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DRAFT REPORT
ON

MOBILIZATION OF OWN MUNICIPAL SOURCES FOR THE URBAN LOCAL BODIES

Submitted
To

Ministry of Urban Development
Government of India

Submitted
By

Indian Institute of Public Administration
New Delhi

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ABBREVIATION

ABC Analysis	Always Best Control Analysis
ABIDE	Agenda for Bangalore Initiative for Development
ACGR	Annual Compound Growth Rate
BOT	Build Operate and Transfer
CAA	Constitutional Amendment Act
CBO	Community Based Organization
CDP	City Development Plan
CFC	Central Finance Commission
DCB Statement	Demand Collection Balance Statement
DEA	Double Entry Accounting
DPC	District Planning Committee
EFC	Eleventh Finance Commission
E-Sewa	Electronic Sewa
FIRE (D)	Financing Institution Reform and Expansion (Debt Market)
FMC	Faridabad Municipal Corporation
FMCS	Financial Management and Control System
FMS	Financial Management System
GDP	Gross Domestic Product
GIS	Geographic Information System
GIS/GPS	Geographic Information System/ Global Positioning System
GOI	Government of India
GSDP	Gross State Domestic Product
HUDCO	Housing and Urban Development Corporation
IED	Income Expenditure Differential
IIPA	Indian Institute of Public Administration
IT	Information and Technology
JNNURM	Jawaharlal Nehru National Urban Renewal Mission

LAN-WAN	**Local Area Network - Wide Area Network**
MDG	**Millennium Development Goal**
MoUD	**Ministry of Urban Development**
MPC	**Metropolitan Planning Committee**
NCR	**National Capital Region**
NGO	**Non Government Organization**
NIUA	**National Institute of Urban Affairs**
NMMC	**Navi Mumbai Municipal Corporation**
NPM	**New Public Management**
NSDP	**National Slum Development Programme**
O&M	**Operation and Maintenance**
PPP	**Public Private Partnership**
PT	**Property Tax**
RBI	**Reserve Bank of India**
RTI	**Right to Information**
SFC	**State Finance Commission**
SJSRY	**Swarn Jayanti Shahri Rozgar Yojna**
STP	**Sewerage Treatment Plant**
SWM	**Solid Waste Management**
TFC	**Twelfth Finance Commission**
TOR	**Terms of Reference**
UIDSSMT	**Urban Infrastructure Development for Small and Medium Towns**
ULB	**Urban Local Body**
UN	**United Nations**
VAT	**Value Added Tax**
VGF	**Viability Gap Funding**
WSSD	**Water Summit on Sustainable Development**

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EXECUTIVE SUMMARY

This study is first of its kind in the country to examine the adequacy of municipal finance in terms of own sources and their potential scope of expansion taking into account a typology of resource pool and beneficiaries/ recipients of municipal infrastructure. The study is based on 10 sample towns covering one Municipal Corporation and one municipality town from each of the five different regions of the country, namely: Navi Mumbai and Panvel (West) Faridabad and Karnal (North) Bhubaneswar and Puri (East) Bangalore and Ramanagaram (South) and Bhopal and Hoshangabad (Central).

Municipal Fiscal Stress

1) The study reaffirms that Urban Local Bodies (ULBs) are undergoing a fiscal stress and are by and large not in a position to generate own sources enough to maintain municipal infrastructure at current levels of efficiency. It is also noted that fiscal transfers in the revenue account are received for some purpose; it leaves no scope for (i) revenue account transfers for capital projects and (ii) availability of a dedicated flow of funds for borrowing capacity/debt repayment.

2) The study confirms mismatch between funds and functional jurisdiction of ULBs leading to constant decline in the normative base of municipal infrastructure. It is noted that couple of important functions of remunerative nature and functions capable of tapping land value gains (Land, Town Planning and municipal water etc) are not devolved to ULBs at certain places whereas other functions of non excludable nature (Solid waste Management, Roads and related services, public conveniences, public safety, environmental protection and poverty alleviation) are expected to be delivered by ULBs which lead to fiscal imbalance.

3) It is noted that dependence on vertical transfers by way of fiscal transfers being around half of revenue coming from centre and state is crucial for ULBs. Central Finance Commission (CFC) transfers, however, constitute only around one per cent of annual income of ULBs. State transfers on the other hand on the recommendations of

State Finance Commission (SFC) are received in a range of 40-45 per cent of municipal revenue.

Vertical and Horizontal Imbalance

4) The municipal dependence on external sources and inability to mobilise requisite funds from own sources confirm that municipal governments suffer from vertical and horizontal imbalances. Study observes that transfer of funds from centre and states have undergone a upward shift (i) after insertion of clause (3) (c) in the Article 280 of Constitution of India to amend TOR of CFC to make direct allocations to ULBs taking into account the recommendations of SFC and (ii) creation of State Finance Commissions under Article 243 (Y).

There is now continuity in fiscal transfers and these are given on some normative basis, although the amount received by ULBs is fairly low than requirements.

Fiscal Decentralization

5) Despite these arrangements the progress on fiscal decentralisation is far from satisfactory. Fiscal transfers are, by and large, made on a purely *ad-hoc* basis due to lack of relevant data in terms of inability of SFCs to have a bottom-up assessment for their own allocation and onward submission to CFC. SFC are not synchronised with the CFC and their supply line for fiscal information beginning from Development Plan of ULBs to District Planning Committees is not established. Thirdly, in the absence of clarity in the municipal funds and functional jurisdiction, SFCs are not in a position to decide parameters of basic equalization and subsequent allocation. Further, revenue powers and authority of ULBs are not devolved by states in line with their functions and fiscal requirements.

Status and Potential of Own Sources

6) It is noted that own sources altogether constitute only less than one percent share of city GDP whereas given a chance i.e. adequate financial management system (FMS), appropriate placement of revenue instruments and fiscal monitoring and control mechanism, own sources can tap as high as seven per cent of city GDP .This shows that only a fraction of cities' capacity or potential of (typology of) city resource pool to fund municipal infrastructure is utilised by ULBs. This is not to say that own sources have full

capacity and vertical transfers are not needed, as the potential of own sources vary according to inter – city disparities in the income and concentration of economic activities. But, there is no doubt that a quantum jump in the own sources is possible and part of vertical transfers should be used to stimulate own sources.

7) It is also noted that higher utilisation of city GDP by own sources enables the ULBs to have revenue account surplus and spare funds for investment to upgrade and expand services at a reasonably better level of municipal infrastructure. This also confirms the existence of revenue potential within the city. Navi Mumbai and Bangalore having own sources at seven percent and two percent respectively, have been able to take up a range of municipal infrastructure projects which are non-conventional – but essential to promote quality of life, environmental protection, safe guards on climate change, poverty alleviation etc.

8) This study, therefore, reaffirms the potential scope for mobilisation of own sources provided a range of actions are initiated to streamline Financial Management, Monitoring and Control Mechanism and appropriate placement of revenue instruments at ULB level.

9) The study also identify a resource pool/recipients/beneficiaries of municipal infrastructure who have access to economic rate of return, value added role, land value gains and direct use of municipal infrastructure and services. These should be used to mobilise necessary amount through own sources. This includes (i) City economy as a whole covering basics, industry, trade and the local elasticity/ consumer surplus (ii) Value added role/ level value gains (iii) Sale/transfer / use of municipal assets/ services.

Emerging Reform Process in urban sector

10) The study finds a favourable and encouraging environment in the country to stimulate municipal own sources which include (i) tri-partite consensus and agreement between centre, state and local governments to upgrade municipal infrastructure owing to its role in the national policy objectives and (ii) emergence of positive initiatives at town level.

11) It is noted that a reform process has been initiated by centre, states and many forward looking ULBs to remove barriers that inhibit a barely minimum revenue

utilisation from resource pool at city level. This includes Government of India's pioneering programmes namely Jawaharlal Nehru National Urban Renewal Mission (JNNURM) covering Urban Infrastructure and Governance(UIG) and Basic Services to Urban Poor(BSUP), (ii) Urban Infrastructure Development Scheme to Small and Medium Town (UIDSSMT). In addition, states have also launched couple of programmes and schemes such as *Janambhumi* (Andhra Pradesh), *Namakkaname thettam* (Tamil Nadu) etc. All these reforms are basically guided by local empowerment of 74th Constitution Amendment Act and it's follow up.

12) These are all investment based programmes to push infrastructure projects and ultimately tend to increase O&M commitments at ULB level which are already under fiscal stress. Recent follow up of Sixth Pay Commission report will further add to existing fiscal imbalance at municipal level. Therefore, the mobilisation of municipal own sources is inevitable and critically important to have adequacy of municipal infrastructure.

Reforms at sample ULBs

13) It is also observed by the study that Financial Management System of sample ULBs is undergoing appreciable reforms covering Double Entry Accounting System (DEAS), Normative and Performance linked Budgeting, Innovative Auditing, Use of IT and GIS, Asset Management and Downward/ Accountability. These are supported by Centre and state schemes and programmes and are enabling the ULBs to have (a) multiple fund accounting, (b) financial statements (c) ratio analysis (d) participatory funding (e) innovative auditing- internal/social /private audit (f) expansion of revenue base and (g) community organisation and involvement.

14) It is noted that these reforms in the FMS are at different levels of implementation and only a few ULBs are performing relatively better. Therefore, scaling up and sustainability of these reforms needs to be promoted in a wider context of ULBs.
It is also noted that despite current barriers, ULBs are taking appreciable steps to mobilize funds within their capacity from non – tax sources (other than water supply) and have been able to increase funding for O&M part of revenue expenditure during the period of 2003 – 08.

Expansion plan for own sources

15) In order to suggest expansion of own sources to a desirable level, the study recommends a three pronged strategy namely (i) appropriate placement of revenue instruments, (ii) efficiency in Financial Management ,monitoring and control and (iii) use of fiscal transfers as a stimulus package to enhance proceeds from own sources.

Appropriate Placement of Revenue Instruments

16) Revenue instruments combined with efficient financial management, monitoring and control should be placed at respective component of resource pool.

City Economy

17) It is suggested that alternative to octroi should be identified for wider application to tap city economy in line with the Cess as applied by Navi Mumbai which is being introduced as local body tax among other ULBs of Maharashtra. Surcharge on electricity consumption (as in Haryana), Profession Tax (Orissa) and tax on liquor (Haryana) can also be levied by ULBs.

18) At the same time efforts should be made to use local elasticity for municipal finance through participatory funding from local interest group/ stakeholders. This could be done by combining municipal funds as seed capital to operate as partial contribution for creation or maintenance of assets such as roads, footpath, drains, schools, community centres etc. It will serve multiple objectives covering (i) resource mobilisation (ii) creation of assets (iii) sense of community ownership (iv) efficient O&M and (v) better compliance for cost recovery on O&M.

19) ULBs, however, will have to recognise local elasticity as a source and provide space, incentive and seed capital for matching or partial contribution. This should also include participatory budgeting and funding for synergy and convergence of resources from city economy. This also has the potential to attract other stakeholders, such as constituency fund of Member of Parliament etc, to participate in the process.

Value Added Role / Land Value Gains

20) It is noted that Property tax is mainstay of municipal finance and has potential for further revenue growth. However, the base of Property Tax is not fully utilised on account of inadequate coverage, undue exemptions and conventional billing and collections.

21) It is recommended to tap land value gains suitably by using the Property Taxes (being mainstay of municipal finance) more effectively with the help of minimising the unnecessary exemptions e.g. exemptions to owner occupied properties and updating data base on GIS etc. At the same time billing and collection also could be improved through self assessment, on line collection, insurance cover on regular payment, attachment of bank account and use of dispute settlement boards etc. to improve current demand collections and thaw the arrears.

22) Once the information system is developed on GIS and automation, other land based tools such as Valorisation, Betterment Levy, Exactions, Development Charges and Impact Fee (as in Hyderabad) should be allowed to be levied by ULBs. At the same time, full potential of Advertisement Fee and Building Licence Fee should also be used by ULBs.

Sale / Transfer/ Use of Municipal Services /Assets

23) Similarly Water Charges, which are the only significant item of user charges, constitute a small proportion and other non-tax sources such as Advertisement Fee, Building Licence Fee, Parking Fee, Hawker Fee, Rents etc. occupy a Lion's share (more than 80%) of non-tax revenue. This needs to be specially noted that baring a few politically sensitive reform on Property Tax coverage and Water tariff revision, the sample ULBs are taking appreciable steps to raise optimum funds from other non-tax areas which are in their own jurisdiction of implementation. The Annual Compound Growth Rate of other non tax sources is 22 per cent as compared to only two per cent for Water Charges during 2003-2008.

24) As part of revenue from municipal services and assets, Water Charges could be levied on a scientific basis using costing and pricing, city economy, willingness

to pay and capacity to pay which actually vary from town to town in a graduated and differential manner.

25) Individual charges on other services wherever possible should also be levied for the services such a Parking Fee, Road cutting charges, charges on Parks, Advertisement Fee, use of roads, Community Centres and fee from Vendors/Hawkers, tax/ fee on Animals, Vehicles etc. This area already falls with in the powers of ULBs and couple of ULBs in the sample towns have initiated actions in the regards.

26) This pool of revenue is closely linked to asset management system which is undergoing significant reforms as part of double entry accounting and its follow up. There is a need to update inventory of assets, classify them for valuation and development of asset management strategy.

Efficiency in Financial Management, Monitoring and Control

27) It is suggested to streamline fiscal monitoring and control mechanism as a follow up of reforms in the FMS. It will cover Billing and Collection on ABC analysis, updating DCB statements and timely application billing ,Effective Grievance Redressal (*E-Seva*, and one window approach) and Capacity building covering awareness workshop, class-rooms training, exposure visits, city to city cooperation, material development and in-house/on the job training.

Fiscal Transfers – To Stimulate Own Sources

28) Owing to the fact that around half of ULBs' revenue in each case are constituted by own sources and external sources,(except for Navi Mumbai and Bangalore who have a pre-dominantly large share of own sources), it is observed that in a short and medium term respective fiscal transfers will play a decisive role to determine adequacy of municipal finance.

29) Fiscal transfers hold the key to minimise vertical imbalance. Therefore, transfers should be linked to bottom up assessment of requirements on strategic fiscal gap i.e. the difference between mandated functions, requirements of funds thereon and availability of funds both for revenue and capital account.

SFC Transfers

30) In this regard, SFCs should be synchronised with CFC so that they have a bottom-up assessment of ULBs requirements for their own consideration and onward submission to CFC.

31) SFCs should get feedback on strategic fiscal gap from MPCs/ DPCs (Metropolitan /District Planning Committees) based on their respective plan prepared on the basis of Development Plans (DP) of ULBs in their jurisdiction.

32) Prior to preparation of Development Plan state should decide functional jurisdiction in line with the laid down policy framework and also decide a broad guideline / checklist for preparation of DP. SFC should also decide about a basic level of equalisation to determine allocation and recommendations to CFC.

33) Allocation by SFC may continue to have priority for the payment of salaries and performance assessment/ normative basis for further allocation. It is also proposed that SFC's should also look into overall financial status of ULBs to recommend placement of revenue instruments and fiscal monitoring control mechanism and also build borrowing capacity to raise institutional finance from the market..

CFC Transfers

34) Study suggests a quantum jump in the allocation of CFC, in a short term, on the bases of at least a part of additional fiscal burden on ULBs to maintain services/infrastructure added as a result of projects generated using central assistance. Currently, it is estimated that projects costing a little over 100000 Crores have been sanctioned under JNNURM with over 90 percent towards core / basic municipal infrastructure. On a liberal assumption this may add O&M burden to the tune of Rs 18000 Crores per annum (8 percent for O&M and 12 percent depreciation/ debt service). In a medium term perspective CFC devolution should be linked to fiscal requirements as received from SFC in the true sprite of fiscal decentralisation.

35) CFC allocation should be used sparingly taking into account certain presumptions that (i) transfers on 'salary part' will come from SFC and (ii) CFC funds

should concentrate on further mobilisation of own sources . This is more like a stimulus package to build capacity of ULBs to stimulate own sources.

36) Study also recommends that CFC allocation to states should give extra weightage to less urbanised states to equip them to take up enhancement of own source revenue to improve delivery of urban infrastructure to promote economies of scale among their cities and towns to achieve overall economic growth of state.

37) As a stimulus to expand own source revenue, criterion for allocation of CFC funds to ULBs should be based on three main activities i.e. System reforms (30%), capacity building (30%), and tapping local elasticity/ debt servicing (40%)

38) System reforms could cover actions on Financial Management, Monitoring and Control Mechanism whereas capacity building will include training, study visit, material development etc. Tapping elasticity/ debt servicing potential may cover use of CFC funds as seed capital/ dedicated flow for seeking loan finance.

Intergovernmental action Plan

39) Finally the study recommends Inter governmental Action Plan so that own source are mobilised to enable ULBs to deliver their functions and infrastructure to their best of ability and satisfaction of consumers/ clients/ stakeholders thereon.

40) Centre may promulgate National Urban Policy with a particular focus on Municipal finance among others covering fiscal decentralisation principles and strategies, database development ,benchmarking ,development of model Acts, guidelines , checklists and handholding for capacity building. This should also include research and hands-on learning with the help of the network of training and academic institutions as supported by Ministry of Urban Development, Government of India.

41) CFC may be recommended to have Quantum jump in the allocation to ULBs and promote stimulation of own sources from city resource pool.

42) State should assign revenue powers to ULBs to tap resource pool for own sources and timely constitute SFC to have bottom up assessment of strategic fiscal gap for their consideration and onward submission to CFC. This will also include DPC and MPC in the process of assessment.

43) ULBs should develop data base using GIS, participatory planning, benchmarking, asset management, financial statements and ratio analyses etc to

Placement of Additional Revenue Instrument	I. Documentation, Information dissemination and motivation for (i) International innovations (ii)Inter-state experience sharing (iii)Award on best practices II. Develop of Manuals/ checklists/ guidelines for application of additional sources.	(i) Inclusion in the TOR of respective SFC to include additional sources. (ii)To have *suo moto* cognizance of inter state innovations for local applications in the state e.g. Local body tax of Maharashtra as substitute of octroi; Surcharge of electricity consumption tax on Liquor (as in Haryana), and *Niryat Kar* (MP). (iii) Adaptations (legal and administrative) of similar innovations as applied by other Indian states. (iv) Applications of other Land based tools such as (a) Betterment levy and (b) Valorisation. (c) Exactions and Impact fee/ Development charges (d) Inter municipal cooperation for economies of scale and efficient applications of additional sources.	(i) Selection of additional sources within the legal jurisdiction of ULB (ii) Use of partnerships for- O&M, Revenue collection financing (Bonds) (iii) Development of data base using ➢ Automation, GIS/GPS, website of ULB (iv) Identification of revenue potential under each asset under functional jurisdiction. (v) Preparation of asset mobilisation plan in line with 'Fund your City' programme of Hyderabad.
Fiscal Transfers as stimulus to own sources	(i) Have quantum jump in the CFC allocation (ii) To begin with consider part of additional burden of new investments from centrally assisted projects. (iii) Rationalise central allocation to states by using urbanisation level as one of the criterion area etc. (iv) Initiate innovative allocation to ULBs(of CFC funds) to enhance their capacity to mobilise own source on the basis of funding for: (a) System Reforms (30 %) (b) Seed Capital (30 %) (c) Capacity building (40 %) (v) In the medium term determine revenue transfer on the information received from	(i) Collect requisite data as on municipal finance as desired under insertion of clause (3) (C) in the article 280 for consideration of SFC. (ii) Use MPC and DPC to prepare Metro/District Plan on the basis of Development Plans of ULBs and O&M requirements in their functional jurisdiction. (iii) Decide about basic equalisation to be attended by SFC. (iv) Encourage optimum utilisation of own sources (v) Prepare balance requirements for CFC consideration.	(i) Prepare bottom up assessment of revenue requirements on the basis of strategic fiscal gap a systematic assessment of physical gap and financial implications thereon. (ii) Identify scope for (a) system reforms (b) Local elasticity and (c) Investment requirements and capacity building for using CFC and SFC funds. (iii) Recognise amount of fiscal transfers to be included in the bottom-up process of planning (budget) to be done in a participatory funding (Brazil) and convergence of resources.

	SFC.	(v) Ensure timely disbursement of funds to ULBs	
...llow up	(i) continue consultation Process (ii) Encourage Mutual Experience sharing and cooperation among cities & ULBs (iii) Implement capacity building reform agenda as per feedback (iv) Initiate Benchmarking to have sector using assessment (v) Continues a regular process of policy feedback	(i) Engage ULBs for increasing focus on own sources through (a) Intermediary link institutions (b) MPC/DPC (c) Training institutions (ii) Develop indicators for performance analysis including implementation of Benchmarking, reforms Agenda of Government of India. (iii) Support ULBs to apply Budget cycle based on innovative budgeting that is performance linked and on normative basis (iv) Carry out action research and policy research on Municipal Finance. (a)Determine functional jurisdiction of ULBs to assign functions that have potential. (b) Assign revenue instruments to tap city economy and land value gain.	(i) Strengthen the revenue base through- (a) Updation of records as GIS/GPS/automatic system (b) Use of innovative disclosure by assesse such as – self assessment etc. (c) Minimize exemptions (ii) Re-organise collection mechanism ➢ DCB statements ➢ ABC analysis ➢ Incentive schemes ➢ Penalties (iv) Prepare development plan on a bottom up assessment and Data on strategic fiscal gap (v) Decentralise governance upto Ward/Area Sabha level. (vi) Introduce effective grievance redressal system. (vii) Initiate innovative budgeting (viii) Apply Asset Management on the basis of classification valuation of assets along with assessment of revenue potential (ix) Initiate capacity building of stockholders.

Chapter I

INTRODUCTION

Municipal finances play a catalytic role in the development and growth of a city. Needless to say that availability of adequate revenue results in better governance and management of the city. However, even if there is a realization of its importance and need for more finances, this has not been able to fund the municipal infrastructure in a desirable manner. This has its own implications on the functioning of urban infrastructure. Henceforth, affects the economy of the state and nation as a whole.

According to the Twelfth CFC (Central Finance Commission) the fiscal situation of states is quiet grave, as their aggregate revenue deficit is over 2% of the GDP. This indicates that there is a reduced expenditure on the provision of infrastructure services in the state. However, the situation of Urban Local Bodies (ULBs) is no better. The total availability of funds at the municipal level is significantly lower than requirements.

Municipal Finance in India

The Constitution Amendment Act (CAA) of 1992 gave the ULBs the right to exist and perform functions for the development and growth of the urban local government. However, they still continue to be the creation of the State government. It is the State legislature that delegates functions to the ULBs and source of revenue, power and authority as listed in the Seventh Schedule of the Constitution. Consequently, the ULBs have a narrow tax authority and are subject to fiscal stress. This has become a more serious issue in the context of overall delivery of urban infrastructure. The Eleventh CFC, for 2000-2005 emphasized on need for the ULBs to raise revenue on their own for the provision of urban infrastructure through alternative source of generating revenue. The Twelfth CFC also recommended an incentive-based policy reform initiative to encourage the states to adopt fiscal reforms. This overall municipal finance scenario can be divided in the three inter related phases:

(1) Before, 74th CAA, the ULBs were dependent on the higher level of the government for the transfer of funds with miniscule amount or no accountability.

(2) The shift towards market based economy in the early 90's and New Public Management (NPM) required the ULBs to raise money on their own (Due to shortage of funds and growing focus on the cities as a spin off for the economic growth). This necessitated measure to improve the capability of the ULBs to undertake alternative methods for resource mobilization.

(3) In the late 90's, thrust began towards incentivising the whole effort for revenue generation under specialized programmes and Schemes launched by government of India and in a few cases state governments as well.

Fiscal Imbalance

Though, in this larger scenario of changing shift in the generation of revenue for ULBs, the result has not been very encouraging. Any investment in urban infrastructure is largely carried out through (1) Borrowing from the financing institution through soft loan under state government guarantee, or in a few cases through accessing the capital market. (2) National programmes like Jawahar Lal Nehru National Urban Renewal Mission (JNNURM) and. (3) through the process of Public – Private Partnership (PPP) in the provision of infrastructure services. It is observed that municipal revenue are not increasing commensurate with additional responsibility of O&M as a result of new investments. This is particularly important in the context of existing levels of revenue account deficit.

Focus on Internal Revenue

This situation brings back our focus on revenue mobilisation by ULBs to carry out operation and maintenance of urban infrastructure being created through new investments. This of course, requires a re-look into the own sources of revenue of the ULBs that constitutes largely through the tax sources and non - tax sources of revenue.

However, it is generally known that the municipal governments in the country are chronically short of funds *vis- a-vis* functional jurisdiction and the gap is observed to be growing acute with rapid growth in population and increased volume of economic activities undertaken in the urban areas. Studies in the past have indicated significantly large untapped potential of resources within the town which should grow commensurate with expansion of economic activities. However, the cities suffer from the problem of nevertheless, inadequate flow of funds.

Fiscal Gap

Requirement for municipal resources to bridge the gap in the municipal infrastructure are enormous on a modest assumption. These are in a range of 6 lakhs to 11 lakh crores during the 11th Plan period. However, the supply of funds is substantially low as compared to the requirement. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) provides funds in a range of 5 to 7 thousand crores rupees per annum which is only a small fraction of total annual requirements of Rs. 1.20 thousand to Rs. 2.20 thousand crores rupees.

Potential

On the other hand, Indian economy has vast potential to provide requisite funds. On an average only 0.5 to 1.0 % of GDP is available for municipal infrastructure whereas 3 to 5% of GDP can be made available from a developing economy like India.

It is in this context, imperative to identify suitable mechanisms for mobilization of own sources of municipal revenue. It is observed that the sources of the revenue assigned to the urban local bodies are largely inelastic. The situation thus warrants urgent remedial measures. The strategies have to be innovative so as to identify suitable instruments and modalities thereon to tap the potential of economy to fund municipal infrastructure. These should be identified in such a way that ULBs on their own are in a position to take suitable actions to mobilize requisite funds.

Objectives

The study on "Mobilization of Own Municipal Sources for the Urban Local Bodies" attempts to analyse potential of municipal own sources on the basis of realistic assessment of potential sources of revenue with specific objectives:

1. Efficient utilization of existing instruments, covering the taxes and not-tax source. This includes improvements in the work practices, identification of leakage through management and controls.
2. Identification of additional/ new revenue instruments of municipal own sources to enhance the kitty of municipal finance at local level and
3. Inter-governmental Action Plan to stimulate municipal own sources using appropriate placement of revenue instruments and fiscal transfers (from state and central government) as a seed capital to streamline revenue mobilisation capacity of ULBs with a particular reference to CFC devolution to ULBs.

Methodology

1. The study has been conducted for ten cities, selected from five states from different region of the country as given in table 1.1

Table 1.1
Sample cities for the study

Zone	State	Municipal Corporation	Municipal Council
East	Haryana	Faridabad	Karnal
West	Maharashtra	Navi Mumbai	Panvel
Central	Madhya Pradesh	Bhopal	Hoshangabad
North	Orissa	Bhubaneswar	Puri
South	Karnataka	Bangalore	Ramanagaram

2. Detailed information has been derived from respective municipal governments and state governments on necessary financial and fiscal parameters based on detailed format developed by IIPA for the study (Annexure 1). Municipal finance data has been collected for two reference years namely 2003-04 and 2007-08.

3. The sample towns have been visited along with a visit to state capital by the study team to collect requisite information as above and had discussions on a pre-designed format to have information on barriers and innovations in the mobilization of resources of the select cities (Annexure 2)
4. Specific discussions were also held with senior officials of the state government concerned to have state level information on the allocation of funds. (A list of persons contacted at the state and town level is enclosed in Annexure 3)
5. As the municipal finance data is fairly diverse, efforts have been made to analyze data under a common framework to identify issues or strategies for mutual feedback and experience sharing through analysis of data under a set of tables i.e. master table and base table (as given in the Annexure 4).
6. Population projection for the select cities and states is based on decadal growth rate during 1991 – 2001. Similarly, state GDP is taken to calculate city GDP on the basis of 60 percent of the state GDP converted into per capita state urban GDP which is used to estimate city GDP for the respective year (on the basis of projected population of the city in respective year).

This study gives overall fiscal scenario of the municipal finances and the malaise affecting the fiscal performance of the ULBs. The issues affecting their ability to mobilize resources are also analyzed. Therefore, it is attempted to suggest suitable measures to improve the revenue generation of the Urban Local Bodies (ULBs).

Organisation of Report

The report centrally focuses on six inter related chapters: Besides the Introduction, Second chapter covers an overview of municipal finances in the country and sample cities in terms of income expenditure differential; growth of revenue; per capita value both at current and constant prices. The third chapter discusses the role of own sources in the fiscal profile of the ULBs. This also covers importance and the position of own revenue sources in the process of revenue generation of the municipal bodies.

The fourth part of the report, discusses about the Financial Management, Monitoring and Control for own sources in the light of efficiency of Financial

Management system. In its fifth part, the report analyses the mobilization of external sources of revenue with a particular reference to devolution of funds by State Finance Commission and Control Finance Commission. The final part provides a roadmap to strengthen efforts for resource mobilization of own tax sources of the ULBs, taking into account local potential and use for fiscal transfers for efficient and optimal utilization of local revenue base. In this regard, an intergovernmental action plan has also been included in the final chapter.

Chapter II

OVERVIEW OF MUNICIPAL FINANCE

This section presents an overview of Municipal Finance among the selected towns with a view to analyse respective income and expenditure in a comparative manner covering the growth over a period of five years time frame i.e. 2003 to 2008 under alternative scenario. This includes historical perspective and fiscal gap, vertical and horizontal imbalance functional jurisdiction, income expenditure differential and pattern of revenue income and expenditure among sample towns.

Historical Perspective

Successive studies on municipal finance in India right from the studies conducted by National Institute of Urban Affairs (for Planning Commission in 1981 and for 8^{th} Finance Commission in 1983) up to RBI study on *Municipal Finance – An Assessment* (2007) have reaffirmed the existence of a fairly wide fiscal gap caused by a combination of vertical and horizontal imbalances. Whereas the revenue authority is declining, pressure on functions is increasing even at current levels of efficiency and coverage. Octroi, which used to be the main source of municipal revenue has been abolished without assigning a suitable alternative. This has created reduction of day to day liquidity and regular augmentation of municipal finance leading to a continual fiscal stress at municipal level. On the other hand, it is also noted by several studies that municipal infrastructure has a multiplier effect and benefits accrue to a range of stakeholders (World Development Report 1994).

Global Focus

Michael Cohen in World Bank Research Agenda for 90s argues for sharing global focus on cities as enabler of economies of scale and settlements. Further the issues of sustainability, climate change, equity, poverty (WSSD 1992 at Rio and 2002 at Johannesburg) Habitat Agenda (1996) and UN Millennium Development Goals (MDGs) have led to a consensus that national issues have local solutions. It is in this context that municipal finance has assumed further significance.

Indian Follow up

In line with the global focus, India also has given increasing attention on Municipal Finance. The VIII Central Finance Commission (1983) assigned specific study to understand the magnitude of backlog followed by specific attention by National Commission on Urbanisation. These initiatives led to special coverage on financial adequacy under the 74th CA Act wherein the Article 243Y made a revision for State Finance Commission and subsequently sub-clause (3) (C) was inserted in the Constitution to amend Article 280 to widen the Terms of Reference (TOR) of Central Finance Commission (CFC) to also devolve funds for urban local bodies.

Fiscal Gap – Revisited

A study by NIUA (1983) identified O&M gap to the tune of Rs 800 crores on the bases of Zakaria Committee (1963) norms updated to 1980 prices. Subsequently, investment requirements were identified as Rs 250000 crores by India Infrastructure Report in 1996. These were based on a larger study covering almost a census of municipal finance. This was, however, the first and last study of it's magnitude and all other estimates include in the country later are further projection of NIUA study. Most recently, estimates are given in RBI report (2007) (under the coordination of Dr. P. K. Mohanty) which has indicated a gap of Rs 63000 crores per annum to meet investment requirements of urban sector.

In addition, Government of India has recently constituted a high powered expert group to estimate investment requirements under the chairmanship of Ms I. J. Ahluwalia which includes professionals of international repute and recognition. This committee is yet to submit its report. However, the informal indications as given by this group reveal that actual backlog is abnormally high than earlier projections due to massive requirements of funds on account of a range of distributive functions (Poverty, Economy, Climate Change, Social Justice and routine gap).

Against this background, sky is the limit to accelerate supply of municipal finance. Secondly, it is also concluded that supply of funds for municipal finance is a task of multiple sources and not a single source or stakeholder alone. It is therefore, inevitable to have synergy and convergence among stakeholders and sources of funds to inject liquidity into the municipal finance.

As the investment requirements, the gap in the O&M of municipal infrastructure is equally high. It is two fold – (i) the existing gap, and (ii) gap on additional investments. Owing to non-excludable nature of most municipal infrastructure items, history of cost recovery conventional budgeting, accounting and internal control, the municipal governments are suffering from fiscal stress and resource crunch leading to a constant decline in the normative base of municipal infrastructures.

Vertical Imbalance

There is a mis-match between revenue authority and functional jurisdiction among ULBs in India. As observed is Table 2.1 (a) share of Municipal Revenue in GDP is near to one percent and share of municipal revenue and expenditure as part of total control, state and combined revenue is also significantly low. Similarly, share of municipal sector in the overall public expenditure is equally low-Table 2.1 (b). This clearly demonstrates the existence of vertical imbalance in the municipal finance in India.

Table: 2.1 (a)

Revenue Significance of Municipal Sector In India

Year	Municipal Revenue (Rs. Crore)	Percentage of GDP at Factor Cost	Relative share of Municipal Revenue (as per cent of Total Revenue of)		
			Central	State	Combined
1998-99	11515	0.72	4.4	4.1	2.5
1999-00	13173	0.75	4.2	4.4	2.5
2000-01	14581	0.77	4.2	4.5	2.4
2001-02	15149	0.73	4.1	4.2	2.3

Source: (i) Reports of Eleventh and Twelfth Finance Commission,
(ii) Economic Survey, GoI 2004-05.

Table 2.1 (b)

Expenditure Significance of Municipal Sector in India

Year	Municipal Expenditure (Rs. Crore)	Percentage of GDP at Factor Cost	Relative share of Municipal Expenditure (as per cent of Total Expenditure of)		
			State Government	Central Government	Combined State & Central Government
1998-99	12035	0.75	4.52	4.31	2.21
1999-00	14452	0.82	4.60	4.85	2.36
2001-01	15743	0.83	4.53	4.84	2.34
2001-02	15914	0.76	4.22	4.39	2.15

Source: (i) Reports of Eleventh and Twelfth Finance Commission
(ii) Handbook of Statistics on Indian Economy, RBI 2005-06

International Comparisons of Local Government Revenues

International comparisons of local government revenues relative to other tiers of government and relative to the country's GDP and presented in Table 2.2. It is noted that as compared to these countries, share of ULBs in India is significantly low. This further confirms high magnitude of vertical imbalance.

Table 2.2

Revenue Importance of Three Levels of Government, 1993-96

Country	Local government revenues as per cent of total government revenues	Local government revenues as per cent of GDP
Australia	5.21	0.02
Austria	17.43	0.10
Brazil	4.31	0.05
Canada	12.15	0.10
Germany	13.42	0.10
Mexico	5.58	0.01
South Africa	10.55	0.04
Spain	10.61	0.06
Switzerland	20.72	0.10
USA	15.87	0.09

Source: Ebel (2001)

Horizontal Imbalance

The historical data on municipal finance also indicates that horizontal imbalance is one of the main reasons for the declining levels of services (NIUA 1986). Horizontal imbalance is noticed across the states and size and class of towns (NIUA – 1989). It is also noticed that the mis-match between the funds and functions, erosion of tax base and constraints in the financial management lead to further scarcity of locally generated resources. Finally the vertical and horizontal imbalance leads to a constant shortfall of funds and fiscal stress at ULB level.

Municipal Finance in City Economy

As most significant and direct beneficiary of municipal infrastructure is city itself, we have analysed the size of municipal finance in the city economy. This needs to be noted and underlined that there is substantial scope to widen the revenue net of municipal governments among the Indian cities. Data on the ratio of municipal finance in the overall city income (Table 2.2) indicates that

I. Municipal income can undergo a quantum jump provided suitable revenue instruments are applied.

II. The share of municipal finance varies from 0.37% at Karnal and (2003-2004) to 7.10 % at Navi Mumbai in (2007-2008).

III. This confirms horizontal imbalance and also shows that the imbalance is relatively higher among towns with municipality status as compared to the Municipal Corporations.

IV. The cities have attempted various measures to raise or retain their size of municipal finance in almost all cases. There has been an increase in the size of municipal finance among eight cities and two cities (Bhopal and Panvel) show marginal decline during 2003-2004 to 2007-2008 (Table 2.3).

V. It is also noted that given an opportunity smaller towns can also generate relatively higher levels proceeds from municipal finance as achieved by Panvel (Mumbai – Metro Region), and Karnal (NCR). However, Faridabad with lower slabs is an exception in NCR due to relatively weak functional jurisdiction as well as land and housing being handled by state/ Prastatal agency.

Table no 2.3
Municipal Income as Percentage of City GDP

Cities	Rev income as % to city GDP	
	2003-04	2007-08
Bangalore	1.93	2.97
Bhopal	1.91	1.64
Bhubaneswar	0.67	0.94
Faridabad	0.66	0.86
Hoshangabad	0.73	0.82
Karnal	0.37	0.58
Navi Mumbai	6.54	7.10
Panvel	2.51	2.09
Puri	0.47	0.70
Ramanagaram	0.53	2.80
All	1.88	2.43

Source: Base Table 2.1

Functional Jurisdictions

In India, the municipal functional domain has undergone a significant change after the 74th Constitution Amendment Act, wherein under Article 243W functions have been listed under 12th Schedule (Box 2.1). However, *De-Jure* and *De-facto* application of these functions show a significant variation. Either these functions are not assigned to local governments and, if assigned, suitable financing mechanism has been not evolved (Table 2.4)

Table 2.4
***De facto* and *De-Jure* Application of Municipal Functions**

Functions	***De-Jure***	***De facto***
Towns Planning & Land Development	All	• Either State or Local Level specific agency • Building license fee with ULBs
Water	All	Except for Bangalore and Karnal
Solid Waste Management	All	All
Roads & Management	All	ULBs Development Agencies
Slum Improvement & Poverty Alleviation	All	All
Preparation of Development Plan	All	State Line Agency/ Local Agency
Death & Birth Registration	All	All
Environmental Protection	All	Not developed as specific function

It may be noted from Table 2.4, that:

I. Municipal functions are four fold namely utility services; regulatory services and development functions.

II. Most municipal services with specific reference to distributive functions are non-excludable and are not directly priced.

III. Benefit of these functions accrues to a cross section of stake-holders covering direct users, local community, city, state and nation as a whole.

Box 2.1

Functional Jurisdiction of ULBs

TWELFTH SCHEDULE: (Article 243W)

1. Urban planning including town planning.
2. Regulation of land-use and construction of buildings.
3. Planning for economic and social development.
4. Roads and bridges.
5. Water supply for domestic, industrial and commercial purposes.
6. Public health, sanitation conservancy and solid waste management.
7. Fire services.
8. Urban forestry, protection of the environment and promotion of ecological aspects.
9. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.
10. Slum improvement and upgradation.
11. Urban poverty alleviation.
12. Provision of urban amenities and facilities such as parks, gardens, playgrounds.
13. Promotion of cultural, educational and aesthetic aspects.
14. Burials and burial grounds; cremations, cremation grounds and electric crematoriums.
15. Cattle pounds; prevention of cruelty to animals.
16. Vital statistics including registration of births and deaths.
17. Public amenities including street lighting, parking lots, bus stops and public conveniences.
18. Regulation of slaughter houses and tanneries.

Normative Base of Municipal Services

As may be seen from the normative base of municipal services, the implications of vertical and horizontal gap are clearly visible in terms of wide scope for expansion and upgradation of municipal infrastructure (Table 2.5). It may be noted that:

(i) No city but part of Navi Mumbai has access to 24x7 supply of water.

(ii) Quality of water is no different than other cities whereas people use their own system for purification of water.

(iii) The treatment of SWM (Solid Waste Management) is fairly low and largely based on open dumping.

(iv) Roads appear to be largely handled by ULBs but related services such as footpath, over bridge, underpass, social forestry, condition of pavement are fairly poor.

(v) Public conveniences are not adequately provided.

Income Expenditure Differentials

Income Expenditure Differentials (IED) among sample towns for the year 2003-2004 and 2007-08 is analysed in Table 2.5. It is worth mentioning that:

Table 2.5
Income Expenditure (IE) Differential (DIF) (+ -) at Sample ULBs

(Rs. In Lakhs)

	2003-04		2007-08	
CITIES	Income expenditure (IE) differential (DIF)(Rs)	DIF as % of Municipal Revenue Income(MRI)	Income expenditure (IE) differential (DIF)(Rs)	DIF as % of Municipal Revenue Income(MRI)
Bangalore	12449.51	28.59	44698.79	44.07
Bhopal	6255.87	55.00	724.08	5.28
Bhubaneswar	-6.34	-0.19	-1359.84	-17.80
Faridabad	1835.94	28.43	-2572.63	-18.30
Hoshangabad	34.71	11.56	3.70	0.78
Karnal	155.93	19.82	402.28	18.84
Navi Mumbai	14571.9	51.47	35611.47	63.75
Panvel	391.69	26.14	-86.14	-4.14
Puri	13.83	2.64	243.08	21.99
Ramanagaram	-0.28	-0.15	351.62	56.70
All	35702.76	37.08	78298.98	39.27

Source: Base Table 2.2

1. Larger cities, with sound economies have better fiscal strength and also have significant amount of surplus which is evident from Navi Mumbai and Bangalore reference years. These towns show revenue account surplus in a range of 29 to 64% of revenue income. This also provides them an opportunity to make investments for capital projects on municipal infrastructure. Therefore, these towns have been able to use revenue account transfers to take up important capital projects.
2. On the other hand, smaller towns appear to have negative growth of Income/ Expenditure differential as observed at Ramanagaram, Puri, Panvel, Hoshangabad and Karnal. This confirms their poor financial health.
3. Income and expenditure have shown a great degree of variation leading to surplus and deficit in 2003-2004 and 2007-2008. Six towns showing surplus in 2003-2004, have shown deficit in 2007-2008. This is caused by delayed availability of funds or expenditure on last year's commitments made out of opening balance etc.
4. Although, ULBs are expected to prepare a surplus budget as per respective Municipal Act, in practice, revenue income fall short of revenue expenditure for 2 towns in 2003-04 and 3 towns in 2007-08. This short fall is covered by funds from opening balance which may be due to delayed receipt of transfers from state or shortfall in collection of revenue.

Pattern of Revenue Growth

The growth of Municipal finance is examined in terms of growth of revenue income and expenditure and also in real terms taking into account growth in population and prices for respective towns.

ACGR

Table 2.7 analyse the annual compound growth rate during 2003-2008 wherein it is observed that:

I. All the sample towns are making significant efforts to increase their revenue.

II. Annual Compound Growth Rate (ACGR) of revenue income and revenue expenditure is in a range of 4 to 35 per cent during 2003-2008.

III. On the whole ACGR of expenditure is lower than revenue income indicating that part of revenue is also used as deposits to meet unexpected short fall of revenue.

IV. ACGR of 6 town show lower level of revenue growth as compared to expenditure these include Bhopal, Bhubaneswar, Faridabad, Hoshangabad, Karnal and Panvel. This confirms a fiscal stress which ultimately affects normative base of infrastructure

Table 2.6
Annual Compound Growth Rate (ACGR) of Revenue Income and Expenditure among Sample Cities

Cities	Income ACGR	Expenditure ACGR
Bangalore	18.42	12.78
Bhopal	03.83	20.49
Bhubaneswar	18.33	22.22
Faridabad	16.83	29.19
Hoshangabad	09.71	12.27
Karnal	22.11	22.41
Navi Mumbai	14.56	08.06
Panvel	06.81	14.41
Puri	16.09	11.06
Ramanagaram	34.64	07.47
All	15.68	14.89

Source: Base Table 2.3 a & b

I. Except for Navi Mumbai (Rs. 4570) and Bangalore (Rs. 1754) all other towns show per capita revenue significantly lower than average base Rs 1646 in 2007-08. This confirms inverse relationship between municipal finance and high productivity zone of Navi Mumbai, Panvel and Bangalore (Table 2.7).

II. Pattern of per capita revenue expenditure in real terms confirms that revenue gains are adequately transferred to meet expenditure requirements.

III. Navi Mumbai and Bangalore appear to have fairly large surplus on current account which gives them an opportunity to improve quality and quantity of municipal infrastructure as per their functional jurisdiction.

IV. On the whole municipal revenue and expenditure have gone up significantly in real terms showing positive efforts taken by stakeholders to raise budget funding.

Table 2.7
Per Capita Revenue Income and Expenditure in Real Terms (Rs)

Cities	Per capita revenue income			Per capita revenue expenditure		
	2003-04	2007-08		2003-04	2007-08	
	Current prices	Current prices	Constant prices	Current prices	Current prices	Constant prices
Bangalore	807.47	1754.40	1429.84	576.59	981.16	799.65
Bhopal	731.13	783.77	638.77	328.98	742.41	605.06
Bhubaneswar	434.77	836.05	681.38	435.60	984.90	802.69
Faridabad	520.78	911.68	743.02	372.72	1078.52	879.00
Hoshangabad	280.45	393.05	320.33	248.03	390.00	317.85
Karnal	292.71	613.06	499.65	203.68	497.58	405.53
Navi Mumbai	3175.12	4570.31	3724.80	1540.96	1656.51	1350.06
Panvel	1215.85	1348.98	1099.42	898.01	1404.77	1144.89
Puri	309.21	628.28	512.05	301.05	459.01	374.09
Ramanagaram	221.93	911.41	742.80	222.26	295.66	240.96
All	909.11	1646.24	1341.69	571.19	999.80	814.83

Source: Base Table 2.4 a & b

Composition of Revenue Income

Composition of Revenue Income in terms of own sources and external sources is given in table 2.8. As has been generally known, this study also shows that

Table 2.8
Composition of Revenue Income (%)

Cities	2003-04		2007-08	
	Own sources	External sources	Own sources	External sources
Bangalore	86.14	13.86	67.20	32.80
Bhopal	36.90	63.10	41.28	58.72
Bhubaneswar	18.92	81.08	49.82	50.18
Faridabad	77.18	22.82	73.50	26.50
Hoshangabad	20.65	79.35	27.05	72.95
Karnal	62.06	37.94	67.12	32.88
Navi Mumbai	98.89	01.11	99.62	00.38
Panvel	32.34	67.66	45.94	54.06
Puri	26.55	73.45	16.43	83.57
Ramanagaram	49.29	50.71	20.89	79.11
All	79.54	20.46	73.82	26.18

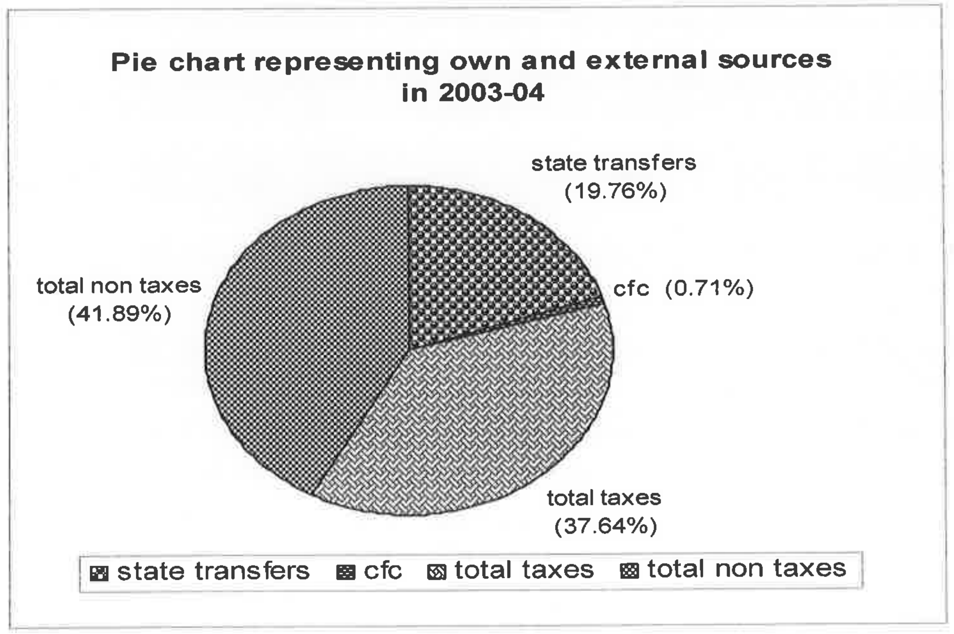
Source: Base Table 5

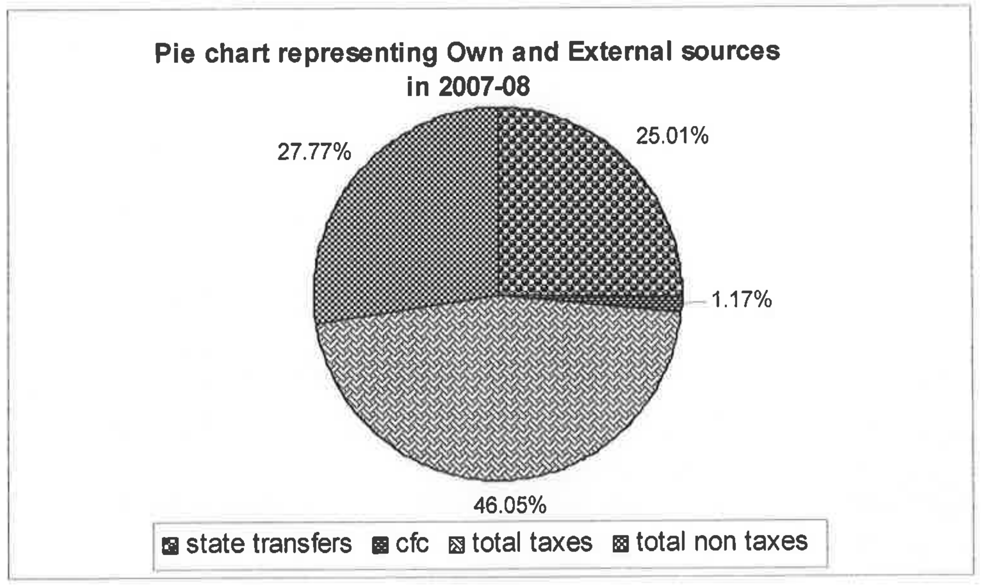
I. External sources play an important role to provide municipal finance under current account fund. On the whole the share of own sources (excluding Navi Mumbai and Bangalore) in the municipal revenue is in a range of 67 to almost 100 per cent) during 2003-2004 and 2007-2008 (Table- 2.8).

II. However, data also show, 60% and above share of own sources for Navi Mumbai, Bangalore, Faridabad and Karnal.

III. Fiscal performance of four towns (above 60%) shows that revenue instruments of own sources among these cities have better capacity to mobilize funds for municipal finance. These include Cess, Property Tax, Local Area Tax and Advertisement fee etc. (Faridabad/ Karnal).

Chart 2.1





Analyses of Revenue Expenditure

Revenue expenditure has been analyzed in terms of major components such as establishment and operations and maintenance. Table 2.9 shows that

I. On the whole a majority of expenditure is incurred towards meeting establishment costs including the salaries and related expenditure however, share of establishment costs among individual towns vary significantly due to variation in the functional domain and involvement of multiple agencies to handle various municipal services at different places.

Table 2.9
Composition of Revenue expenditure (%)

Cities	2003-04		2007-08	
	Total establishment cost	**Total O&M**	**Total establishment cost**	**Total O&M**
Bangalore	50.92	49.08	47.77	52.23
Bhopal	70.05	29.95	45.88	54.12
Bhubaneswar	36.71	63.29	17.94	82.06
Faridabad	79.41	20.59	33.39	66.61
Hoshangabad	53.29	46.71	70.78	29.22
Karnal	79.42	20.58	44.87	55.13
Navi Mumbai	20.00	80.00	22.27	77.73
Panvel	43.02	56.98	29.44	70.56
Puri	14.96	85.04	31.34	68.66
Ramanagaram	60.07	39.93	62.46	37.54
All	46.81	53.19	38.74	61.26

Source: Base Table 2.6

II. Revenue expenditure, however, has shown an increase among all the towns in term of per capita spending at constant prices. Increase in the per capita expenditure is recorded in both the segments of revenue expenditure i.e. Establishment and O&M.

Finally it is evident that municipal finance has vertical and horizontal imbalance causing a fiscal stress at local level. Implications of the fiscal stress are visible in the normative base of municipal functions which show wide gap and scope for expansion and upgradation of municipal infrastructure. At the same time, it is also noted that the scope to raise additional funds is fairly – wide in terms of potential resources in the overall national state economy and the city economy as well. At the same time, it is also noted that own sources appear to have a prominent role to provide municipal finance and therefore, own sources need specific attention to raise municipal revenue at a minimum desirable level.

CHAPTER III

STATUS AND POTENTIAL OF MUNICIPAL OWN SOURCES

This section examines the municipal own sources among sample cities with a view to identify their composition, role, adequacy and ability to raise local revenue. As noted in the preceding analyses own sources assume a critical role to finance municipal expenditure and thereby also determine the adequacy of municipal infrastructure. At the same, it is also normally observed that own sources suffer from vertical and horizontal imbalances connected with inadequate devolution of revenue raising powers and inability to tap local resources. Therefore, the own sources of sample towns have been analysed in terms of their composition of growth pattern, structure and ability to raise funds from city as a whole accordingly.

Economic Perspective of Municipal Own Sources

As indicated in the preceding chapters, municipal infrastructure has a multiplier effect on the economy in terms of its value added role and higher rate of return on productivity. These benefits accrue to a large number of beneficiaries. Many of these services are considered as local public good such as water, roads, parks, street light, and community services etc., although, at times, these are subject to both individual as well as collective consumption. Therefore, municipal infrastructure is both 'excludable' and 'non-excludable' in nature.

On the whole, the municipal infrastructure has a range of stakeholders who finally constitute a potential user group and also a resource pool which should be used to raise requisite funds.

Resource Pool and Instruments of Own Sources

, Various instruments of own sources have a direct link with the beneficiaries/users/stakeholders/resource pool which have potential to provide requisite funds for municipal finance. The typology of resource pool along with respective revenue instruments as emerging from sample towns is given in Chart 3.1. Revenue powers assigned by the state Municipal Act are given in annexure 5

Chart 3.1

Taxes and Non – Tax Instruments levied in selected towns

Towns	Tax Sources	Non-Tax Sources
Bangalore	Property tax, Advertisement tax	Fee & Fines, License Fee, Service charges, Service Charges from Toilets, Receipts from Corporation properties.
Bhopal	Property tax, Water tax, Conservancy tax, Lighting tax, Profession tax, Advertisement tax	Fees and uses charges, Sale and Hire charges, Entry Fee, Development Charges, License Fee, Regularization Fee
Bhubaneswar	Property tax, Water tax, Vehicle tax, Tax on Animals, Sewerage tax, Advertisement tax, Conservancy tax, Education tax, Latrine tax, Light tax, Tax on Carriage & Cart	Fee and Uses charges, Sale and Hire charges, License Fees
Faridabad	House/Property/Holding Tax, Fire tax, Show tax, Vehicle tax, Professions tax	Water rate, Electricity duty, Development charges, Advertisement Fee, Building Application Fee, Teh Bazari Fee, Sewerage Charges,
Hoshangabad	Property tax, Consolidated tax	Water charges, Shop rent, Education cess
Karnal	Property tax, Fire tax, Show tax, Motor tax	Stamp duty, Development charges, Road cutting charges, Rent and Shops
Navi Mumbai	Property tax, Cess	Development charges, Water charges, Hospital charges, Environmental charges, License Fees, Drainage connection charges, Road Cutting Charges
Panvel	Property taxes, Water tax, Tree tax, Drainage tax, Dog tax, Education tax, Show tax, Vehicle & Animal tax, Special education tax	Parking fees, Hawkers fees, Notice fees, Warrant fees,
Puri	House tax, Vehicle tax, Animal tax, Light tax, Holding tax	Fees from Municipality events/Property user charges fee, License fees
Ramanagaram	Property tax	Rent, User charges, Sale and Hire charges

(i) City economy is the largest pool of funds available in the city which reflect the benefits of Economic Rate of Return (which are reported to be as high as 28 to 30 as per the World Bank Studies- *World Development Report* 1994), and economies of scale and economies of settlements. (Michael Cohen-World Bank strategy paper for 90's). This is measured in terms of benefit to business, industries, trade and community at grass-root level.

(ii) The instruments available with local governments to tap city economy are a few covering "Cess" as a substitute of octroi (at Navi Mumbai); Local Body Tax (as proposed in Maharashtra (similar to Cess) to be levied on entry of goods and charged at entrepreneur level *Niryat* (Export) tax (in Madhya Pradesh) and Surcharge on Electricity consumption (Haryana). These are, however, not widely applied and city economy as a whole is not directly used for raising municipal revenue.

(iii) Yet, another resource pool to tap city economy is constituted by individuals/community groups who have scope for resource transfer as part of their social commitments/concern which is popularly known as local elasticity. The Municipal governments access these groups through space and recognition for creation of assets, involvement in the budgeting and providing matching or partial contribution to motivate them to join municipal efforts to expand and upgrade municipal infrastructure. There are only initial steps on local elasticity in some of the sample towns. Couple of innovation have emerged elsewhere such as *Janambhumi* (Andhra Pradesh), Participatory funding (Indore), *Namakkenamethetta* (Tamilnadu) etc. to bring the local elasticity for municipal services.

(iv) The second pool of resources is constituted by Value added role of municipal infrastructure. This is measured in terms of benefits to land and property values and is also known as land value gains. Property Taxes are main instruments to tap this pool of resources.

(v) Stamp Duty is another instrument of second pool which is levied by State Governments on transfer of property which has inbuilt component of land value gains. In certain cases (for example Karnal and Faridabad in Haryana) it is transferred as a percentage of collection from respective town. In this case, it is a *de facto* local revenue, although in practice, it is transferred by respective state. Building License Fee, which is collected by ULBs also falls in this category. Advertisement fee is another instance to capture advertisement potential of respective location which reflects land value gains of respective site.

(vi) The third pool of revenues is composed of sale/transfer/use of municipal services and assets. This is measured in terms of user charges, fee, partnerships, rents, fines etc. This category also cover partnerships on account of use, operate and own municipal assets or right to manage the assets. A range of modes of Public Private Partnerships such as divestiture, contracting out, leasing financing etc. fall under this category. Navi Mumbai is using private sector for O&M of water supply including revenue collection. Community toilets, garbage collection, segregation centres, transportation, etc. are common activities used by sample towns. This brings efficiency in revenue mobilisation (savings) and expenditure.

Application of Municipal Own Sources

Historically, the own sources of municipal revenue are grouped under two broad categories namely (i) Taxes and (ii) Non-tax sources. These are mobilised under different fiscal instruments which are assigned to local governments by higher level of governments. In India, own sources are delegated by state (provincial) governments to urban local governments as may be determined by respective state Municipal Acts. Chart 3.1 gives a list of taxes and non – tax sources levied by selected towns and shows that:

Chart 3.1

Municipal Resource Pool for Municipal Resources

Resource Pool/ Beneficiary/Users	Characteristics	Instruments Applied
City Economy Economies of Scale/settlements Local Elasticity Pressure/community Groups	• Business/Trade • Industry Fiscal Sufficiency at Individual/group/community level Charitable Activities/Social concern	• Cess • Local Body Tax • Profession Tax • Surcharge on Electricity consume • Space & Recognition • Seed Capital • Participatory Funding
Value Added Role/Land Value Earnings	• Land and Houses • Flats • Commercial spaces • Industrial Estates	• Property Tax(PT) Other taxes of PT family • Stamp Duty • Building License Fee • Advertisement Fee • Development Charges/ Exaction/Impact Fee/Betterment Levy
Sale/Transfer/Use of Municipal Sources/Assets	Water, Roads Building License Death & Birth Registration Parking Street cleaning, Public Convenience	• Tax on vehicle/carriage and carts • Tax on Animals • Road Cutting Charges • User Charges (Water, Sewage, Road) • Fee • Rents/Fines • Partnerships

i) Application of own sources show a great deal of variation from state to state in the sample used for the study.

ii) Although a range of tax and non-tax instruments are levied, it is only one or two instruments which occupy predominant share of tax income and non-tax sources.

iii) Property Tax, across the cities, occupies the most important place among municipal tax sources.

iv) In addition, Cess at Navi Mumbai which is used as substitute to octroi, water charges, building license fee, parking fee, advertisement fee etc. are important non-tax sources.

Size of Municipal Own Sources

Data from sample towns confirm the dominance of own sources to finance revenue expenditure and constitute overall billing of municipal finance. The following things emerge from Table 3.1:

Table 3.1
Role of own sources in Revenue and Expenditure

Cities	Own sources as % Revenue income		Own sources as % Revenue expenditure	
	2003-04	2007-08	2003-04	2007-08
Bangalore	86.14	67.90	120.63	121.41
Bhopal	36.90	41.28	82.00	43.58
Bhubaneswar	18.92	49.82	18.89	42.29
Faridabad	77.18	73.50	107.84	62.13
Hoshangabad	20.65	27.05	23.35	27.27
Karnal	62.06	67.12	77.41	93.70
Navi Mumbai	98.89	99.62	203.77	274.86
Panvel	32.34	45.94	43.79	44.12
Puri	26.55	16.43	27.27	22.49
Ramanagaram	49.29	20.88	49.21	64.39
All	80.58	73.82	132.53	122.06
Excluding Bangalore and Navi Mumbai	45.33	54.23	70.33	51.65

Source: Base table 3.1 a

(i) On the whole, own sources without Bangalore and Navi Mumbai constitute around half of municipal finance representing 45% in 2003-04 and 54% in 2007-08. However, it shows a great deal of variation among individual towns. Share of own sources, at Bangalore and Navi Mumbai, is recorded in a range of 66 to almost 100 % of revenue.

(ii) Data also shows that larger cities have better access to revenue mobilisation through own sources. Navi Mumbai, Bangalore, Faridabad, Bhubaneswar, Karnal and Bhopal have larger share of municipal revenue coming from their own sources.

(iii) It is equally important to note that the municipal own sources finance only 133% (2003-04) and 122% (2007-08) of municipal expenditure. However, without Navi Mumbai and Bangalore, this share has further declined to 70 and 52 per cent respectively.

(iv) It is specially important to observe that the size of own sources at Navi Mumbai, Faridabad (except for 2007-08) and Bangalore exceeds the size of revenue expenditure indicating a fiscal balance/surplus which can be used for investments and project development activities. These towns show relatively large number of development projects which are normally not attempted by other ULBs. (Box-3.1)

Box – 3.1
Innovative Projects

During 2007 – 08 Bangalore reported surplus amount of Rs. 124 crore; Rs. 18 crore in Faridabad ; and Rs. 145 crore in Navi Mumbai. As a result, these towns these towns have been able to take up infrastructure projects pertaining to municipal infrastructure.

Banglore

- Construction of underpasses, flyover, bridges, identification of 21 important corridors(C 12).
- Reconstruction of storm water drains, installation of STPs., Solid waste collection has brought to BBMP.
- Green Bangalore initiative through conservation of lakes, tree plantation, beautification of urban spaces, solar lighting, development of parks, recycling solid waste
- Parking through PPP.
- Other welfare measure/ schemes were taken up such as financial support for education, professional training to weaker sections of society, giving assistance to physically and mentally challenged by opening service centres, dwelling units for backward classes.

Navi Mumbai

- It has won Sant Gadge Baba Nagari Swachta Abhiyan for best management practices in water supply, solid waste management, Sewerage, Public Toilets, health Services, town planning, beautification, slum improvements and tree plantation and gardening during 2007
- Received first National Urban Water Award 2008 , 24x7 water supply from MoUD Government of India for distribution of water connections up to 5th floor directly, including urban poor, replacement of old machinery .
- The NMMC has reengineered average system of in gravity flow. This has saved appreciable cost of electricity and O& M cost.

Faridabad

- FMC has been able to take up development of parks, plantation of tree.
- Construction of footpaths, roads, storm water drains.

(v) This also means that all other towns fail to mobilise requisite funds through own sources to meet revenue expenditure. This also reaffirms the existence of vertical imbalance which needs to be attended through further actions on fiscal decentralisation.

Potential of Municipal Own Sources

As the benefits of municipal infrastructure accrues across a range of stakeholders. The potential of own sources is fairly vast as emerge from the following table-3.2

Table 3.2
Share of Own Sources as Percentage of City GDP

Cities	own sources % to city GDP	
	2003-04	2007-08
Bangalore	1.66	2.02
Bhopal	0.70	0.68
Bhubaneswar	0.13	0.47
Faridabad	0.51	0.63
Hoshangabad	0.15	0.22
Karnal	0.23	0.39
Navi Mumbai	6.47	7.07
Panvel	0.81	0.96
Puri	0.13	0.12
Ramanagaram	0.26	0.32
All	1.49	1.79

Source: i) Master table ii) CMIE data iii) Base table 3.2

Table 3.2 indicates the share of own sources as compared to total city income; It is worth noting that:

(i) Across the sample towns, the performance of own sources as a whole as part of city income has been improving (except for Puri which shows a marginal decline) in a 2003-04 to 2007-08.

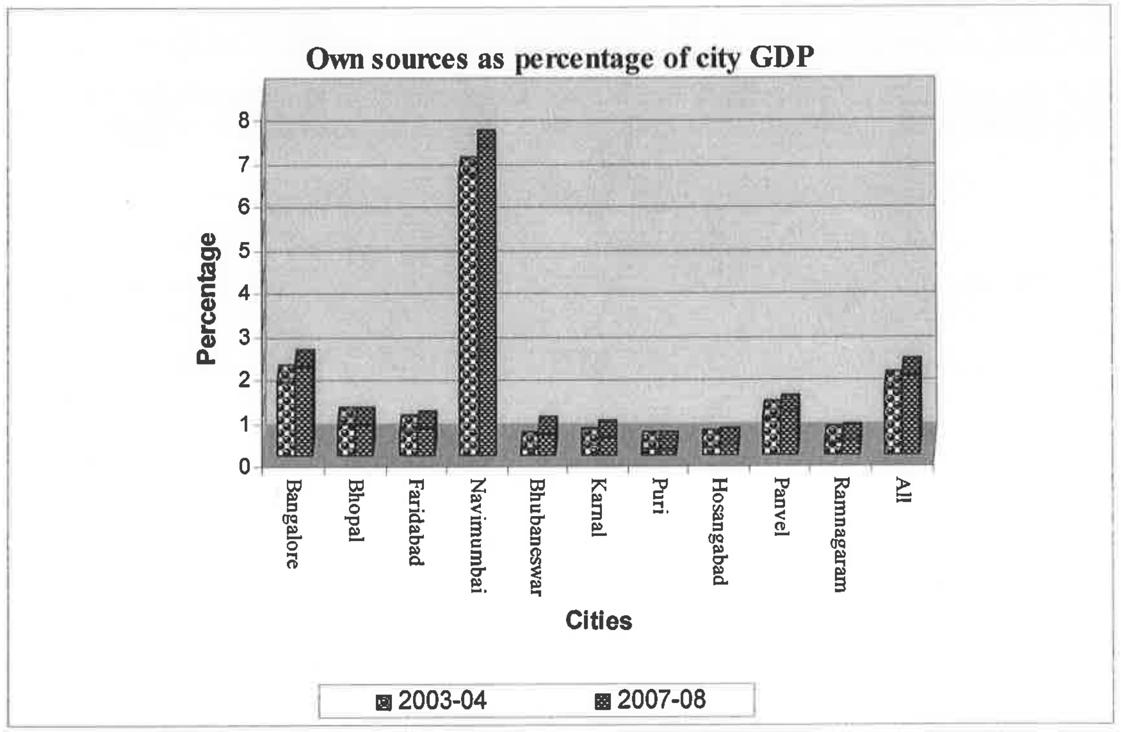
(ii) On the whole share of own sources as part of city income is recorded as 1.49% and 1.79% during 2003-04 and 2007-08 respectively.

(iii) It is further noted that potential utilisation of city income could be as high as 6.47% and 7.07% in 2003-04 and 2007-08 as reported by city of Navi Mumbai followed by Bangalore Municipal Corporation (1.66% - 2.02% in 2003-04 & 2007-08 respectively).

(iv) The data also show that most of towns (except for Navi Mumbai and Bangalore) fail to tap city economy. Despite positive efforts by towns to increase own source revenue, the share of own sources among these towns remain lower than one percent of city income only.

(v) This also confirms horizontal imbalance and disparities in the taxation/revenue raising powers as well as tax and fiscal administration at town level.

Graph 3.1



Adequacy of Own Sources

As stated earlier, there is a large potential to expand the own sources within a city. This gap has special significance, if examined, in the light of adequacy of own sources, as compared to the requirements.

Table 3.3
Funding of O&M and establishment cost by own sources

Cities	2003-04		2007-08	
	Own sources as % of total o&m exp	Own sources as % of total Estb exp	Own sources as % of total o&m exp	Own sources as % of total Estb exp
Bangalore	245.76	232.47	236.91	254.14
Bhopal	273.83	080.53	117.05	094.99
Bhubaneswar	029.84	051.54	051.45	235.71
Faridabad	523.88	093.28	163.04	186.06
Hoshangabad	050.00	093.32	043.82	038.52
Karnal	376.17	169.96	097.46	208.84
Navi Mumbai	254.69	353.61	1019.07	1234.14
Panvel	076.84	062.52	101.79	149.85
Puri	032.06	032.75	182.26	071.76
Ramanagaram	123.25	171.50	081.92	103.09
All	237.67	198.76	273.61	314.29

Source: Base table 3.3

Table 3.3 indicates funding of O & M and establishment activities by own sources and reveals that:

(i) Field level data confirms existence of fiscal stress at town level. Almost all the towns except for Navi Mumbai and Bangalore have recorded shortage of own source funds in either of the two reference years to meet the O&M or establishment commitment. This situation affects the liquidity status and adequacy of O&M activities.

(ii) In particular, own source capability to fund O&M expenditure among six towns (except for Navi Mumbai, Panvel, Puri and Bhubaneswar) has declined, which has direct impact on the municipal ability to fund innovative projects.

(iii) During the year 2007-08, three towns namely Bhopal, Hoshangabad and Puri show their inability to mobilise own sources even to fund establishment leaving aside the burden of O&M expenditure.

Composition of Own Sources

Information from sample towns indicates the relative weight of own sources under two broad categorise of taxes and non-tax sources.

Table 3.4
Composition of own sources during 2003-04 and 2007-08

Cities	2003 – 04		2007 - 08	
	Taxes	Non taxes	Taxes	Non taxes
Bangalore	58.16	41.84	67.34	32.66
Bhopal	50.43	49.57	61.17	38.83
Bhubaneswar	54.81	45.19	27.01	72.99
Faridabad	18.08	81.92	32.98	67.02
Hoshangabad	61.30	38.70	76.59	23.41
Karnal	66.27	33.73	19.00	81.00
Navi Mumbai	36.34	63.66	65.64	34.36
Panvel	53.81	46.19	51.54	48.46
Puri	28.83	71.17	38.66	61.34
Ramanagaram	55.84	44.16	47.48	52.52
All	46.72	53.28	62.38	37.62

Source: Base table 3.4

Table 3.4 giving share of taxes and non-tax sources in the municipal income in 2003-04 and 2007-08 shows that:

(i) Share of taxes exceeds half of the municipal own sources among most of the towns in 2003-04 except for Navi Mumbai, Faridabad and Puri. The three towns, as mentioned earlier, however, have improved the share of taxes in 2007-08.

(ii) Couple of towns have made significant improvement in the share of taxes. These include Puri, Navi Mumbai, Hoshangabad, Bhopal, Faridabad and Bangalore.

(iii) Upward shift in the size of taxes is also due to financial management reforms at Bangalore, Bhubaneswar, Karnal, Navi Mumbai which include GIS application (Bangalore, Navi Mumbai), Double Entry Accounts System (Almost all towns), Assets Management System and application of local economy based tax by Navi Mumbai.

Composition of Taxes

The composition of taxes reaffirms overwhelming dominance of Property Taxes as a tool to capture value added role of municipal infrastructure.

Table 3.5
Composition of Taxes among the sample towns in 2003-04 and 2007-08

Cities	Property tax	Other tax	Property tax	Other tax
	2003-04		2007-08	
Bangalore	91.05	8.95	89.84	10.16
Bhopal	56.24	43.76	90.19	9.81
Bhubaneswar	94.14	5.86	81.28	18.72
Faridabad	98.40	1.60	99.72	0.28
Hoshangabad	45.40	54.60	34.58	65.42
Karnal	72.55	27.45	82.08	17.92
Navi Mumbai	14.67	85.33	42.63	57.37
Panvel	100.00	0.00	90.39	9.61
Puri	100.00	0.00	85.33	14.67
Ramanagaram	100.00	0.00	100.00	0.00
All	67.70	32.30	71.27	28.73

Source: Base table 3.5

As may be seen in Table 3.5 that:

(i) Property tax (which also includes a range of taxes of PT family being Water Tax, Sewerage Tax etc.) is the main stay of municipal finance from taxes and constitute 68% share in 2003-04 and 71% in 2007-08 respectively.

(ii) It is, equally, important to note that smaller towns have not been able to maintain the share of property tax.

(iii) It is also noted from Table 3.5 that share of non tax sources has gone up in case of Bangalore, Bhubaneshwar, Hoshangabad, Panvel and Puri, which is due to innovative non-tax instruments applied by these towns covering advertisement fee, development of municipal data base and administrative efficiency. (Box- 2)

Box – 3.2
Optimum use of Own Sources

Banglore, Bhubneshwar, Hoshangabad have been able to update inventory of assets for efficiency. They have made optimum use of the existing resource pool of taxes such as Advertisement Tax, charges on municipal infrastructure/ assets such as parks, roads etc. These towns also have developed data base and efforts are made to complete listing of houses. Hoshangabad has also resorted to innovative taxation through hawker/vendor fee. This has provided additional income to the ULB.

Growth Pattern of Own Sources

Annual compound growth rate (AGCR) of own sources is analysed in Table 3.6 taking into account the corresponding increase in overall revenue and revenue expenditure.

Table 3.6

AGCR of Own Sources, Revenue Income and Expenditure during 2003-04 and 2007-08

Cities	Own sources	Revenue income	Revenue expenditure
Bangalore	12.92	18.42	12.78
Bhopal	6.19	03.83	20.49
Bhubaneswar	43.60	18.33	22.22
Faridabad	11.54	16.83	29.19
Hoshangabad	15.80	09.71	12.27
Karnal	24.04	22.11	19.39
Navi Mumbai	14.72	14.56	8.06
Panvel	14.58	06.81	14.41
Puri	6.86	16.09	11.06
Ramanagaram	13.40	34.64	7.47
All	13.67	15.68	14.89

Source: Base table 3.6

It is important to note from Table 3.6 that:

(i) On the whole, growth of the own sources (14%) is lower than the growth of overall revenue income and revenue expenditure which have grown 16% and 15% respectively. This analysis confirms vertical and horizontal imbalance in the municipal finance.

(ii) It is also noted that growth of own sources among 6 towns is more than average growth (except for Faridabad, Puri and Bhopal). Similarly, revenue income has recorded above average growth among 6 towns.

(iii) The growth of own sources as compared to the growth of revenue expenditure is lower among most of the towns except for Bhubaneshwar, Hoshangabad and Panvel. This shows that corresponding increase in the own sources, is not happening among concerned towns, Therefore, the own sources deserve special attention across the towns.

Growth of Tax and Non-tax

The growth rate of taxes and non-taxes are given in Table-3.7 and 3.8.

It is important to note that:

Table 3.7
ACGR of Taxes during 2003-04 and 2007-08

Cities	ACGR of Taxes		
	Property tax	Other tax	Total taxes
Bangalore	15.97	19.26	16.28
Bhopal	21.29	-18.16	10.36
Bhubaneswar	21.04	57.26	24.65
Faridabad	26.12	-11.11	25.78
Hoshangabad	14.66	25.53	21.07
Karnal	-0.97	-11.28	-3.38
Navi Mumbai	59.83	19.27	29.13
Panvel	11.32	0.00	13.58
Puri	9.78	0.00	13.32
Ramanagaram	9.78	0.00	9.78
All	21.68	17.64	20.43

Source: Base table 3.7

Table 3.8
ACGR of non taxes

Cities	ACGR Of Non Taxes		
	Water charges	Others	Total
Bangalore	0.00	7.46	7.46
Bhopal	0.10	3.86	1.13
Bhubaneswar	0.00	58.05	58.05
Faridabad	1.39	8.31	7.15
Hoshangabad	6.82	3.08	4.72
Karnal	0.00	47.78	47.78
Navi Mumbai	2.42	1.05	1.41
Panvel	13.71	17.32	15.68
Puri	0.00	3.73	3.73
Ramanagaram	0.00	17.40	17.40
All	2.03	21.54	6.02

Source: Base table 3.8

(i) On the whole, the growth of tax sources is significantly higher than non tax sources being 20.43% and 6.02% respectively.

(ii) Karnal is the only ULB which is representing negative growth of PT. This is basically due to exemption of Property Taxes on owner occupied buildings. Faridabad is showing posing growth of PT despite of exemptions to owner occupied properties which are due to inclusion of new areas in the municipal limits during the reference period.

(iii) Availability of other taxes as a bankable source appears to be poor. Only Navi Mumbai, Bhubaneswar and Hoshangabad figure above average in terms of ACGR of other taxes.

(iv) Growth of revenue from water charges is extremely poor among all the towns except for Panvel. This indicates lacunae in the pricing and cost recovery mechanism for water. It is observed that water charges remain static and pricing and costing is not done and/ or not linked with the rates actually applied by respective towns.

(v) Other sources of non-tax revenue shows to a relatively better performance. This indicates that ULBs are making efforts towards Advertisement charges, Parking fee, rents, asset management etc. This is a welcome trend.

Finally, it appears that over the years cities have made efforts to increase revenues from own sources. However, their efforts are not enough owing to the lower growth of own sources as compared to growth in overall revenue income and expenditure and vast potential of city economy to provide requisite funds for municipal finance. It is also worth noting that a quantum jump in the own sources is possible provided, (as happened Navi Mumbai & Bangalore etc.) placement of revenue instruments (Taxes & non-taxes sources) is improved and financial monitoring and control mechanism is strengthened as recorded by better performing towns of Bangalore, Navi Mumbai and Bhubaneswar etc.

Chapter IV

FINANCIAL MANAGEMENT, MONITORING AND CONTROL FOR MUNICIPAL OWN SOURCES

This chapter examines Financial Management System (FMS) including revenue instruments and Fiscal Monitoring and Control Mechanism (FMCM) of municipal own sources among sample towns with special reference to the innovations that have been initiated at different ULBs. These are two fold: (i) Status of Financial Management System and (ii) Fiscal Monitoring Control (FMC).

FMS and revenue instruments have been examined in terms of efficiency scale, typology of FMS reforms along with suitable action plan for Fiscal Monitoring and Control (FMC).

We may recall from the preceding analysis that, by and large, the local bodies are able to capitalize only less than one percent of the city income for financing municipal infrastructure except for Navi Mumbai and Bangalore who appear to have much better level of revenue in the range of 2 to 7 percent of the city GDP. Therefore, the scope for reform in FMS and FMCM is fairly wide.

Financial Management System (FMS)

FMS has been analysed in terms of reform initiatives and scope for further improvement at individual ULBs.

Reform Initiatives under FMS

Individual initiatives taken up by sample towns under each of the items of FMS are given in chart 4.1. These are taken up as local initiatives or as part of reform agenda from center/state. Typology of reforms is given in Chart 4.1 and shows that

Chart 4.1
Reform Initiatives under FMS

Reform Area	Initiatives	Partner
Double Entry Accounting System	Cost Centres, Income Centre/Chart of Accounts, Multiple Fund Accounting, Transparency, Financial Statements, Ratio Analysis.	JNNURM, Municipal Accounting Code (National), State Government Directives, Modification of Codes/formats.
Budgeting	Separation of Revenue/Capital Account, Application of Norms – As per state government guidelines, Performance Analysis as per State/SFC indicators, Realistic Budget. Budget cycle	JNNURM, State Government Directive/SFC Conditionalities, Follow up of DEA System.
Asset Management	Updation of Inventory, Classification, Valuation.	JNNURM, State Directives, Follow-up of DEA System.
Information Base (IT/GIS Application)	Updation of Land/Property, Records, ABC analyses, DCB Statement, Computerization, Payroll Accounting, Receivable/payable Accounting.	MOUD Circulars on PT, JNNURM, State Government, Market Forces, Grievance-Redressal mechanism, GPS for Solid waste Management, Performance monitoring and service level benchmarking
Downward Accountability	Private Audit, Energy Audit, Subsidy Reports, Social Audit, Third Party Audit, Emergence of Area sabha/Ward Committee, Citizens charter, RTI Act.	JNNURM, State Government Directives, Political Awareness, Wider Representation.

Source - ULBs

- There is a wider understanding with in the sector that financial management reforms are inevitable to inject liquidity in the municipal finance.
- There has been a top-down and bottom-up integration and partnerships to carry forward financial management reforms. This includes Government of India initiatives (Ministry of Urban Development particularly JNNURM and other schemes (directives/ circulars etc.) and state Governments initiatives as part of their programmes and compliances of top down initiatives (a) National

Accounting Code (b) Model Municipal Act (c) Technical circular, Guidelines, issued by Government include those under FIRE (D) . This, in brief, indicates tripartite consensus and agreement (centre, state, local) on municipal finance reforms covering commitment for central, state and ULBs.

- Urban Local Bodies and Urban community are equally involved in the reform process, which has given a bottom-up push to have optimum synergy and convergence of resources. It is evident from community initiatives at Bangalore covering Janagrah (Citizens Report Card) and ABIDE (Agenda for Bangalore Infrastructure Development)
- Therefore, a typology of reforms has emerged in the wider context of mobilization of own sources.
- In view of wide gap in the FMS, it is eminent that a stimulus package is required in a short and medium term perspective to engage, arrange, support, guide and motivate ULBs for wide adaptation of FMS reforms.

Efficiency of FMS

We have analyzed FMS (Chart 4.2) on five main indicators namely (1) Municipal Accounting, (2) Budgeting, (3) Asset Management, (4) Information Base using IT and GIS (5) Downward Accountability. These are analyzed on a scale of 1-5 whereas 1 is the lowest value with 5 as fully functional service.

Financial management system across the towns shows a great deal of variation according to the reforms and innovation as applied by the town and as initiated by respective state governments. It is worth noting from chart 4.2 that:

CHART 4.2
FMS in sample towns

ULB	Municipal Accounting (DEA)	Budgeting	Asset Management	Information Base /GIS/IT	Downward Accountability	All	Average
Bangalore	5	3	3	5	5	21	4.2
Navi Mumbai	5	4	4	5	3	21	4.2
Faridabad	3	2	2	3	2	12	2.4
Bhopal	3	3	2	3	3	14	2.8
Bhubaneswar	5	3	3	5	3	19	3.8
Karnal	3	2	2	3	2	12	2.4
Puri	3	2	3	3	2	13	2.6
Panvel	3	2	3	2	3	13	2.6
Hoshangabad	3	2	2	2	2	11	2.2
Rama nagaram	5	3	3	3	3	17	3.4
Average	38 (3.8)	26 (2.6)	27 (2.7)	34 (3.4)	28 (2.8)	153 (3.6)	3.6

1=poor, 2=conventional, 3=transition/reform initiated,4= reform in advanced stage, 5= reform fully implemented

(i) ULB's are taking initiatives to improve financial management (being the total status of the sample ULBs at 3.6 in a scale of 5). At the same time, this also shows that there are several items in the FMS requiring further innovation.

(ii) Scope of further reforms among the individual items in the order of merit are accounting (3.8), Application of GIS/IT (3.4) Downward Accountability (2.8) Asset Management (2.7) and Budgeting (2.6).

(iv) Among individual towns, however, the application of reforms in FMS shows a great deal of variation. Navi Mumbai and Bangalore top the list with 4.2 points having further scope for budgeting, Asset Management and downward accountability. This means that despite high scale, there is further scope for further refinement and completion.

Scope for Improvement in FMS

Scope for improvement in FMS has been identified as per the observations on barriers of FMS from the sample ULBs. As given in chart 4.3. It is important to note that:

Chart 4.3
Barriers in FMS

Bangalore	Scaling up and sustainability of Reform is key issue
Navi Mumbai	Do
Faridabad	Line item, Budgeting, Conventional Asset Management, Slow application of DEA, IT and Predominantly upward Accountability
Bhopal	Poor Asset Management, inadequate application of DEAs, Conventional budgeting, Slow application of IT and lack of decentralisation.
Bhubaneswar	Budgeting and Asset Management are still weak, Predominantly upward Accountability
Karnal	Predominantly conventional system of Budgeting, Auditing and Accountability
Puri	Do
Panvel	Do
Hoshangabad	Totally conventional approach of FMS
Ramanagaram	Still the Budget, Asset Management, GIS/ IT and Accountability are partly conventional

Source - ULBs

(i) Bangalore and Navi Mumbai have initiated municipal reforms for mobilization of resources but efforts are required to implement them fully (scaling up). These reforms also have to be made sustainable to ensure continuity of reforms.

(ii) Faridabad and Bhopal though have introduced reforms but they are at initial stages and therefore need to be properly completed.

(iii) Bhubaneswar has initiated reforms in budgeting and asset management. However, these efforts are weak and needs to be strengthened.

(iv) Karnal, Puri and Panvel have predominantly conventional system of Budgeting and auditing. This inhibits efforts towards mobilization of revenue.

(v) Hoshangabad has traditional system for financial management.

(vi) Ramanagaram has brought reforms of GIS/IT, asset management and budgeting but still it has partly conventional financial management system.

Efficiency of Revenue Instruments

In addition to FMS, efficiency of individual revenue instruments is equally important to identify scope for stimulation of own sources. Chart 4.4 indicates barriers that inhibit adequate utilization of prominent fiscal instruments and sample towns. In this regards, specific points are as follows:

Chart 4.4
Barriers of revenue instruments

Revenue Instrument	Barriers
Property tax	Weak tax net, undue exemptions given to owner occupied properties (Haryana), conventional database
Building license fee	Rates not timely revised and not linked with the cost of infrastructure, poor recovery and tedious procedures.
Other land Based tools Betterment levy Valorization/ Impact fee/Exaction	Mostly not in use, lack of enabling provisions
Stamp Duty	States to share, resistance
Advertisement Fee	Poor application and use of innovative ways for advertisement, weak enforcement
Octroi	Inadequate compensation, no alternate tax to match its revenue potential
Hawker/ Vendor Fee	Under utilized
Public Private Partnership	Underutilization, not designed
Water Charges	Tariff not rationalized Poor collection Limited metering Across the board subsidy

It is noted from barriers of revenue instrument that:

(i) Property tax base is eroded significantly due to conventional information base and undue exemptions being given by the ULBs e.g. exemptions to owner occupied property tax in Haryana. Similarly tax administration is also weak.

(ii) It has been noticed that building license fee has not been optimally utilized due to problems related to lack of data on building construction and cross – check with property tax department, non – revision of tariff/rates, poor recovery and exemptions. As may be seen from box-4.1, given a chance, contributions from building license fee could be significantly high.

BOX -4. 1

Incidence of Building License Fee

This is charged for the construction within the limits depending on its usage and floor area. Following data indicates trends in the sample towns

Building license Fee in Select Towns (Rs. In lakh)

City	2003-04	2007-08
Puri	11.71	37.22
Faridabad	247.53	243.07
Bhopal	418.95	1,30.00.
Bhubaneswar	-	1,40380

(iii) Land based tools other than property taxes, (based on incremental value) are not used by the ULBs. However, almost all the ULBs are initiating data base development on GIS/ IT method. which facilitates application of other land based tools (Box – 4. 2)

BOX – 4.2

Local Area Development – tax/ Betterment Levy

Also known as betterment levy, this tax is levied to recover increase in urban land value resulting from implementation of specific urban development projects. The proceeds from this levy are used to meet capital cost of the project. It is levied on the project beneficiaries and continues till the full capital cost of the project is recovered.

Valorization Charges

This is cost recovery mechanism allocated on the basis of assignment of prescribed benefits to properties in the demarketed series of equally wide capital zones along the project. Adjustments are needed to take account of variation in the plot size and frontage. This tax is levied in Columbia.

Impact Fee

This tax is used widely in USA, to recover the cost of services resulting from the construction of new housing stock by the builders. As it is charged on the builder for additional services that are required by the civic authority. The municipal corporation of Hyderabad levies this tax.

Development Charges

This is used to recover the cost of providing services and infrastructure in already existing housing area, which do not have such services, or the services are deficient. It is also used in situation of altogether new development. The Municipal Corporation of Delhi has tried to use this in unauthorized colonies on unit area basis.

Exactions

Exaction are used to get a part of land to provide necessary services in the area developed by a builder/developer. These are used to provide schools/hospital/community services etc.

(iv) Stamp duty is yet another instrument to capture land value gains. This is, however, levied by state government and is not directly shared with ULBs in most of the states.

(iv) Yet another instrument, Advertisement Fee is not fully used by the sample ULBs. Although, given a chance proceeds from the advertisement fee can provide substantial funds to the ULBs

(v) Hawker/Vendor Fee is also an important non – tax source. It helps in better and controlled use of public spaces such as pavements. However, this tax suffers from leakages and static rates not revised periodically.

(vi) Public Private Partnerships can act as a major resource to bridge the revenue gap in various developmental activities related to infrastructure and at the same time bring about quality in the delivery of services. However, full potential of the PPP is not used by sample towns.

(vii) Water Charges are also not optimally used and due to conventional pricing, using and cost recovery mechanism whereas reflected in poor revenue collection. (Also refer to Box 4.3)

BOX – 4.3
Political will and Administrative Skills for Water Charges

Political willingness and administrative will are lacking to have efficient use of water charges . In the state of Madhya Pradesh the water charges have come down from Rs 150 per month in 1997 to Rs 60 per month in 2004. In Hoshangabad Municipality only 20 percent water charges are collected. The ULBs are working towards various ways to ensure not only better usage of services but also greater cost recovery against the provision of such water supply. Efforts such as greater network of meter connection, leak detection, water audits are undertaken to enable better delivery of services and reported at Navi Mumbai and Panvel who are also using private sector in the water supply. Conventional system in Faridabad and Hoshangabad leads to static or declining state of revenue from water.

Water Charges in Select Cities

(Rs. In lakh)

City	2003-04	2007-08
Navi Mumbai	4603.89	5198.65
Faridabad	907.07	972.53
Panvel	104.93	199.50
Hoshangabad	10.12	10.80

Action Plan to Stimulate Own Sources

There is a strong realization regarding the constraints faced by the municipal bodies in the levy and collection of own sources. This results in limited revenue for them to perform key activities. However, realizing these weaknesses and their potential to generate more revenue, the ULB's have to initiate specific actions under various instruments.

Individual actions as emerging from sample towns and state show a typology of actions which need to be pushed to stimulate municipal own sources. This includes (i) appropriate placement of revenue instruments and (ii) efficiency in fiscal monitoring and control as part of improved FMS.

Chart 4.5
Application of Revenue Instrument

City Resource Pool	Revenue Instrument	Action Plan
City Economy	Entry Tax/ Cess; Surcharge on electricity; Local Elasticity; *Niryat Kar.*	• State to notify/ assign the tax as in Maharashtra and Apply widely including nearly rural area • State to notify surcharge as in Haryana • Earmark matching/ partial contribution and identify typology of projects for local elasticity • Introduce *Niryat Kar* as in Madhya Pradesh
Value Added Role of Municipal Infrastructure	Property Tax Building license fee Hawker/Vendor Fee	• Application of Unit Area Method & Self assessment • Apply GIS Data Base for Mutation & Elasticity assessment, • Apply automations, ABC analysis, Innovative Collection through Banks, Doorstep campaigning, Name Display, timely billing and penalties. • Use attractive incentives such as insurance cover to regular tax payer • Realistic Rates (upward revision) • Data Base/ cross - check • User friendly procedure • Data Base • Revise Rates • Plug Leakages • Develop Kiosks/alternate taxes
	Other land Based tools Betterment levy Valorisation/ Impact fee	• GIS Data will help • SFC to Consider - State to notify
	Exactions	• State to allow on development of land parcels
	Transfer of Development Rights	• State to make legal provisions • Use for up gradation &expansion of services
	Stamp Duty	• Use as *de facto*-local tax • State to assign part proceeds as in Haryana
Sale/ Transfer of Assets Services	Water supply	• Effective pricing-link with scientific costing, Sewer charges, differential pricing • Apply universal metering, leak detection, regular maintenance • Develop Data Base – GIS • Use of Partnership typology to improve delivery
	Roads & Related Services	• Identification Advertisement potential/parking fee locations • Apply road cutting charges • Use tax on Vehicle, animal, cart etc. • Use to TDR for expansion • Identify typology for partial support (local elasticity) • Street lighting through PPP
	SWM, Street lighting, Public Conveniences etc.	• Develop PPP & Out Sourcing potential • Norms-standards • Application for collection, for collection, transportation & dumping/treatment

Appropriate Placement of Revenue Instruments

As may be seen chart 4.5, Specific Action Plan needs to be taken to place appropriate revenue instruments to access respected resource pool which includes:

(i) Entry Tax/Cess/Local body tax , surcharge on electricity , *Niryat Kar* , tapping local elasticity should be widely used to access city economy (Box 4.4)

Box – 4.4
Application of Cess/Local Body Tax/Duty Tax
This is a form of entry tax applied to the entry of goods into the city for consumption, use or sale. This is paid by the registered dealers at the rates fixed by the ULB. This new tax is a variant of octroi without latter's deficiencies. It is the major contributions towards the mobilization of own sources for the NMMC. Encouraged by this, the Govt of Maharashtra has issued a government order XXI of 2003 to implement Cess in all its ULBs. The Municipal Corporation of Bhopal also imposes a similar tax known as " Nirvat Kar". this is on goods that go out of the city limits

(ii) Scope of revenue from property tax, Building License Fee and Hawker/ Vendor Fee should be widened through removal of undue exemptions, application of GIS/ GPS, revision of rates and innovative collection system.

(iii) Other Land Based tools should be applied to further use land value gains. This includes Valorization, Betterment Levy, Impact Fee, Development Charges, Transfer of Development Rights and assignment of Stamp Duty (box – 4.5).

(iv) Sale/ Transfer of assets and services should be rationalized through asset management strategy, appropriate costing, pricing and collection mechanism, use of GIS and PPP for solid waste management, street lighting and public convenience etc.

BOX – 4.5
Tax to capture land value gains, advertisement Fee and Incidence of PPP

Stamp Duty
It is levied on the sale and purchase of land and is charged on sale, cost/premium lease basis. This tax helps in capitalizing on the benefit accrued through economic growth of the city. It is levied in the states of Haryana and U.P. The Government of U.P. has recently issued a notification that registration of industrial plot will be based on market value/circle rate of the land. This in turn will have a multiplier effect on the collection of revenue. In the state of Haryana part proceeds are assigned to the ULBs.

Potential of Advertisement Fee
This is slowly emerging as good source of revenue for the own sources of the local bodies. It has seen consistent and increasing flow of revenue over the period in some of the sample cities. The Karnal Municipal Council through open auction for the period of two years (2008-10) has generated Rs.1.96 crores. The neighboring town of Faridabad, this amount increased from Rs.2.64 lakhs in2003-04 to Rs.16.78 lakhs in 2007-08. Similarly, in the Municipal Corporation of Bhubaneswar, it increased from Rs.20 lakhs in 2003-04 to Rs.192.3 lakhs in 2007-08.

PPP among Sample Towns
The NMMC has outsourced it water supply and sanitation services to private operator on a performance based management contract basis for the period of five years. This has ensured better availability and delivery of services. The contract document has laid down certain preconditions for the delivery of services failing which the private operator has to pay penalty. Most of the sample cities have resorted to PPP for various core and non-core activities for e.g. street lighting in Mumbai, solid waste collection in Bangalore, State level PPP document has been brought out by the State Government of Orissa, and commercial complexes are constructed under PPP in Panvel Municipal Council

Fiscal Monitoring and Control (FMC)

Similarly, FMC as part of improvement in the FMS has been given under a typology of actions in chart 4.6. It is worth noting that:

(i) Respective State has to push accounting sector reforms through necessary provisions/approvals to apply Double Entry Accounting (DEA) at the ULB level to initiate multiple fund accounting, take financial statements and carry out ratio analysis. It will build transparency and borrowing capacity among ULBs.

(ii) Budgeting needs to be rationalized for normative performance oriented, bottom – up, participatory budget, which is prepared under budget cycle involving one or the other activity through out the year in a regular manner.

(iii) Carry out innovative asset management, which includes listing, classification, valuation and finally assessment of each asset for optimum utilization of its revenue potential.

Chart 4.6
Reforms in FMCS

Area	Actions
Accounting	• Introduce Double Entry Accounting • State to Prepare Accounting Standard & Coding • Apply Multiple fund Accounting • Develop Financial Statements and Ratio Analysis
Budgeting	• Introduce Budget cycle • Apply innovative Performance Budgeting • Apply Participatory Funding
Asset Management	• Listing & Classification • Assessment of revenue and potential
Auditing	• Timely Audit • Private Audit • Social Audit • Effective Internal Audit • Energy Audit • Citizens Charter
Information System and Feedback mechanism	• Performance Monitoring and Service Level Benchmarking as per GOI/ norms/indicators • Complete Automation • Initiate GIS application
Billing and Collection	• Do timely Billing- Use of IT & Advertisements • Prepare DCB Statements • Do ABC analysis of Arrears • Innovative Collection • State to create Dispute Settlement Boards
Grievance Redressal	• Decentralised System of grievance redressal, • Promote Downward Accountability – Social Audit, Area Sabha, Citizens Charter • Promote *E-Sewa Kendra* • Initiate One Window Approach
Capacity Building	• Three Tier Training- Awareness, Class-rooms, Hand holding/on job training • Suitable material (Manual, checklist, guidelines) Exchange/ study visits, • city to city cooperation • Budget allocation for capacity budget • In house capacity building

(i) Auditing is yet another area of management control which will ensure transparency and provide innovative methods such as social audit, energy audit, and private audit , are also used along with timely internal audit.

(ii) Information system and feedback mechanism is equally important to introduce Performance Monitoring and Service Level Benchmarking as per government of India guidelines, performance analysis as per state norms/indicators, automation and use of GIS/GPS. It will promote efficiency in expenditure and resource mobilization.

(iii) Billing and Collection also require specific focus to follow a timely DCB Statements, ABC analysis, Advertisements on tax billing, Insurance on regular payments and settlement of disputes using special tribunals.

(iv) Effective grievance redressal is also necessary to motivate citizens to pay for services. It is a *quid pro quo*. Therefore, innovative methods of grievance redressal using *E–Sewa Kendra*, Downward accountability, one window approach should be used along with necessary provision in the rules of procedure.

(v) Finally, the capacity building should be taken up in the form of three tier training (a) awareness workshops, (b) Classroom and (c) on the job learning in a handholding manner. Study visits, city to city cooperation and suitable development of material is also necessary along with earmarking of funds at different levels of allocation.

In sum, it appears that efficiency of Financial Management System and placement of revenue Instruments has substantial scope for reforms. Inter – governmental Action Plan is also needed to streamline existing and new instruments along with reforms in the Fiscal Management and Control System. These Include actions on account of Accounting, Budgeting, Asset Management, Information System and Feedback Mechanism, Grievance Redressal , Billing and Collection. At the same time, existing or new revenue instruments should be placed to capture benefits from recipients of municipal infrastructure covering city economy, land value gains and sale/transfer of municipal assets.

Chapter V

EXTERNAL SOURCES OF MUNICIPAL FINANCE – ROLE ADEQUACY AND AGENDA

This section brings together the role of external sources of municipal finance among sample towns to assess their potential role to stimulate municipal own sources. This is particularly important in the light of earlier observations under this study that cities across the sample size have substantial scope for mobilisation of own sources to minimise horizontal imbalance.

Role of External Sources

External sources perform a crucial role to enable ULBs to carry out their functions in the overall context of vertical (gap inter governmental resources) and/horizontal (gap in the local resource mobilisation) imbalance. As elsewhere, over a period of time, for the common reasons of efficiency, equity and promotion of income and employment generation many of the distributive functions have been assigned/ devolved to sample ULBs which are typical of a function of welfare state. These include poverty alleviation, environmental protection, primary education etc. (Box 5.1)

Box 5.1
Functional Jurisdictions of ULBs

Functional jurisdiction of ULBs is determined by respective states in India as per entry 5 of state list. Accordingly, states have notified their municipal Acts taking into account the list of functions as indicated under Schedule XII of Constitution which was added as part of 74th Constitution Amendment Act of 1992.

Not withstanding of increasing awareness on part of states and ULBs that national issues (on functions listed in Schedule XII) have local solutions, *De-facto* and *De-jure* assignment of function show a great deal of variation.

Despite these variations, most of ULBs handle a list of functions of common nature such as solid waste management, sanitation, roads, street light, death and birth registration, burial grounds, community centres, crematorium etc. These are better known as local public good.

Some other functions, on the other hand, (water supply, sewerage, and local transport) show a great deal of variation among sample towns due to (i) basic presumption by state that ULBs do not have technical capacity and (ii) unwillingness of states to transfer these functions to ULBs . Yet another category of functions being land and town planning is, also in most cases, remains in the direct control of state.

Most of these functions known as local public good are non-excludable in nature and are quite often non-remunerative Therefore, a wide gap is observed between the funds available at ULBs and requirements of funds to carry out these functions effectively, although benefits of municipal services accrue to a range of beneficiaries, recovery from them is fairly low. This adds to the horizontal imbalance

Vertical Transfers

In this context, vertical transfer given in the form of external sources play important role to minimise fiscal imbalance. Table 5.1 gives share of external sources as part of revenue income and revenue expenditure. It is important to note that:

Table 5.1
Share of external sources in Municipal Revenue Income and Expenditure

Cities	external source as % or rev income		external source as % or rev expenditure	
	2003-04	2007-08	2003-04	2007-08
Bangalore	13.86	32.10	19.41	57.40
Bhopal	63.10	58.72	140.24	61.99
Bhubaneswar	81.08	50.18	80.92	42.60
Faridabad	07.33	26.50	10.24	22.40
Hoshangabad	79.35	72.95	89.72	73.52
Karnal	37.94	32.88	47.32	45.90
Navi Mumbai	01.11	0.38	2.28	1.04
Panvel	67.66	54.06	91.61	51.91
Puri	73.45	89.24	75.44	114.39
Ramanagaram	50.71	72.12	50.64	166.56
All	19.42	26.18	30.87	43.74
Without Bangalore & Navi Mumbai	54.67	46.14	84.82	44.24

Source: Selected ULBs

(i) Data regarding dependence on fiscal transfers confirms that municipal infrastructure operate as stimulus to city economy wherein larger towns show a relatively lower dependence on fiscal transfers/external sources as compared to small ULBs. This confirms earlier observations that benefits of economies of scale and better institutional capacity of these towns lead to higher levels of municipal fiscal sufficiency (Mathur 2006).

(ii) On the whole external sources constitute– 20% and 26% share of revenue income of ULBs during 2003-2004 and 2007-2008 respectively. However, without Navi Mumbai and Bangalore, (who have much better access to own sources due to better assignment of revenue instruments and financial management system), the share of external sources is recorded as 55% and 46 % during the same period. Similarly external sources constitute 30% and 44% of revenue expenditure during same period

(iii) Among individual towns, however, the share of external sources varies from town to town depending upon their capacity to mobilise own sources.

(iv) It is also noted from Table 5.1 that revenue for external sources has registered a significant increase in its size (except for Bangalore & Navi Mumbai) from 31 % of revenue expenditure in 2003-2004 to 44% in 2007-2008. This is a result of upward revision SFC grants as a result of recommendation by respective commission. This reaffirms the importance of fiscal transfers for ULBs in general.

External sources of revenue are almost synonymous to fiscal transfers devolved to ULBs under (i) CFC (Central Finance Commission) and (ii) SFC (State Finance Commission) grants and other revenue arrangement made by respective state as per recommendations of SFC.

CFC Transfers

The Central Finance Commissions determine the share of revenue collected by central government with the state and local governments. Conventionally, the CFC used to allocate funds for states without making any specific dispensations to Urban Local Bodies. The Xth Central Finance Commission, after insertion of sub-clause (3) (c), in the Article 280 of the Constitution for the first time allocated a sum of Rs.1000 crore for ULBs for the period 1995-2000.

Insertion of sub-clause (3) (c) as above also executed the CFC to recommend measures needed to augment consolidated funds of a state on the basis of recommendation made by State Finance Commission(SFC). Subsequently, the XI CFC increased allocation to a sum of Rs. 2000 crores for 2000-2005 followed by XII CFC to a level of Rs. 5000 crores for 2005-10.

Process and Impact

Therefore, a sum of Rs. 1000 crores per annum is now allocated to ULBs under revenue grants for CFC. However, in the absence of SFC recommendation for bottom up assessment, CFC devolution is purely ad hoc and does not address the realistic demand to minimise vertical imbalance. These recommendations also include a criteria for allocation on the basis of population, area, income index of decentralisation and deprivation, and revenue efforts by ULBs (Annexure VI). Municipal infrastructure enables cities to have economies of scale and economic development. It is also noted that level of economic development determines the level of urbanisation. Therefore, centre funds should have special consideration for low levels of urbanisation to accelerate pace of development in the respective state.

SFC Transfers

The State Finance Commissions are constituted under Article 243-Y to make recommendations on (i) distribution of taxes, duties, toll and fee to ULBs (ii) determination of fiscal powers (taxes, fee etc.), (iii) grants from consolidated fund of state (iv) measure to improve financial management and (v) other suggestion on municipal finance. Recommendations of respective SFCs show a great deal of variation. As may be seen from Table 5.2, there has been a gradual shift towards upward revision of SFC allocation among various states during 1st and 2nd generation of SFCs. This is a positive trend. However, the recommendation shows a great deal of variations.

Process & Impact

Three generations of SFCs have been set-up so far which by and large have tried to improve allocation on a scientific manner However; the criteria vary from state to state, SFC reports are not a binding to respective state which may accept recommendations as may be decided by state legislature. Criterions of state transfers are given in chart 5.1. The recommendations of CFC, therefore, have been accepted by states along with suitable changes in the amount and/or method of devolution.

Table 5.2
Devolution System and Recommendations by State Finance Commissions

Divisible Pool of the State	**State and share (per cent) of ULB as per first SFC**	**State and share of ULB as per second SFC**
Gross tax and non tax revenue	AP-1.74*	AP-3.63
Non-loan gross own revenue*	Karnataka-5.4	Karnataka-8
Gross tax revenue + share in central taxes	Goa-9	
Net tax and non tax revenue	MP-1.3 (recommended) 0.514 (accepted)*	MP-1.07(recommended)
Net tax revenue	Rajasthan-0.5	Punjab-1.3
	Assam*	Rajasthan-0.53*
	UP-7 per cent	Uttranchal-6.35*
	Haryana-2 per cent	UP-7.5
		Tamil Nadu-2.9 to3.65
Net tax revenue except certain taxes	Tamil Nadu-2.72 to 4.08*	
	West Bengal*	
Other cases	Maharashtra, Orissa, Haryana,	
Individual Taxes	Gujarat and Punjab	
	HP, Manipur	HP
Lumpsum Grants		

* Divisible pool of States vary significantly in terms of share and fiscal instruments for devolution to ULBs

Source: SFC Reports of the states and Om Mathur, Urban Finance, India Infrastructure Report 2006

On the whole, state transfers have made positive impact on municipal finance on account of (a) Scientific method of allocation, (b) prior information to ULB about SFC funds, (c) gradual reduction of vertical imbalance.

Further the SFC reports are also supposed to provide feedback to CFC to take decision under Article 280 Sub clause (3)(c). However, SFC's are not synchronised with CFC leading to inadequate feedback to CFC to have bottom-up assessment of municipal finance. At the same time, SFC, it self, did not have bottom up assessment on the basis of development plan of Local Bodies.

Compositions of External Sources

Field level data confirms that despite a quantum jump in it's allocation to ULBs, CFC transfers constitute only a small amount of external sources of ULBs. Composition of external revenue as given in Table 5.3 indicates that:

Table 5.3

Compositions of external sources

Cities	SFC and others	CFC	SFC and others	CFC
	2003-04		2007-08	
Bangalore	100.00	0.00	97.30	2.70
Bhopal	100.00	0.00	95.04	4.96
Bhubaneswar	94.23	5.77	86.67	13.33
Faridabad	92.17	7.83	100.00	0.00
Hoshangabad	100.00	0.00	100.00	0.00
Karnal	95.13	4.87	88.86	11.14
Navi Mumbai	100.00	0.00	100.00	0.00
Panvel	98.69	1.31	81.25	18.75
Puri	2.56	97.44	93.49	6.51
Ramanagaram	100.00	0.00	71.32	28.68
All	96.59	03.41	95.53	04.47

Source: Selected ULBs

I. Most of the fiscal transfers received by ULBs fall in the category of state-municipal fiscal transfers. These include around 96% share of total external revenue of selected ULBs during both the reference years.

II. CFC contribution is recorded around 4% during the reference years.

III. Larger towns have lower access to SFC funds which is a decision taken by SFC in the background of better economy of these towns.

Per Capita Growth of Fiscal Transfers

Per capita distribution of fiscal transfers presented in Table 5.4 which shows that:

I. Fiscal transfers have shown significant increase to Rs 180 per capita in 2005-2006 to Rs 431 in 2007-2008

II. It is further important to note that fiscal transfers have grown in real terms as well showing a per capita value of Rs 180 in 2003-2004 to Rs 351 in 2007-2008 at constant price.

III. Pattern of per capita state transfers vary from town to town which is due to significant variation in SFC reports and their subsequent acceptance by respective states.

Table 5.4
Per capita external sources

Cities	Per capita external sources		
	2003-04 (Current)	2007-08 (Current)	2007-08 (Constant)
Bangalore	111.95	563.13	458.95
Bhopal	461.25	460.17	375.04
Bhubaneswar	332.32	419.36	341.78
Faridabad	109.52	241.60	196.90
Hoshangabad	222.69	287.79	234.55
Karnal	105.54	201.77	164.44
Navi Mumbai	35.13	17.28	14.09
Panvel	813.42	731.19	595.92
Puri	5.81	524.79	427.70
Ramanagaram	112.93	719.59	586.47
All	179.68	430.97	351.24

Source: Selected ULBs

Finally, it appears that vertical transfers to ULBs have undergone a significant shift from largely discretionary and *ad hoc* allocation to a normative and performance oriented allocation. However, the amount of allocation is still not linked to (i) promotion of vertical balance and (ii) systematic reductions of backlog. In this regard, bottom-up assessment of gap and synchronization of SFC and CFC constitution will go a long way to upgrade fiscal transfers to a desirable level. At the same time, it is also essential to prepare Development Plan at ULBs level to enable SFC and CFC to have realistic assessment of municipal finance gap and improve the allocation thereon.

Chapter VI

ROADMAP FOR MOBILISATION OF MUNICIPAL OWN SOURCES

This section presents a roadmap for mobilisation of municipal own sources on the basis of feedback from preceding analyses and innovations applied in various cities and towns in India and elsewhere. At this stage, though at the cost of repeation, it is important to briefly recall the points emerged from preceding analyses to set a tone and tenor for constructing a roadmap. It is therefore pertinent to mention that:

I. The study reiterates that municipal finance is in shambles and municipal bodies are undergoing a fiscal stress. Although, data shows a surplus in the revenue income, this is more due to statutory requirement for a balanced or surplus budget to take a safe guard in case of unexpected short fall in the municipal revenue. The artificial nature of surplus is confirmed by the fact that own sources alone fall short of revenue expenditure (except for Bangalore and Navi Mumbai) and the sample towns are not able to meet the O&M requirements. Therefore, there is no scope for meeting establishment costs and investment requirements. Secondly, this short fall is against conventional budget which is prepared in a line item incremental manner and does not reflect overall O&M expenditure requirements at current levels of services.

II. Vertical imbalance of municipal finance is fairly wide. It is noted that vertical transfers are still at best *ad hoc* and are not linked to actual requirement of funds at the ULB level.

III. Intensity and magnitude of horizontal imbalance is equally alarming and a matter of concern. Share of own sources remain lower than revenue expenditure significantly in most cases (except for Bangalore and Navi Mumbai which have higher rate of urbanisation and GSDP) indicating that most municipal bodies do not have the capacity to raise requisite sources. The share of own sources among these ULBs remains around half of the municipal revenue. On the other hand, Navi Mumbai and Bangalore have demonstrated that in a given framework of revenues, own sources can be mobilized at a rate as high as 67 % to 99 % of total revenue.

IV. Although municipal governments have access to a large number of taxes/non-taxes, the Property/House Tax (PT), Advertisement Fee, Building Licences Fee constitutes most of the municipal income. Other instruments are either not applied or do not yield significant revenue.

V. Municipal authorities, in the post octroi scenario, do not have adequate fiscal powers to tap city economy which has enormous potential to provide municipal finance. Given a chance, the city of Navi Mumbai has demonstrated that mobilisation of substantial revenues on account of Cess (which is based on entry of goods) in the pattern of VAT is feasible.

VI. Value added role of municipal infrastructure combined with non-excludability and delivery as a local public good make a case of benefit taxes. It is observed that Property Tax is the only important benefit tax which yield highest revenue. This is henceforth dependable tax of municipal finance. However, there is a growing tendency to allow erosion of tax base of PT covering the exemptions on account of owner occupation etc.

VII. It is observed that, wherever allowed, city economy has generously provided funds to city governments. These include share transfer on stamp duty (Haryana, Karnataka), Local Area Development Tax (Haryana), Cess (Maharashtra), *Niryat Kar* (Madhya Pradesh) and surcharge on Electricity (Haryana). This potential area of local economy, however, is highly under-utilised.

VIII. As the tax potential, the scope of mobilisation of non-tax sources is also fairly wide. On one hand user charges (mainly sale of water) needs to be made on scientific pricing, other instruments (such as advertise of fee, better asset management and mobilisation) also require suitable attention to raise requisite funds.

IX. Local elasticity is, yet, another area which has fairly wide scope on account of charity, social concern and community mobilisation. However, ULBs have to recognize this as a potential source and have to make provision for partial funding, space and incentives.

X. Vertical transfers assume important role and share in municipal finance. These are largely seen as part of correction on vertical imbalance to equip ULBs to operate and maintain services at some acceptable or normative levels.

XI. SFC devolution has undergone a significant shift and upward increase. Whereas the 1st generation SFC recommended sharing of individual taxes/fee, the second generation of SFC's provided for sharing of net tax proceeds from divisible pool of state. These are given on account of a set of indicators covering area, population, revenue performance etc. However, the share of divisible pool and respective criterion vary from state to state. SFCs recommendations, have been given without any/ commonly accepted nationwide guidelines/norms either for expenditures or revenues.

XII. CFC recommendations, starting from the Xth CFC to XIIth CFC have also shown gradual improvement and upward revision of transfers. However, as envisaged by the amendment of Article 280 (3) (c), SFC feedback to CFC has not been made available for a more scientific devolution of central funds. CFC funds constitute only a small proportion of municipal income. There is a need to have a quantum jump in CFC allocation and these should be used as a seed capital to have demonstration and multiplier effect on local municipal finance.

XIII. Municipal finance sector as part of urban reform process, has witnessed a large number of initiatives. These include (a) introduction of Double Entry Accounts System ((b)increasing access to Public programmes such as JNNURM, NSDP, SJSRY, UIDSSMT etc. (c) improved political participation and (d) growing recognition of ULB as mother institution at local level. These initiatives will go a long way to promote the adequacy of municipal finance.

Road map for Municipal Finance

Roadmap should be based on resource pool or beneficiary of municipal infrastructure. It is important to recall that municipal infrastructure has a multiplier effect on economy (productivity) and also have a value added role which give multiple benefits to users/stakeholders. Therefore, there is no reason as to why the requisite resources can not be made available to municipal finance.

Findings of this study while showing the barriers in the municipal finance causing the vertical and horizontal imbalance, also give a broad direction for corrective measures. The solution lies in the convergence and synergy of actions which need to be initiated under inter governmental action plan.

Guiding Features of Roadmap

In line with the focus of this study our road map has to cover a set of initiatives covering both the existing as well as additional or new sources of revenue. Funds from all three segments or resource pool as identified by this study i.e. (i) city economy, (ii)value added role of municipal infrastructure and (iii)sale/ transfer/ management of municipal assets/services have to be tapped.

Second area of road map covers fiscal transfers that are available to ULBs as a *de-facto* stimulus package and a tool to inject additional liquidity for the municipal finance. It is important to note that the SFC (State Finance Commission) devolution coming from divisible pool of state, normally, with reference to smaller towns (where revenue base and access to city economy is weak) tend to cover establishment costs on a priority basis.

On the other hand CFC devolution although small in size (4% of transfers and 1% of revenue income) is available as additional liquidity to finance non-establishment expenditure. In this context, the CFC devolution should be carefully designed to supplement municipal efforts towards meeting their functional jurisdiction to create extra liquidity through more effective utilisation of own sources.

Therefore, the roadmap has to finally include inter-governmental action plan. This will cover (i) appropriate placement of revenue instruments and fiscal monitoring and control mechanism , (ii) use of fiscal transfers to stimulate own sources.

Appropriate Placement of Revenue Instruments

It is worth mentioning that requirements of municipal finance are fairly wide and will increase further owing to growing recognition and assignment of functions as per schedule XII of constitution. As observed from sample towns and elsewhere a set of fiscal instruments along with efficient appropriate placement of financial management, monitoring and control mechanism is recommended in the context of wider replicability among ULBs in India (Table 6.1). This includes revenue instruments already applied and those having potential for adaptation.

As it is evident from Table 6.1, there is a list of several instruments which are applied at one or other place to exploit local resource pool. Further, there are a couple of instruments, which are rarely applied by Indian ULBs and have potential to yield significant revenue. All these need wider adaptability among Indian ULBs.

Table 6.1
Appropriate Placement of Revenue

Local Resource Pool	**Suggested Fiscal Instruments and their states in sample**
City Economy Including Local Elasticity	1. Cess (only applied at Navi Mumbai) / Local body Tax (Proposed for ULBs in Maharashtra) 2. Surcharge on Electricity consumption (Applied in Haryana, Orissa) 3. Profession Tax(Applied in Haryana, Orissa) 4. Convergence (Andhra Pradesh , Tamil Nadu, Madhya Pradesh) /Participatory Budgeting (slowly emerging)
Value Added Role of Municipal Infrastructure (Primarily Emerge from Land Value gains)	1. Tax on lands & Property (widely applied) 2. Stamps Duty (Assignment in Haryana, UP) 3. Local Area Development Tax (Haryana) 4. Velorisation 5. Exemption 6. Development charges (Delhi) 7. Impact Fee (Hyderabad) 8. Transfer of Development Rights (Maharastra) 9. Advertisement Fee (widely Applied) 10. Building Licence Fee(widely Allied)
Sale/Transfer/ Use of Municipal Services and Assets	1. Water charges (widely applied) 2. Individual charges on Other Services (slowly emerging) 3. Partnership Arrangements (selectively applied) 4. Using land as .a Resource (selectively applied)

Therefore, the fiscal instruments indicated in Table 6.1 need to be widely recognized as a potential source for suitable application by ULBs. This will also require systematic development of financial management, monitoring and control covering (i) accounting, (ii) budgeting, (iii) Asset management,(iv) Auditing , (v) Information system and feedback mechanism,(vi) Billing and collection, (vii) Grievance redressal, (viii) Capacity building etc. specific actions under each of these items are given in Table 6.2 need to be taken up at inter governmental level.

Table 6.2
Fiscal Monitoring & Control Mechanism for ULBs

Area	Actions
Accounting	• Introduce Double Entry Accounting • State to Prepare Accounting Standard & Coding • Apply Multiple fund Accounting • Develop Financial Statements and Ratio Analysis
Budgeting	• Introduce Budget cycle • Apply innovative Performance Budgeting • Apply Participatory Funding
Asset Management	• Listing & Classification • Assessment of revenue and potential
Auditing	• Timely Audit • Private Audit • Social Audit • Effective Internal Audit • Energy Audit • Citizens Charter
Information System and Feedback mechanism	• Performance Monitoring and Service Level Benchmarking as per GOI/ norms/indicators • Complete Automation • Initiate GIS application
Billing and Collection	• Do timely Billing- Use of IT & Advertisements • Prepare DCB Statements • Do ABC analysis of Arrears • Innovative Collection • State to create Dispute Settlement Boards
Grievance Redressal	• Decentralised System of grievance redressal, • Promote Downward Accountability – Social Audit, Area Sabha, Citizens Charter • Promote *E-Sewa Kendra* • Initiate One Window Approach
Capacity Building	• Three Tier Training-(i)Awareness, (ii)Class-rooms, (iii)Hand holding/on job training • Suitable material (Manual, checklist, guidelines) Exchange/ study visits, • Cooperation among cities • Budget allocation for capacity building • In house capacity building

Use of vertical Transfers to Stimulate Own Sources

As central and State funds are devolved as stimulus package to supplement municipal finance, suitable mechanism should be identified to also use them directly to stimulate own sources of municipal finance.

State Transfers

SFC recommendations are expected to perform multiple roles covering (a) bottom up assessment (b) overall financial management and (c) feedback to CFC on requirement of funds. The SFC recommendations have been largely *ad hoc* on (a), (b) and (c) above, whereas gradual improvements have emerged under the revenue sharing which is now based on allocation from a divisible pool. This allocation is partly conditional towards meeting the establishment cost only. Therefore, the SFC recommendations should adequately cover bottom up assessment, overall financial management and feedback for CFC.

Bottom – up Assessment for SFC

Bottom up requirements of funds for both revenues as well as capital projects need to be prepared to have a realistic assessment rather than top – down projections. The 74th CAA expects a process of institutional synchronisation of planning which needs to be pursued covering:

- Preparation of CDP (City Development Plan) in a consultative manner covering grass-root level feedback from Areas Sabha/ Ward Committees, CBO's/ NGO's, para-statal and local level developments agendas (wherever applicable).
- CDP should be based on modified functional jurisdictions designed in line with the 74th CA Act (Schedule XII).
- It should include both plan of non plan projections.
- CDPs should consolidated at District /Metro level in the form of District/ Metro Plan.

- SFC should consolidate District/ Metro Plan for a state level (Urban) Development Plan to decide Revenue Assignment and Revenue sharing and also to assist CFC for further assistance.

Revenue Assignment

Fiscal performance of ULBs should be examined by SFC's in the light of typology of instruments suggested by this study. Accordingly a range of taxes/Non tax sources as given in Table 6.1 could be applied by ULBs. These revenue instruments should be examined by respective SFC/ state governments for adaptation in their own context. Subsequently necessary steps for legal and administrative follow up should be initiated by respective states.

Feedback for CFC

States should take steps to constitute SFC to synchronise with CFC to have a scientific and bottom-up assessment by CFC with regards to overall requirements of urban infrastructure in the state.

In this regard state should first revise/ finalise municipal functional jurisdiction and fiscal assignment in line with schedule XII of 74 CA Act of 1992. In this regards the study proposes the following:

I. Finalise the specific functions
II. Incorporate them in the fiscal domain (Act /by laws)
III. Prepare financial requirements as per functional jurisdiction
IV. Decide levels of equalisation
V. Reassess assignment of fiscal powers
VI. Finalise norms for fiscal devolution and it's nature i.e. tide grants, untied grants for Non plan as well as plan allocations

CFC – Role and Potential

As the amount of CFC allocation constitutes around 4 % fiscal transfers, these funds should be used sparingly to have a demonstration effect. CFC has an important role to motivate ULBs to mobilise own sources to the best of their potential.

While examining the CFC devolutions, it has emerged that CFC recommendations have gradually recognised municipal sector devolution as a tool to stimulate and sustain economic development. However, the CFC devolution has been largely *ad hoc* owing to the absence of data on realistic requirements, which were expected from recommendations of SFC. In this background, these have been made available in a top down manner based on the Zakaria Committee norms that are not relevant as it was in 1963 at a significantly different level of technology, taxation and socio – economic base of cities & towns. The development of data base will take time.

Therefore, CFC recommendations in a short-run should be designed and certain presumptions as those emerged from the preceding analysis which include:

a) Current account (non – plan) requirements of municipal finance are many fold (i) Establishment (ii) O & M (iii) Revenue account surplus or debt repayment capacity and borrowing capacity.

b) SFC will at a minimal level take care of requirements towards establishment cost and partly O & M cost.

c) The vertical imbalances vary according to the size of state economy, population of town and administrative states of ULBs.

d) SFC will decide (i) functional jurisdictions and (ii) suitable revenue arrangement to be protected by SFC devolution beyond which the ULBs have to make their own efforts.

e) Despite SFC devolution significant amount of gap will persist at ULB level and lower the size of ULB higher will be the gap.

f) Support for investment requirements from the central and state governments as well as soft loan from financial institutions and international cooperation's will continue.
g) There is a vast potential for further mobilization of own sources by the ULBs which need to be tapped at optimum level.

CFC Agenda –

Under these presumptions, CFC has to decide (i) Volume of funds (ii) Focus areas (iii) Criterion of devolution

Volume of funds

Currently under the XIIth CFC a sum of Rs 1000 crores per annum is allocated on the basis of predesigned formulae. This amount needs a multiple increase. However, in the absence of bottom up estimates, the proposed increase has to be at best *ad hoc* till (hopefully during the XIV CFC) the realistic estimates are provided by respective SFC.

CFC should at least concentrate on the additional O&M requirement emerging as a result of central funding and associated mobilisation of loans for municipal infrastructure. On a liberal estimate, Projects taken up under JNNURM support are stated to be in a range of a little over Rs. 100000 crores out of which 90 % are for basic services. Direct O&M costs on these projects could be in a range of Rs 18000 crores per annum (8% O&M of 12% debt saving or depreciation). Therefore CFC allocation could be part of Rs 18000 crores annually.

Focus Areas

Leaving a basic equalisation of services to SFC, the allocation by CFC should primarily focus on revenue generation/ availability for non-establishment segment of revenue expenditure i.e. O&M and debt servicing. Therefore, CFC focus could be given to promote horizontal balance including borrowing capacities. In the light of the fact that cities across the country as a result of JNNURM reforms and overall public policy are undergoing a shift towards Double Entry Accounts system, participatory budgeting, adopting GIS to improve information base to improve access to municipal infrastructure, there is a clear-cut base to harness value added role of municipal infrastructure to enhance size of municipal revenue and also improve revenue mobilisation and efficiency (saving) through sale or transfer of assets and sources.

Thus, the focus area for CFC transfers should be to build additional capacity to mobilise funds from own sources to reduce the gap in the O&M and debt-servicing ability of ULBs.

Criterion of Devolutions

It is worth mentioning here that direct devolution by CFC to ULBs began from the Xth CFC with the allocation of Rs 1000 crore for 1995-2000 periods on the basis of (a) 1971 slum population (b) matching contribution by municipalities (c) funds to be used for non-establishment segment of O&M.

The XIth CFC increased the amount to Rs 2000 crores from 2000-2005 for devolution to ULBs on the basis of urban population, area, per capita non agriculture income, own revenue efforts and decentralisation index. The XIIth CFC further increased the devolution to Rs 5000 crores to 2005-2010. This was also an ad-hoc amount, bearing no relationship with gap to upgrade services or the balance gap after SFC devolution. The XII CFC, however, made two important departures from XI CFC covering 50% reservation of grants for solid waste management through PPP and replacement of index of decentralisation by index of deprivation.

The recommendations of XIth and XIIth CFC as above leave a follow – up for subsequent CFCs to adopt a flexible approach unless detailed recommendation for SFC are available. In this context, it is important to focus on magnitude of own sources so that horizontal imbalance is minimised. At the same time, efforts should be made to promote vertical equity in the levels of services.

Owing to the fact that the municipal infrastructure enables economy of scale for higher productivity, forward looking states, which are moving towards economic development need to be given a priority over the states that have achieved a relatively better level of economic development and urbanisation.

Therefore, the criteria for allocation to states may be suitably modified to give a relatively larger share to those which are less urbanised whereas the allocation of CFC funds to municipalities needs to be linked to their efforts on enhancement of municipal own sources. This could be done under a three pronged strategy which include:

System Reforms	30%
Capacity Building	30%
Local Elasticity/ Debt Servicing	40%

Activities to be covered under each of the area of allocation could include.

System Reforms	• Computerisation • GIS Application • LAN – WAN Arrangement • E – Governance
Capacity Building	• Training of municipal staff (Finance & O&M) • Study/ Visits Exposure • Preparation of Manuals checklists/ Guidelines
Seed Capital	• Partial Contribution • Using CFC transfers for Activities – Roads/ footpath, related infrastructure, social forestry community centres, burial grounds/crematorium, stadium & public convenience etc.

System Reforms

As indicated earlier, own sources have vast potential for mobilisation of additional funds from city economy, value added role. Sale of assets/services This will, require a series of reforms in the financial management & O&M system. In this regard computerisation, use of GIS and applications of LAN – WAN, as well as e – governance will go a long way to promote consumer orientation and client satisfaction with respect to municipal infrastructure.

Capacity Building

The overall reform process including the 74th CAA, JNNURM, state initiatives, SJSRY, UIDSSMT etc. have completed one phase of decentralisation and empowerment. There is a consensus among stakeholders that the next phase is capacity building to empower the stakeholders to exercise their powers more effectively. Therefore, CFC support should supplement capacity building initiatives which necessary include training under a typology of (i) Awareness (Seminar/ workshops), (ii) Skill development (Class-rooms) and (iii) Handholding (On the Jobs). As a complimentary to training other activities include study/ exposure visits and preparation of checklists, manuals and guidelines.

Seed Capital

CFC devolution should be used to have a multiplier effect on investments. In this a range of initiatives are suggested covering

(i) The use of transfers as seed capital to generate/ accelerate investments. This is two fold (a) motivate stakeholders to come up with their contribution (money, material & labour) and (b) availability of partial contribution from CFC funds. It will induce a sense of belongingness and ownership among beneficiaries and also facilitate effective up keep of assets, thus, created.

(ii) CFC contribution can also be used as a dedicated flow of funds under escrow account for seeking loan finance. It will build borrowing/ debt repayment capacity among ULBs.

The road-map as above needs to be finally taken up under inter governmental action plan to stimulate municipal own sources. Specific action on this agenda, as above are summarise in Table 6.3

Table 6.3
Inter-Government Action Plan

Item	Central Government to	State Government to give	Local Government to carry out
Placement of Existing Revenue Instruments and Financial Management and Monitoring and Control Mechanism	(i) Promulgate National Urban Policy giving special focus on Municipal Finance. (ii) Continue to promote model Acts, Codes, e-guidelines checklist etc. on • taxes • Water Pricing & cost recovery • GIS/IT Application • Benchmarking • Pool Financing (iii) Promote Capacity Building covering • Training of Trainers • Orientation workshop • Class-room training • On job training/Handholding/ Hands on Learning • Management and allocation of resources for Training ➢ Study visit ➢ Material development ➢ Budgetary allocate • International Coopertion for capacity building • Synergy and convergence from CUS, NIUA, RCUES, CoE, ATI etc.	(i)More emphasise on performance linked fiscal transfers for • Data Base • Collection Efficiency • Accounting • Asset Management (ii) Remove state imposed barriers such as : • Exemptions on Property Tax • Fixing the water Tariff • Revision of bye-laws. (iii) Prepare a PPP policy/ MoU along with model contracts and follow up mechanism (iv) Synergy with central initiatives in capacity building covering: • Modify State Municipal Act. • Assign funds and Functions as per 74th CAA • Identify follow up for DPCs & MPCs • City to city cooperation • Material Development in local language	(i) GIS for land and properties (ii) Updation of Revenue Base property tax, water, advertisements sites and Assets (iii) Prepare Income Expenditure Statements, Ratio Analysis, multiple funds Accounting, Receivable Accounting, Payrolls accounting etc. (iv) Apply innovative collection mechanism – Insurance cover on regular payments, Dispute Settlement Board, attachment of bank accounts. (v) On line Collection, Self assessment, Kiosks, *E-Sewa* Kendra etc. (vi) Do ABC Analysis, DCB Statements (vii) Asset Maintenance and Management Analysis (viii) Annual Subsidy Reports, Environmental Impact Assessment Reports (ix) Encourage Social /Gender Auditing (x) Identify PPP potential under each of mode-divestiture, contracting out, financing (xi) PPP under different services.
Placement of Additional Revenue Instrument	I. Documentation, Information dissemination and motivation for (i) International innovations (ii)Inter-state experience sharing (iii)Award on best practices II. Develop of Manuals/ checklists/ guidelines for application of additional sources.	(i) Inclusion in the TOR of respective SFC to include additional sources. (ii)To have *suo moto* cognizance of inter state innovations for local applications in the state e.g. Local body tax of Maharashtra as substitute of octroi; Surcharge of electricity consumption tax on Liquor (as in Haryana), and *Niryat Kar* (MP). (iii) Adaptations (legal and administrative) of similar innovations as applied by other Indian states. (iv) Applications of other Land based tools such as (a) Betterment levy and (b) Valorisation. (c) Exactions and Impact fee/ Development charges (d) Inter municipal	(i) Selection of additional sources within the legal jurisdiction of ULB (ii) Use of partnerships for- O&M, Revenue collection financing (Bonds) (iii) Development of data base using ➢ Automation, GIS/GPS, website of ULB (iv) Identification of revenue potential under each asset under functional jurisdiction. (v) Preparation of asset mobilisation plan in line with 'Fund your City' programme of Hyderabad.

		cooperation for economies of scale and efficient applications of additional sources.	
;cal Transfers	(i) Have quantum jump in the CFC allocation (ii) To begin with consider part of additional burden of new investments from centrally assisted projects. (iii) Rationalise central allocation to states by using urbanisation level as one of the criterion area etc. (iv) Initiate innovative allocation to ULBs(of CFC funds) to enhance their capacity to mobilise own source on the basis of funding for: (a) System Reforms (30 %) (b) Seed Capital (30 %) (c) Capacity building (40 %) (v) In the medium term determine revenue transfer on the information received from SFC.	(i) Collect requisite data as on municipal finance as desired under insertion of clause (3) (C) in the article 280 for consideration of SFC. (ii) Use MPC and DPC to prepare Metro/District Plan on the basis of Development Plans of ULBs and O&M requirements in their functional jurisdiction. (iii) Decide about basic equalisation to be attended by SFC. (iv) Encourage optimum utilisation of own sources (v) Prepare balance requirements for CFC consideration. (v) Ensure timely disbursement of funds to ULBs	(i) Prepare bottom up assessment of revenue requirements on the basis of strategic fiscal gap a systematic assessment of physical gap and financial implications thereon. (ii) Identify scope for (a) system reforms (b) Local elasticity and (c) Investment requirements and capacity building for using CFC and SFC funds. (iii) Recognise amount of fiscal transfers to be included in the bottom-up process of planning (budget) to be done in a participatory funding (Brazil) and convergence of resources.
llow up	(i) continue consultation Process (ii) Encourage Mutual Experience sharing and cooperation among cities & ULBs (iii) Implement capacity building reform agenda as per feedback (iv) Initiate Benchmarking to have sector using assessment (v) Continues a regular process of policy feedback	(i) Engage ULBs for increasing focus on own sources through (a) Intermediary link institutions (b) MPC/DPC (c) Training institutions (ii) Develop indicators for performance analysis including implementation of Benchmarking, reforms Agenda of Government of India. (iii) Support ULBs to apply Budget cycle based on innovative budgeting that is performance linked and on normative basis (iv) Carry out action research and policy research on Municipal Finance. (a)Determine functional jurisdiction of ULBs to assign functions that have potential. (b) Assign revenue instruments to tap city economy and land value gain.	(i) Strengthen the revenue base through- (a) Updation of records as GIS/GPS/automatic system (b) Use of innovative disclosure by assesse such as – self assessment etc. (c) Minimize exemptions (ii) Re-organise collection mechanism ➢ DCB statements ➢ ABC analysis ➢ Incentive schemes ➢ Penalties (iv) Prepare development plan on a bottom up assessment and Data on strategic fiscal gap (v) Decentralise governance upto Ward/Area Sabha level. (vi) Introduce effective grievance redressal system. (vii) Initiate innovative budgeting (viii) Apply Asset Management on the basis of classification valuation of assets along with assessment of revenue potential (ix) Initiate capacity building of stockholders.

In sum, it appears that there is wide scope for mobilisation of municipal own sources which will go a long way to create financial stability among ULBs. This is to be done through a synergy and convergence of resources currently available from centre to state along with a range of actions to improve availability of suitable fiscal instruments and rationalise financial management and Monitoring and Control Mechanism of ULBs.

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Annexure- I

STUDY ON MOBILIZATION OF OWN MUNICIPAL SOURCES FOR THE URBAN LOCAL BODIES

01 INTRODUCTION

State:

Town:

Local Body: MC M Council

Year of Establishment:

Population: 1991 2001

Number of Employees in ULB:

- Regular
- Temporary
- All

Elected Body Members:

Wards:

Phone number:
Fax:
Email:

Conducted By

Indian Institute of Public Administration, New Delhi
Sponsored by

Ministry of Urban Development, GOI

02 FINANCIAL SUMMARRY

Income Profile – Summary (Actuals)

	2003 - 2004	2007- 2008
I. Revenue Income		
(a) Internal Sources		
- Taxes		
- Non Taxes		
(b) Fiscal Transfers		
Over all		
II. Capital Income		
(a) Loans		
(b) Grants/Subsidy		
Overall		
Total Over all (I + II):		

03 REVENUE

Income Profile – Break Up

(A) Revenue Income	2003- 2004	2007- 2008
(1) Taxes		
- Property Tax		
-		
-		
- Others		
(2) Non Tax		
-		
-		
-		
- Others		
(3) Fiscal Transfers		
- SFC		
- CFC		
- Others		

04 EXPENDITURE

Expenditure Profile – Summary

	2003- 2004	2007- 2008
(1)Revenue Expenditure		
- Establishment		
- O&M		
- Debt repayment (If not included in O&M)		
(2)Capital Expenditure		

Overall: 1+2

05 Expenditure Profile – Item wise

Revenue Expenditure	2003- 2004	2007- 2008
1. Salaries		
2. Other establishment		
O&M items		
3. Water supply / sanitation		
4. Solid waste management		
5. Roads/ Street lighting		
6. All others		
Overall:		
Capital Expenditure (major items)		
1.		
2.		
3.		
4. All others		

06 Key Fiscal Indicators

(1) Outstanding Liabilities	1April 2004	1April 2008
- Loans		

- Contributions (PF/Pension)
- Contractors payments
- Electricity charges
- Other liabilities

Overall:

(2) Accounting Method	DE/SE
(3) Regular payment of salaries	yes/no
(4) Regular payment to contractors	yes/no
(5) Regular payment to contributions	yes/no
(6) Taxes permitted (provide list)	
(7) Taxes Levied & its rate (provide list)	
(8) Non – tax permitted (provide list)	
(9) Non – tax levied & its rate (provide list)	
(10) Receipt of CFC/SFC grants	Timely / delayed

07 Critical Information

Inventory of Assets (updated regularly)	yes/ no (up to year)	
	1April 2004	1April 2008
- Total assets (value)		
- Saleable		

- Non - saleable
- Asset mobilization strategy yes/ no

09 Innovations/good Practices

- Specify innovation
    - E – governance
    - Grievance redressal
    - Water supply & sanitation
    - Solid waste Management
    - Recreation
- Nature of innovation
- Situation before/after
- Taxation (Please specify)
- Non – tax Revenue
- Asset Management
-

08 Service Efficiency

Water		2003- 04	2007 -08
Water supply (in house connection)	– Coverage (%)		
Water supply (stand post)	– Coverage (%)		
Water supply (24 x 7)	yes/no		
Capacity utilization of WTP	– %		

Sanitaion

Sewage – Coverage %

Sewage treatment – %

Solid waste Management
Generation – gmpc

Collection ratio –

Treatment – %

Type of treatment
(Share % for each type)

Road and related services
Total Road length

	2003- 04	2007 -08

Number of foot over bridge

Number of parking places

Percentage of paved roads
Number of Parks

Number of Public conveniences

User charges for public Conveniences yes/ no

Income from parking places (2007 -08)

Income from Advertisements (2007 -08)

Annexure-II

Points for Structured Discussions with City Government Officials

1. Key issues on Fiscal Policy of City Government:
   - Taxation Powers & Tax Structure
   - Accounting Practices
   - Budgeting Exercise
   - Partnership Development (Equity, Resources)

2. Resource Management Bottlenecks
   - Asset Management
     - Portfolio management (cash & investments)
     - Vendible assets
     - Non-vendible/non-saleable assets
     - O&M Assets
   - Borrowing and Debt Repayment Management
     - Project Development Capacity (Planning, Bottom-up approaches, participatory funding)
     - Borrowing & Repayment Capacities
   - Resource Mobilization
     - Tax sources
     - Non-tax sources
     - Local Elasticity
     - Convergence of resources
     - Accessing capital market
     - Use of land as a resource

3. Expenditure Management Bottlenecks
   - Budgeting Practices
   - Use of Budget Cycle
   - Participatory Budgeting
   - Auditing Practices
     - Subsidy Reports
     - Social Auditing
     - Government Audit
     - Internal Audit

4. Existing Innovations and Best Practices (Physical and Potential Plans)
   - Taxations

- Non-conventional Resource Mobilization
- Budgeting
- Existing Use of Partnerships
    - Mode
    - Modalities
    - Impact

5. Alternative Institutional Arrangements
    - Partnership Potential
    - Future Plans for
        - Divestiture
        - Financing
        - Contracting Out
        - Convergence
        - Others (Specify)

6. MIS Application and Capacity Building
    - Automation - Sectoral status
    - Recording System
    - Reporting Mechanism
    - ABC Analysis
    - Research and Training of Staff

7. Future Plan for Financial Planning, Management and Control
    - Strategic Fiscal Gap
    - Action by City Government
    - Action expected from State Government
    - Actions from other stakeholders

8. Fiscal Transfers
    - Basis of transfer (latest ATR of SFC)
    - Timely disbursement
    - Suggested measures

Points for Structured Discussions with State Government Officials

1. Key issues on Fiscal Policy of State Government:

   - Taxation Powers & Tax Structure
   - Accounting Practices
   - Budgeting Exercise
   - Partnership Development (Equity, Resources)

2. Resource Management Bottlenecks

   - Asset Management
     - Portfolio management (cash & investments)
     - Vendible assets
     - Non-vendible/non-saleable assets
     - O&M Assets

   - Borrowing and Debt Repayment Management
     - Project Development Capacity (Planning, Bottom-up approaches, participatory funding)
     - Borrowing & Repayment Capacities

   - Resource Mobilization
     - Tax sources
     - Non-tax sources
     - Local Elasticity
     - Convergence of resources
     - Accessing capital market
     - Use of land as a resource

3. Expenditure Management Bottlenecks

   - Budgeting Practices
   - Use of Budget Cycle
   - Participatory Budgeting
   - Auditing Practices
     - Subsidy Reports

- Social Auditing
- Government Audit
- Internal Audit

8. Existing Innovations and Best Practices (Physical and Potential Plans)
   - Taxations
   - Non-conventional Resource Mobilization
   - Budgeting
   - Existing Use of Partnerships
     - Mode
     - Modalities
     - Impact

9. Alternative Institutional Arrangements
   - Partnership Potential
   - Future Plans for
     - Divestiture
     - Financing
     - Contracting Out
     - Convergence
     - Others (Specify)

10. MIS Application and Capacity Building
    - Automation - Sectoral status
    - Recording System
    - Reporting Mechanism
    - ABC Analysis
    - Research and Training of Staff

11. Future Plan for Financial Planning, Management and Control
    - Strategic Fiscal Gap
    - Action by City Government
    - Action expected from State Government
    - Actions from other stakeholders

8. Fiscal Transfers
   - Basis of transfer (latest ATR of SFC)
   - Timely disbursement
   - Suggested measures

Annexure-III

Contact Persons of Towns/ States

Bangalore

Name	Designation	Phone/Fax No.	E-mail Id:
Banglore Municipal Council	Office	080-22221286 Fax-22223194	
D. Thyagraj	Principal Secretary, Urban Secretary, Government of Karnataka	080-22253958	
B. L. Meena	Municipal Commissioner	080-22237455 080-22223194	
Ajai Singh	Chairman, Banglore Development Authority	080-23342716	
S. S. Khandre	PRO BBMP	9480683012	
Miss Anjali	Architect and Social Activists	9845514686	

Bhopal

Name	Designation	Phone/Fax No.	E-mail Id:
Mr. Abdul Rahim	Additional Commissioner Finance	0755-02701192	
Yuvraj Jai	Dy. Finance	09866445500	

Bhubaneswar

Name	Designation	Phone/Fax No.	E-mail Id:
	Commissioner of Bhubneshwar	9437055000	

Faridabad

Name	Designation	Phone/Fax No.	E-mail Id:
Lajpat Rai Virmani	Financial Controller	9891863231	
N. Mehta	Executive Engineer	9711005709	
Amit Bhatnagar	Accounts Clerk	9868200555	
C. R. Rana	Municipal Commissioner	0129-2416964 9654909090	

Hoshangabad

Name	Designation	Phone/Fax No.	E-mail Id:
Mr. Akhtar Khan	Assistant Accountant	09827624054	
Mr. Suresh Belia	CMO	07574-252434	

Karnal

Name	Designation	Phone/Fax No.	E-mail Id:
H. S. Dhingra	Office Accountant	9896254101	
Satvir Ahlawat	Executive Officer, Municipal Bodies	9996300004	

Navi Mumbai

Name	Designation	Phone/Fax No.	E-mail Id:
Navi Mumbai Municipal Council	Office	022-27577070 022-27575700 Fax 27573785	
Mr. Singrekar	Deputy Municipal Commissioner	27571094 9821599899	
Vijay Nahata	Commissioner	27571094	
Mr. Dalvi	Chief Financial Officer	27570326	
Mr. Dagaonkar	City Engineer	09821430919	
Mr. Pattiwar	Additional Commissioner	09821340890	

Panvel

Name	Designation	Phone/Fax No.	E-mail Id:
Panvel Municipal Council		022-27458040 022-27458041 022-27458042 022-27455751 Fax-27452233	panvel_mc@yahoo.com

Puri

Name	Designation	Phone/Fax No.	E-mail Id:
Shri Sibanarayan Mishra	Executive Officer Puri Municipality	9437028122 9437298951	
Mrs. Shantilata Pradhan	Chairperson Puri Municipal	09437091528	

Ramanagaram

Name	Designation	Phone/Fax No.	E-mail Id:
Ramanagaram Municipal Council	Office	080-27271286 Fax 080-27271273	ramanagara@yahoo.co.in
Brajesh	Accountant, Ramanagram Municipal	9986230779	

State Government Officer

Madhya Pradesh

Name	Designation	Phone/Fax No.	E-mail ID
Mr. U. D. Sadhav		0755-2552609 0755-2554681	

Karnataka

Name	Designation	Phone/Fax No.	E-mail ID
Javed Akhtar	Secretary Urban Development		

Orissa

Name	Designation	Phone/Fax No.	E-mail ID
A. K. Panda	Municipal Secretary Urban Development	0674-2536903 2404984	
R. R. Malik	Director Local Bodies	09437421088 2392104	
B. K. Behra	Secretary Urban Development	9437229824	

Maharastra

Name	Designation	Phone/Fax No.	E-mail ID
M. K. Shrivastav	Secretary Urban Development	9911958059 22021444	

Haryana

Name	Designation	Phone/Fax No.	E-mail ID
S. C. Chowdhary	Principal Secretary Urban Development	0172-2740851	
Dr. Mahaveer Singh	Director Local Bodies	0172-2704941	

Annexure-IV

Base table 2.1
Municipal revenue as percentage of city GDP **(Rs in lakhs)**

Cities	Town population		Projected Urban population		Rev income		State GDP		State urban GDP (60% of state GDP)		City GDP		Share of municipal income to city GDP	
	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08
Bangalore	53.92	57.81	187.72	203.93	43541.12	101416.80	13098974.00	20092235	7859384.40	12055341.00	2257626.17	3417266.21	1.93	2.97
Bhopal	15.56	17.51	160.92	163.44	11373.48	13722.58	10283864	13057144	6170318.40	7834286.40	596482.65	839247.88	1.91	1.64
Bhubaneswar	7.57	9.14	56.45	62.86	3292.80	7638.15	6142226	9337377	3685335.60	5602426.20	494450.52	814247.89	0.67	0.94
Faridabad	12.40	15.42	63.21	73.51	6457.69	14057.86	8288525	13003279	4973115.00	7801967.40	975579.89	1636565.94	0.66	0.86
Hoshangabad	1.07	1.21	160.92	163.44	300.30	477.38	10283864	13057144	6170318.40	7834286.40	41058.45	58219.03	0.73	0.82
Karnal	2.69	3.48	63.21	73.51	786.66	2135.56	8288525	13003279	4973115.00	7801967.40	211442.25	369712.76	0.37	0.58
Navi Mumbai	8.92	12.22	421.12	474.12	28312.72	55856.84	34060005	50883615	20436003.00	30530169.00	432724.85	786994.54	6.54	7.10
Panvel	1.23	1.54	421.12	474.12	1498.35	2082.96	34060005	50883615	20436003.00	30530169.00	59802.94	99429.69	2.51	2.09
Puri	1.70	1.88	56.45	62.86	524.31	1180.55	6142226	9337377	3685335.60	5602426.20	110701.84	167468.43	0.47	0.70
Ramanagaram	0.84	0.91	187.72	203.93	187.05	827.72	13098974.00	20092235	7859384.40	12055341.00	35287.64	53686.61	0.53	2.80
All	105.90	121.12	1778.84	1955.72	96274.48	199396.40	143747188.00	212747300.00	86248312.80	127648380.00	5134586.79	8242838.97	1.88	2.43

Source: 1) selected ULBs 2) centre for monitoring of Indian economy (CMIE) 3) census of India

Base table 2.2 a

Income Expenditure (IE) Differential (DIF) (+ -) as Monthly Establishment Cost (Rs in lakhs)

Cities	Total revenue income	Total revenue expenditure	DIF	DIF as % of Income	Estb cost 2003-04	Estb cost/12	Differential as Monthly Estb Costs
Bangalore	43541.12	31091.61	12449.51	28.59	15831.01	1319.25	9.44
Bhopal	11373.48	5117.61	6255.87	55.00	3585.12	298.76	20.94
Bhubaneswar	3292.80	3299.14	-6.34802	-0.19	1211.05	100.92	-0.06
Faridabad	6457.69	4621.75	1835.94	28.43	3670.34	305.86	6.00
Hoshangabad	300.30	265.59	34.71313	11.56	141.54	11.80	2.94
Karnal	786.66	630.73	155.93	19.82	500.94	41.75	3.74
Navi Mumbai	28312.72	13740.82	14571.9	51.47	2747.54	228.96	63.64
Panvel	1498.35	1106.66	391.69	26.14	476.05	39.67	9.87
Puri	524.31	510.48	13.83	2.64	76.37	6.36	2.17
Ramanagaram	187.05	187.33	-0.28	-0.15	112.53	9.38	-0.03
All	96274.48	60571.72	35702.76	37.08	28392.45	2366.04	13.59

Source: selected ULBs

Base table 2.2 b

Income Expenditure (IE) Differential (DIF) (+ -) as Monthly Establishment Cost (Rs in lakhs)

Cities	Total revenue income	Total revenue expenditure	DIFF	DIF as % of Income	Estb cost 2003-04	Estb cost/12	DIFF as Monthly Estb Costs
Bangalore	101416.80	56718.01	44698.79	44.07	27095.88	2257.99	19.80
Bhopal	13722.58	12998.5	724.08	5.28	5963.80	496.98	1.46
Bhubaneswar	7638.15	8997.98592	-1359.84	-17.80	1614.37	134.53	-10.11
Faridabad	14057.86	16630.49	-2572.63	-18.30	5553.28	462.77	-5.56
Hoshangabad	477.38	473.67883	3.70	0.78	335.28	27.94	0.13
Karnal	2135.56	1733.28	402.28	18.84	686.37	57.20	7.03
Navi Mumbai	55856.84	20245.37	35611.47	63.75	4508.86	375.74	94.78
Panvel	2082.96	2169.1	-86.14	-4.14	638.58	53.22	-1.62
Puri	1180.55	862.49128	243.08	21.99	270.28	22.52	14.12
Ramanagaram	827.72	268.51	351.62	82.13	167.70	13.98	40.02
All	199396.40	121097.416	78298.98	39.63	46448.64	3870.72	20.23

Source: Selected ULBs

Base table 2.3 a

Annual compound Growth rate of revenue income

Cities	2003-04 Total revenue income	2007-08 Total revenue income	Income ACGR
Bangalore	43541.12	101416.80	18.42
Bhopal	11373.48	13722.58	3.83
Bhubaneswar	3292.80	7638.15	18.33
Faridabad	6457.69	14057.86	16.83
Hoshangabad	300.30	477.38	9.71
Karnal	786.66	2135.56	22.11
Navi Mumbai	28312.72	55856.84	14.56
Panvel	1498.35	2082.96	6.81
Puri	524.31	1180.55	17.62
Ramanagaram	187.05	827.72	34.64
All	96274.48	199396.40	15.68

Source: Selected ULBs

Base table 2.3 b
Annual compound growth rate of revenue Expenditure

Cities	Total revenue exp.	Total revenue exp.	Expenditure ACGR
Bangalore	31091.61	56718.01	12.78
Bhopal	5117.61	12998.50	20.49
Bhubaneswar	3299.14	8997.99	22.22
Faridabad	4621.75	16630.49	29.19
Hoshangabad	265.59	473.68	12.27
Karnal	630.73	1733.28	22.41
Navi Mumbai	13740.82	20245.37	8.06
Panvel	1106.66	2169.10	14.41
Puri	510.48	862.49	11.06
Ramanagaram	187.33	268.51	7.47
All	66628.90	133207.16	14.89

Source: Selected ULBs

Base table 2.4 a
Per Capita Revenue Income in Real Terms (Rs)

Cities	Total revenue income 2003-04	Estimated population	Per capita 2003-04	Revenue income 2007-08	Estimated population	Per capita 2007-08	
			Current prices			Current prices	Constant prices
Bangalore	43541.12	53.92	807.47	101416.80	57.81	1754.40	1429.84
Bhopal	11373.48	15.56	731.13	13722.58	17.51	783.77	638.77
Bhubaneswar	3292.80	7.57	434.77	7638.15	9.14	836.05	681.38
Faridabad	6457.69	12.40	520.78	14057.86	15.42	911.68	743.02
Hoshangabad	300.30	1.07	280.45	477.38	1.21	393.05	320.33
Karnal	786.66	2.69	292.71	2135.56	3.48	613.06	499.65
Navi Mumbai	28312.72	8.92	3175.12	55856.84	12.22	4570.31	3724.80
Panvel	1498.35	1.23	1215.85	2082.96	1.54	1348.98	1099.42
Puri	524.31	1.70	309.21	1180.55	1.88	628.28	512.05
Ramanagaram	187.05	0.84	221.93	827.72	0.91	911.41	742.80
All	96274.48	105.90	909.12	199396.40	121.12	1646.24	1341.69

Source: Selected ULBs

Base table 2.4 b
Per Capita Revenue Expenditure in Real Terms (Rs)

Cities	Total revenue expenditure 2003-04	Estimated population	Per capita 2003-04 Current prices	Revenue expenditure 2007-08	Estimated population	Per capita 2007-08 Current prices	Per capita 2007-08 Constant prices
Bangalore	31091.61	53.92	576.59	56718.01	57.81	981.16	799.65
Bhopal	5117.61	15.56	328.98	12998.50	17.51	742.41	605.06
Bhubaneswar	3299.14	7.57	435.60	8997.99	9.14	984.90	802.69
Faridabad	4621.75	12.40	372.72	16630.49	15.42	1078.52	879.00
Hoshangabad	265.59	1.07	248.03	473.68	1.21	390.00	317.85
Karnal	547.39	2.69	203.68	1733.28	3.48	497.58	405.53
Navi Mumbai	13740.82	8.92	1540.96	20245.37	12.22	1656.51	1350.06
Panvel	1106.66	1.23	898.01	2169.10	1.54	1404.77	1144.89
Puri	510.48	1.70	301.05	862.49	1.88	459.01	374.09
Ramanagaram	187.33	0.84	222.26	268.51	0.91	295.66	240.96
All	60488.38	105.90	571.19	121097.42	121.12	999.80	814.83

Source: Selected ULBs

Base table 2.5 a
Composition of Revenue Income 2003-04 (%)

Cities	Own sources (Rs in lakhs)	External sources (Rs in lakhs)	Total revenue Income 2003-04	Own sources (%)	External sources (%)
	2003-04				
Bangalore	37505.00	6036.12	43541.12	86.14	13.86
Bhopal	4196.46	7177.02	11373.48	36.90	63.10
Bhubaneswar	623.13	2669.67	3292.80	18.92	81.08
Faridabad	4984.27	1473.42	6457.69	77.18	22.82
Hoshangabad	62.02	238.28	300.30	20.65	79.35
Karnal	488.23	298.43	786.66	62.06	37.94
Navi Mumbai	27999.32	313.40	28312.72	98.89	1.11
Panvel	484.57	1013.78	1498.35	32.34	67.66
Puri	139.19	385.12	524.31	26.55	73.45
Ramanagaram	92.19	94.86	187.05	49.29	50.71
All	76574.38	19700.10	96274.48	79.54	20.46

Source: Selected ULBs

Base table 2.5 b

Composition of Revenue Income 2007-08 (%)

	2007-08				
Cities	Own	External	Total revenue Income 2007-08	Own	External
Bangalore	68862.41	32554.39	101416.80	67.90	32.10
Bhopal	5665.00	8057.58	13722.58	41.28	58.72
Bhubaneswar	3805.23	3832.92	7638.15	49.82	50.18
Faridabad	10332.38	3725.48	14057.86	73.50	26.50
Hoshangabad	129.15	348.23	477.38	27.05	72.95
Karnal	1433.41	702.15	2135.56	67.12	32.88
Navi Mumbai	55645.65	211.19	55856.84	99.62	0.38
Panvel	956.92	1126.04	2082.96	45.94	54.06
Puri	193.95	986.60	1180.55	16.43	83.57
Ramanagaram	172.89	654.83	827.72	20.89	79.11
All	147196.99	52199.41	199396.40	73.82	26.18

Source: Selected ULBs

Base table 2.6

Composition of Revenue expenditure 2003-04 and 2007-08 (%)

CITIES	Total Revenue Exp.			Total Revenue Exp.			Total Revenue Exp. 2003-04		Total Revenue Exp. 2007-08	
	Total Establishment Cost	TOTAL O&M	Revenue expenditure 2003-04	Total Establishment Cost	TOTAL O&M	Revenue expenditure 2007-08	Total Establishment Cost	TOTAL O&M	Total Establishment Cost	TOTAL O&M
ngalore	15831.01	15260.6	31091.61	27095.88	29622.13	56718.01	50.92	49.08	47.77	52.23
Bhopal	3585.12	1532.49	5117.61	5963.8	7034.7	12998.5	70.05	29.95	45.88	54.12
ubaneswar	1211.0487	2088.095	3299.14372	1614.36592	7383.62	8997.9859	36.71	63.29	17.94	82.06
Faridabad	3670.34	951.41	4621.75	5553.28	11077.21	16630.49	79.41	20.59	33.39	66.61
oshangabad	141.54	124.05	265.59	335.28	138.39883	473.67883	53.29	46.71	70.78	29.22
rnal	500.94	129.79	630.73	686.37	843.38	1529.75	79.42	20.58	44.87	55.13
Navi Mumbai	2747.54	10993.28	13740.82	4508.86	15736.51	20245.37	20.00	80.00	22.27	77.73
nvel	476.05	630.61	1106.66	638.58	1530.52	2169.1	43.02	56.98	29.44	70.56
Puri	76.36975	434.11	510.47975	270.28	592.21128	862.49128	14.96	85.04	31.34	68.66
managaram	112.53	74.8	187.33	167.7	100.81	268.51	60.07	39.93	62.46	37.54
All	28352.48845	32219.235	60571.72347	46834.39592	74059.49011	120893.89	46.81	53.19	38.74	61.26

Source: Selected ULBs

Base Table 3.1

Role of own sources in revenue and expenditure

(Rs in lakhs)

Cities	Own sources (Rs)		Total revenue (Rs)		Total expenditure (Rs)		Own sources as % of Revenue income		Own sources % of Revenue Expenditure	
	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08
Bangalore	37505.00	68862.41	43541.12	101416.80	31091.61	56718.01	86.14	67.90	120.63	121.41
Bhopal	4196.46	5665.00	11373.48	13722.58	5117.61	12998.50	36.90	41.28	82.00	43.58
Bhubaneswar	623.13	3805.23	3292.80	7638.15	3299.14	8997.99	18.92	49.82	18.89	42.29
Faridabad	4984.27	10332.38	6457.69	14057.86	4621.75	16630.49	77.18	73.50	107.84	62.13
Hosangabad	62.02	129.15	300.30	477.38	265.59	473.68	20.65	27.05	23.35	27.27
Karnal	488.23	1433.41	786.66	2135.56	630.73	1529.75	62.06	67.12	77.41	93.70
Navimumbai	27999.32	55645.65	28312.72	55856.84	13740.82	20245.37	98.89	99.62	203.77	274.86
Panvel	484.57	956.92	1498.35	2082.96	1106.66	2169.10	32.34	45.94	43.79	44.12
Puri	139.19	193.95	524.31	1180.55	510.48	862.49	26.55	16.43	27.27	22.49
Ramnagaram	92.19	172.89	187.05	827.72	187.33	268.51	49.29	20.89	49.21	64.39
All	77574.38	147196.99	96274.48	199396.40	60571.72	120893.89	80.58	73.82	132.53	122.06
Excluding Bangalore and Navi Mumbai	11070.06	22688.93	24420.64	41840.19	15739.29	43930.51	45.33	54.23	70.33	51.65

Source: Master Table

Base Table 3.2

Share of Own Sources as Percentage of City GDP

(Rs in lakhs)

Cities	Own sources (Rs)		City GDP (Rs)		Own Sources as Percentage of City GDP	
	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08
Bangalore	37505.00	68862.41	2257626.17	3417266.21	1.66	2.02
Bhopal	4196.46	5665.00	596482.65	839247.88	0.70	0.68
Bhubaneswar	623.13	3805.23	494450.52	814247.89	0.13	0.47
Faridabad	4984.27	10332.38	975579.89	1636565.94	0.51	0.63
Hosangabad	62.02	129.15	41058.45	58219.03	0.15	0.22
Karnal	488.23	1433.41	211442.25	369712.76	0.23	0.39
Navimumbai	27999.32	55645.65	432724.85	786994.54	6.47	7.07
Panvel	484.57	956.92	59802.94	99429.69	0.81	0.96
Puri	139.19	193.95	110701.84	167468.43	0.13	0.12
Ramnagaram	92.19	172.89	35287.64	53686.61	0.26	0.32
All	76574.38	147196.99	5134586.79	8242838.97	1.49	1.79

Source: Data collected from Selected ULBs

Base Table 3.3

Funding of O&M and establishment cost by own sources (Rs in lakhs)

Cities	Own sources (Rs)		O & M (Rs)		Establishment cost (Rs)		Own sources as % of total O&M expenditure (Rs)		Own sources as % of total Estb expenditure (Rs)	
	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08
Bangalore	37505.00	68862.41	15260.60	29622.13	15831.01	27095.88	245.76	232.47	236.91	254.14
Bhopal	4196.46	5665.00	1532.49	7034.70	3585.12	5963.80	273.83	80.53	117.05	94.99
Bhubaneswar	623.13	3805.23	2088.10	7383.62	1211.05	1614.37	29.84	51.54	51.45	235.71
Faridabad	4984.27	10332.38	951.41	11077.21	3670.34	5553.28	523.88	93.28	163.04	186.06
Hosangabad	62.02	129.15	124.05	138.40	141.54	335.28	50.00	93.32	43.82	38.52
Karnal	488.23	1433.41	129.79	843.38	500.94	686.37	376.17	169.96	97.46	208.84
Navimumbai	27999.3	55645.65	10993.28	15736.51	2747.54	4508.86	254.69	353.61	1019.07	1234.14
Panvel	484.57	956.92	630.61	1530.52	476.05	638.58	76.84	62.52	101.79	149.85
Puri	139.19	193.95	434.11	592.21	76.37	270.28	32.06	32.75	182.26	71.76
Ramnagaram	92.19	172.89	74.80	100.81	112.53	167.70	123.25	171.50	81.92	103.09
All	76574.3	147196.99	32219.24	74059.49	28352.49	46834.40	237.67	198.76	273.61	314.29

Source: Data collected from Selected ULBs

Base Table 3.4

Composition of own sources during 2003-04 and 2007-08

Cities	Total Taxes (Rs)	Total Non Taxes (Rs)	Total taxes (Rs)	Total Non Taxes (Rs)	Share of Total Taxes to own sources (%)	Share of Total Non Taxes to own sources (%)	Share of Total Taxes to own sources (%)	Share of Total Non Taxes to own sources (%)
	2003-04		2007-08		2003-04		2007-08	
Bangalore	21812.60	15692.40	46372.18	22490.23	58.16	41.84	67.34	32.66
Bhopal	2116.27	2080.19	3465.00	2200.00	50.43	49.57	61.17	38.83
Bhubaneswar	341.51	281.62	1027.71	2777.52	54.81	45.19	27.01	72.99
Faridabad	1082.12	4902.15	3407.15	6925.23	18.08	81.92	32.98	67.02
Hosangabad	38.02	24.00	98.92	30.23	61.30	38.70	76.59	23.41
Karnal	323.53	164.70	272.41	1161.00	66.27	33.73	19.00	81.00
Navimumbai	10174.58	17824.74	36526.18	19119.47	36.34	63.66	65.64	34.36
Panvel	260.75	223.82	493.21	463.71	53.81	46.19	51.54	48.46
Puri	40.13	99.06	74.98	118.97	28.83	71.17	38.66	61.34
Ramnagaram	51.48	40.71	82.09	90.80	55.84	44.16	47.48	52.52
All	36240.99	41333.39	91819.83	55377.16	46.72	53.28	62.38	37.62

Source: Data collected from Selected ULBs

Base Table 3.5

Composition of Taxes among the sample towns in 2003-04 and 2007-08

Cities	Property tax (Rs)	Other taxes (Rs)	Property tax (Rs)	Other taxes (Rs)	Share of Property tax (%) to total taxes	Share of Other taxes (%)to total taxes	Share of Property tax (%) to total taxes	Share of Other taxes (%)to total taxes
	2003-04		2007-08		2003-04		2007-08	
Bangalore	19860.32	1952.28	41662.13	4710.05	91.05	8.95	89.84	10.16
Bhopal	1190.27	926.00	3125.00	340.00	56.24	43.76	90.19	9.81
Bhubaneswar	321.51	20.00	835.32	192.39	94.14	5.86	81.28	18.72
Faridabad	1064.86	17.26	3397.57	9.58	98.40	1.60	99.72	0.28
Hosangabad	17.26	20.76	34.21	64.71	45.40	54.60	34.58	65.42
Karnal	234.72	88.81	223.59	48.82	72.55	27.45	82.08	17.92
Navimumbai	1493.00	8681.58	15571.70	20954.48	14.67	85.33	42.63	57.37
Panvel	260.75	0.00	445.81	47.40	100.00	0.00	90.39	9.61
Puri	40.13	0.00	63.98	11.00	100.00	0.00	85.33	14.67
Ramnagaram	51.48	0.00	82.09	0.00	100.00	0.00	100.00	0.00
All	24534.30	11706.69	65441.40	26378.43	67.70	32.30	71.27	28.73

Source: Data collected from Selected ULBs

Base Table 3.6

ACGR of Own Sources, Revenue Income and Expenditure during 2003-04 and 2007-08

Cities	Revenue income (Rs)		Revenue expenditure (Rs)		Own sources (Rs)		ACGR Revenue income	ACGR Revenue expenditure	ACGR Own sources
	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08			
Bangalore	43541.12	101416.80	31091.61	56718.01	37505.00	68862.41	18.42	12.78	12.92
Bhopal	11373.48	13722.58	5117.61	12998.50	4196.46	5665.00	03.83	20.49	6.19
Bhubaneswar	3292.80	7638.15	3299.14	8997.99	623.13	3805.23	18.33	22.22	43.60
Faridabad	6457.69	14057.86	4621.75	16630.49	4984.27	10332.38	16.83	29.19	11.54
Hosangabad	300.30	477.38	265.59	473.68	62.02	129.15	9.71	12.27	15.80
Karnal	786.66	2135.56	630.73	1529.75	488.23	1433.41	22.11	19.39	24.04
Navimumbai	28312.72	55856.84	13740.82	20245.37	27999.32	55645.65	14.56	8.06	14.72
Panvel	1498.35	2082.96	1106.66	2169.10	484.57	956.92	06.81	14.41	14.58
Puri	524.31	1180.55	510.48	862.49	139.19	193.95	17.62	11.06	6.86
Ramnagaram	187.05	827.72	187.33	268.51	92.19	172.89	34.64	7.47	13.40
All	96274.48	199396.40	60571.72	121097.42	76574.38	147196.99	15.68	14.86	13.67

Source: Data collected from Selected ULB

Base Table 3.7

ACGR of Taxes during 2003-04 and 2007-08

Cities	Property tax (Rs)	Other taxes (Rs)	Total taxes (Rs)	Property tax (Rs)	Other taxes (Rs)	Total Taxes (Rs)	Percentage (%)		
	2003-04			2007-08			ACGR Property tax	ACGR Other tax	ACGR Total Taxes
Bangalore	19860.32	1952.28	21812.60	41662.13	4710.05	46372.18	15.97	19.26	16.28
Bhopal	1190.27	926.00	2116.27	3125.00	340.00	3465.00	21.29	-18.16	10.36
Bhubaneswar	321.51	20.00	341.51	835.32	192.39	1027.71	21.04	57.26	24.65
Faridabad	1064.86	17.26	1082.12	3397.57	9.58	3407.15	26.12	-11.11	25.78
Hosangabad	17.26	20.76	38.02	34.21	64.71	98.92	14.66	25.53	21.07
Karnal	234.72	88.81	323.53	223.59	48.82	272.41	-0.97	-11.28	-3.38
Navimumbai	1493.00	8681.58	10174.58	15571.70	20954.48	36526.18	59.83	19.27	29.13
Panvel	260.75	0.00	260.75	445.81	47.40	493.21	11.32	0.00	13.60
Puri	40.13	0.00	40.13	63.98	11.00	74.98	9.78	0.00	13.32
Ramnagaram	51.48	0.00	51.48	82.09		82.09	9.78	0.00	9.78
All	24534.30	11706.69	36240.99	65441.40	26378.43	91819.83	21.68	17.64	20.43

Source: Data collected from Selected ULBs

Base Table 3.8

ACGR of Non-Taxes during 2003-04 and 2007-08

Cities	Water charges (Rs)	Others (Rs)	Total Non taxes (Rs)	Water charges (Rs)	Others (Rs)	Total Non taxes (Rs)	ACGR Water charges	ACGR Others	ACGR Total Non taxes
	2003-04			2007-08					
Bangalore	00	15692.40	15692.40	00	22490.23	22490.23	0.00	7.46	7.46
Bhopal	1542.43	537.76	2080.19	1550	650	2200.00	0.10	3.86	1.13
Bhubaneswar	0.00	281.62	281.62	00	2777.52	2777.52	0.00	58.05	58.05
Faridabad	907.70	3994.45	4902.15	972.53	5952.7	6925.23	1.39	8.31	7.15
Hosangabad	10.12	13.88	24.00	14.077	16.156	30.23	6.82	3.08	4.72
Karnal	00	164.70	164.70	00	1161	1161.00	0.00	47.78	47.78
Navimumbai	4603.89	13220.85	17824.74	5189.65	13929.82	19119.47	2.42	1.05	1.41
Panvel	104.93	118.89	223.82	199.5	264.21	463.71	13.71	17.32	15.68
Puri	00	99.06	99.06	00	118.97	118.97	0.00	3.73	3.73
Ramnagaram	00	40.71	40.71	00	90.8	90.8	0.00	17.40	17.40
All	7169.07	34164.32	41333.39	7925.75	90592.54	55377.16	2.03	21.54	6.02

Source: Data collected from Selected ULBs

MASTER TABLE ON IIPA STUDY OF URBAN LOCAL BODIES FINANCING

Place	ULB (Corporation /	Population as per Census(Lakhs)		Estimated Population (lakhs)		Projected urban		Decadal Growth Rate(%)	Municipal Area(Sq. Km)	No. of Employees 2008	
		1991	2001	2004	2008	2003-04	2007-08	1991-2001		Regular	Total
Bangalore	Corp.	41.3	51.01	53.92	57.81	187.72	203.93	49	800	10623	19835
Bhopal	Corp.	10.63662	14.23602	15.56	17.51	160.92	163.44	0.0295762	298.48	3500	5700
Bhubaneswar	Corp.	4.11542	6.58	7.57	9.14	56.45	62.86	0.048048	720	1240	2693
Faridabad	Corp.	6.13	10.53	12.40	15.42	63.21	73.51	0.0555937	208	3600	5050
Hosangabad	Munc.		0.97397	1.07	1.21	160.92	163.44	32	22	335	785
Karnal	Munc.	1321000	2.21236	2.69	3.48	63.21	73.51	0	25.1	454	454
Navimumbai	Corp.	3.87206	7.03947	8.92	12.22	421.12	474.12	82	162	2253	2336
Panvel	Munc.	0.58986	1.04058	1.23	1.54	421.12	474.12	0.05840688	5.15	485	485
Puri	Munic.	1.25199	1.57	1.70	1.88	56.45	62.86	26	16.3268		
Ramnagaram	Munc.	0.63051	0.79384	0.84	0.91	187.72	203.93	21	14.53	116	133
Total		1321068.5	95.98624	105.899	121.1221	1778.84	1955.72	210.191625	2271.5868	22606	37471

Revenue 2003-2004

Own Sources(Rs in lakhs)							External Sources				total revenue income2003-2004
Taxes			Non taxes			Total(Tax + Non-tax)	SFC	CFC	Others	Total Ext.	
Property tax	Other tax	Total taxes	Water char	Others	Total Non taxes						
19860.32	1952.28	21812.60		15692.40	15692.40	37505.00	6036.12	0.00	0.00	6036.12	43541.12
1190.27	926.00	2116.27	1542.43	537.76	2080.19	4196.46	4783.00	0.00	2394.02	7177.02	11373.48
321.51	20.00	341.51	0.00	281.62	281.62	623.13	2469.00	154.00	46.67	2669.67	3292.80
1064.86	17.26	1082.12	907.70	2994.45	3902.15	4984.27	358.00	115.42	1000.00	1473.42	6457.69
17.26	20.76	38.02	10.12	13.88	24.00	62.02	51.89	0.00	186.39	238.28	300.30
234.72	88.81	323.53		164.70	164.70	488.23	99.87	14.53	184.03	298.43	786.66
1493.00	8681.58	10174.58	4603.89	13220.85	17824.74	27999.32	0.00	0.00	313.40	313.40	28312.72
260.75	0.00	260.75	104.93	118.89	223.82	484.57	1000.51	13.27	0.00	1013.78	1498.35
40.13	0	40.13		99.06	99.06	139.19	0.00	375.25	9.87	385.12	524.31
51.48	0.00	51.48		40.71	40.71	92.19	94.86		0.00	94.86	187.05
24534.30	11706.69	36240.99	7169.07	33164.32	40333.39	76574.38	14893.25	672.47	4134.38	19700.10	96274.48

Revenue 2007-2008											
											TOTAL
Own Sources							External Sources (ES)				
Taxes			Non taxes (NT)			Total(Tax + Non-tax)	SFC	CFC	Others (ES)	Total	
Property tax	Other tax	Total Taxes	Water char	Others	Total						
41662.13	4710.05	46372.18		22490.23	22490.23	68862.41	31674.65	879.74	0.00	32554.39	101416.80
3125.00	340.00	3465.00	1550.00	650.00	2200.00	5665.00	5427.58	400.00	2230.00	8057.58	13722.58
835.32	192.39	1027.71		2777.52	2777.52	3805.23	3321.83	511.09		3832.92	7638.15
3397.57	9.58	3407.15	972.53	5952.70	6925.23	10332.38	600.00	0.00	3125.48	3725.48	14057.86
34.21	64.71	98.92	14.08	16.16	30.23	129.15	54.07		294.16	348.23	477.38
223.59	48.82	272.41		1161.00	1161.00	1433.41	90.00	78.25	533.90	702.15	2135.56
15571.70	20954.48	36526.18	5189.65	13929.82	19119.47	55645.65			211.19	211.19	55856.84
445.81	47.40	493.21	199.50	264.21	463.71	956.92	914.92	211.12		1126.04	2082.96
63.98	11.00	74.98		118.97	118.97	193.95	383.00	64.24	539.36	986.60	1180.55
82.09		82.09		90.80	90.80	172.89	467.00	187.83		654.83	827.72
65441.40	26378.43	91819.83	7925.76	47451.41	55377.16	147196.99	42933.05	2332.27	6934.09	52199.41	199396.40
							49867.14				

Revenue Expenditure (2003-04)								
Salaries	Other Establishment	Total Establishment Cost	Operation & Management					
			Water	SWM & Sanitation	Road & Street lighting	Others	TOTAL O&M	**Total Revenue Exp.**
11353.74	4477.27	15831.01		3593.72	4036.58	7630.30	15260.60	31091.61
3361.37	223.75	3585.12	50.82	80.84	862.82	538.01	1532.49	5117.61
270.94	940.11	1211.05	9.71	511.66	140.69	1426.04	2088.10	3299.14
3564.27	106.07	3670.34	1284.08	460.21	896.53	507.81	951.41	4621.75
141.54		141.54	22.25	6.45	95.35	0.00	124.05	265.59
500.94		500.94		40.00	74.40	15.39	129.79	630.73
1522.46	1225.08	2747.54	5486.62	1427.87	1597.50	2481.29	10993.28	13740.82
476.05		476.05	291.33	25.92	100.80	212.56	630.61	1106.66
76.37	0.00	76.37		324.22	62.38	47.51	434.11	510.48
100.19	12.34	112.53	11.42	18.54	6.48	38.36	74.80	187.33
21367.87	6984.62	28352.49	7156.23	6489.43	7873.53	12897.27	32219.24	60571.72

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Revenue Expenditure (2007-08)									
Salaries	Other Establ	Total	Operation & Management						
			Water	SWM & Sanitation	Road & Street lighting	Others	total o&m	Total Revenue Exp.
16880.96	10214.92	27095.88	3381.66	11055.83	4969.72	10214.92	29622.13	56718.01
5102.00	861.80	5963.80	255.00	555.02	68.00	6156.68	7034.70	12998.50
1539.71	74.66	1614.37		313.05	704.57	6366.00	7383.62	8997.99
5227.62	325.66	5553.28	3689.31	1663.00	4664.00	1060.90	11077.21	16630.49
335.28		335.28	54.46	13.35	70.58		138.40	473.68
686.37		686.37		304.00	268.25	271.13	843.38	1529.75
3136.11	1372.75	4508.86	6837.02	3133.31	2538.32	3227.86	15736.51	20245.37
638.58		638.58	1238.61	85.76	81.51	124.64	1530.52	2169.10
77.42	192.86	270.28	0.00	291.92	35.04	265.25	592.21	862.49
140.54	27.16	167.70	32.00	35.37	15.72	17.72	100.81	268.51
33764.59	13069.81	46834.40	15488.06	17450.61	13415.71	27705.10	74059.49	120893.89

Capital Expenditure(2003-04)					Capital Expenditure(2007-08)				
Water Supply	Road & Street lighting	Sanitation	Others	**Total Capital Exp.**	Water Supply	Road & Street lighting	Sanitation	Others	Total Capital Exp.
			22974.97	31087.17				93830.44	93830.44
0.00	0.00	0.00	0.00	0.00					0.00
				0.00	NA	NA	NA	NA	0.00
1284.08	896.53	443.45	423.92	3047.98	3689.31	4664.99	1500.15	5612.10	15466.55
									0.00
			64.43	64.43					0.00
925.37	1248.46	990.15	12144.55	15308.53	1791.90	8775.10	7666.54	13803.93	32037.47
109.71	38.33	12.18	267.17	427.39	125.32	112.30	66.74	403.82	708.18
0.00	0.00	0.00	0.00	0.00	5.00	185.00	67.50	257.50	257.50
	5.56	3.70		9.26	86.60	452.12	126.28	47.08	712.08
2319.16	2188.88	1449.48	35875.04	49944.76	5698.13	14189.51	9427.21	113954.87	143012.22

Annexure-V

Revenue Powers of Municipalities across the Sample States

States	Taxes		Fees
	Compulsory	Discretionary	
Haryana	Property, Duty on Immovable Property (assigned as fixed proportion)	Profession, Vehicles, Animals, Dogs, Show, Toll on Vehicles, Boats, Consumption of Electricity	License Fee, Building Application Fee, Teh Bazari Fee, Advertisement Fee, Slaughter House Fee, Cattle Pound Fee, Registration Fee, Street Fee
Karnataka		Property, Advertisement, Boats, Animals, Lighting, Toll on Vehicles, Duty on Transfer of Immovable Property.	License Fee (Building, Trade & Hotel), Building Betterment Fee, Birth & Death Registration Fee, Food
Madhya Pradesh	Property, Water, Lighting, Sanitary, Fire, Local Body Tax on Entry of Goods	Latrine, Conservancy, Drainage, Profession, Vehicles, Animals, Dogs, Show, Toll on Vehicles and Animals not mentioned above, Betterment, Pilgrim, Persons occupying Houses, Buildings, Land according to circumstances and property, Toll on New Bridges, Entertainment, Advertisement, Terminal	License Fee, Market Fee, Animal Registration Fee, Hotel / Restaurant License Fee, Composting Fee, Teh Bazaar Fee, Building Application Fee, Compounding Fee
Maharashtra	Consolidated Property tax: (General, Water, Lighting, Sanitary) Advertisement, Profession, Theatre, Octroi	Vehicles, Animals, Dogs, Show, Toll on Vehicles, Boats, Animals not mentioned above, Dogs Latrine, Drainage, Special Water Tax, Pilgrim, Special Education Tax, *etc.*	License Fee, Slaughter House Fee, Building Permission Fee, Fee for Sale of Goods, Water Connection Fee, Warrant Fee, Prevent of Food Adulteration License Fee, Cattle Pounds Fee, Swimming Pool Fee, Birth & Death Registration Fee, Betterment/ Development Fee
Orissa		Property: (Lighting, Water, Drainage), Animals, Vehicles, Profession, Octroi, Education, Profession	License Fee, Advertisement Fee, Registration Fee, Market Fee, Slaughter House Fee, Cattle Pound Fee, Dog Registration Fee, Cart Stand Fee, Building Planning Fee

Sources: Mathur and Thakur (2004), *Budgets of Municipal Corporations.*

Annexure-VI

Criteria for Determining the Allocation to States for Municipalities (EFC)

Criterion	Weight (per cent)
Urban population (1991)	40
Geographical urban area (1991)	10
Distance from per capita Non-agricultural income	20
Own revenue effort or urban local bodies	10
Index of decentralisation	20

Sources: Report of the Eleventh Finance Commission (EFC)

Criteria for Determining the Allocation for Municipalities (TFC)

Criterion	Weight (per cent)
Urban population	40
Geographical area	10
Distance from the highest per capita Income (non-agriculture)	20
Index of deprivation	10
Revenue Effort of which	
a. With respect to own revenue of states	10
b. With respect to GSDP	10

Source: Report of the Twelfth Finance Commission (TFC).