

CHAPTER- 14

BEYOND THE FISCAL PACKAGE

14.1.0 Introduction :

14.1.1 While making a review and assessment of Municipal Finances in the last two Chapters, the *SFC* had identified 4 major problems which ULBs in the state are encountering. These are: (i) The Own Resources of ULBs not only fall short of requirement of financing their Revenue Expenditure, but at the same time, are proportionately declining. *This violates the principle of Sound Finance that Own Revenue Receipts of the Government should Finance Revenue Expenditure.* (ii) The emergence of huge Revenue Gap, rising from Rs. 163.40 crores, being the average of 3 years (2001-02 to 2003-04) to the potential gap projected to Rs. 210.78 crores in 2005-06 and increasing to Rs. 451.02 crores in 2009-10. (iii) The third major problem emanates from year-to-year fluctuations in the percentage of Revenue Expenditure on different heads of *ULB* Expenditure, *more particularly, Public Health and Convenience, Public Safety and Public Works, indicating lack of Perspective Planning in ULB Expenditure, and also a reflection on Urban Administration.* (iv) *The emergence of Huge Annual Surpluses not only on Revenue Account but also in Over-All Budgetary Position, indicative of Poor Budgetary and Financial Management.*

14.1.2 For finding out solutions to above four major problems, though apparently considered to be financial, we will have to look beyond the Fiscal Package. *Our recommendations, therefore, for solving these problems would extend to evolving strategies and measures beyond the Fiscal Package.* Such strategies and measures are expected to make Fiscal Package more fruitful and productive. In fact, the financial problems that we have identified have been partly created and also aggravated due to the inadequate attention paid to factors beyond the Fiscal Package. *These factors may be Administrative, Managerial, Institutional, Constitutional, Technical and Political.* Hence solutions beyond the Fiscal Package are not of lesser

significance, compared to fiscal measures. In fact, measures beyond the Fiscal Package may facilitate the solutions of fiscal problems. Sometimes, it becomes difficult to differentiate between Fiscal and Non-Fiscal measures because of overlapping between the contents of Fiscal Package and “Beyond the Fiscal Package”.

14.1.3 In the Chapter entitled “***Approach and Methodology*** of the ***SFC***, we have already outlined some of the important areas comprising “***Beyond the Fiscal Package***, particularly those which need to be tackled for improving Fiscal Management and Municipal Administration. Now we take up a more comprehensive coverage of the components of “Beyond the Fiscal Package”. Measures beyond the Fiscal Package are intended to enhance the inner strength and resilience of ULBs – so essential for making them viable units of Self-Governance. Unfortunately, lesser attention is being paid, at present, to these issues. Our main focus is concentrated to the issue of providing more funds to the ULBs. But what is the use of such transfers, when ULBs do not have the absorptive capacity and the ability to utilize such funds effectively and efficiently, and when their delivery system is inadequate and inefficient. ***Our objective should not only be to help ULBs to fill up their Revenue Gaps, as far as possible, but also to ensure that their Functional and Fiscal Performance improves to the desired extent, by deploying instruments from the armoury of “Beyond The Fiscal Package.”***

14.1.2 The above discussion makes it clear that the construction of Fiscal Package cannot be the end of the journey of the ***SFC***, but it is expected to move beyond the Fiscal Package, so as to complete its Constitutional task.

14.2.0 Beyond The Fiscal Package - Meaning And Composition :

14.2.1 Beyond the Fiscal Package, is not a single homogeneous entity but includes diverse and heterogeneous measures and strategies, in so far as, they have the common objective of strengthening and improving the Fiscal and Financial Performance of ***ULBs*** in the State. ***The main components which have been collectively designated as “Beyond the Fiscal Package”, are given below :***

- (i) The Administrative Structure of ***ULBs***,
- (ii) The Institutional Framework within which the ***ULBs*** function,

- (iii) The State-Municipal Relations,
- (iv) Reforms in the Tax Structure of ULBs,
- (v) The System of Budgeting and Accounting,
- (vi) The system of Audit,
- (vii) The Constitutional Provisions,
- (viii) Urban Planning and Management Process,
- (ix) The Feasibility of User Charges,
- (x) The Computerization of Municipal Functioning and Registration of Documents,
- (xi) The Feasibility of Privatization of certain Municipal Services,
- (xii) The Public-Municipal Partnership and,
- (xiii) The Political Structure and its working.

14.2.2 The space and time do not permit us to dabble into all the above areas. Some of the issues, are so large that they may constitute the subject-matter of enquiry by separate Committees/Commissions. In this report, we propose to focus on some of the important components which have a direct bearing on Municipal Finances and which would increase the effectiveness of the Fiscal Package that we have designed in the last Chapter. We have taken into account some of the suggestions, oral as well as written given by the representatives of ULBs, both official and non-official, and representatives of other organization and individuals at the meeting convened by the Chairman of the *SFC* at Raipur in the month of November, 2005, and also during the course of discussions held at different places (Lists given in the Annexure).

14.3.0 Reforms Beyond Fiscal Package (Some Initiatives) :

14.3.1 Taking cognizance of the significance of measures beyond the Fiscal Package, the Central Government has taken some initiatives in the direction of Urban Reform, with the creation of Urban Reforms Incentive Fund, with an outlay of Rs. 500 crores, the share of each state is to be determined in proportion to its Population in the Total Urban Population of the Country. The scheme would be undertaken during the currency of the Tenth Five year plan. The Planning Commission has identified the following areas in the initial phase of urban reforms:

- (i) The repeal of Urban Land (ceiling and regulation) Act at the State Level
- (ii) Rationalization of Stamp Duty in phases so as to bring the duty to not more than 5% by the end of the X plan.
- (iii) Reform in Rent Control Act, with a view to stimulating private investment in urban rental housing.
- (iv) The introducing of the computerization process of registration of documents and other activities.
- (v) Reform of the Property Tax so that it becomes a major source of revenue of ULBs, and its effective implementation, so that collection efficiency reaches the level of 85% of tax demands, by the end of the X Plan.
- (vi) Levy of reasonable User Charges by the ULBs, with the objective of recovery of full cost of operation and management, by the end of the X Plan.
- (vii) Introduction of Double Entry System of Accounting by ULBs.

14.3.2 While considering the first item in the reform, viz. the repeal of *Urban Land Ceiling and Regulation Act (ULCRA)*, we would like the State Government to take into consideration the point of view of the Commission that we express here. The repeal has become the issue for debate in the country, thanks to the recently launched *Jawaharlal Nehru National Urban Renewal Mission (JNNURM)* which envisions improving and modernizing Urban Infrastructure throughout the Country. The sanctioning of release of funds by the JNNURM would be contingent upon the states and their *ULBs* to sign tripartite memorandum of understanding with the Union Government and accepting to undertake mandatory and optional reforms. The list of mandatory reforms to be implemented includes, among other items, the repeal of the ULCRA, on the ground that the enactment of the ACT has not been able to achieve its objectives and, therefore, needs to be repealed. This argument defies logic. To date, the objectives of no Act have been achieved to the fullest extent. Should this lead us to conclude that all such laws be repealed? Instead, we should aim at proper implementation and compliance for achieving the objectives. The Act entitles land holders to prepare schemes and develop their surplus land for the housing of weaker sections and thereby obtain exemption from the provision of the Act. It is right that exemptions have become

the fountain-head of corruption as they depend on the whims and fancies of local authorities to decide such exemptions. These exemptions have helped the rich and not the poor and the influential people who through the complicity of officials, are able to subvert the law and hold land much beyond the ceiling.

14.3.3 Another exemption clause which exempts the Central, State, Local Government, Public Charitable Trusts and Co-operative Societies from the ceiling limit of 500 sq. met. also demands review. The exemptions should be critically reviewed and should face the stated objectives of the Act which are

- (i) To prevent the concentration of Urban Land in the hands of the few
- (ii) To prevent speculative and profiteering activities in land
- (iii) To bring about an equitable distribution of urban land to subserve the common good.

In open violation of the Act and its just objectives, private interests are being promoted, under the doctrine of “Public Interest”. All this needs to be checked. We should insist on effective implementation of the Act and some Amendments in the Act, rather than its repeal, as a condition of reforms.

14.3.4 It would not be proper on the part of the Central Government to tag a particular Centrally Sponsored Scheme with the implementation of a particular reform. Such conditionality may not be acceptable to the State.

14.3.5 No doubt, urban reforms are over-due. The underlying idea of reforms has to be to encourage construction of houses, to reduce transaction costs and delays in property transactions, to provide easy availability of land for construction and to improve Municipal Finances for the development of Municipal Infrastructure.

14.3.6 Other components of Urban Reforms suggested by the center may be acceptable to the State Government.

14.4.0 The Initiatives Of The Central Finance Commission In The Direction Of Urban Reforms :

14.4.1 The importance of “Beyond The Fiscal Package” was duly recognized by the *XIthFC*, when within its Fiscal Package for the states for supplementing the resources of Local Bodies, *it had recommended two specific measures. The State Government should review the existing accounting heads under which Funds are being Transferred to Local Bodies. For each head, there should be sub-heads so that clear picture of transfers to each category of Local Bodies is readily available.* Such a recommendation has also been made by this *SFC* in the Part I of this report. This may be done in consultation with CA & AG and the Director, Local Fund Accounts who may provide formats for the preparation of the budget and for keeping accounts. Smaller ULBs which do not have trained accounting staff, may contract out the up-keeping of accounts to outside agencies, and the Director Local Fund Accounts may supervise the quality of work of the agency/persons.

14.4.2 The poor quality of urban services may be due to poor urban administration, poor budgeting and poor accounting, the age-old budgetary procedures and accounting system, accompanied by lack of financial discipline, makes them financially vulnerable. Except for a few large city corporations, the existing accounting system continues to be the single entry system. The *XIIthFC* has reported that *out of allocation of Rs. 200 crores earmarked by the XIthFC for the Creation of Data Base by Local Bodies, only 93 crores could be utilized which comes hardly to 46.5% of the Total Allocation.* Since proper accounting system has to be put in place at the grass-root level to facilitate realistic assessment of the needs of Local Bodies, the State Governments are required to take advantage of the scheme of the Center, as recommended by the *CFC*. In this context, the *XIIthFC* observes: *“Panchayati Raj Institutions and Municipalities should give high priority to Expenditure on the creation of data base and maintenance of accounts through the use of modern technology and management systems wherever possible”.* (page 154).

14.4.3 Though there has been growing realization of the need for measures beyond the Fiscal Package at the Central Level, its significance has yet to be recognized at the State Level.

14.5.0 Institutional Framework Of The Municipal Government :

14.5.1 The Constitutional Amendment Act has provided the City Government the Constitutional Right to exist, and function and flourish. Besides traditional functions, a number of new functions have been added as per *Schedule XIIth*. But the amendment has not done much to enhance the Financial and Administrative Capacity of Local Bodies. Functions, Funds and Functionaries are complementary: to each other and, therefore, need simultaneous reforms, though in varying degrees. The erstwhile State of Madhya Pradesh, of which Chhattisgarh region now constitutes the *New State, had been a pioneer in respect of Functional Decentralization but lagging behind in respect of Decentralization of Funds and Functionaries*. The new State will have to strengthen the process of Fiscal Decentralization and Restructuring of Administration at the headquarters and also at the level of Local Administration. Since the state is a newly created one, it has the opportunity of introducing reforms in terms of Fiscal and Administrative Decentralization. Once certain functions have been decentralized to the Municipal Government, the state functional agencies and parastatals must withdraw from such fields. The principle of subsidiary that whatever can be done efficiently at the local level, must be done at that level and not at higher level, should be followed, as far as possible.

14.5.2 We have already recommended for the Amendment of the Constitution for creating a separate list of taxes exclusively earmarked for the use of Local Bodies. Accordingly, the existing lists of Central, State and Concurrent lists in the constitution, may have to be revised in the light of SocialEconomic Changes demanding such an amendment. *Many new areas of taxation have emerged in the country and this necessitates re-allocation of taxation powers among the three tiers of the government*. The State Government may take up this issue along with other states to bring about Amendment in the Constitution.

14.5.3 An important area of Institutional Reform is the State-Local Relations. At present, growth of ULBs has been constrained by a number of structural bottlenecks, particularly in terms of limited autonomy in respect of imposition of new Taxes, exploitation of new Non-Tax sources and the un-predictable nature of funds flowing from the State Government. The problem has been further compounded by the fact that the *XIIth Schedule* has added new functions to the list of functions to be performed by Local Bodies, with the result that too many responsibilities are chasing a narrow Own Resource Base. Under the present circumstances, it is difficult to establish whether the non-performance of many ULBs is due to dereliction of duty or inability of performance due to lack of funds or constraints imposed on their functioning, both legal and otherwise. The plethora of constraints on their functional and administrative powers has made assessment of their performance a difficult task, in view of the difficulty of ascertaining the exact nature of factors responsible for the poor performance of Local Bodies. *A number of representatives of ULBs who attended the meeting for interaction with the Chairman of the SFC, demanded More Autonomy in the Functional and Financial Domain of Municipalities.*

14.5.4 This Commission is of the opinion that State-Local Relations determined long back, much earlier to the 73th and 74th Constitutional Amendments, need thorough revision in view of the Changed Constitutional Status of Local Bodies and also the sea-changes that have taken place in the Social-Economic scenario of the Country. *The Commission, therefore, recommends that a Task Force of Experts be constituted by the State Government to examine the whole gamut of State-Local Relations and recommend re-designing of these relations, with a view to making Local Bodies viable and Self-Governing Units of Administration. This is a very important Institutional Change that is needed at this juncture. The Chhattisgarh Government can be a pioneer in this regard .*

14.5.5 *There is the need for creating some Institutional Mechanism at the State Level, to ensure co-ordination between State Planning Board and the State Finance Commission , both of which recommend Funds to Local Bodies for activities which are very often over-lapping and are inter-related. There is an artificial distinction between Plan and Non-Plan Expenditure. At present new schemes take precedence*

over maintenance of earlier schemes needing maintenance, with the result that there is sub-optimal use of resources. *One suggestion may be that Co-Ordination between the two can be ensured by making one member of the State Planning Board as a member of the State Finance Commission. This suggestion may be kept in view while constituting the Next Finance Commission in the State.*

14.6.0 Data Base And Accounting Techniques :

14.6.1 Another important issue of reforms belonging to the domain of “Beyond the Fiscal Package” is the need for building up of data base relating to ULBs. Such a data base is necessary for making realistic appraisal of their performance and for estimating their needs and also facilitating the task of the SFC as well as the CFC, in respect of construction of their respective Fiscal Packages for Local Bodies. At present the data furnished by the State Government and the ULBs do not facilitate quantification and also do not meet the requirements of monitoring agencies and also the requirements of the SFC. There seems to be no conceptual clarity, no proper and systematic classification of data, little attention to the temporal aspect of data collection and maintenance. There is lack of experienced and trained staff both at the headquarters of the state and at the local and field levels. One such agency which can be charged with the responsibility of collection and compilation of data, may be the Directorate of Economics and Statistics which has its field staff at the district level also. The present commission had to surmount many difficulties while analyzing the data furnished by the Local Bodies through the questionnaires and also by the state department.

14.6.2 The *XIthFC* had laid much emphasis on the need for *Building Up Data Base of ULBs* and other Local Bodies. The Commission had set apart Rs. 200 crores for the purpose. The commission had recommended that the data base of the finances of Local Bodies should be developed at Local/District Level /State/ Central Levels and may be easily accessible by computerization by linking it through V-SAT.

14.6.3 Besides building up the data base, there is considerable scope for improvement in the maintenance of accounts by *ULBs. There should be separate account for Revenue Account and Capital Account.* Such a differentiation is necessary to make Budgetary

and Accounting System More Scientific and Transparent. The Institution of Chartered Accountants of India has brought out a Technical Guide on accounts and financial aspects of ULBs. This is intended to bring about paradigm shift in respect of Municipal Financial reporting system, *thereby making Local Government more accountable for their activities to the Public, the Legislature and the Creditors.*

14.6.4 *It is recommended that standard performs for maintaining accounts under different heads/sub-heads, may be prepared by the Urban Administration and Development Department of the State Government, in consultation with Director, Local Fund Accounts and circulated among different ULBs with the requirement that all accounts be prepared and maintained as per the formats and instructions accompanying the formats. No Financial Assistance may be given to such ULBs which do not comply with this requirement during a given period.*

14.6.5 The *XIIth FC* has reported that the C&AG has prescribed auditing standards for Local Bodies, guidelines for certification of audit of *Accounts* and *Budget and Accounts Formats for PRIs and ULBs*. The Chhattisgarh government should take advantage of these documents by making them mandatory for the Local Bodies in the State.

14.7.0 Urban Local Bodies Administration :

14.7.1 The City Government is notorious for slow working and lack of responsibility. This may be partly due to lower efficiency level of Municipal staff, defective recruitment and promotion policy, their poor training and lack of expertise. Being nearest to the people, the Municipal Government has to be more responsive to peoples needs and aspirations, quick in decision-making and implementation of different schemes. The Municipal staff needs better pay-scales and allowances and better training.

14.7.2 Among Municipal Functions, top-most priority needs to be given to drinking water, sanitation, solid waste management, slum improvement and development. The Municipal Government needs the services of professionals in the field of urban planning and management, engineering, public health engineering, architecture, public health and accounts. The State Government may examine the possibility of creating a separate service for professionals. In this connection we give the example of *Ahmedabad Municipal Corporation which has not only achieved financial turn-*

found but also has done systematic professionalisation of Municipal Services. The qualifications for recruitment at almost all levels of Municipal Administration have been modified to suit the needs of city management and governance. Professional management cadre has been created by inducting MBAs and CAs, to be groomed for taking up positions in the near future. This type of change may be introduced by large Municipal Corporations, to be extended gradually to other ULBs.

14.7.3 Adequate and frequent training of Municipal staff at different institutes of repute in the country is necessary for improving the skills and competence of employees. There has to be decentralization of powers at different levels of Municipal administration. As reported in the Memorandum drafted by the State Finance Department, Chhattisgarh State does not have permanent training facilities for the employees of Local Bodies. Steps be taken by the State Government for setting up a Training Institute, in consultation with the Institute of Local-Self Government, Bombay.

14.8.0 **Augmentation Of Own Resources Of Urban Local Bodies :**

14.8.1 As already pointed out at the beginning of this Chapter, one of the major problems of Municipal Finances that Own Resources of ULBs are not adequate to meet the requirements of Revenue Expenditure. Our main objective should be to step up their Own Resources, with a view to reducing dependence on Outside Sources of Revenue. The Fiscal Package that we have designed provides an in-built mechanism to spur ULBs to make efforts in the direction of mobilization of their Own Resources. Grant-in-Aid dispensation by the State Government has to be made Conditional on their Exploitation of Own Resources. *The ULBs would need to improve their Own Resources on both count, improved implementation of Existing Sources of Revenue and Tapping New Resources.*

14.8.2 A Major Source of Tax Revenue is the **Property Tax**. As expected, it could not take the place of Octroi in terms of Resource Mobilization, which has been Abolished in 1976. One reason for the state of affairs is that **Recovery Percentage of Property Tax**, with its present structure, is around 60 to 65% in the case of **Municipal Corporations** and **Municipal Councils** and 45 to 55% in respect of **Nagar Panchayats**. Hence there is considerable scope for further improvement.

14.8.3 Empirical evidence all over the country and also of some other countries shows that Property Tax among tax sources, and user charges among Non-Tax Sources, have considerable potential for generating more resources provided some reforms in the system are made.

14.8.4 One major problem is the accumulation of huge arrears of Property Tax, particularly due to Non-Payment of Tax by individuals, private companies and Public Sector Undertakings. The real unexploited potential of this tax lies in the identification of under-valued properties, detection of properties evading the tax, laxity in tax collection, collusion between tenants and land-lords, concealing the factual position of property-owner occupied or rented, residential use or commercial use, under valuation of self-assessed of property. But the change-over to Self-Assessment system, despite leakage in Revenue, has resulted in improved Revenue of a large number of ULBs. Experience shows that computerization of data, records and billing could improve the revenue collection of a large number of ULBs, is the state.

14.8.5 We suggest the following reforms and steps to be taken for the improvement of the *Structure of Property Tax* so that it yields more Revenue.

- (i) Broadening the tax base. It has been estimated that nearly 25 to 30% of properties have not been included in the net of this tax, more particularly in new colonies, newly constructed properties and non-reporting properties. The municipal administration is required to conduct comprehensive surveys of properties in their respective jurisdictions, to widen the net of this tax.
- (ii) The structure of Property Tax needs to be simplified, with minimum number of exemptions and uncomplicated rate structure.
- (iii) Area or zone-based taxation of property with different rate structure for different areas/zones, would yield more Revenue. This is amply justified by the experience of *Andhra Pradesh*.
- (iv) ULBs should set up flying squads to check and verify built-up areas, the uses of property, location, as declared in the Self-Assessment Returns by the Tax-Payers. Heavy penalty may be imposed for giving incorrect information in the returns.

- (v) Publication of names of defaulters along with amount of tax due, in the local newspapers as well as at prominent places, if payment is not made by a certain date.
- (vi) Attachment of property of defaulters for non-payment of tax after a certain period despite reminders and such property may be auctioned by the municipal government. This provision may be implemented.
- (vii) *ULBs* may levy the tax on the basis of built-up area instead of carpet area, because of its being easy to measure.
- (viii) Targets of Tax Collection may be fixed for different zones for the Tax-Collecting Machinery. Incentives, both monetary and non-monetary, may be given to such employees who achieve their targets. Those who fail to achieve the targets, should be penalised.
- (ix) Strengthening of Revenue Collection Staff and their frequent training.
- (x) *Property Tax may be levied on the Central Government property and also on educational institutions meant for professional education which have become commercial establishments, charging hefty fees from students. Similarly. Private nursing homes earning huge incomes coaching institute may not be exempted from this Tax. There is no reason, for exempting buildings of political parties. The exemption list may be scrutinized from time to time and accordingly reviewed.*
- (xi) *ULBs* should be required to provide detailed information to the Tax Payers along with Self-Assessment form about the main features of Property Tax, like the zonal classification of property for assessment of Tax, both for residential and commercial purposes, the rate structure, exemptions, concession penalties for delayed payment, provision for appeal etc.

14.9.0 Reforms In Other Taxes :

14.9.1 Water Tax is another tax whose collection is low and not increasing. Most of the **ULBs** are running water supply in huge deficits. Huge arrears have piled up due to non-payment of tax. Since **ULBs** are facing considerable difficulties in raising the rates of water tax, a suggestion has come forward that *on the pattern of Electricity Regulatory Authority, a regulatory authority may also be set up for the whole state, to recommend rates of Tax of water supplied by different ULBs. This proposal is worth the consideration of the State Government.*

14.9.2 ULBs can raise Revenue by rationalizing the rates and widening the coverage. For instance more Revenue can be raised from Tax on advertisement other than newspaper, through licensing of additional space, introduction of different rates for different areas, different modes of advertisement and different sizes of advertisements.

14.9.3 *We have already recommended the inclusion of Revenue from Entertainment Tax at present being levied by the State Government, in the category of Assigned Taxes which implies that the tax may be continued to be levied and collected by the State Government, but Net Revenue after deducting Collection Charges may be allocated to ULBs on the basis of Revenue Collection .*

14.9.4 With a view to diversifying their Tax Structures, some more taxes may be included in the existing taxes under the Act, to enable ULBs to raise more Own Tax Revenue. In some states, the taxes we are suggesting, are already in operation. *These Innovative Taxes may be, Tax on waves and signals by telephone and power companies, Tax on glow signboards by different companies at their outlets and Kiosks for advertising, levy on different types of services like beauty parlors, cable TV, private hospitals and nursing homes, coaching institutes, private school buses, etc.*

14.9.5 During the course of discussions with elected representatives of ULBs, there was demand for giving more autonomy to the ULBs in the matter of imposing taxes and determining their rates and fees. This is an important issue which may be decided by the Task Force of experts that commission has recommended to consider the issue of autonomy in its different manifestations.

14.10.0 Non-Tax Revenue And The Issue Of User-Charges :

14.10.1 So far, the Non-Tax Sources of Revenue have not been developed to a large extent by ULBs in the State. Such sources at present are, fees and fines, revenue of municipal property, fees from slaughter houses and income from Municipal Enterprises. The rates of fees may be fixed by taking into consideration various statutory and regulatory functions of ULBs. The rate structure of fees need to be differential, modest for issue of birth and death certificates, but higher for sanctioning building construction permission and licensing of premises to various non-residential users. Market fees can be raised from time to time, provided ULBs provide more amenities to the shopkeepers. Parking fees may be raised in bigger cities with a view to regulating traffic. Since long, fines for violating laws and by-laws of ULBs, have not been raised for many years. But superfluous licenses and controls need to be abolished, except such for safeguarding public health and protection of environment.

14.10.2 To spend more, cities have to earn more. The general principle is to impose User Charges where the beneficiaries can be identified and them either they do not pay anything or pay much less than the cost of services. It would be worthwhile to re-evaluate the functions **of ULBs**, both traditional and newly assigned functions under *Schedule XIIth* of the Act, in terms of the Revenue Potential of Non-Tax Sources of Revenue. A study ¹ has made an exercise in this regard by identifying such functions which have potential for Non-Tax Revenue and ULBs can make efforts in the direction of Mobilization of Non-Tax Revenue. The *ULBs* are the best judge to find out as to which functions can yield revenue. ***This chart is given in the Appendix No. 14.1. It shows that out of 18 Functions Assigned to ULBs, 10 have Potential for Revenue Raising, the rest 8 may not have that potential.***

1. Bijoyini Mohanty- Non-Tax Revenue generation by Local Governments: Ideology and prospects after the Constitutional Provisions-paper published in Local Government Finances in India- Proceedings of the National Conference of emerging trends in Indian Local Government Finances- National Institute of Rural Development, Hyderabad- 24-25 October, 1996-page 175,

- 14.10.3 The User Charges may not be applicable in respect of a number of Municipal Services, more particularly in respect of such services which are performed for the collective benefit of the citizens and it is difficult to identify individual beneficiaries of such services. All Municipal Services therefore, can not be amenable to complete commercialization. For example, services like road maintenance, street lighting, public parks, solid waste disposal and management and protection of environment, are difficult to be brought within the purview of user charges principle. Quite a large number of services are faced with increasing costs and, therefore, tariff for such services cannot be raised frequently.
- 14.10.4 The Theory of Public Finance suggests that where it is difficult to identify the users or the beneficiaries of services, the instrument of taxation can be used on the basis of ability to pay, to raise revenue for the government. Services for which the principle of user charge may be made applicable are, provision of drinking water for domestic, commercial and industrial purposes, regulation of land use and construction of buildings, electric crematorium, registration of birth and death certificates, bus stands, slaughter houses, tanneries, parking places, use of municipal garages.
- 14.10.5 The objective of user charge besides raising revenue is to ensure that the services will not be used excessively or wastefully. The user charges for services, should recover at least the cost of maintenance and operation. The capital cost may be borne by the *State Government/ULBs*. In all such cases where services are subsidized, it has to be ensured that the benefits accrue to the target population. There has to be periodic upw ard revision of user chargers to meet the rising cost of provision of services. But in no case, user charges are to be raised due to inefficient operation of services.
- 14.10.6 Land within the municipal area can be looked upon as a major source of Non-Tax revenue available to ULBs. It can attract good income without any other financial support-a lucrative source of revenue. Land in newly developing areas on the outstirt of the city, instead being taken over by builders, land mafia and for being sold through so-called co-operative societies, may be developed by the ULBs

themselves and then sold in the form of plots for buildings according to the urban plan. This may fetch good revenue to the ULBs, particularly in such cities which are fast developing and expanding.

14.11.0 Training Of Elected Representatives Of Urban Local Bodies :

14.11.1 The elected representatives need training on a sustained basis in the theory and practice of Municipal Governance, Decentralized Planning and Resource Mobilization. They must know about their role and their area of functioning, their duties and responsibilities. They need to be trained in the working of democratic institutions. They have the right to ask for reliable information regarding programmes of local development in operation and their progress, the Financial Resources and Expenditure of the concerned Municipality. Such information would help the elected representatives in finding more effective and timely solution to local problem. Their political differences should not stand in the way of local development and in finding solutions to the local problems. Local leadership can play an important role in the development of cities. It is rightly said that at present there is a Political Deficit also, besides the economic deficit. In this context, political parties have to play an important role in grooming their workers for leadership at the local level.

14.12.0 Public-Private Partnership :

14.12.1 In a democracy, and more particularly at the local level, it is very necessary to associate the public and the users of services, with the Performance of Municipal Functions. For this purpose, Local Residents Associations may be encouraged for placing public grievances and for suggesting remedies for the solution of problems. The elected representatives should be responsive to their viewpoints.

14.12.2 In the Municipal Act, there is a provision for the constitution of Ward Committees in the Municipal Areas. But we very much regret that such committees have not yet been constituted in most of the ULBs, and when constituted they are not active, and, therefore, not performing their role. This may be due to the lack of interest of the citizens in public affairs and also the indifference of ULBs towards the

constitution of ward committees. *To enhance the credibility of this mechanism of Public-Private Partnership, quick steps are to be taken for the redressal of the problems, put forward by the Ward Committees.*

14.13.0 Privatization Of Urban Local Bodies Services :

14.13.1 In tune with the spirit of time and the changes taking place in the economy, the ULBs may examine the possibility of privatization of certain services where private sector has a cost advantage and can perform services more efficiently than the Municipalities. *On this basis the ULBs may examine the possibility of Partial Privatization of following services :*

1. Collection and disposal of garbage,
2. Maintenance of street lighting,
3. Maintenance of gardens and parks,
4. Collection of certain taxes,
5. Maintenance of accounts,
6. Solid waste disposal and
7. Construction of roads, culverts and bridges.

14.13.2 The providers of above services need not only be private individuals or companies but also can be associations of residents, citizen forums and the NGOs, as has been successfully demonstrated in *Navi Mumbai* and some other places. The *Surat Municipal Corporation* has provided charis-matic face-lift to the erstwhile decaying city, through privatization of a number of Municipal Functions. It needs to be pointed out that some of the representatives of ULBs during the course of discussions, have expressed their disapproval of the proposal of privatization of certain municipal services, more particularly of Collection of Taxes, although no valid reasons for their disapproval have been given.

14.13.3 At present most of services are being provided by ULBs in a monopolistic market situation. The entry of private sector in certain areas may promote competition between the two and enable the public to get more quick solution to their problems. Some projects may be assigned to private sector on the basis of Build-Operate-and-Transfer.

14.13.4 Thought we have recommended privatization of some services, that does not mean the complete withdrawal of Municipal Government from such fields. The **ULBs** will continue to be responsible for the over-all supervision of such services, for maintaining standard of service delivery, pricing of services and enforcement of contrast.

14.14.0 Inventory Of Municipal Property And Assets :

14.14.1 It should be made obligatory for ULBs in the state to make inventory of all land, buildings and other assets owned by them, to be up-dated annually. The statement of such property and assets is to be presented every year along with the budget. The statement should also give information about all land and buildings which are let out and sold and purchased during the year. The record of this property and asset is to be computerized. The State Government may assist the ULBs in this task of making an inventory of property and assets.

14.15.0 Conclusion

14.15.1 We have suggested a number of reforms which include strategies and measures to be adopted by ULBs under the head “Beyond the Fiscal Package”. These reforms include diverse areas of Municipal Administration, Municipal Budgetary Operations and Accounting, Institutional Framework under which they function, restructuring of Tax and Non-Tax Sources of Revenue, the feasibility of User Charges, the Public-Participation Partnership, the possibility of Privatization of certain services, Building Up Data Base, etc.

14.15.2 To begin with, the ***Municipal Corporations*** and bigger ULBs each with more than 50000 population, should prepare road maps for introducing these reforms in different directions, depending upon the gravity of problems and their priorities. A road-map is a detailed action plan that identifies problems and provides details of action plan, the desired sequence of execution and the departments responsible for their implementation. ***The State Government has to play its role in terms of facilitating such Reforms, Financial and Administrative Assistance, Guidelines and also Monitoring the Reform Programme.***

14.15.3 By these reforms the *ULBs* of the state is receiving Financial Assistance under the Jawaharlal Nehru National Urban Renewal Mission and other Centrally Sponsored Programmes. This is another advantage of the reforms.

14.15.4 The State Finance Commission recommends that a Status Paper on the Functioning and Performance of ULBs in the state be presented on the floor of the Assembly, indicating progress made in different directions, reforms introduced and implemented, the availability of funds with the ULBs for meeting their needs, gaps and deficiencies in the system of Functional and Fiscal Decentralization and the steps to overcome them, the extent to which the recommendations of the SFC have been implemented. Such a Status Paper is intended to inform the public and to elicit public opinion on different issues relating to the present status of ULBs in the State. This is very essential for improving and strengthening the process of Democratic Decentralization in the State and the Country.

Appendix No. – 14.1
Twelfth Schedule (Article 243 W)

S. No.	Functions of Urban Local Bodies	Potential for revenue
1	2	3
1.	Urban Planning including town planning	--
2.	Regulation of land-use and construction of building	Potential for revenue
3.	Planning for economic and social development	--
4.	Roads and bridges	Potential for revenue
5.	Water supply for domestic, industrial and commercial purposes	Potential for revenue
6.	Public health, sanitation, conservancy and solid waste management	Potential for revenue
7.	Fire services	--
8.	Urban forestry, protection of environment and promotion, of ecological aspects	Potential for revenue
9.	Safeguarding the interests of weaker sections of society, including handicapped and mentally retarded.	--
10.	Slum improvement and upgradation	--
11.	Urban poverty alleviation	--
12.	Provision of urban amenities and facilities, such as parks, gardens, playgrounds	Potential for revenue
13.	Promotion of educational, cultural and aesthetic aspects	--
14.	Burial and burial grounds, cremation grounds and electric crematoriums	Potential for revenue
15.	Cattle pounds, prevention of cruelty to animals	Potential for revenue
16.	Vital statistics including registration of births and deaths	--
17.	Public amenities including street lighting, parking lots, bust stops and public conveniences	Potential for revenue
18.	Regulation of slaughter houses and tanneries	Potential for revenue