that prioritises climate resilience, including investments in green infrastructure, waste management, and renewable energy, will not only improve the quality of life but also bring in greater fiscal discipline and reduce the long-term fiscal burden of climate-related damages.

IV.7 Innovative financing mechanisms can be achieved through transparent and efficient financial management. This can be accomplished by adhering to common and standardised accounting practices to enhance transparency and dissemination of financial position. Key parameters such as long-term liabilities, asset depreciation, and future commitments should be clearly presented. The adoption of the standard National Municipal Accounting Manual (NMAM, 2004) by the MCs needs to be fast-forwarded. This entails development of technical expertise and capacity building to implement a common and standardised accounting system (Abraham, 2013) and overcoming of resource constraints which prevent investment in necessary infrastructure and training. State governments and Finance Commissions (Central and State) can mandate compliance, support training programmes, implement audit mechanisms, and link intergovernmental transfers to adherence to these standards, thus encouraging MCs to adopt and sustain these reforms.