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Q3

"The states in India seem reluctant to empower urban local bodies both functionally as well as financially." Comment.

UPSC Civil Services Mains 2023 · GS II · 10 marks · Governance and Policy

Government policies and interventions for development in various sectors and issues arising out of their design and implementation.

Core demand of the question

- Comment on the statement that States in India seem reluctant to empower urban local bodies both functionally and financially

Revision summary

The 74th Amendment and the Twelfth Schedule create municipalities but leave devolution to State law.

Parastatals and State-appointed commissioners keep functions out of the elected council.

Property tax is constrained; GST ended octroi and sent compensation to States, not cities.

Late State Finance Commissions and approval for borrowing keep cities fiscally dependent.

- **The statement is correct:** functional and financial empowerment is still a State choice.

Introduction

The Constitution (Seventy-fourth Amendment) Act, 1992, made municipalities a third tier of government and listed 18 functions in the Twelfth Schedule. A comment on State reluctance must show how States still hold those functions, staff, and taxes.

Body

Functional reluctance

- Article 243W leaves it to the State legislature to endow municipalities with Twelfth Schedule functions; the Union cannot force devolution of urban planning, water, fire services, or slum improvement.
- Many States keep parastatal bodies for water, transport, and development authorities, so the elected council does not control the function that the Schedule names.
- Mayor-in-council or a weak ceremonial mayor, plus a State-appointed municipal commissioner, splits political authority from administrative control.
- The State Election Commission and State Finance Commission exist in the text, yet delayed elections, prolonged administrator rule, and delayed SFC reports are common.
- Building-plan, land-use, and police powers remain with State departments even in million-plus cities, which is functional reluctance in daily governance.

Financial reluctance

- Article 243X allows States to assign taxes, duties, tolls and fees; property tax is still the main own tax, and States cap rates, grant exemptions, and delay revision of guidance values.
- Goods and Services Tax absorbed octroi, entry tax, and local surcharges; GST compensation went to State governments, not automatically to city budgets.
- State Finance Commissions under Article 243Y are often late, and State governments do not always accept or notify the award in full.
- Central Finance Commission grants to urban local bodies (Fourteenth and Fifteenth Finance Commissions) are tied to reforms, but they cannot replace a State's refusal to share stamp duty, entertainment tax residue, or a predictable share of GST.
- Municipal borrowing and municipal bonds need State guarantee or approval, so even a solvent city cannot raise debt on its own balance sheet.

Why the reluctance persists

- MLAs and State ministers treat cities as vote and patronage territory; a strong municipality is a rival power centre.
- The 74th Amendment constitutionalised the form of local government; it did not constitutionalise a minimum share of State tax or a list of exclusive municipal functions.
- **A fair comment therefore agrees with the statement:** devolution is discretionary, and both function and finance still sit with the State.

Flow diagram

74th Amendment Twelfth Schedule -> State legislature

State legislature -> Functions held or given

State legislature -> Money property tax GST share

Functions held or given -> Urban local body

Money property tax GST share -> Urban local body

Conclusion

States remain reluctant because the 74th Amendment leaves functions and taxes to State legislatures, and because parastatals and GST have concentrated money above the ward. Urban local bodies will be empowered only when SFCs, property-tax freedom, and Twelfth Schedule functions are actually transferred, not only listed.

Facts & figures

Constitution (74th Amendment) Act, 1992

Inserted Part IXA and the Twelfth Schedule of 18 municipal functions.

Article 243W

Empowers the State legislature to endow municipalities with Twelfth Schedule powers and authority.

Article 243Y

Requires a State Finance Commission to review municipal finances and recommend devolution.

GST compensation

Paid to State governments for five years after GST; it did not create a direct municipal share of GST.

Fifteenth Finance Commission

Recommended tied and untied grants to urban local bodies, subject to entry-level reforms such as audited accounts.

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