CHAPTER 14

Municipal Finances

Introduction

14.1 The Terms of Reference 1(4) of this Commission requires that it 'should recommend measures needed to improve the financial position of the municipalities including measures for improving the management of available resources and measures for recovery of costs (user charges)'. In making its recommendations the Commission is expected to have regard to 'the recommendations of the 13th FC with regard to ULBs; the functions and services transferred by the state government to the municipalities in pursuance of the Constitutional amendments vis-à-vis transfer of services of employees engaged in these functions of the services'. Based on a study of the financial status of the ULBs of the state, the Commission feels that the resource base of the ULBs is not elastic enough to meet their growing needs. Property and consolidated taxes appear to be the only tax revenues of the ULBs and non-tax revenues are insignificant. One major concern is reluctance of ULBs to initiate measures to mobilize resources and their proclivity to seek government grants or revenue transfers to meet their management and development needs including provision of core infrastructure. The Commission is of the view that ULBs are unlikely to take the initiative to raise resources. It is imperative; therefore, the government needs to play a proactive role by providing guidelines even for the levy and collection of local taxes. In analyzing the municipal finances and in making recommendations to strengthen them, the Commission has adopted this approach.

14.2 Broadly, the municipal finances comprise of the following sources:

i) Own sources

   a) Tax Resources – PT, Consolidated Tax and Water Tax

   b) Non-Tax Resources – Market fees, rents, betterment charges, fines, user charges, etc.

ii) Assignments – Octroi compensation, passenger tax compensation, stamp duty, etc.

iii) Grants from State and Central governments, State and Central Finance Commission grants.

iv) Scheme funds –

a) State schemes – Bhagirathi Nal Jal Yojana, Public Toilet Scheme, Mukhya Mantri Swavalamban Yojana, etc.

b) Central schemes – SJSRY, JNNURM, UIDSSMT, BSUP, IHSDP, RAY, etc.

v) Loans – From State Government and financial institutions.

vi) Others

Own Sources :-

Property Tax (PT)

14.3 Levied and collected by ULBs, PT is a principal source of revenue. It has a Constitutional base included at Entry 49 in the State List of Seventh Schedule. As a result, the responsibility to design PT assessment system rests with State governments. Historically, this has been the main source of income of ULBs in almost all States in the country and constitutes roughly 30 to 40 percent or more of municipal own resources. Despite its importance, its potential is not optimally exploited in India, as noted by the 13th FC (Para, 10.80 of FC's report).

14.4 In Chhattisgarh also PT is a significant own tax resources of ULBs levied under M. Corps Act [Sec. 132 (1) (a)] and MC Act [(Sec. 127-A, (1)]. There has not been any effort in the State to reform PT and make it buoyant. PT has not been revised for more than a decade in a majority of ULBs, though as per the M.Corp Act Sec. 143(3), PT in the Acts. Self-Assessment System (SAS) introduced in the integrated state of Madhya Pradesh continues to be in operation in Chhattisgarh, as can be seen from M.Corp Act (Sec. 138) and MC Act (Sec. 126).

14.5 PT is assessed in three different ways in India viz., annual ratable value of land and buildings (ARV), capital value and a variant of ARV called unit rate system i.e., computation of the tax by using carpet area as the unit. In Chhattisgarh, annual letting value (ALV) of the property is the basis for levy of PT. The PT varies between six to twenty percent of the ALV and the actual rate is determined by the council as per M.Corp Act (Sec.135) and MC Act, (Sec.127-A, and the guidelines of the GoC (June 2011). As the ULBs decide on tax slab and rate, there are wide variations in the rates of the taxes levied. ULBs like Ahirwara NP, Dhamtari MC and Korba M. Corp fixed the rates zone-wise while others like Durg M. Corp did so ward-wise. **Tables 14.1 and 14.2** show the variations in the rate of PT.

Table 14.1: Rate of PT for ULBs with less than a lakh Population

Ahirwara*		Dhamtari**		Dallirajahara**	
Slab (in Rs.)	percent of Tax	Slab (in Rs.)	percent of Tax	Slab (in Rs.)	percent of Tax
0 – 4,800	Nil	0 – 4,800	Nil	0 – 4,800	Nil
4,801 & above	6	4,801 – 20,000	6	4,801– 12,000	6
		20,001 – 40,000	7	12,001 – 18,000	7
		40,001 – 60,000	8	18,001 – 24,000	8
		60,001 – 1,00,000	9	24,001 – 30,000	9
		1,00,001 & above	10	30,001 – 50,000	10
				50,001 – 60,000	11
				60,001 – 70,000	12
				70,001 – 80,000	15
				80,001 & above	20

Source: Data collected from respective ULBs.
* Ahirwara NP revised the slab system with effect from 1-4-2012.
** Dhamtari and Dallirajahara are MCs.

14.6 There are only two slabs in Ahirwara, six in Dhamtari, while there are ten in Dallijahara. The basic slab up to Rs 4,800 is uniform in all the ULBs where all properties are exempt from PT. In Ahirwara there is only one slab above the basic slab with a tax rate of six percent and in others the slabs above the basic slab vary.

Table 14.2: Rate of PT (More than a Lakh Population)

GoC Guidelines		Durg		Raipur	
Slab	percent of Tax	Slab	percent of Tax	Slab	percent of Tax
< Rs. 6,000	Nil	< Rs. 6,000	Nil	< Rs. 6,000	Nil
6,001-12,000	6	6,001-25,000	6	6,001-20,000	6
12,001-20,000	8	25,001-50,000	7	20,001-35,000	8
20,001-30,000	10	50,001-75,000	8	35,001-50,000	10
30,001-50,000	12	75,001-1,00,000	10	50,001-75,000	15
50,001-75,000	15	1,00,001-1,25,000	15	75,001 & Above	20
75,001-1,00,000	18	1,25,001& Above	20		
More than 1,00,000	20				

Source: Data collected from respective ULBs

14.7 The Government has fixed eight slabs with no PT for properties with less than Rs.6, 000 ALV. But M.Corps decided to reduce the slabs at their discretion to seven in case of Durg Municipal Corporation and six in case of RMC. In these M.Corps there is a change both in the slabs as well as the tax rate. In Durg, highest rate is 20 percent for the properties with

ALV of Rs.1, 25,000 and above whereas in RMC 20 percent was fixed for properties with ALV of over Rs.75, 001. There are also ULBs like Korba M. Corp. which have adopted the slab rates suggested by the government. In Dhamtari, 82 percent properties are in the lowest slab of 6 percent and another 14 percent in the second slab of 7 percent. In Korba about half the properties are in the lowest slab and another 24 percent in the second slab of 8 percent. Thus it appears that the ULBs do exercise their discretion and take decisions within the overall framework.

Self-Assessment System

14.8 Chhattisgarh is one of the few states in India, where SAS is operational. The ULBs design SAS formats to facilitate calculation of PT, which every property owner is expected to submit annually to the ULB. The tax is calculated based on slab system discussed earlier. In several ULBs, either because of illiteracy or other reasons property owners who have problems in following the SAS format/guidelines and do not submit them. This results in the municipal officials visiting houses and assisting the property owners in filling the SAS form. Thus through the system envisages self-assessment by the property owner, in fact assessment is made by the municipal officials – in a majority of cases. As there is no penalty for non-submission of SAS formats, most property owners take submission of SA form - seriously. Due to inadequate staff, the ULBs are not in a position to collect filled SAS forms and tax.

14.9 Another feature of PT collection is the penalty for delayed payment. The Acts empower the ULBs under M.Corp Act, (Sec 132(2) and MC Act, (Sec. 126) (2) to levy a surcharge at the rate decided by it for delayed payment of PT after due date. But this power is not being exercised by the ULBs, as is evident from the cases studied. Durg M.Corp levies a penalty of 5, 10 and 15 percent for delay of 30, 30-60 and beyond 60 days respectively after the date fixed. Others like Korba M.Corp fixed 6.5 percent, RMC, Mungeli and Dhamtari MCs and Pithora NP five percent, and Ahirwara and Saragoan NPs have not fixed any penalty rate. The Commission feels that PT is one of the important sources of municipal revenues and timely collection is critical for efficient service delivery. *The Commission, therefore, recommends that the provisions of the Municipal Acts relating to delayed payment of PT should be enforced scrupulously.*

A Case for Unit Area System

14.10 The ALV of PT has many a limitation as a result of which it does not yield resources as expected to ULBs. There are also many issues relating to self assessment of PT by the property owners. As we have seen in the case studies, a majority of property owners assessed their PT in the lowest slab thereby depriving the ULBs of legitimate tax revenue. The following are the other issues:

(i) Artificial lowering of annual letting value by the property owners;

(ii) In the absence of transparent rental market, the ALVs are mostly based on notional rental values of similar properties;

(iii) In notional rent there is wide scope for discretion in the assessment of property owners as also in review by municipal officials and;

(iv) Collusion between municipal officials and property owners works to the disadvantage of the ULB.

14.11 To overcome the problems that go with the ALV there is need to look at the alternatives to rationalize the system and bring uniformity and transparency and also to make it buoyant. There is need to standardize the assessment methodology by making the system scientific, simple and transparent by way of setting certain measurable norms in the assessment procedure irrespective of the basis of assessment, i.e., rental value. This will bring social equity and remove arbitrariness. An area based system of assessment involving assessment of rental values with reference to measurable factors like plinth area or carpet area, location of building, type of building based on construction, use of building, etc. is the best for property tax. The aspects of such assessment include:

(i) Plinth area: It is a simple, easily measurable and transparent criterion;

(ii) Zoning: Zoning identifies the location advantages of properties and consequent potential for rental value. For this purpose, municipal area is divided into zones with reference to availability of civic amenities.

(iii) Classification of buildings: Buildings are classified on two parameters viz., type of construction and nature of use.

(iv) Fixation of monthly rental values: All buildings located in a zone are classified based on type of construction and nature of use through a convenient matrix. . To fix the rental values, 20-25 percent properties are surveyed to collect information on prevailing rental values of different categories of buildings and average monthly rent per sq. meter is arrived at.

(v) Based on the survey, the data on the rental values for each zone as also for sub-zones is widely published for public information seeking clarifications and objections. After disposing of the objections, the tax rates are finalized for the rental values for the city. Final tax rates are published in official gazette and local newspapers for information as a measure of transparency

(vi) Rebates for self-occupied buildings based on age and others are incorporated into the Rules.

14.12 The unit area method eliminates arbitrary fixation of rental values by the property owners or officials and is more transparent and equitable. *The Commission recommends that the unit area based PT system should be introduced in the ULBs. This will make the PT administration more transparent and yield more revenue.*

Exemptions

14.13 Grant of exemptions from payment of PT is a common practice in the local government system world over. Its rationale *inter alia* is social equity and high collection cost, particularly where yield is low. The Indian Constitution under Article 285 provides for exemption of all Central Government properties from PT. Chhattisgarh Municipal Acts provide a long list of exemptions from the payment of PT. There are two types of exemptions viz., general and specific. General exemptions include those properties whose ALV is less than Rs.6,000/- in ULBs with more than one lakh population and Rs.4,800/- in ULBs with less than a lakh population (M.Corp Act, Sec 136 and MC Act, Sec. 127). Owner occupied properties get 50 percent rebate in PT. There are also several specific PT exemptions including properties of educational institutions; public worship or public charity; widows or minors or persons subject to physical disability or mental infirmity; freedom fighters, retired members of defence services and their widows; blind persons, abandoned women and mentally incapacitated persons; poles erected by Chhattisgarh Electricity Board and others decided by the GoC. In some cases the exemptions are conditional.

S.No.	ULB Name	Total Properties	Exempted Properties	percent of Exempted Properties
1	Ahirwara	3,487	2,408	69.05
2	Saragoan	1,313	1,163	88.57
3	Pithora	1,423	875	61.48
4	Mungeli	9,977	3,477	34.85
5	Dhamtari	15,188	8,020	52.80
6	Durg	64,032	28,814	44.99
7	Korba	81,828	33,017	40.35
8	Jashpur Nagar	3,648	2341	64.17

Box 14.1: Percentage of Exempted Properties
Source: Respective ULBs

14.14 In many ULBs, the exempted properties appear to be more than those paying PT; as can be seen from Box 14.1 for the year 2011-12. In Saragoan NP, the exempted properties are almost 90 percent - highest among the ULBs studied. This appears to be for two reasons. Firstly, large number of exemptions provided in the municipal Acts and secondly, due to the failure of the ULBs to properly verify the self assessment forms submitted by the property owners the veracity of the ALV claimed. According to a study undertaken for the 13th FC, the percentage of un-assessed properties constitute about 10 percent of the total properties and 11percent of assessed properties.* Viewed from this background, the percentage of exempted properties in ULBs in the state is very high. *The CMRRC should undertake a survey of the exempted properties to assess their claims.*

The exemptions go against the norm of JNNURM. One of the terms of reference of the Commission is to have regard to the recommendations of the 13th FC which suggested that 'all ULBs should be fully enabled to levy PT (including tax for all types of residential and commercial properties) and any hindrances in this regard must be removed' (Para 161(vi). The GoC informed the GoI that there are no hindrances on the ULBs for the levy of the PT and thereby became eligible to access the general performance grant of about Rs.160 crore. But, the position is that the hindrances in the form of exemptions continue to exist in the Municipal Acts. Field visits to select ULBs has clearly brought out that in some ULBs the exempted properties are more than the properties paying tax. The Commission estimated the revenue loss to ULBs as a result of exemptions adopting the Roy Bahl's Model.* Based on the data available on exemptions in seven ULBs - two M.Corps, two MCs and three NPs, the per capita revenue loss was worked out. It was then projected to all ULBs in the state taking 58 lakh as the municipal population as per Census 2011. The cost of exempted properties or the revenue loss works out to about Rs 64 crore, as can be seen from the Box 14.2. *The*

Box 14.2: Cost of Exempted Properties[i]

(Rs in crore)

Sl No	Particulars	
1	Number of Exempted Properties *	78041
2	PT Demand	17.48
3	Number of Taxable Properties Assessed	99207
4	Revenue cost of exemptions	12.81
5	Total Population(seven ULBs)	11,63,308
6	Per Capita Revenue Loss	110.11
7	Revenue loss for all ULBs	**63.85**

*Cities cover: Durg, Korba, Dhamtari, Mungeli, Ahirwara, Saragaon & Pithora

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* Om Prakash Mathur, et al., Urban Property Tax Potenmtial in India, (2009), National Institute of Public Finance and Policy, New Delhi, p.vii.

*Quoted in Om Prakash Mathur, et al., Opp.Cit.

Roy Bahl's model: RCEx= NEx (Td/AP) where RCEx = Estimated revenue cost of exemption; NEx=Number of exempted property; Td=PT demand for taxable properties; AP= Number of taxable properties assessed.

Government should review the provisions relating to exemptions in the Municipal Acts and remove or rationalize them as recommend by the 13th FC.

Un-assessed and Under-assessed Properties

14.15 In the discussions during field visits, the Commission found that there are a large number of un-assessed and under-assessed properties - in the range of 20-25 percent and even more in some cases. In the absence of proper records, it is very difficult to make an estimate of such properties and consequent loss of revenue. For example, in Dhamtari MC, there appears to be about 20 percent each un-assessed and under-assessed properties and another 10 percent property owners do not seem to be paying PT. In Mungeli those who do not pay PT seem to be even more with about 25 percent. In Durg, the Corporation annually loses over rupees one crore due to un-assessment and under-assessment. Such un-assessment or under-assessment should not be allowed to continue. *The CMRRC should undertake a survey of properties and bring the un-assessed and under-assessed properties into PT net.*

Property Tax Collection

14.16 At present the PT is collected annually. The process of serving tax bills and collection starts in the third quarter of the year and picks up during the last quarter of the year –more so between January to March every year. This puts enormous pressure on the municipal staff, which they are not able to meet due to staff shortage. Secondly, the PT is collected manually either in the municipal offices or by the 'Bill Collectors' through door-to-door visits. This has two implications. Firstly, it puts burden on the tax payers to make PT payments in a lump sum in one go and secondly, cash flows to the ULBs would only be at the end of the year and not throughout the year. The penalty for delayed payment is not a deterrent. If the property owner goes to court against the assessment, it takes a very long time as is the case with Korba Municipal Corporation.

PT Receipts

14.17 One disheartening feature of PT system in the state is their low share to total finances as well as own sources of ULBs. Table 14.3 gives the details of demand and collection over a three year period. The total PT demand in 2009-10 was a mere Rs.43.69 crore for all 168 ULBs which increased to Rs.53.41 crore in 2010-11, an increase of 22 percent and in 2011-12 it increased to Rs.67.08 crore, an increase of about 25 percent. There are, however, variations between three tiers of ULBs. The total demand in M.Corps was Rs.37.54 crore in 2009-10, which increased to Rs.55.92 crore in 2011-12, an increase of 49 percent over a period of two years, in case of MCs, the demand increased from Rs.4.58 crore to Rs.5.92 crore, an increase of 29 percent and in case of NPs the total demand increased from Rs.1.57 crore to Rs.5.23 crore, an increase of 233 percent, a substantial increase.

14.18 Collection efficiency, relatively speaking, appears to be better in case of M.Corps and low in others while the overall collection efficiency was around 80 percent during 2009-10 to 2011-12, as can be seen from **Table 14.3.** The collection, however, was Rs.36 crore in 2009-10 to Rs.47 crore in 2010-11 and Rs.56 crore in 2011-12 with wide variations between different tiers of ULBs. The collection efficiency for all the ULBs in the state is around 80 percent for all the ULBs. In M.Corps, collection efficiency was 83.10 percent in 2009-10 and 84 percent in 2011-12. In case of MCs, it was around 65 percent and in NPs 51 percent in 2009-10, but increased to 67 percent in 2011-12 - a substantial increase over a period of two years.

Box 14.3: Collection Efficiency of PT

Sl No	ULB Name	percent Collection
1	Raipur	120.85
2	Durg	71.27
3	Korba	57.88
4	Jashpurnagar	84.86
5	Mungeli	25.03
6	Dhamtari	67.18
7	Ahirwara	81.09
8	Pithora	37.33
9	Saragaon	29.36
10	Bodla	97.94

Source: Respective ULBs

14.19 The JNNURM norm of 90 percent collection efficiency on current year's demand was reiterated by the 13th FC (Para 10.80). Viewed from this norm, collection efficiency is low. The overall collection efficiency 80 percent glosses over wide differences between ULBs as well as the low levels of collection in some ULBs, as can be seen from the cases studied (See Box 14.3). Except for Raipur and Bodla, none of the other ULBs studied recorded a 90 percent collection efficiency. In Mungeli, headquarters of the newly formed district, collection efficiency in 2011-12 was low at 25.03 and in Saragoan it was 29.36 percent.

Table 14.3: PT – Demand & Collection

(Rs. in crore)

	2009-10			2010-11			2011-12		
	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection
Municipal Corporations(10)									
Current	37.54	32.12	85.55	45.76	42.22	92.27	55.92	48.75	87.18
Arrear	13.55	10.33	76.30	16.73	10.72	64.05	26.28	20.33	77.37
Total	**51.09**	**42.45**	**83.10**	**62.49**	**52.94**	**84.71**	**82.20**	**69.08**	**84.04**
Municipal Councils (32)									
Current	4.58	3.27	71.35	4.83	3.69	76.47	5.92	4.29	72.48
Arrear	2.88	1.50	52.21	3.09	1.70	55.05	3.79	2.03	53.55
Total	**7.46**	**4.77**	**63.95**	**7.92**	**5.39**	**68.11**	**9.71**	**6.32**	**65.09**
Nagar Panchayats (126)									
Current	1.57	1.01	64.64	2.82	1.66	59.09	5.23	3.00	57.24
Arrear	1.61	0.61	38.07	2.28	1.06	46.15	3.43	2.84	82.95
Total	**3.18**	**1.62**	**51.18**	**5.10**	**2.72**	**53.29**	**8.66**	**5.84**	**67.42**
State (168)									
Current	43.69	36.40	83.31	53.41	47.58	89.09	67.08	56.04	83.54
Arrear	18.04	12.45	69.03	22.12	13.48	60.94	33.50	25.20	75.24
Total	**61.73**	**48.85**	**79.14**	**75.53**	**61.06**	**80.85**	**100.58**	**81.24**	**80.78**

Source: Director of Municipal Administration, Government of Chhattisgarh

14.20 One practice brought to Commission's notice during field visits is fudging of the PT demand to show high percentage of tax collection. This was compounded by the fact that in several small ULBs no property records are maintained. The Commission was informed that some ULBs started the process of fudging the demand to get benefit under incentive scheme initiated by the Government for collection efficiency. This is a serious problem and should not be allowed to continue. *The* **Commission** *recommends that CMRRC should devise mechanisms to ensure that the municipal records, including PT records, are maintained and updated regularly in all ULBs.*

14.21 Despite relatively good collection efficiency, **arrears of PT** appear to be high. Total arrears were about Rs.18 crore in 2009-10 and Rs.33.50 crore in 2011-12, as can be seen from **Table 14.4.** In M.Corps, arrears almost doubled and in NPs more than trebled. The collection efficiency of arrears was about 75 percent in 2011-12 with variations between ULBs as can be seen from **Table 14.4.** As per JNNURM norms cumulative arrears of PT should not be more than 10 percent of the current years demand. On an average the arrears during 2011-12 are above 75 percent of the current years demand, though in some ULBs it is more than 100 percent as can be seen from **Table 14.5** and in some cases they are as high as

500 percent. Absence of penal provisions or corrective measures has led to laxity among tax payers. *The CMRRC should study the problem in its entirety across ULBs and initiate measures to recover them. If necessary, the municipal Acts may be amended to make penal provisions.*

Table 14.4: Demand and Collection of Arrears

(Rs. in crore)

	2009-10			2010-11			2011-12		
	Demand	Collection	Percent of Collection	Demand	Collection	Percent of Collection	Demand	Collection	Percent of Collection
M.Corps	13.55	10.33	76.30	16.74	10.72	64.05	26.28	20.33	77.37
MCs	2.88	1.51	52.21	3.09	1.70	55.05	3.79	2.03	53.55
NPs	1.61	0.61	38.07	2.29	1.05	46.15	3.43	2.84	82.95
State	18.04	12.45	69.03	22.12	13.47	60.94	33.50	25.20	75.24

Source: Director, Urban Administration

Table 14.5: Arrears Demand to Current Demand – 2011-12

ULBs	Average percent	Highest		Lowest	
		Name of ULB	percent	Name of ULB	percent
M.Corps	84.94	Ambikapur	271.19	Raipur	20.45
MCs	76.05	Baikunthpur	301.16	Bade Bacheli	0
NPs	77.53	Baloda	544.84	Chhuikhadan	0.12
State	79.50	-	-	-	-

Source: Director, Urban Administration

14.22 Per capita PT in ULBs in the state was Rs.173 in 2011-12 **(Table 14.6).** In M.Corps, the per capita PT was Rs.255, in MCs about Rs.82, one-third of the M.Corps and in NPs it was about Rs.61, one-fourth of the M.Corps. There has, however, been an increase in per capita income over the last three years - it increased from Rs.106 in 2009-10 to Rs.173 in 2011-12. In M.Corps it increased from Rs.158 to Rs.255; in MCs from Rs.63 to Rs.82; and in NPs from Rs.22 to Rs.61. These overall figures, however, gloss over variations between different tiers of ULBs as also between ULBs in each tier.

Table 14.6: Per capita PT

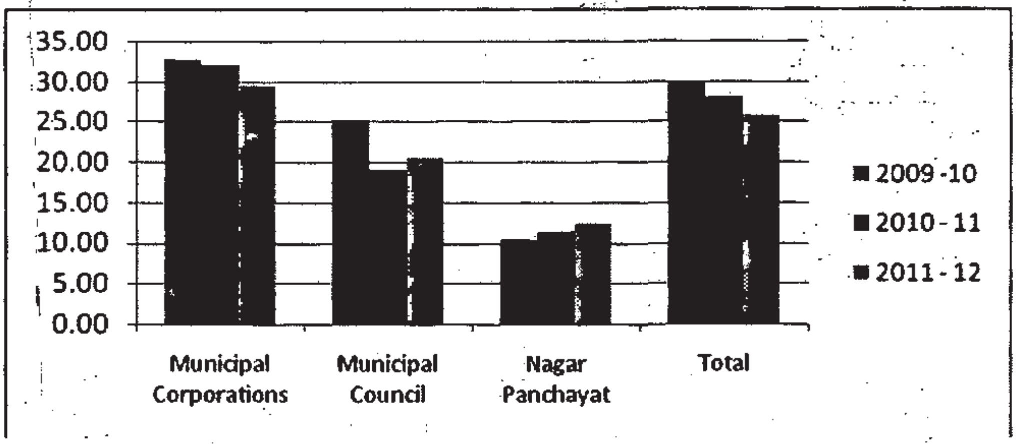
(In Rs.)

S.No.	ULB Type	2009-10	2010-11	2011-12
1	Municipal Corporation	158.51	193.90	255.02
2	Municipal Council	63.30	67.24	82.39
3	Nagar Panchayat	22.52	36.12	61.31
4	State	106.16	129.87	172.95

Source: Director, Urban Administration

14.23 PT constitutes about one-third of ULB's own revenues in the country. But in Chhattisgarh, it is far less and unfortunately, it is declining over years as can be seen from **Figure 14.1** in case of M.Corps and MCs and a marginal increase in case of NPs.

Figure 14-1: PT as percent of Revenues from Own Sources



Source: Director, Urban Administration

14.24 PT has not been revised since formation of the state in most ULBs, as we have noted earlier. The Commission understands that the last revision took place in the undivided state of Madhya Pradesh in 1997-98. In the normal process, there should have been three revisions during the last 15 years, but unfortunately not even one revision has taken place in most ULBs. Korba Municipal Corporation is, however, is one example of revision of PT rate, survey of properties, reducing exemptions, etc., leading to a substantial increase in PT revenues. This can be considered a good practice to be emulated by others. *The CMRRC should ensure that the PT is revised forthwith and ensure revision every five years thereafter.*

14.25 In several ULBs, PT is very less due to exemptions or other reasons. The Kerala Municipalities Act prescribes a minimum PT of Rs. 25/- in MCs and Rs.50/- in M.Corps per half year. The Commission feels that a similar provision should be made in the state which will have several advantages. It facilitates maintenance of proper and authentic property records which are also needed for development planning; enables property owners to participate in civic affairs as tax payers; mobilizes resources to ULBs for development and finally it contributes to equity. *The Commission recommends that the minimum tax should be Rs.50/- in case of NPs, Rs.100/- in Municipalities and Rs.150/- in M.Corps per annum. The Acts may be amended for this purpose.*

14.26 To overcome some of the problems in PT assessment, levy and collection, the Commission makes the following *additional recommendations:*

i) *Govt. should seriously consider abolition of SAS. Even otherwise the verification of SAS forms should be completed within the first two months and demand notices served simultaneously;*

ii) *The PT should be collected in two half-yearly equal installments which is the practice in several states in India. The demand notice, however, may be served only once. The PT payee desirous of making one time payment should be encouraged;*

iii) *An annual penal interest of two percent may be levied for delayed payment after June for the first six months and December for the second six months;*

iv) *The ULBs should explore collection of PT through banks with appropriate arrangements. The CMRRC may work out details at the state-level with the banking institutions;*

v) *The ULBs should accept credit/debit cards for PT payment. Initially, the system may be introduced in the M.Corps and extended subsequently to other ULBs;*

vi) *The Government should explore outsourcing of PT billing and collection as is being adopted in some ULBs in Maharashtra and in other states as also in water utilities;*

vii) *A scheme of incentives for timely or advance payment of PT should be worked out and widely publicized. This enables more and effective tax compliance;*

viii) *To improve collection efficiency incentivize collection staff as also Mohalla Committees / Resident Welfare Associations;*

ix) *The ULBs should give wide publicity in print and electronic media and through the Municipal Notice Boards about the large defaulters as also those who have huge arrears of PT.*

x) *CMRRC should initiate GIS mapping of all properties for effective and total PT coverage.* The Commission understands that a similar process has been initiated in Raipur, Bilaspur, Durg and Korba under National Urban Information System. *Based on experience, this should be extended to all the Corporations during 2013-14 and Municipalities during 2014-15 and NPs the following year.* The Commission understands some IT companies are willing to provide free software for the purpose. The CMRRC and the ULBs may explore such possibilities to cut costs.

Consolidated Tax

14.27 M.Corp Act, [Sec 132(1)(c-e) and MC Act, (Sec. 127(1) (c-e)] provide for levy of composite general sanitation, fire and lighting taxes and together it is called 'Consolidated Tax' which is another important own source of tax revenues to ULBs. The tax was originally introduced in integrated Madhya Pradesh by amending the Municipal Acts and after the formation of the new state, the tax is being continued. A significant aspect of this tax is that government fixes minimum rate in case of M.Corps and both minimum and maximum rates in case of MCs and NPs leaving the actual rate to be decided by the ULB concerned. Though, the tax is levied under three different components, the income from this source is not ring-fenced or exclusively used for specific purposes, but credited into the general municipal funds and expenditure incurred as part of general expenditure.

14.28 The consolidated tax was revised by the Govt. in February 2010 from Rs.15/- to Rs.50/- per month. *There is, however, rebate to non-PT payers for whom it is Rs.25 per* month. Two important factors that govern the levy and collection of consolidated tax are: a) the tax is levied even on those properties, which are exempted from PT, and b) as a consequence, the tax is levied on all property owners.

Demand and Collection Efficiency

14.29 Unlike PT, collection efficiency is low in case of consolidated tax. As can be seen from **Table 14.7** during the last three years it was around 60 percent, unlike 80 percent in case of PT. As with the PT, in M.Corps the collection efficiency was high and less in case of MCs and NPs.

Table 14.7: Consolidated Tax: Demand and Collection Efficiency

(Rs. in crore)

	2009-10			2010-11			2011-12		
	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection
Municipal Corporations (10)									
Current	10.33	8.23	79.66	14.07	10.65	75.72	21.73	12.85	59.13
Arrear	8.42	4.55	54.05	9.67	5.05	52.23	13.59	13.21	97.16
Total	18.75	12.78	68.15	23.74	15.70	66.15	35.32	26.06	73.76
Municipal Councils (32)									
Current	2.46	1.22	49.79	5.35	3.25	60.77	7.61	4.34	57.06

	2009-10			2010-11			2011-12		
	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection
Arrear	3.24	1.13	34.77	3.52	1.30	37.02	5.59	2.62	46.87
Total	5.70	2.35	41.26	8.87	4.55	51.36	13.20	6.96	52.74
Nagar Panchayats (126)									
Current	1.45	0.70	48.02	5.41	2.86	52.7	8.69	3.81	43.90
Arrear	1.63	0.54	33.39	2.52	0.81	32.32	6.10	2.40	39.41
Total	3.08	1.24	40.28	7.93	3.67	46.26	14.79	6.21	42.05
State (168)									
Current	14.24	10.15	71.28	24.84	16.76	67.49	38.04	21.01	55.24
Arrear	13.29	6.22	46.81	15.71	7.17	45.6	25.28	18.23	72.11
Total	27.53	16.37	59.47	40.55	23.93	59.02	63.32	39.24	61.97

Source: Director, Urban Administration

14.30 One feature of property and consolidated taxes is that in M.Corps the PT is higher than consolidated tax whereas in MCs and NPs, it is less than consolidated tax **(Table 14.8).** There are many exemptions in case of PT while they are few in case of consolidated tax. The PT has political overtone both in fixing the rate of tax, levy and collection, but consolidated tax seem to be free from such pressures. As the number of properties are large, as also the type of buildings in case of Corporation, PT is much higher than consolidated tax which is levied uniformly. But in case of MCs and NPs, there are large numbers of exemptions as also a large number of properties in minimum tax rate. In case of consolidated tax, all property owners have to pay the consolidated tax as prescribed while those who are exempted from PT also have to pay consolidated tax at a concessional rate. This contributes, in part, for higher demand in consolidated tax than PT in smaller ULBs.

Table 14.8: Property and Consolidated Taxes – A Comparison

(Rs. in crore)

	2009-10		2010-11		2011-12	
	Demand	Collection	Demand	Collection	Demand	Collection
Municipal Corporations (10)						
Property Tax	51.09	42.45	62.49	52.94	82.20	69.08
Consolidated Tax	18.75	12.78	23.74	15.70	35.33	26.06
Municipal Councils (32)						
Property Tax	7.46	4.77	7.92	5.40	9.71	6.32
Consolidated Tax	5.70	2.35	8.87	4.55	13.20	6.96
Nagar Panchayats (126)						
Property Tax	3.18	1.63	5.10	2.72	8.66	5.84
Consolidated Tax	3.08	1.24	7.93	3.67	14.78	6.21
State (168)						
Property Tax	61.73	48.86	75.53	61.06	100.58	81.25
Consolidated Tax	27.53	16.37	40.55	23.93	63.32	39.24

Source: Director, Urban Administration

14.31 The Commission has examined the possibility and the desirability of clubbing the consolidated tax as components of PT to avoid confusion as also complexities in its managements including levy and collection. During field visits this aspect was discussed with the elected representatives and officials who while agreeing in principle raised doubts about the likely increase in incidence of PT and psychological feeling of high incidence and consequent protests. If this proposal is to be accepted, the three components of the consolidated tax will become components of PT as a fixed percentage which needs to be worked out. *The Commission recommends that all the three components of consolidated tax be included as a percentage of PT instead of being a separate tax. The modalities of the tax being collected from those not liable to pay PT may be examined by CMRRE.*

Entry Tax on Goods

14.32 Octroi was abolished in 1974 and in lieu of loss of revenue, ULBs were given compensation. Subsequently, Entry Tax was introduced in its place and ULBs were collecting the tax which was taken over by the government in1996 and proceeds given to ULBs. Based on recommendations of 1st SFC, GoC with modification is assigning this tax to ULBs on a formula basis – 70 percent population, 10 percent area, 10 percent slum population and another 10 percent based on efforts of revenue collection. The revenues to ULBs from the Entry Tax, as can be seen from **Table 14.9,** has been increasing progressively. But, unfortunately, the entire receipts from the Entry Tax are not transferred to the ULBs. They only receive Rs.26 per capita per month based on Census 2001 as Octroi compensation grant. The Commission understands that such a decision was taken by the government in 2007 and continues even today. Another Rs.60 cores are transferred to SUDA for provision of grants under different schemes to the ULBs and the rest i.e., about Rs.400 crore (during 2011-12) are transferred to the Chhattisgarh Infrastructure Development Fund which also includes SFC grants, general purpose grants and road maintenance grant and is administered by the Chhattisgarh Infrastructure Development Fund Committee headed by the Minister for Urban Development. The Entry Tax which was introduced in lieu of abolition of Octroi should legitimately go in its entirety to the ULBs as assigned grant without any strings. Octroi compensation goes to the ULBs without strings but other funds/grants are distributed to the ULBs based on the proposal they submit and should be used for the purpose for which it was allocated. Similar is the case with road maintenance grant, which needs to be spent only on maintenance of roads. This makes the ULBs complain that the grants under development schemes or road maintenance strip. The ULBs of their freedom to utilize the grant as per their priorities. As entry tax is a replacement after the abolition of Octroi, the *Commission recommends that the entire proceeds of the entry tax be assigned to the ULBs and no strings should be attached.* This facilitates ULBs to meet their recurring and a part of developmental and capital expenditure.

Table 14.9: Total Collection of Entry Tax

(Rs. in crore)

Entry Tax	2007-08	2008-09	2009-10	2010-11	2011-12
	484.63	460.00	418.90	605.00	607.50

Source: Director, Urban Administration

Water Tax

14.33 M. Corp Act, [Sec. 132 (1)(b)] and MC Act, [Sec. 127 (1)(b)] empower ULBs to levy water tax on all buildings with water connection. The government fixes the minimum tax while ULBs are free to fix the actual rate. But most ULBs in the state do not seem to levy this tax and only levy water charges. In some ULBs, the water charges are often called the water tax leading to confusion that both water tax and water charges are being levied, which is not the case. Raipur and Korba M.Corps appear to be among the few ULBs in the state which levy water tax at the rate of one and five percent of the PT on all PT payers respectively. They also levy water charge which is a user charge based on water connection. These two are different - one is the general purpose tax and the other is a user charge. In some ULBs like Durg Municipal Corporation those who do not have water connection are charged Rs.40/- per annum. In most other ULBs only user charges are levied. *All ULBs should levy water tax as per the provisions of the Acts as a general purpose tax to cover costs of public stand posts and subsidy of water supply to the poor.*

Optional Taxes

14.34 The M. Corp Act, Sec. 132 (6) and MC Act, Sec. 127 (6) empower ULBs to levy different taxes at their discretion. The ULBs may impose any of the taxes listed in the Acts or increase the rate of tax or fee already imposed, through a resolution of the council. But during field visits it was observed that a majority of optional taxes are not being levied by the ULBs. The **Table 14.10** gives a bird's eye view of the optional taxes being levied. Though some of these taxes are being levied, there appear to be wide variation in the rate of tax as also collection efficiency. Only six of the 13 optional taxes are being levied by the ULBs though it is not clear whether all ULBs levy or not. From the case studies it is clear that only few ULBs levy these taxes.

Table 14.40: Status on Levy of Optional Taxes

S.No.	Optional Tax	Levy Status
1.	Latrine Tax or Conservancy tax (Section 132 (6) (a) / Section 127 (6)(a)	X
2.	Drainage Tax (Section 132 (6) (b) / Section 127 (6) (b))	X
3.	Profession Tax (Section 132 (6) (c) / Section 127 (6) (c)	X
4.	Tax on the owners of vehicles and animals (Section 132 (6) (d) / Section 127 (6) (d)	X
5.	Toll on vehicles and animals (Section 132 (6) (e) / Section 127 (6) (e)	X
6.	Fees for the registration of cattle (Section 132 (6) (f) / Section 127 (6) (f)	√
7.	Market Fees on Exposing Goods for Sale in the Market (Section 132 (6) (g) / Section 127 (6) (g)	√
8.	Betterment Tax on Property	√
9.	Tax on Pilgrims (Section 132 (6) (i) / Section 127 (6) (i))	X
10.	Toll on new bridge constructed by the ULB – Section 132 (60 (k) of Municipal Corporation Act 1956 and Section 127 (6) (k) of Municipal Council Act 1961	?
11	Advertisement Tax Section 132 (6) (l) / Section 127 (6) (l)	√
12.	Tax on Theatres, Theatrical Performances and Other Public Entertainments - (Section 132 (6) (m) / Section 127 (6) (m)	√
13.	Terminal Tax on Goods And Animals exported from the limits of a Local Body	X

Source: Field visits to select ULBs

Advertisement Tax

14.35 Advertisement tax is an important source of municipal revenue to ULBs. It is being levied only by a few ULBs in the State and income from this source appear to be small. Of the ten cases studied (Box 14.4), five ULBs do not levy this tax and in the remaining it is minimal except in RMC which is making efforts to exploit this source, as can be seen later in Chapter 16. The income from this source to RMC is expected to be about two crore rupees during 2012-13 and there has been an increase over years. *The advertisement tax should be optimally exploited, particularly in the larger ULBs which have potential. The CMRRC may formulate municipal advertisement tax guidelines to help ULBs.*

Box 14.4: Income from Advertisement Tax

(Rs. In lakh)

	2006-07	2007-08	2008-09	2009-10	2010-11
Raipur	30.00	34.16	12.22	52.43	78.60
Durg	3.71	2.73	4.00	8.23	9.47
Korba	3.17	10.27	10.00	11.50	13.33
Dhamtari	0.00	0.00	0.07	0.00	0.00
Mungeli	-	-	1.50	1.65	0.02

Non-Tax Revenues

14.36 The Municipal Acts empower ULBs to levy and collect of fees, rents, charges, etc., as user charges. This source constitutes a substantial portion of the own revenues of the ULBs in the country. In Chhattisgarh, they constitute roughly one-fifth of the total revenues of the ULBs derived from sources like market fees, rents from shops, user charges from water supply and SWM and other sources like water tanker charges, fees from documents, lease of land and buildings, etc. These fees and charges are levied subject to provisions of municipal Acts and the guidelines issued by the Government from time to time. The ULBs are, however, free to impose any of these taxes or fees and are also free to increase the rate of tax or fees already imposed.

Market Fees

14.37 There is provision for market fee under both M. Corp Act, [Sec. 254 (1)] and MC Act, [Sec. 260(1)] in most cases it is collected on a daily basis when commodities are brought into municipal areas for sale. The MC Act (Sec. 262) empower ULBs to charge a fine for use of municipal lands without license for marketing purposes. **Table 14.11** provides the demand and collection of market fees for the years 2009-10 and 2010-11.

Table 14.5: Demand and Collection of Market Fees

(Rs. in crore)

Type of ULB	2009-10			2010-11		
	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection
M.Corps	2.42	1.86	77.05	2.21	2.22	100.09
MCs	1.14	1.10	96.61	1.74	1.67	96.07
NPs	3.32	3.21	96.75	4.46	3.93	88.01
Total	**6.88**	**6.17**	**89.81**	**8.41**	**7.82**	**92.85**

Source: Director, Urban Administration

14.38 The total revenue to the ULBs from Market fee was about Rs.6.9 crore during 2009-10, which increased to Rs.8.4 crore during 2010-11. The demand appears to be high in case of NPs and low in case of municipalities. This may be due to large number of NPs in the state. Surprisingly, both in case of MCs and NPs, there is an increase of about 50 percent in demand, whereas in case of Corporations there was decline by 10 percent as can be seen from the **Table 14.12**. Collection efficiency was around 90 percent during these two years.

14.39 A problem with this source of revenue is the collection by municipal officials on a day-to-day basis from hawkers who assemble with their produce at specified places. There are criticisms of harassment of hawkers who are petty traders and is also leading to unhealthy practices contributing to poor municipal revenues. *The Commission recommends its abolition altogether or in the alternative, the practices be streamlined and effective monitoring and supervision are put in place which will yield more revenues to the ULBs. It is also necessary to maintain computerized records of places and people involved in this trade for effective monitoring and transparency.*

Shop Rent

14.40 Most ULBs in Chhattisgarh as elsewhere in the ULBs in other states, have constructed market places, and shops on municipal land and they are rented or leased out. This is an important source of revenue to the ULBs. The **Table 14.12** gives details of the income from rents from shops and collection efficiency.

Table 14.6: Demand and Collection of Rents from Shop

(Rs. in crore)

Type of ULB	2009-10			2010-11		
	Demand	Collection	percent of Collection	Demand	Collection	percent of Collection
M.Corps	12.76	10.51	82.37	10.43	7.21	69.15
MCs	3.24	2.05	63.32	3.59	2.96	82.42
NPs	2.10	1.22	57.93	2.60	1.56	60.02
Total	**18.10**	**13.78**	**76.12**	**16.62**	**11.73**	**70.60**

Source: Director, Urban Administration

14.41 The total demand from this source was Rs 18 crore in 2009-10 and declined to Rs 16.6 crore during 2010-11. The demand is very high in case of M.Corps with over Rs.12.76 crore and very minimal in case of MCs and NPs with only Rs.3.2 and Rs.2.1 crore respectively. The collection efficiency was 76 percent in 2009-10 but declined to 70 percent during 2010-11. While, the collection efficiency increased in MCs and NPs, it declined substantially in M.Corps, from 82 to 69 percent. As this is an important own source of revenue, efforts should be made to streamline the process of levy and collection of rents. As data is not available municipality-wise, the Commission could not go deeper into this source of revenue. *The CMRRC should formulate guidelines for the fixation of rents, periodic revision as well as levy and collection.* **It is critical and important that the ULBs prepare an inventory of market places, as part of its overall asset management.**

Water Charges

14.42 The M. Corp Act, Sec. 132 (A) and MC Act, Sec. 127 (B) enable ULBs to impose user charges on provision of water, drainage and sewerage where they exist, for collection and disposal of solid waste and for other services. User charges are being levied only on two services viz., water supply and to some extent on SWM. The government fixes the fee to be collected for providing water connection in different types of ULBs in the state. An important feature is the rebate given to non-income tax payers for providing water connection for domestic purposes as can be seen from the **table 14.13**. Such a distinction is unreasonable considering that income tax payers are very few. *The Commission recommends that the distinction between income tax payee and non-income tax payee be removed as it has several operational problems of verification and all property owners who seek water connection should be levied water connection charges uniformly.*

Table 14.7: Fees for Water Supply Connection

S.No.	Beneficiary	Municipal Corporation	Municipal Council	Nagar Panchayat
1.	Income Tax Payee	5,000	4,000	3,000
2.	Non-Income Tax Payee	2,000	1,500	1,500

Source: Notification No. F 5-4/18/2011 dated 12 January 2011

14.43 The rates of water charge are prescribed by the government periodically and ULBs adopt and accordingly levy and collect them. The government revised water rates in January 2011 but the rate notified has a serious limitation. Water rates are fixed uniformly across all the ULBs without any relation to the O&M charges, which vary from one ULB to another based on source of water supply, status of network, hours of supply, etc. The ULBs collect water charges only based on the rates fixed by the government and adopted by them. *The Commission recommends rationalization of water charges with a view to collect at least operational costs. The CMRRC should undertake the exercise ULB wise and guide ULBs.* Another feature is that under Municipal Acts buildings and land owned by freedom fighters during their life time, if they are exempted from income tax, water connection for domestic purposes with half-inch connection, no water charges are collected. *Such exemptions have operational problems and therefore should be done away with.*

14.44 Collection efficiency of water charges is a matter of concern. During 2010-11, the collection efficiency fell to 62 percent from 75 percent in 2009-10, as can be seen from **Table 14.14.** There are also variations between M.Corps, MCs, and NPs in the collection efficiency. In 2010-11 the collection efficiency is less than two-third the demand.

Table 14.84: Collection Efficiency of Water Charges

S.No.	ULBs	2009-10 (percent)	2010-11 (percent)
1	M.Corps	80.16	63.86
2	M.Cs	65.59	60.14
3	NPs	65.70	56.06
	Total	74.99	61.95

Source: Director, Urban Administration

Water Charges - Cost Recovery

14.45 There is a wide gap between the user charges collected and the actual cost of provision of service. **Table 14.15** brings out these aspects very distinctly. From the table it is clear that the actual O&M expenditure for water supply in the Corporations and Municipalities is about Rs.73 crore whereas demand raised is only Rs.46 crore which works out to about 64 percent of the actual expenditure. Of the Rs.46 crore demand only about Rs.26 crore were collected and this works out to 55.56 percent of the demand. But, if we compare the collection to the actual expenditure, it only covers about 35 percent.

Table 14.9: User Charges – Demand and Collection 2011-12

(Rs. in crore)

State/ULB Tier	O&M Expenditure	Demand	Collection	Percent Collection to Demand	Percent Collection to Expenditure
M.Corps	53.87	37.50	19.97	53.3	35.44
MCs	18.63	8.88	5.87	66.2	31.5
NPs	0.41	0.25	0.20	79.8	48
State	73.18	46.67	25.93	55.56	37.1

Source: SLB Notification by GoC relating to 10 M.Corps, 32 MCs and one NP.

There are also variations between different types of ULBs. The state average is 37.1 percent and in corporations the actual cost recovery was 31.5 percent where as in the MCs it is very low at 48 percent. In the lone NP the actual cost recovery is only 35 percent as can be seen from table 7.17.The low cost recovery goes against the JNNURM norms. This has been reiterated by the 13th FC which recommended (Para 10.173) that the local bodies should 'recover at least maintenance costs for services like water supply, solid waste management and sewerage.'

Name	Expenditure	Revenue demand	Collection against demand	Percent Collection	
				demand	expenditure
Durg	3.21	2.96	2.48	83.8	77.3
Korba	2.61	2.51	1.46	58.3	56.0
Raipur	20.99	12.00	8.00	66.7	38.1
Dhamtari	1.00	1.72	0.81	0.47	0.80
Jashpurnagar	0.48	0.13	0.06	0.43	0.12
Mungeli	0.56	0.25	0.09	0.37	0.17
Saragaon	0.41	0.25	0.20	0.80	0.48

Box14.5: O&M Cost Recovery

Source: Respectieve ULBs

14.46 The cost recovery to the total expenditure on provision of water supply varies substantially. In ULBs studied there are wide variations as can be seen from the Box 14.5. Durg M. Corp has achieved about 77 percent cost recovery of actual expenditure incurred on provision of water supply, which is highest among the cases studied. Mungeli MC recovered just about 0.17 percent of the costs. In Raipur M.Corp, the actual cost recovery is 38.1 percent only.

14.47 The percentage of cost recovery of O&M expenditure is highest in Durg and lowest in Chirmiri among the M.Corps with 77 percent and 13 percent respectively as can be seen from Box 14.6. Among the MCs, Kawardha has the highest cost recovery of 83.6 percent and Birgaon less than one percent. Obviously, in this ULB the water charges are not being collected.

Box 14.6: Percent Cost Recovery of O&M Expenditure

Nagar Palika Nigam		
Highest	Durg	77.3
Lowest	Chirimiri	13.7
Nagar Palika Parishad		
Highest	Kawardha	83.6
Lowest	Birgaon	0.7

Source: SLB Notification -2011-12

14.48 One of the norms under JNNURM is 100 percent recovery of O&M costs in all services provided by the ULB. But, as the foregoing illustrates, ULBs in the State recover only approximately two-thirds of O&M charges in water supply and the rest is being met from general funds. *The Commission recommends that all ULBs should ensure 100 percent recovery of O&M costs and CMRRC should regulate this aspect and monitor ULBs.*

Solid Waste Management

14.49 SWM – collection, transportation and disposal is a major expenditure in the ULBs. But, a majority of ULBs have not been collecting any user charges for this service. Some ULBs, however, initiated the process of door-to-door collection of solid waste by collecting a specified amount. The State Govt. prescribed service charges for different categories of waste generators in 2011. ULBs have started adopting these rates, though slowly. The demand and collection of user charges for SWM vary substantially as with water supply as can be seen from **Table 14.16.**

Table 14.16: SWM User Charges – Demand and Collection 2011-12

(Rs. in crore)

O&M Expenditure	Demand	Collection	Percent Collection to Demand	Percent Collection to Expenditure
78.70	16.28	8.42	51.74	10.70

Source: Notification of SLB, GoC.

14.50 The actual O&M expenditure on SWM including salaries, transport vehicles, POL and other incidentals works out to Rs.78.7 crore in the M.Corps and MCs, but the charges levied is only Rs.16.28 crore with a collection efficiency of about 5%. But the collection of user charges to actual O&M expenditure works out to a mere 10.7 percent. This only indicates that high subsidy is being provided in this sector from the general funds. In NPs, problem may be much more where the expenditure on SWM would be higher without any levy and collection of user charges. It is imperative that the ULB should collect actual O&M costs through user charges. As noted earlier and in view of the reluctance of ULBs to levy any user charges, the *CMRRC should formulate guidelines and advise the ULBs to progressively move towards 100 percent collection of O&M through user charges on SWM.* It should also prescribe the timeframe for the purpose after taking into consideration local variations.

Other Non-tax Sources

14.51 As per Municipal Acts, there are several other sources of non-tax income like charges for supply of water through water tankers, building permission charges, rent from lands, etc. But, details of actual expenditure and collection of charges is not available either at state or local levels. Based on case studies Commission feels that income from these sources is too meager to merit discussion. The problem gets compounded as the incomes are shown under the head 'others' making segregation far more difficult. Overall, the non-tax revenues of ULBs constitute a small percentage of their total revenues. This source has considerable scope and need to be exploited optimally. *The CMRRC should formulate guidelines to enable ULBs to collect O&M charges on services provided by them. It should also educate ULBs and the community on the need for payment of user charges for improved and effective service delivery.*

Assigned Revenues

14.52 Assigned revenues are important source of income to the ULBs. In this State stamp duty and entry tax are the two important assigned sources.

Stamp Duty

14.53 The Government is levying one percent additional stamp duty under the Indian Stamp Act on the instruments of conveyance. In the past, stamp duty was levied at nine percent but, as per JNNURM reform condition, the Government brought it down to five percent. The additional stamp duty of one percent is being distributed to ULBs. Up to 2008-09, Rs.10 crore were assigned to ULBs and in 2011-12 it increased to Rs.35.24 crore as can be seen from **Table 14.17.** The assignment depends on the registrations that take place in the urban areas during the year and there are variations from year to year.

Table 14.17: Assignment of Stamp Duty

	2007-08	2008-09	2009-10	2010-11	2011-12
Stamp Duty	10.00	10.00	21.25	30.02	35.24

Source: Director, Urban Administration

14.54 A problem in the transfer of stamp duty is that every year ULBs have to obtain the registration transactions that take place in their jurisdiction and make a request to the Government for fund transfer. As a result, there appears to be delay in the transfers. Secondly, as the assignment is based on quantum of transactions that occur in the jurisdiction of the ULB, there are variations in the receipts between ULB to ULB as can be seen from the Box 14.8 from case study ULBs. *The extant process should be streamlined for timely transfers.*

Box 14.7 Receipts from Stamp Duty

(Rs. In lakh)

ULB	2007-08	2008-09	2009-10	2010-11
Raipur	-	581.68	901.43	1564.78
Durg	79.94	128.27	123.59	146.25
Korba	25.00	50.00	71.87	71.87
Jashpurnagar	0	3.65	3.55	4.15
Dhamtari	18.39	44.09	21.11	28.46
Mungeli	NA	0.50	0.55	0
Ahirwara	1.58	0	0	8.75

Source: Respective ULB budgets

Loans

14.55 The ULBs as per Municipal Acts can borrow loans from the financial institutions or others to meet capital expenditure needs. One significant feature is that the State Govt. has been extending loan facility to ULBs to enable them to undertake infrastructure projects. The Commission was informed that the loans also have part grant component which varies between M.Corps and MCs and NPs. This is a welcome sign as the ULBs begin to think that they cannot expect to receive only grants from the government without any effort on their part. Until March, 2012 only 17 ULBs - nine M.Corps, six MCs and two NPs - accessed the loan facility for infrastructure development viz., shopping complexes, sewerage, market place development, etc., to the tune of Rs.190 crore. The installments towards repayment of loans are deducted by the UDAD from the Octroi compensation being paid to ULBs every month. After payment of both principal and interest the ULBs have still dues of about Rs.150 crore. Of this, Bilaspur and Raipur M.Corps have over Rs.140 crore dues and the remaining by the other 15 ULBs, as can be seen from **Annexure 14.1.** One problem that came to the notice of the Commission is that the ULBs do not get details of the deductions regularly from UDAD and as such the ULBs are not fully in know of the deductions and the loan dues. The UDAD must include a deduction statement every month along with the details of grants sent to the ULBs. *The Commission recommends that the ULBs must be encouraged to go for credit rating so that they will be able to understand their credit worthiness and make efforts to improve them and be eligible to obtain loans from the financial market.*

Receipts and Expenditure

14.56 The foregoing examined the own revenue sources of ULBs in the state as also the transfers and devolutions from state and central governments. **Table 14.18** gives receipts of ULBs both from own sources like tax and non-tax revenues as also devolutions, grants, loans, etc. from state and central governments. State grants include road maintenance grant, SFC grants, infrastructure grants, capacity building grants, etc., and central grants include SJSRY, IHSDP, UIDSSMT, JNNURM, sanitation program, etc. In addition, there are loans given by the state government and those obtained by ULBs from the financial institutions. The receipts increased from Rs.624 crore in 2006-07 to Rs.968 crore in 2010-11. Own revenues of ULBs increased from Rs.135 crore to Rs.237 crore during the same period. Revenues from all other sources like state transfers, grants, loans etc., increased from Rs.488 crore to Rs.731 crore.

Table 14.18: Receipts and Expenditure from all Sources *(Rs in Crore)*

Sl.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1	Tax Revenue	64.69	70.49	80.76	85.05	115.62
2	Non Tax Revenue	70.50	78.39	93.53	117.50	121.40
3	Total Revenue Income from Own Sources	135.19	148.88	174.29	202.54	237.02
4	Transferred Amount	114.97	44.93	68.20	69.73	153.95
5	Grant from State Government	247.95	287.30	397.52	340.83	307.05
6	Others (Loan, Grants from Cent. Govt. and Other Cent Sponsored Schemes)	126.05	206.87	276.39	197.34	270.46
7	Total Other Revenues	488.97	539.11	742.11	607.90	731.46
8	Total Receipts	624.16	687.99	916.40	810.44	968.48
9	Revenue Expenditure	231.76	258.92	321.67	288.75	377.73
10	Capital Expenditure	260.30	342.96	648.19	518.51	406.81
11	Total Expenditure	492.06	601.89	969.86	807.26	784.54

Source: Director, Urban Administration

This indicates that transfers, grants and others are more than the own revenues of ULBs. As can be seen from **Table 14.19,** the percentage of own revenues of ULBs increased marginally from 21.66 percent to 24.47 percent while the revenues from external sources marginally declined from 78.34 percent to 75.53 percent between 2006 to 2011. From this, it is clear that the ratio between own sources and external sources more or less remained at the same level over a period of five years.

Table 14.1910: Ratio between Own and Other Sources of Revenues

(in percent)

	Revenue Sources	2006-07	2007-08	2008-09	2009-10	2010-11
1	Revenues from Own Sources	21.66	21.64	19.02	24.99	24.47
2	Revenues from Other Sources	78.34	78.36	80.98	75.01	75.53

Source: Director, Urban Administration

Expenditure

14.57 Expenditure of ULBs consists of two types – revenue and capital. Revenue expenditure includes items of recurring nature including employee salaries, pensions, management costs, O&M, etc. Capital expenditure includes investments on infrastructure provision in various sectors. From **Table 14.18** it is clear that revenue expenditure increased from Rs.231 crore to Rs.377 crore over a period of five years. Similarly, capital expenditure increased from Rs.260 crore to Rs.406 crore. The revenue and capital expenditures over the last five years, i.e., from 2006-07 to 2010-11, more or less remained constant. During 2008-09 and 2009-10, revenue expenditure was fairly low and capital expenditure high as can be seen from Table **14.20.** This may be mainly due to allocation of more funds for infrastructure under different schemes. An analysis of the revenue and expenditure pattern over a five year period reveals that **receipts increased by 55 percent and expenditure by 60 percent; ratio between own and other sources more or less remained constant and the ratio between *revenue and capital expenditure remained at the same level. The ULBs own sources* constitute about one-fourth and the remaining come from other sources – assigned revenues, grants, scheme funds etc, from State and Central governments.** The ratio between revenue and capital expenditures is almost equal at 50 percent. The ULBs meet part of the revenue expenditure from the grants received from Central and State governments. **The analysis indicates a very low share of internal revenues and high dependency on State and Central grants,** indicating the need to strengthen the internal resources so that ULBs do not have to depend on the State Government and become self-sufficient.

Table 14.20: Ratio between Revenue and Capital Expenditure

		2006-07	2007-08	2008-09	2009-10	2010-11
1	Revenue Expenditure	47.10	43.02	33.17	35.77	48.15
2	Capital Expenditure	52.90	56.98	66.83	64.23	51.85

Source: Director, Urban Administration

An analysis of expenditure pattern in the cases studied over a five year period during 2007-2011 indicate that establishment costs average to

21%, O&M 18 percent, capital expenditure 49 percent, debt servicing one percent and other expenditure 11 percent as can be seen from Box 14.8

Box 14.8: Expenditure Pattern in Case Cities

(in Percent)

#	Expenditure Heads	Durg	Korba	Dhamtari	Jashpurnagar	Mungeli	Ahirwara	Average
1.	Admin & Establishment	28.01	20.37	22.70	17.94	19.33	17.55p	20.98
2.	O&M	19.63	9.25	15.47	19.89	28.19	15.78	18.04
3.	Debt Servicing	3.17	2.75	0.19	0.00	0.00	0.29	1.07
4.	Capital	38.61	51.95	50.33	61.52	43.31	46.85	48.76
5.	Others	10.58	15.68	11.31	0.64	9.17	19.53	11.15
	Total	100.00	100.00	100	100.0	100.00	100.00t	100.00

Source: Respective ULBs

Receipts and Expenditure – Municipal Corporations

14.58 There are ten M.Corps in the State with a population of over 3.2 million constituting more than half the total urban population of the state. The own revenues of these corporations increased from Rs.95.58 crore to Rs.161.95 crore during a five-year period. The revenues from other or external sources increased from Rs.340.11 crore to Rs.446.91 crore – an increase of 31.4 percent, as can be seen from **Table 14.21.**

Table 14.111: Receipts and Expenditure of M.Corps

(Rs. in Crore)

Sl.No	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1	Tax Revenue	53.18	56.66	61.22	66.92	89.23
2	Non Tax Revenue	42.41	48.69	60.28	75.80	72.72
3	Total Revenue Income from Own Sources	95.58	105.35	121.50	142.72	161.95
4	Transferred Amount	93.29	15.40	24.11	29.24	28.31
5	Grant from State Government	136.43	182.25	171.14	176.16	160.90
6	Others (Loan, Grants from Cent. Govt. and Other Cent Sponsored Schemes)	110.39	182.42	258.35	162.43	257.70
7	Total Other Revenues	340.11	380.07	453.60	367.83	446.91
8	**Total Receipts**	435.70	485.41	575.10	510.55	608.86
9	Revenue Expenditure	176.20	197.09	247.70	208.19	281.58
10	Capital Expenditure	165.94	226.21	432.84	357.46	284.18
11	**Total Expenditure**	342.14	423.30	680.53	565.64	565.76

Source: Director, Urban Administration

14.59 There is a decline in the devolutions and increase in State grants as well as loans and other receipts. The total receipts increased from Rs.435.70 crore to Rs.608.86 crore over a period of five years. The revenue expenditure increased from Rs.176.20 crore to Rs.281.58 crore while the capital expenditure increased from Rs.165.9 crore to Rs.284.1 crore. An interesting feature is that the ratio between revenue and capital expenditure remained at the same level of 50 percent as can be seen from **Table 14.22.**

Table 14.22: Revenue and Capital Expenditure Ratio of M.Corps

(in Percent)

	Expenditure	06-07	07-08	08-09	09-10	10-11
1	Revenue Expenditure	51.50	46.56	36.40	36.81	49.71
2	Capital Expenditure	48.50	53.44	63.60	63.19	50.23

Source: Director, Urban Administration

Receipts and Expenditure in MCs

14.60 There are 32 MCs in the State with a population of over 1.28 million constituting 22 percent of total urban population of the State. Their total revenues from own sources increased from Rs.22 crore to Rs.36 crore, an increase of 63 percent over a period of five years. The revenues from other sources including transfers, State and Central grants and loans increased from Rs.79.93 crore to Rs.163.25 crore over a period of five years, as can be seen from Table 14.25. Total receipts increased from Rs.102.00 crore to Rs.199.32 crore. The revenue expenditure increased from Rs.33.35 crore to Rs.52.11 crore while the capital expenditure marginally declined from Rs.51.89 crore to Rs.49.54 crore.

14.61 The total expenditure however, increased from Rs.85.24 crore to Rs.101.65 crore over a five year period – an increase of about 20 percent as can be seen from **Table 14.23.**

Table 14.123: Receipts and Expenditure of MCs

(Rs. in Crore)

Sl.No	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1	Tax Revenue	5.71	6.90	11.45	8.17	11.68
2	Non Tax Revenue	16.36	17.89	17.20	21.42	24.39
3	Total Revenue Income from Own Sources	22.07	24.79	28.65	29.59	36.07
4	Transferred Amount	16.71	22.35	32.98	30.90	116.16
5	Grant from State Government	51.15	42.32	103.15	53.67	39.52
6	Others (Loan, Grants from Cent. Govt. and Other Cent Sponsored Schemes)	12.07	13.62	9.62	22.31	7.57
7	Total Other Revenues	79.93	78.29	145.75	106.88	163.25
8	**Total Receipts**	102.00	103.08	174.40	136.47	199.32
9	Revenue Expenditure	33.35	38.11	44.86	45.25	52.11
10	Capital Expenditure	51.89	57.01	100.76	77.64	49.54
11	**Total Expenditure**	85.24	95.11	145.62	122.89	101.65

Source: Director, Urban Administration

he revenue expenditure increased from 39 percent to 51 percent while capital expenditure declined from 61percent to 49 percent; signaling an unhealthy trend wherein provision of infrastructure takes a backseat, as can be seen from **Table 14.24.**

Table 14.24: Ratio between Revenue and Capital Expenditure in MCs

(in percent)

		06-07	07-08	08-09	09-10	10-11
1	Revenue Expenditure	39.12	40.07	30.81	36.82	51.27
2	Capital Expenditure	60.88	59.93	69.19	63.18	48.73

Source: Director, Urban Administration

Receipts and Expenditure in NPs

14.62 There are 126 NPs with a population of about 1.28 million constituting over 20 percent of the total urban population of the State. Their revenues from own sources increased from Rs.17.54 crore to Rs.39 crore. Receipts from other sources increased from Rs.68.92 crore to Rs.121.3 crore **(Table 14.25)**. The total revenues increased from Rs.86.46 crore to Rs.160.31 crore.

Table 14.25: Receipts and Expenditure of NPs

Sl.No	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1	Tax Revenue	5.81	6.93	8.09	9.95	14.71
2	Non Tax Revenue	11.73	11.82	16.05	20.28	24.29
3	Total Revenue Income from Own Sources	17.54	18.75	24.14	30.23	39.00
4	Transferred Amount	4.96	7.19	11.11	9.58	9.49
5	Grant from State Government	60.37	62.72	123.24	111.01	106.63
6	Others (Loan, Grants from Cent. Govt. & Other Cent Sponsored Schemes)	3.59	10.84	8.42	12.60	5.19
7	Total Other Revenues	68.92	80.75	142.77	133.19	121.31
8	**Total Receipts**	86.46	99.50	166.91	163.42	160.31
9	Revenue Expenditure	22.21	23.72	29.11	35.31	44.04
10	Capital Expenditure	42.47	59.75	114.60	83.41	73.10
11	**Total Expenditure**	64.68	83.47	143.71	118.72	117.13

Source: Director, Urban Administration

14.63 The revenue expenditure increased from Rs.22 crore to Rs.44 crore. The capital expenditure on the other hand increased from Rs.42.47 crore to Rs.73.10 crore as can be seen from **Table 14.25.** The total expenditure in the NPs increased from Rs.64.68 crore to Rs.117.13 crore. Broadly the ratio between the revenue expenditure and the capital expenditure remained at the same level with marginal changes **(Table 14.26)**.

Table 14.26: Ratio between Revenue and Capital Expenditure in NPs

(in percent)

	Expenditure	06-07	07-08	08-09	09-10	10-11
1	Revenue Expenditure	34.33	28.42	20.26	29.74	37.60
2	Capital Expenditure	65.67	71.58	79.74	70.26	62.40

Source: Director, Urban Administration

Accounts

14.64 Most ULBs in Chhattisgarh have been following single entry cash based accounting system until recently. The State Accounts Manual to implement accrual based double entry accounting system (DEAS) was prepared in 2005 in tune with National Municipal Accounts Manual and finalized in 2008. But its implementation is yet to begin. With a view to switch over to double entry system, the UADD has taken two significant steps viz., switch over to accrual based system in all ULBs and agencies like SUDA and DUDAs and others from 2008-09 and to shift from manual basis of accounting to computer based accounting using software developed by the Center for Good Governance (CGG), Hyderabad. The 13th FC recommended switch over to DEAS and it is a mandatory condition to access the performance grant. To fast track the accounting reforms, the UADD appointed Ernst and Young as the nodal agency to supervise the implementation of DEAS across all ULBs in the state. As the volume of work in the ULBs and other agencies under UADD is substantial, the government engaged ten field level chartered accountant firms (CA Firm) to introduce DEAS for the years 2008-09 to 2010-11. All the ULBs and other agencies were divided into ten groups and each group is attached to a CA Firm. These CA Firms are responsible for data entry as well as preparation of financial statements in the ULBs attached to them for the year 2008-09, train the municipal officials in the DEAS and supervise the data entry process to be undertaken by the ULBs during 2009-10 and 2010-11. The E&Y is responsible to supervise and monitor the overall progress of work of the CA Firms. But until 2012, about 70 of the 168 ULBs seem to have prepared financial statements for the year 2008-09. This signifies a wide gap in the migration to DEAS. The UADD dissatisfied with this progress prepared a time frame and instructed the CA Firms to complete preparation of financial statements of ULBs for the year 2008-09 by October 2012, for 2009-10 by December 2012 and for the year 2010-11 by March 2013. From this it is clear that the process of migration to DEAS is too slow and a large number of ULBs have not completed even for 2008-09. The officials of the Directorate of Local Fund Audit feel that various provisions of the Municipal Acts are not being implemented in NPs, there is no concept of accounts and daily wagers without any training and experience maintain the accounts.

14.65 The case studies reveal glaring lacunae in the migration process. The CA Firms, in some cases, seem to have sub-contracted the assignment. Even those agencies did not position Chartered Accountants in the ULBs and their officials visit the ULBs occasionally, take accounts books, registers and other related documents to their offices located elsewhere, convert the single entry system into double entry system, prepare the financial statements for the year and submit them to the ULBs. In the process, ULB functionaries do not get any orientation in DEAS. This is a major constraint in the process and the problem remains as it was. There appear to be several problems in the conversion process to the DEAS at the ULB level. Important among them include bsence of effective supervision; non-submission of relevant records by the ULBs to the CA Firms; training and orientation not provided by CA Firms to ULB employees; absence of dedicated computer systems and broadband internet connectivity in some ULBs; and absence of experienced and computer- literate accounting staff.

14.66 The efforts of Govt. to fast track the migration to DEAS after investing resources has not yielded the expected results. *The Commission recommends that accountants should be posted in all ULBs and those who are in place including the daily wage employees should be given orientation including hands-on experience. Efforts should be directed to develop internal capacity of officials within a given time frame.*

Audit

14.67 Audit has a significant role in effective financial management of local bodies. LFAD, under the Finance Department, is responsible to audit the accounts of local bodies in the state (M. Corp Act, Sec. 129 and MC Act, Sec. 121. There appear to be a backlog of audit as can be seen from **Table 14.27**. The NPs are the most affected as the back log is very high and need to be addressed. A major problem is the accumulation of large audit objections and ULBs failure to address them.

Table 14.27: Details of Pending Audit (as on August 2012)

Sl. No.	ULBs	Total Years Pending
1	Municipal Corporations	29
2	Municipal Councils	73
3	Nagar Panchayats	245
4	Total	347

Source: Department of Local Fund Audit

here are 54,356 audit objections involving about Rs.1000/- crore in ULBs in the State (**Table 14.28**). There are over 1300 audit objections per M.Corp, over 400 per MC and over 226 per NP - an average of 323 per ULB in the state. The amount involved is also very high in the M.Corps with 68% of the total amount. These objections seem to have piled up over a period of 60 years i.e., between 1948-49 to 2009-10 and no efforts are being made to address them. Box 14.09 gives the status of audit objections in the cases of urban bodies studied. Only 12 objections involving about Rs.14 lakh were addressed and that too by NPs and others glossed over the problem. In addition, LFAD also reported 555 cases of embezzlement involving over Rs.1.26 crore; over 57 percent in the NPs. *These need to be addressed within a timeframe to bring financial accountability in urban administration. Special drive should be initiated to address all audit objections expeditiously. Time lag would further weaken the very purpose of audit and citizen confidence.*

Table 14.28: Details of Audit Queries

(Amount in Crore)

Sl. No.	ULBs	Total Queries		Queries Addressed		Balance	
		No.	Amount	No.	Amount	No.	Amount
1	M.Corps	13,054	668.17	0	0	13,054	668.17
2	MCs	12,765	144.89	0	0.03	12,765	144.86
3	NPs	28,537	169.95	12	0.11	28,525	169.84
	Total	**54,356**	**983.01**	**12**	**0.14**	**54,344**	**982.87**

Source: Department of Local Fund Audit

Box 14-8: Audit Objections

S.No.	ULB	Status of ULB	No. of Objections
1	Raipur	Corporation	1358
2	Durg	Corporation	1721
3	Korba	Council	665
4	Dhamtari	Council	1555
5	Mungeli	Council	1678

Source: Director, Urban Adminsitration

14.68 Shortage of Staff and limited use of information technology seem to constrain the LFAD in undertaking the audit of local bodies and taking follow up measures. The Commission was informed that though the need for different categories of staff in LFAD is 1100, it has only 356 sanctioned posts of which only 250 are working at present. This appears to be a serious constraint not only affecting the audit process but also strengthening financial management of ULBs. The Commission was informed that by 2014 several officials are slated to retire and many more by 2016 thereby plunging the Department into a crisis. Unless efforts are initiated forthwith there will be a major problem. The 13th FC recognizing the substantial increase in the volume of transfers to ULBs and consequent increase in transactions suggested that the state governments should strengthen their LFADs both through personnel augmentation and capacity building (Para 10.167). The LFAD submitted a proposal to the state government costing Rs.8.36 crore to strengthen the Department through personnel augmentation and other improvements. Commission was informed that the Government is yet to take decision on the proposal. *The Commission recommends that the State Government should strengthen LFAD through personnel augmentation and computerization.* The European Union sanctioned Rs.2.86 crore for the automation of LFAD. The process has been initiated and NIC is supervising the establishment of a central data center in LFAD. Later similar centers are proposed at regional and district levels with appropriate network. *The Commission feels that this should be taken forward faster to reap the benefits of information technology and strengthen LFAD.*

14.69 The Director LFAD is being appointed by government and is part of the Finance Department of the State Government. The Commission feels that the Director LFAD should be independent of the State Government on the lines of the C&AG at the national level. *The Commission endorses the recommendation of the SARC that independence of the Director, LFAD should be institutionalized and the Director should be appointed by the State Government from a panel vetted by the C&AG.*

14.70 The 13th FC recommended that the C&AG must be given TG&S over the audit of all the local bodies and his Annual Technical Inspection Report and the Annual Report of the Director of Local Fund Audit must be placed before the state legislature. This is a requirement to access the performance grant. But the Commission understands that this is not being done so far. *The Commission recommends that annual report of the C&AG and director LFAD should be placed before the State Legislature and the relevant acts should be amended.*

14.71 The LFAD initiated the process for online audit report preparation. This is being facilitated by provision of laptops to the audit officials. But, training is a major constraint. To overcome some of these issues and problems, the Commission *suggests that the resident audit system should be revived in the ULBs. Similarly, accounting system should be streamlined and strengthened.*

Investments in Infrastructure

14.72 In the previous chapter the Commission estimated a total requirement of about Rs.54,556 crore for infrastructure provision and maintenance over a period of 20 years. These investments would meet the backlog of infrastructure as also meet the needs of the growing population during the next two decades. During the award period i.e., 2012-13 to 2016-17, a total of about Rs. 5,777 crore is required to meet both the capital investments and O&M needs as can be seen from **Table 14.29.**

Table 14.29: Investment Requirements during the Award Period

(Rs in Crore)

S No	Year	Investment Requirement			Available			Additional Funds Required
		Capital	O&M	Total	Capital	O&M	Total	
1	2012-13	560.84	334.80	895.64	501.23	96.66	597.89	297.74
2	2013-14	644.96	364.26	1009.22	556.37	107.30	663.66	345.56
3	2014-15	741.71	396.32	1138.02	617.57	119.10	736.67	401.36
4	2015-16	852.96	431.19	1284.16	685.50	132.20	817.70	466.46
5	2016-17	980.91	469.14	1450.04	760.90	146.74	907.65	542.40
	Total	3781.37	1995.71	5777.08	3121.57	602.00	3723.57	2,053.51

During the award period, the ULBs would be able to mobilize about Rs. 3,723 crore at the present 11 percent rate of growth, leaving a gap of Rs 2,053 crore. These additional funds need to be mobilized internally by the ULBs and through devolutions and grants from State government.

14.73 The GoC launched in August 2009, 'Bhagirathi Nal Jal Yojana' to provide access to drinking water to all the urban households below the poverty line. The government initially allocated funds on an *ad hoc* basis to implement the scheme and in 2012-13, a separate budget head was created and Rs.15 crore allocated. The scheme envisages provision of water connections to all urban poor households with tap water connection and the government provides a subsidy up to Rs.3,000/- per connection and the balance, if any, is to be borne by the ULB. The scheme was well received by the citizens. During field visits both elected representatives and officials informed that the scheme has benefitted the poor. The Commission feels that this is a best practice and should be implemented by all ULBs to extend water connection to all urban poor households who do not have it at present. Taking into consideration the expected public health outcomes from protected and safe water, *the Commission recommends that the government increase the allocation of funds to cover all the urban households under this scheme during the award period subject to availability of network. If implemented effectively, the state may achieve the distinction of providing universal access to water supply to all urban households in the state. The Commission also recommends that there should be effective monitoring of implementation of the scheme to ensure that the people are not harassed or contractors approaching the households for part payment for providing water connection.*

14.74 Sanitation is another important service that significantly contributes to improved public health. Census 2011 has brought out unambiguously the alarming gap in urban sanitation across the country. In Chhattisgarh more than 40 percent urban HHs do not have access to proper and safe sanitation, as can be seen from **Table 14.30.** Obviously they are the poor who cannot afford the high costs of latrine construction.

Table 14.30: Status on Sanitation

Particulars	No of HHs	percent
Total number of households	12,38,738	100.00
Number of households having latrine facility	7,45,715	60.2
Number of households not having latrine facility	4,93,023	39.8

Source: Census of India, 2011

14.75 The GoC formulated State Urban Sanitation Policy in 2010 on the lines of the National Urban Sanitation Policy, 2008. The policy aims at achieving universal urban sanitation by 2025 by providing access to improved sanitation to all urban residents. It proposes preparation of city sanitation plans, elimination of open defecation, construction of group toilets where necessary, ensuring proper disposal mechanism, partnering with corporate houses, NGOs etc., to improve sanitation, etc. The policy focuses on awareness building for better results and proper regulation mechanisms for effective implementation. The policy estimates the need for Rs.750 crore both for residential and public toilets. *This Commission accords high priority to sanitation along with water and proposes universal access to safe sanitation during the award period. For this purpose the Commission makes a provision of Rs. 200 crore and hopes that this will contribute to improved health, privacy and dignity to women and also gender rights. Needless to add that through these measures the state would fulfill its commitment to achieve millennium development goals.*

Mobilizing Resources

14.76 As already mentioned in **Para 14.72** above, to meet the resources to provide infrastructure as per the SLB norms during the award period, there is a need to mobilize about Rs.2,053 crore both for provision of new infrastructure and to meet O&M expenditure during the award period. Additionally, another Rs.150 crore is needed to achieve universal access to sanitation and Rs. 50 crore for capacity building taking the total requirement to Rs.2,253 crore. This can be done through several measures including state and central grants and mobilizing internal resources by the ULBs. The strategy is to:

i) Strengthen, streamline and optimize the existing sources;

ii) Exploit the sources empowered under the municipal Laws but not being levied or optimally exploited;

iii) Identifying the new sources to meet the present and future needs;

iv) Devolutions by the State Government; and

v) Developing models of capital expenditure.

14.77 Exploiting the existing resources optimally is very critical before identifying new avenues. PT is by far the most important source and its optimal exploitation is critical. As discussed earlier in this chapter PT reforms include revision every five years, levy of service charges on central and state government properties as per the GoI guidelines, strengthening tax collection mechanism, rationalising exemptions and levy of a minimum tax on all properties, GIS mapping to identify un-assessed and under-assessed properties and constitution of CMRRC to guide and advise the ULBs in tax mobilization and monitor their performance periodically. *The Commission feels that through these measures, the ULBs would be able double the PT* **receipts** *and even more. This is based on experience in other states* and on assumption that the Commission's estimate of cost of exempted properties itself is over Rs.63 crore and with other suggested reforms revenues can be much more.

14.78 The Municipal Acts have provision for levy and collection of several optional taxes. The Commission feels that not only the optional tax provisions have not been implemented by a large number of ULBs. Even those which exploit the yield is limited. *The Commission recommends that the ULBs should levy the taxes they are empowered under the Acts, prominent among them being advertisement tax. In many states this tax is a significant source to ULBs. By rationalizing, strengthening and streamlining the levy and collection of advertisement and other taxes, the ULBs may mobilize additionally about Rs.25-30 crore per annum.*

Profession Tax

14.79 The profession tax is a state level tax on professions, trades and employment being levied as per the provisions of the Constitution of India under Article 276 read with Entry 60 of List II of Schedule VII. The proceeds of the tax go to the local bodies. States like Gujarat, Tamil Nadu, Maharashtra, Karnataka, Andhra Pradesh, etc., have been levying this tax for a very long time. Gujarat, for example, enacted as separate law i.e. the Gujarat Panchayats, Municipalities, Municipal Corporations and State Tax on Professions, Trades, Callings and Employments Act, 1976, under which the profession tax is being levied. Other States have also enacted similar laws. The tax is imposed both on individuals and organizations like companies, firms, proprietary concerns, societies, clubs, association of persons, etc. The Acts governing the profession tax have provisions for exempting the individuals from the payment of the tax like senior citizens, handicapped, etc. Employers are expected to deduct the tax at source and remit to government. The maximum and minimum tax leviable is indicated in the Act itself. In case of establishments, profession tax is calculated on the basis of turnover of sales or purchases of the previous year. *The Commission recommends that the Government should consider enactment of legislation for levy and collection of profession tax. The tax should be collected by the Commercial Tax Department and proceeds allocated to the local bodies. In all likelyhood this would be an important source of income for the local bodies and is likely to fetch more than Rs.50/- crore per annum initially.* This is based on the assumption that there would be about six lakh employees both of government and commercial establishments who can be brought into profession tax net.

14.80 The Commission further makes the following recommendations to strengthen the financial base of the ULBs and to mobilize additional resources to meet the infrastructure needs proposed:

(i) **Trade Licensing Fee**: The Government may review the present status of the trade-licensing fee and revise and expand the list of trades for coverage;

(ii) **Vacant Land Tax**: At present this tax is not being levied or exploited. The Commission recommends that all vacant lands within the jurisdiction of the local body except government land should be surveyed and identified and a tax on the capital value of the land should be levied. **The CMRRC may formulate policy and guidelines for this purpose.**

(iii) With the expansion of mobile culture in the country a large number of cell towers are being erected in all areas, more so in urban areas. Similarly, the cable operators are making quick money and these two sources should be exploited optimally by the ULBs.

In the absence of proper and reliable information, it is difficult to estimate the revenues from these efforts. The Commission estimates, however, that from these sources about Rs.20 crore can be mobilized annually.

The Chhattisgarh Urban Infrastructure Fund

14.81 The GoC established the Chhattisgarh Urban Infrastructure Fund (CIUF) under the Chhattisgarh Nagar Vikas Nidhi Niyam, 2003. The objectives of the Fund include devolutions of Entry Tax to ULBs, sanction of grants from the corpus for specific purposes, channeling grants received from GoC and state and central Finance Commissions to ULBs, repayment of installments of outstanding loan raised by the ULBs directly from the Fund, and undertaking responsibility of repayment of installments of new loans being raised by ULBs, etc. The receipts of Entry Tax, grants from state and central finance commission, other state government grants and other funds are credited into the Fund. The Fund consists of two accounts viz., devolution (Nyagaman) account and infrastructure (Adhosamrachana) account. The former includes Entry Tax transfers to ULBs as Octroi compensation, Stamp Duty and other compensations payable to ULBs, etc. The latter includes remaining amount of Entry Tax after transferring Octroi compensation to ULBs, SFC grants for improvement of basic services and other state grants for capital works, etc. One percent of Entry Tax from the devolution account is deposited into separate fund called 'Yantriki Prakoshth' (Technical Cell) to support technical assistance to ULBs. The Governing Committee of the Fund is headed by the Minister of Urban Development and Directorate of Municipal Administration is the Fund Manager. The Committee determines from time to time the share of each ULB from the Entry Tax. As this Commission proposes the total transfer of Entry Tax to ULBs, the remaining fund is limited.

14.82 The JNNURM guidelines require setting up of a revolving fund by ploughing back at least 20% of funds to revolving fund. The Fund is to be utilized to leverage market funds for further investment in infrastructure. The Commission understands that the Revolving Fund has not yet been created and this may adversely affect receipt of grants under the second phase of JNNURM. Therefore, the *Commission recommends constitution of Revolving Fund as per guidelines of JNNURM and its merger with the existing CIUF. The Commission further recommends provision of seed capital of Rs. 50 crore from Government into the CIUF for enabling attainment of its objectives.* Revolving funds accruing from all development programmes including JNNURM should feed into CUIF. The Fund may have the following objectives:

i) Funding urban infrastructure projects for improving living standards of urban population, including the urban poor, through a revolving fund;

ii) Assist ULBs to access capital market, individually or jointly through pooled finance arrangements;

iii) Operate a complementary window to assist ULBs by way of grants for project design and management and to address problems of the urban poor and environment conservation;

iv) Facilitate private sector participation in infrastructure through joint ventures and through public-private-community partnerships; and

v) Capacity building to enable ULBs access finances from the market.

14.83 *The Commission further recommends the establishment of a Chhattisgarh Urban Finance and Infrastructure Development Corporation to act as a Fund Manager /Asset Management Company of CUIF to perform the role of a financial intermediary between ULBs and financial markets. It will be responsible for collection of funds from ULBs and its proper utilization. The details of Revolving Fund, plough back mechanisms, etc., may be decided on lines recommended by GoI. The Corporation should disburse Funds to ULBs in part as loans to sustain and develop urban infrastructure.*

Models for Capital Expenditure

14.84 Apart from mobilizing resources from internal and external sources, there is also need to develop models of capital expenditure for sustainable financing of expenditures for creating and maintaining urban infrastructure assets such as water supply, sewerage, sanitation, SWM, roads, etc. The Commission discussed borrowings from financial market, credit rating, adoption of PPP models, etc., earlier in this Report. The Commission reiterates them and further details are discussed.

Credit rating and debt market

The ULBs should be encouraged to undertake credit rating and access bond markets for financing infrastructure. They should be encouraged to access loans from banks and commercial institutions by structuring commercially viable projects. Towns in Tamil Nadu, Maharashtra and Karnataka have used debt market bonds to finance urban infrastructure.

Public Private Partnerships

Financing capital expenditure through PPP is another model. The ULBs should adopt appropriate PPP models viz., management contracts, Build, Operate and Transfer (BOT) and Build, Own, Operate and Transfer (BOOT), etc. The management contracts and service contracts may be preferred where the capital requirement is low, need for improvement in performance is high and gestation period is five years or less. These models are suitable in

O&M of STPs and water treatment plants, water supply distribution system, street sweeping, door to door collection of solid waste, etc. BOT and BOOT models may be preferable where capital requirement and managerial expertise is high with long gestation period. These models may be adopted in 24X7 water supply projects, setting up compost and waste to energy plants, parking complexes, etc. For this purpose ULBs may create project specific Special Purpose Vehicles. The government should formulate an enabling policy, regulatory and institutional framework and ULBs should develop adequate capacity to structure and implement the projects. PPPs are extensively used in cities and towns of Madhya Pradesh, Karnataka, Rajasthan, etc.

Establishing Revolving Fund

As noted in Para 14.87 a state level revolving fund shall be established to provide commercial loans to ULBs for financing infrastructure. The repayments from the loans should be ploughed back into the Fund to make it viable and sustainable. Funding should be based on commercial viability of the project and implementation of financial reforms to make ULBs creditworthy. This Fund could also be used to leverage projects under PPP.

Incentivising Performance

14.85 The ULBs have not been making serious efforts to strengthen and streamline the municipal finance system to undertake their functions. It is important, therefore, to incentivize the performance of ULBs. *The Commission feels that two criteria may be considered for incentivizing the ULBs viz, 90 percent collection of PT and introduction of DEAS. The government may give weightage to these criteria and provide additional grants to the ULBs which meet these criteria. The scheme, the Commission hopes, will motivate municipal leadership and official functionaries to take the needed and appropriate interest to move towards evolving a self-sustaining municipal finance system.*

14.86 *There is an urgent need to improve the service levels in ULBs and the Govt. may consider providing an incentive to them for the same. We recommend that the criterion for such an incentive may be achieving atleast 10% improvement in service levels in respect of household water connections, coverage by sewerage and solid waste collection* *and management. The State Govt. should prepare a suitable incentive scheme for the same.*

14.87 *At present only the M.Corps and M.Cs are required to notify the service level benchmarks every year. There is a need to make an assessment of the level of civic services being provided by the NPs also and to extent the SLB process to them. We recommend that the SLB process be extended to all NPs as well as suggested by the XIII FC.*

14.88 The Commission recommends that the Ward and Mohalla Committees be incentivised for their contributions to collect 90 percent of the current demand and allocate a portion of the PT collected – say 20 to 25 percent for infrastructure provision or other services as proposed by these Committees. This would facilitate active and effective participation of civic communities in not only mobilizing resources but also in development effort. The Commission believes, in the long run, such participatory culture would facilitate sustainable urban development.

14.89 The councilors including alderman in the ULBs are allotted a Councilor's fund called 'Parishad Nidhi' every year to undertake works relating to repairs and maintenance of roads, drains, water supply systems, public toilets, etc. The 'Nidhi' was revised upward in 2012. The 'Councilor's Fund' is being allotted by the government from CUIF. *The Commission recommends that the Councilor Fund should be made from the municipal budget and not from the Infrastructure Fund.* During field visits some elected representatives, officials and community members brought to the notice of the Commission about the poor quality of works being undertaken as a result of which the community could not benefit from the works. The Commission feels that care should be taken to ensure quality in works relating to the repairs and maintenance works so as to ensure 'value for money'. Any violations to the rules prescribed should be taken seriously with exemplary punishment to those who execute the projects.

Other Recommendations

14.90 In regional consultations several problems faced by ULBs as also some suggestions were made. Some of these problems relate to policy, some are more of administrative nature, some relate to personnel and others to finances. The Commission examined these problems and suggestions carefully and makes the following recommendations:

(i) **Delayed receipt of funds**: The delayed receipt of funds from the State Government affects payment of salaries to teachers, operation of mid-day meal scheme, implementation of welfare programs, etc. *The Commission feels that the Government should ensure timely release of funds so that implementation of on-going programs is not affected and to sustain morale of people working on the projects.*

(ii) **Unspent grants**: It is understood that in some ULBs large amounts of funds released under several development schemes are not utilized either due to absence of detailed project reports, for want of technical staff or for other reasons. As a result, funds are lying with the ULBs unspent for long periods. For example, in Durg Municipal Corporation Rs.30 crore and in Mungeli and Jashpurnagar MCs Rs.6 and one crore respectively could not be spent. This is against the principles of prudent financial management. *The Commission recommends that the UDAD should regularly monitor the implementation of development schemes and expenditure pattern and initiate corrective measures where required. The UDAD may also consider transferring resources to other ULBs where there is urgent need for funds through proper planning without affecting the claims of the concerned ULB as and when the funds are needed.*

(iii) **Deductions from Octroi compensation**: Many ULBs brought to the notice of the Commission that deductions are being made from the Octroi compensations due to the ULBs for different purposes like pension payments. But while transferring the funds deduction statement is not being enclosed and therefore, the ULBs seem to be in the dark about the total funds due to them under different heads, deductions made, etc. *The Commission suggests that the UDAD should ensure that a deduction statement accompany the fund transfer letter with details of entitlements, deductions made and purpose for which they were made, etc., so that ULBs are fully in know of funds received. This will ensure transparency in financial transactions.*

(iv) **Special Funds for upgraded ULBs**: Several ULBs, particularly the NPs, have brought to the notice of the Commission that their infrastructure was very poor and do not meet the standards or benchmarks. They requested financial support to

upgrade infrastructure. *The Commission examined this issue carefully and recommended a one time grant of one crore rupees to NPs and additional one crore rupees to the NPs which have become headquarters of the newly formed districts in the interim report for the development of infrastructure as a one-time grant. This has been recommended in our interim report. This is independent of this Commissions' recommendation of evolving norms for constitution of ULBs as suggested by the 13th FC and conversion of some NPs based on Census 2011.*

(v) **A share in Commercial Taxes and Excise Duty**: The Commission has examined the suggestion but is not in its favour as it has recommended a global share of funds from state resources.

(vi) **Funds for Development Schemes**: Several suggestions have been made to the Commission that the development schemes under which ULBs get funds do not enable them to implement the schemes holistically as scheme guidelines restrict the use of funds for specific purposes. For example, grants released for renovation of water bodies do not include increase in the depth of water bodies or de-silting. *The Commission feels that government may examine some of these suggestions and review the guidelines of development schemes and make appropriate changes as necessary.*