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**Financing Urban Development in Uttar Pradesh  
A Case Study of Agra Nagar Nigam**

**A Report**

by

**V N Alok**  
Assistant Professor in Public Finance

**Indian Institute of Public Administration**  
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## Chapter I

### General Profile of Uttar Pradesh

The new State of Uttar Pradesh came into existence on 9<sup>th</sup> November, 2000 following the bifurcation of erstwhile Uttar Pradesh into Uttar Pradesh and Uttaranchal through Uttar Pradesh Reorganization Act, 2000. It comprises 70 districts, 813 development blocks and 107452 populated villages and covers an area of 240.93 sq. kms. The State is divided into four distinct economic regions, viz, Western, Central, Eastern and Bundelkhand (and South). The State has tropical climate. The level of urbanization in the State is about 20.76%, which is lower than the national average of 27.78%.

Agriculture is the largest sector of the State's economy both in terms of its share of SDP (42%) and in the work force (72%). However, about 30% of the work force in agriculture is surplus and a very large number of agriculture holidays (89%) are economically unviable

According to the 2001 census, Uttar Pradesh is the most populous State having population of 16.61 crore and accounts for 16.2% of this country's population. The State ranks 5<sup>th</sup> in terms of area and 1<sup>st</sup> in terms of population in the country. The decadal growth rate of population 25.80% during 1991-2001 is higher than the national average of 21.35%. The population density in the State is 689 persons per square kilometer, is much higher against the national average of 324 persons per sq. kms.

The gender ratio (Number of females per thousand males) of the State is 898, which is lower than the national average of 933. The State has achieved the Census, literacy rate equal to 57% as against the all India literacy rate of 65%. Male literacy stood at 70% and female at 43%.

The trend growth rate of GSDP during 1993-02 was 4.1% p.a. at constant prices and 11.1% p.a. at current prices against corresponding GDP growth of 6.2% p.a. and 13.1% respectively. In the Ninth Plan (1997-2002) period, the average annual growth rate of GDP at constant prices has been 5.5% as compared to 2.7% in GSDP of Uttar Pradesh. There is a noticeable shift in the composition of income from primary to tertiary sector. The share of primary sector at constant prices (1993-94) has fallen by 6.2% since 1993-94. On the other hand, the share of secondary and tertiary sectors have risen to 2.9% and 3.2% respectively. During 2002-03, GSDP at constant prices was estimated at Rs. 111830 crore as against the provisional estimate of Rs. 111673 crore for the year 2001-02, registering meager growth of 0.14%.

The per capita GSDP of the State at current prices rose from Rs.10559 in 2000-01 to Rs.11360 in 2001-02, registering a growth of 7.5%, while at constant prices it has gone up from Rs. 6508 to Rs. 6723, registering a growth of 3.3%. The per capita GSDP of the Uttar Pradesh at current prices (Rs.11360) is very low as compared to the per capita GDP of Rs. 20193 during 2001-02.

## Chapter 2

### Review of State's Fiscal Performance

#### 2.1 General

The birth of now Uttar Pradesh State coincides with financial year 2000-01. The first fiscal year was thus truncated to only less than five months (9.11.2000 to 31.3.2001). The first complete financial year was 2001-02. Being a new State, Uttar Pradesh has no historical data on finances. The State's first full fledged budget was presented for the year 2003-04. Thus the actual data of Uttar Pradesh for complete years are available for 2001-02 and 2002-03. For the years 2004-05 and 2003-04 revised and budget estimates, respectively are available.

Though the State of Uttaranchal has come into being on 8<sup>th</sup> November, 2000, yet many of the important financial issues have not been settled so far. Apportionment of assets and liabilities between Uttaranchal and Uttar Pradesh has not yet been completed. The market loans, institutional loans, small savings loans and other central loans have been apportioned between Uttaranchal and Uttar Pradesh. However, the provident fund, other liabilities (reserve funds, deposits, etc.) and the loans and advances given by the State Governments are yet to be apportioned. Separate Road Transport Corporation has not yet been created in Uttaranchal so far. Uttar Pradesh Road Transport Corporation continues to operate in Uttaranchal. One of the most important issues relates to apportionment of pension liabilities. As per the provisions of the Uttar Pradesh Reorganization Act 2000 (Section 54 and Schedule Eighth), the pension is to be apportioned on the basis of services rendered in successor States on the effective date. This apportionment has not been done. Similar is the case with General Provident Fund liabilities. As the Energy sector corporations are still not fully separated, the apportionment of the liabilities of these three Corporations have not yet been apportioned. Similarly, the State services cadres have also not been finally allocated to these States, hence their wage bill calculation will also pose a problem.

#### 2.2 Deficit Indicators

The State's fiscal data show a lot of volatility as both revenue and expenditure have not yet stabilized. During the year 2001-02, the State has registered a non-plan revenue deficit of Rs. 5189 crore (2.75% of GSDP) and revenue deficit of Rs. 6195 crore (3.28% of GSDP). The Gross Fiscal Deficit was Rs. 9911 crore (5.25% of GSDP) in 2001-02. The State has registered a primary deficit of Rs. 1691 crore (0.90% of GSDP). The non – plan revenue deficit has increased in nominal terms by 66% to Rs. 3426 crore (1.69% of GSDP) in the year 2002-03. The revenue deficit has gone down to Rs 5177 crore (2.52% of GSDP). Gross Fiscal Deficit has declined to Rs. 9497 crore (4.68% of GSDP). But the State has registered higher primary deficit during 2002-03 of Rs. 2437 crore (1.20% of GSDP). The revised estimates of 2003-04 show a higher non-plan revenue deficit and revenue deficit of Rs.18835 crore (8.21% of GSDP) and Rs. 19938 crore (8.70% of GSDP). The increase is due to the fact that the State Government has decided to write off loans given earlier to UPSEB amounting to Rs. 12277.40 crore, which is only a book adjustment. Excluding this amount, the non-plan revenue deficit comes to Rs. 6558 crore (2.86% of GSDP) and revenue deficit of Rs. 7661 (3.34% of GSDP). The revenue deficit is expected to decline to Rs. 5527 crore (2.13% of GSDP) in 204-05 (B.E.). Gross Fiscal Deficit, which was Rs. 9497 crore (4.68% of GSDP) is expected to increase to Rs. 20414 crore (8.90% of GSDP) in 2003-04 (RE). The main reason of this increase due to provision made by the State Government of Rs. 5907 crore for investment in the Share Capital of UP Vidut Nigam and UP Rajya Vidut Utpadan Nigam so as to enable them to pay the dues of Central Power Sector Undertakings. This is also a book adjustment. Excluding this account, the fiscal deficit comes to Rs. 14507 crore, (6.32% of GSDP), which is expected to decline to Rs. 10,398 crore (4.01% of GSDP)

in the year 2004-05 (BE). As per Budget estimates of 2004-05, the non-plan revenue deficit is expected to go down to Rs. 4578 crore (1.77% of GSDP).

The proportion of revenue deficit to fiscal deficit was 63% in 2001-02 and is expected to go down to 53% in 2004-05 (BE).

## 2.3 State Forecast

### 2.3.1 GSDP Projection

The GSDP at constant prices from 2002-03 to 2009-10 has been projected at 8% p.a. The Tenth Plan document has also shown a 8% growth of Uttar Pradesh. The GSDP at current prices for 2002-03 to 2009-10 are based on the assumption if an inflation rate of 5% p.a. Thus, GSDP calculation at nominal prices for this period is 13% p.a. The historical trend growth of GSDP during the period 1993-2002 was 4.1% at constant prices and 11.1% at current prices

### 2.3.2 Forecast at Glance & Comparison of Pre-devolution deficits

Table 2.1 is a summary of State Government's forecast of Revenue Receipts, Revenue Expenditure and Pre - Devolution Non- Plan Revenue Deficit for the period 2001-02 to 2004-05 and forecast period from 2005-06 to 2009-10.

**Table 2.1**  
**FORECAST AT A GLANCE**

S. No.	Item	Rs. in crore									
		2001-02	2002-03	2003-04 RE	2004-05 BE	Forecast Period					Total 2005-10
						2005-06	2006-07	2007-08	2008-09	2009-10	
A	Revenue Receipts (1+2)	25598	27821	32860	37259						
1	State Own Revenue (a+b)	12117	14680	15574	17884	20109	22619	25453	28652	32266	129100
a	Tax Revenue	10330	12767	13708	16031	18111	20463	23122	26130	29532	117358
b	Non tax revenue	1787	1913	1866	1853	1998	2156	2331	2522	2734	11741
2	Transfer from Centre (a+b+c)	13481	13141	17286	19375						
a	Under Finance Commission (i+ii)	10918	11191	13512	15660						
a (i)	Taxes	10189	10832	12595	15050						
a (ii)	Grants	729	359	916	610						
b	Plan Grants	2555	1884	3524	3415						
c	Non Plan Grants (other than F.C.)	8	66	250	300	286	309	335	369	406	1705
B	Revenue Expenditure (a+b+c+d)	31793	32939	52798	42786	45522	47963	52420	55192	58422	259518
i	Plan	3561	3575	4627	4365	4721	5107	5528	5985	6582	27923
ii	Non - Plan	28232	29364	48171	38421	40801	42855	46892	49207	51840	231596
a	General Services of which	15698	15212	20616	23121	25195	27166	29278	31199	33357	146195
a i	Interest Payment	8220	7060	10783	11477	12198	12789	13553	13897	14235	66672
a ii	Pension	2392	2751	3574	4143	4558	5013	5515	6066	6673	27825

a iii	Other General Services	5086	5402	6259	7501	8439	9364	10211	11236	12449	51699
i	Plan	86	43	189	161	175	190	206	223	243	1037
ii	Non - Plan(excl. int. and pension)	5000	5359	6071	7339	8264	9174	10005	11012	12206	50662
b	Social Services	9818	10678	11929	11742	11597	11659	11750	11874	12033	58913
i	Plan	1907	1694	2915	2670	2880	3108	3355	3622	3912	16877
ii	Non - Plan	7911	8984	9014	9071	8717	8551	8396	8252	8120	42036
c	Economic Services	5350	5883	18878	6462	6693	6836	7056	7305	7687	35577
i	Plan	1568	1838	1524	1533	1665	1810	1967	2139	2427	10008
ii	Non - Plan	3781	4045	17354	4929	5027	5026	5089	5166	5260	25569
d	Local Bodies (Non - Plan)	928	1165	1375	1462	2037	2302	2601	2940	3322	13203
e	committed Liability of the Tenth Plan							1734	1873	2023	
C	Pre- Devolution Non- Plan Revenue Deficit(A1+A2c)-Bii (excluding tax devolution & FC Grants)	-16107	-14617	-32346	-20238	-20406	-19926	-21104	-20186	-19169	-100791
D	Pre- Devolution Revenue Deficit(A1+A2c)-B(excluding tax devolution & FC Grants and Plan Grants)	-19668	-18192	-36974	-24602	-25127	-25034	-26632	-26170	-25750	-128713

The deficit on revenue account is projected at Rs. 128713 crore during the forecast period (2005-10) by the State Government without any transfer from Centre under Finance Commission and Plan grants. The State Government has projected a pre-devolution non-plan revenue deficit of Rs. 100791 crore. A comparative picture of pre-devolution non-plan revenue deficit and revenue deficit (excluding tax devolution, Finance Commission Grants and plan grants) for the period 2001-02 to 2004-05 and forecast period 2005-10 is given in Table 2.2

**Table 2.2**  
**Comparison of Pre-devolution Deficits**

(Rs. in crore)

Year	Pre-Devolution Non Plan Revenue Deficit (excluding Tax Devolution and FC Grants)	Revenue Deficit (Excluding Tax devolution, FC grants and plan grants)
2001-02	-16107	-19668
2002-03(R.E.)	-14617	-18192
2003-04(B.E.)	-32346	-36974
2004-05(State Est.)	-20238	-24602
<b>Forecast Period (State's Forecast)</b>		
2005-06	-20406	-25127
2006-07	-19926	-25034
2007-08	-21104	-26632
2008-09	-20186	-26170
2009-10	-19169	-25750
<b>Total for 2005-2010</b>	<b>-100791</b>	<b>-128713</b>

The pre-devolution non-plan revenue deficit as estimated by the State Government during 2004-05(BE) at Rs. 20238 crore as compared to Rs. 20069 crore in 2003-04 (RE) (Excluded Rs. 12277 crore of loans written off), marks a marginal decline of 1%. It is expected to decline at Rs. 19169 crore in the terminal year i.e. 2009-10 of the forecast period.

#### 2.4 Revenue Receipts

The State's own revenue, tax as well as non tax constituted about 53% of its total revenue receipts. The remaining 47% came from the Centre in the form of shared taxes and grants. While the own tax revenue accounted for about 46% of the revenue receipt, the non tax revenue was only 7% of the total revenue receipts.

The own tax revenue during 2001-02 was 5.47% of GSDP and the State has estimated 5.98% during 2003-04 (R.E.). The base year budget estimates (2004-05), projected tax GSDP ratio of 6.19%, which is expected to remain at this level in the terminal year of the forecast period. The buoyancy of State's own taxes is expected to be 1.00 during the period 2004-10. The expected average tax buoyancy during the period 2001-02 to 2004-05 is 1.87. The own tax revenue of the State is expected to grow at 13% p.a. during the forecast period. The average annual growth rate during the period 2001-05 is expected to be 16%.

The State gets 5% of its non-tax revenue from forestry and wild life. Interest receipts and dividends account for only 27%. The non-tax revenue of the State is expected to grow at 8.09% during the forecast period. The average annual growth rate during the period 2001-05 is expected to be 1.3% only. The State's revenues under forestry and wild life are expected to grow at 5% p.a. Similarly, while interest receipts and dividends are projected to grow at 17% and 0.30%, respectively.

The State's share of taxes, duties and grants under Finance Commission was 14% during 2002-03.

The State has received deficit grant of Rs. 858.16 crore during 2000-01 (excluding withheld portion of Rs. 151.44 crore). The EFC has recommended total deficit grant of Rs. 1009.60 crore for one year i.e. 2000-01 for Uttar Pradesh. During the year 2003-04, the State Government has received an amount of Rs. 244.03 crore (Part A- Rs. 151.44 crore and Part-B- Rs. 92.59 crore) of 2000-01 and Rs. 161.07 from incentive fund as per the recommendations of EFC.

## 2.5 Revenue Expenditure

The State's Revenue Expenditure was 16.85% of GSDP during 2002-03. Whereas its non-plan revenue expenditure was 14.96%, the plan expenditure was only 1.89%. The base year budget estimates (2004-05), project a NPRE GSDP ratio of 14.83%. It is expected to decline to 10.86% in the terminal year i.e. 2009-10 of the forecast period, an decrease of about 3.97%. The plan expenditure is estimated to reach at 1.38% from 1.68% during the same period. The NPRE of the State is expected to grow at 6.33% during the forecast period. The average annual growth rate of NPRE during the period 2001-05 is expected to be 11% (excluding amount of Rs. 12277 crore loan likely to be written off of UPSEB during 2003-04 (RE)).

In the case of OTR, the State has assumed zero percentage points step up in the real terms from the base year (2004-05) to terminal year (2009-10) of the forecast period, whereas the non plan revenue expenditure is projected to decrease by 3.97% percentage points

The total revenue expenditure projected for the forecast period (2005-10) is Rs. 259518 crore of which plan revenue expenditure constitutes Rs. 27922 crore (11%) and non plan revenue expenditure Rs. 231596 crore (89%). An overall growth of 6.56% of revenue expenditure has been assumed as compared to growth of 12.53% of State's own revenue receipts (OTR+NTR) during the forecast period. In case of non-plan revenue expenditure a growth rate of 6.33% is estimated. The Table 2.3 shows that the revenue expenditure of the State has been heavily dominated by unproductive expenditure on Salaries, Pension and Interest Payments leaving very little scope for developmental expenditure. The State had to divert 69% of its revenue expenditure, around 154% of its own revenue receipts and 81% of total revenue receipts to unproductive activities during 2002-03.

Table 2.3

### Committed Revenue Expenditure as a percentage of Total Revenue Receipts, Total Revenue Expenditure and Own Revenue Receipts

(Rs. in crore)

Items	Interest Payments	Pension	Salary	Total (1 to 4)	Col.4 as a % of Revenue Receipts	Col. 4 as a % of Revenue Expenditure	Col. 4 as a % of Own Revenue Receipts
	1	2	3	4	8	9	10
2001-02	8220	2392	10962	21574	84.3	67.9	178.0
2002-03(RE)	7060	2751	12814	22624	81.3	68.9	154.1
2003-04 (RE)	10783	3574	14406	28762	87.5	54.5	184.7

Out of total non-plan revenue expenditure, the share of General Services was 52%, Social Services 31% and Economic Services 17% in 2002-03.

## 2.6 Subsidies

The description of subsidies given by power department of State Government are given below:

**Table 2.4**  
**Power Sector Subsidies**

(Rs. in crore)

S.No	Particulars	2001-02	2002-03	2003-04	2004-05
1.	Explicit Subsidy (Non -Plan)	472	690	869	690
2.	Loans written-off under Revenue Account (Book Entry)			12277*	
3.	Securitization of power dues under Capital Account (Contra Entry)			5872**	

\* Outstanding Loan of Rs.12277 crore due on UPSEB was waived off at the time of its bifurcation in 3 different corporations on 14.1.2000.

\*\* Securitization of CPSU (Central Public Sector Undertakings) dues on the earst while UPSEB/UPPCL/UPRUNL. However, the figure given in Memorandum is Ra. 5907 crore.

## 2.7 Debt Profile

On its separation from Uttar Pradesh, Uttaranchal inherited a liabilities 3186 crore from its parent State. The liabilities of Rs. 17628 crore are yet to be apportioned between Uttar Pradesh and Uttaranchal. The liabilities of the State would further increase after the complete division of employees between Uttar Pradesh and Uttaranchal. The debt position of the State Government for the period 2001-02 to 2004-05 (BE).

**Table 2.5**  
**Debt Sustainability**

(Rs. in crore)

Indicators	2001-02	2002-03	2003-04 (RE))	2004-05 (BE))
Interest Payments (IP)	8220	7060	10783	11477
IP as % of TRR	32.11	25.37	32.81	30.80
IP as % of GSDP	4.36	3.48	4.70	4.43

Total Debt/Liabilities Outstanding*	92983	102234	118647	129035
Debt Stock as % of TRR	363	367	364	337
Debt Stock as % of GSDP	49.28	50.39	51.75	49.80

\* The debt liabilities of Rs. 17628.30 are yet to be apportioned between Uttar Pradesh and Uttaranchal.

### 2.8 Debt Swap Scheme

In order to help the States to capitalize on the current low interest regime, Government of India has formulated a debt swap scheme. The scheme enables states to pre-pay expensive loans contracted from Government of India in the past, with current low coupon bearing small savings and open Market loans. During the year 2002-03, 20% of net small savings loans payable to States from September, 2002, was used to pre-pay the past debt. This has been supplemented by Rs. 10,000 crore of Open Market Borrowings for the same purpose. Government of Uttar Pradesh has swapped a sum of Rs.2021 crore, under the scheme during 2002-03, including Rs. 573 crore against adjustment out of State's share of net small savings collections and Rs 1448 crore allowed as additional SLR market borrowings. Similarly, during 2003-04, the GOI has deducted 30% of the small savings loans for debt swapping and allowed additional market borrowings of Rs. 3088.47 crore.

### 2.9 Medium Term Fiscal Reforms Programme (MTRFRP)

A MTRFRP was drawn up by the Government of Uttar Pradesh. The MTRFRP formulated by the State Government aims at improving various fiscal parameters by reducing revenue deficit, higher rate of return on the public expenditure in the areas of infrastructure facilities and human resources. The additional public investments and better delivery of services will lead to better productivity in the private sector, which will attract more private investments in the State governance reforms (including reform in civil service, public enterprises and financial management) and fiscal reforms along-with reform in important sectors like power, irrigation, roads and health and education will create a congenial environment to reduce poverty. A Memorandum of Understanding (MoU) on MTRFRP has not been signed with the GoI so far. The "Uttar Pradesh Fiscal Responsibility and Budget Management Act, 2004" has been enacted.

The State has received Rs. 244.03 crore (Part A- Rs. 151.44 crore, withheld portion of 2000-01 and Part B Rs. 92.59 crore) and Rs. 161.07 crore (Part B) of 2001-02 during 2003-04 from incentive fund (two installments). The broad outcome fiscal targets projected in the MTRFRP as follows:

**Table 2.6**  
**Outcome Indicators**

Indicator of Fiscal Target	1999-00 Actual	2000-01 Actual	2001-02 Actual	2002-03 RE	2003-04 BE	2004-05 Proj.
RD as % of GSDP	-3.9	-3.4	-3.3	-2.7	-2.7	0.5
GFD as % of GSDP	-5.9	-5.6	-5.3	-5.0	-4.9	-3.0
Debt stock as % of GSDP	36.9	41.6	46.0	49.1	50.3	52.0
RD as % of TRR	-33.7	-25.4	-24.1	-16.8	-16.5	-2.9
CRD as % of TRR	33.3	28.5	25.6	17.1	-15.1	-2.8

## **2.10 Fiscal Responsibility and Budget Management Act**

The State Government has enacted the Fiscal Responsibility Act in Feb., 2004 (Act No. 5 of 2004) which seeks to provide for the responsibility of the State Government to ensure fiscal stability and sustainability, and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficit and removing impediments of the effective conduct of fiscal policy and prudent debt management through limits on State Government borrowings, Government guarantees, debt and deficits, greater transparency in fiscal operations of the State Government and use of Medium Term Fiscal Framework and for matters connected therewith or incidental thereto. The Act provides that the State Government shall:

- a) Reduce revenue deficit to nil within a period of four financial years beginning from the initial financial year on the 1<sup>st</sup> day of April, 2004 and ending on 31<sup>st</sup> day of March, 2009.
- b) Reduce revenue deficit as percentage of Gross State Domestic Product (GSDP) in each of the financial years beginning on the 1<sup>st</sup> day of April, 2004 in a manner consistent with the goal set out in clause (a).
- c) Reduce fiscal deficit to not more than three percent of the estimated Gross State Domestic Product within a period of four financial years beginning from the initial financial year on the 1<sup>st</sup> day of April, 2004 and ending on the 31<sup>st</sup> day of March, 2009.
- d) Reduce fiscal deficit as percentage of Gross State Domestic Product (GSDP) in each of the financial years beginning on the 1<sup>st</sup> day of April, 2004 in a manner consistent with the goal set out in clause (c).
- e) Not give guarantee for any amount exceeding the limit stipulated under any rule or law of the State Government existing at the time of the coming into force of this Act or any rule or law to be made by the State Government subsequent to coming into force of this Act.
- f) Ensure within a period of fourteen financial years, beginning from the initial financial year on the 1<sup>st</sup> day of April, 2004, and ending on the 31<sup>st</sup> day of March, 2018; that the total liabilities at the end of the last financial year do not exceed twenty five percent of the estimated Gross State Domestic Product for that year.

### Chapter 3

## Evolution of ULBs And Urbanisation Trends In U.P.

In the first part of this chapter the evolution of urban local bodies has been traced in brief and an overview of democratic decentralization in U.P. in the wake of 74<sup>th</sup> CAA has been presented. This is followed by a brief review of urbanization trends in U.P. in the recent decades.

### A. Evolution of Urban Local Bodies

Urban local self government in India is, in fact, the brain child of the Britishers, when they came here in the late 17<sup>th</sup> century. However, it is said that the origin of local government has very deep roots in ancient India. On the basis of historical records, excavations and archaeological investigations, it is believed that some form of local government did exist in the remote past. From the Vedas and the writings of Manu, Kautilya and others, and also the records of some travelers like Magasthenese, the origin of local self-government can be traced back to the Buddhist period.

Although local self-government existed in India in ancient times, it was mainly concerned with some limited social and economic aspects of people's life. A beginning of urban local self-government in India, in a somewhat modern sense, may be said to have been made in 1687 when, for the first time, a local self-government body was set up for the city of Madras. Thus, local self-government is about three centuries old in India. Its history since 1842 is rather chequered. Broadly, it may be divided into the following six phases, each phase characterized by a set of distinct features:

- (1) upto 1882
- (2) from 1882 to 1919
- (3) from 1919 to 1935
- (4) from 1935 to 1947
- (5) from 1947 to 1992
- (6) 1992 onwards

#### First Phase (upto 1882)

The first municipal council of Madras was authorized to collect taxes for the maintenance and development of the city. In 1726, the Madras Municipal Council was replaced by a Mayor's Court which was, by and large, a judicial organization. In 1793, the Charter Act was passed and the municipal administration was extended to three towns of Bombay, Calcutta and Madras. It gave powers to the Governor-General of India to appoint Justices of Peace in these towns. Municipal administration was established in the district towns in Bengal in 1842. As far ULBs in U.P., we can trace origin of these institutions as far back as in 1837. In 1842 Urban Local Committees were set up. In 1864 the Lucknow Municipal Act was passed and many other municipal bodies set up. In 1873 the powers of these bodies were increased.

In 1870 Lord Mayo's resolution came into force. Its main objectives were to promote education, public health, sanitation, medical relief and local civic works as also to strengthen municipal institutions. Other provinces adopted similar measures in varying degrees. By 1873 nearly 200 municipal bodies had been set up in the country.

## Second Phase (1882-1919)

Till 1882, local government in India was neither 'local' nor 'self-government'. Political awakening gradually spread among Indians when Lord Rippon was appointed Government-General of India. His famous resolution of 1882, was very significant for the evolution of local self-government in the country. It was a bold but not a successful initiative. All suggestions made by Rippon were not accepted.

In 1907, the subject of local self-government was considered by the Royal Commission on Decentralisation as an aspect of administrative devolution. The recommendations of the Commission were only implemented at the time when Montague-Chelmsford Reforms of 1919 gave some measure of autonomy to provincial legislature. The administration of local self-government was taken out of the hands of district officers and placed under a department which was controlled by a minister. Furthermore, the franchise for election to local bodies was also enlarged. In 1916 the U.P. Municipalities Act was adopted which remained in vogue till its recasting, following the 74<sup>th</sup> Amendment in 1994.

## Third Phase (1919-1935)

The third phase was the outcome of Minto-Morley Reforms. **The Government of India Act, 1919 came into force in 1920.** By this Act, responsible governments were established in the provinces by introducing the system of diarchy or dual government. Certain functions like cooperation, agriculture and local self-government were handed over to the popularly elected ministers, who were responsible to provincial legislatures.

The Government of India Act, 1919 laid down a schedule of taxes, which could be levied only by or for local bodies. It not only enlarged the effective sphere of taxation, but also enabled local bodies to become a little more effective.

In 1930, Simon Commission going into the working of local bodies came to the conclusion that their efficiency depended upon the control or pressure exercised by the provincial government. It concluded that financial resources of local bodies were far too inadequate to produce trained personnel for them.

## Fourth Phase (1935-1947)

The inauguration of provincial autonomy under the Government of India Act, 1935, was a very important step in the evolution of local self-government in India. According to the report of the Local Self-Government Committee. "The passing of Government of India Act, 1935, and the introduction of provincial autonomy in 1937 gave a fillup to the development of local self-government on popular basis. As a result, several Acts were passed with a view to furthering democratisation of the local bodies and widening their powers and functions".

## Fifth Phase (1947-1992)

India achieved freedom in 1947. With the coming of the Constitution into force in 1950, local self-governance entered a new phase. The Constitution assigned LSG function to the States. Since independence many important laws for reshaping local self-government institutions were adopted in many States. It merits mention here that the **Rural-Urban Relationship Committee (1963), had observed that the primary emphasis in India had been on laying down a strong system of local self-government in rural areas. In the first three National Plans, rural areas were involved in development, but ULBs were, by and large, left out of the mainstream of development process. Central financial assistance was also made available to the PRIs, which was, by and large, denied to urban areas.**

## Sixth Phase (1992 onwards)

Keeping in view the growing importance of democratic decentralization, the Union Government introduced in the Lok Sabha the Constitution (65<sup>th</sup>) Amendment Bill in 1989, which, however, could not be passed and lapsed due to dissolution of the Lok Sabha. Another bill was introduced by the succeeding Janata Party government and met the same fate. Again, yet another bill was introduced in 1991 and it was passed in 1992. It got ratified by the majority of the States and came into force with effect from April 24, 1993 as the Constitution 74<sup>th</sup> Amendment Act.

### Salient Features of 74<sup>th</sup> Constitutional Amendment

**The Constitution 74<sup>th</sup> Amendment Act, 1992 is rightly termed as a landmark in the history of Urban Local Government in the country.** The Act provides for constitutional status to urban local government institutions. It incorporates two types of provisions – mandatory as well as discretionary. Mandatory provisions are those which are to be compulsorily adopted by all States in the country. Such provisions included uniform structuring, stability, reservation of seats, constituting the wards committees, periodic appointment of State Finance Commissions and State Election Commissions, etc. Local government, being a state subject, the discretionary provisions were left to the States to enact according to their needs and local situations.

It is a matter of great significance that both the 73<sup>rd</sup> and 74<sup>th</sup> amendments to the Constitution made provision for the creation of State Finance Commissions to make recommendations on financial transfers to ULBs as well as PRIs. The 74<sup>th</sup> amendment, under Article 243-Y, makes reference to SFCs provided for under Article 243-I. SFCs are required to look into the needs of ULBs also. It is for the first time in India that such constitutional bodies came to be created under state laws to assess the financial requirements of local bodies and make appropriate recommendations to augment their resources. The 73<sup>rd</sup> and 74<sup>th</sup> Constitutional amendments have provided, for the first time, a constitutional foundation for financial relations between State governments and local bodies.

Article 243-W of the Constitution refers to the powers, authority and responsibilities that the legislature of a State may by law endorse upon the municipal bodies to enable them to function as institutions of self-government.

As per the Twelfth Schedule, the functions listed for Urban Local Bodies are:

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

## 18. Regulation of slaughter houses and tanneries.

A look at the list of functions makes it clear that the role of the ULBs will not remain confined to the traditional functions related to civic amenities. The Constitution envisages an active role of these bodies in poverty alleviation and planning for economic and social development of the urban areas as well. It must be clearly understood that it is only an enabling and not a mandatory provision. It is for States to devolve specific powers and responsibilities to ULBs.

### **Democratic Decentralisation in U.P. After the 74<sup>th</sup> Constitutional Amendment**

Following the 74<sup>th</sup> Amendment, the Government of Uttar Pradesh adopted the needed conformity legislation viz., The Uttar Pradesh Urban Local Self Government Laws (Amendment) Act, 1994, so that these laws for ULBs were in the line with the amendment in reference. The legislation of 1994 incorporated amendments of (a) Uttar Pradesh Nagar Mahapalika Adhiniyam, 1959 and (b) United Provinces Municipalities Act, 1916.

As a result of the aforementioned amendment, three levels of ULBs were created :- (a) Nagar Nigams for large urban areas (b) Nagar Palika Parishads for smaller urban areas (c) Nagar Panchayats for Transitional Areas.

In the spirit of 74<sup>th</sup> Constitutional Amendment, the State of Uttar Pradesh took many steps to implement the system of democratic decentralization for urban local bodies. Some of the major highlights of urban decentralization introduced following the 74<sup>th</sup> Amendment are given below:

#### **(1) Better Representation to Weaker Sections of Society**

Under Section-7 of the U.P. Municipal Corporation Act, 1959 and Section 10-A of the U.P. Municipalities Act, 1916, provisions for reservation of seats for SC/ST/Backward classes and Women have been made. This has resulted in more representation to weaker sections in ULBs.

#### **(2) Direct Election of Nagar Pramukhs and Chairpersons of U.L.Bs**

Nagar Pramukhs and Chairpersons of ULBs are now directly elected on the basis of adult franchise by electors in municipal areas. The elections to these positions were held twice viz., in 1996 and in 2000.

#### **(3) Protection of Tenure**

The powers of State Governments to dissolve or keep under prolonged suspension elected boards of ULBs have been drastically curtailed. Now, no ULB can remain dissolved for more than six months from the date of its dissolution, and elections have mandatorily to take place before expiry of that period. Since the amended Act, no ULB is understood to have been dissolved in U.P.,

#### **(4) Constitution of Ward Committees**

In every Nagar Nigam and Nagar Palika Parishad having population of 3 lakh or more, Ward Committees, for every ten wards, have been constituted and powers and duties delegated to them. This is expected to increase participation of citizen's representatives, in the development of respective areas.

### **(5) Delegation of Financial Powers**

Financial powers of MNAs of Nagar Nigams have been increased to Rs.1 Lakh and of the Chairpersons of Nagar Palika Parishads and Nagar Panchayats to Rs.10,000/-.

### **(6) Constitution of State Finance Commissions**

As a result of the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments, the First State Finance Commission was created in U.P. in 1994. The SFC was, inter alia, required to make recommendations regarding the distribution of the net proceeds of taxes, duties, tolls and fees leviable by the State amongst the ULBs and PRIs.

### **(7) Delegation of Rule Making Powers**

Previously, the State government was empowered by law, to make byelaws for Nagar Palika Parishads and Nagar Panchayats. This power has since been decentralized and delegated to Divisional Commissioners, who are the Prescribed Authorities.

### **Expansion of the Duties Under the XII Schedule of the Constitution**

In the **U.P. Urban Local Self Government Laws (Amendment), 1994**, all the functions listed in the 12<sup>th</sup> Schedule of the 74<sup>th</sup> Constitutional Amendment Act, have been included. Out of the 18 functions listed, the following are **discretionary**: (i) Urban planning including town planning, (ii) Regulation of land use and construction of buildings, (iii) Fire Services. The rest are **obligatory**.

It needs to be mentioned here that out of the 18 functions listed in the XIIth Schedule, 12 are traditional ones being already performed by ULBs. The revised laws incorporate six **new functions** for ULBs: i.e.

(i) Planning for economic and social development; (ii) Construction and maintenance of parking lots, bus stops and public conveniences; (iii) Promoting urban forestry and ecological aspects and protection of environment; (iv) Safeguarding the interest of weaker sections of society, including the handicapped and mentally retarded; (v) Slum improvement and upgradation; and (vi) Urban poverty alleviation.

It merits mention here that, of the functions of ULBs listed in the 74<sup>th</sup> Amendment, which have been incorporated in sections 114 and 7 respectively of the U.P. Municipal Corporation Act 1959 and the U.P. Municipalities Act, 1916, some of the functions are being performed by Development Authorities, Regional Jal Sansthan, Regulated Area Authorities and concerned government departments. Through G.O. No.461/IX-9-1996 dated 7<sup>th</sup> March, 1996 of the Nagar Vikas Vibhag, the State Government has specified the functions that would be performed by different agencies.

According to the above mentioned G.O. the following functions would be performed exclusively by ULBs:

- Water supply for domestic, industrial and commercial purposes.
- Public health, sanitation, conservancy and solid waste management.
- Provision of urban amenities and facilities such as parks, gardens and playgrounds.
- Burials and burial grounds, cremation and cremation grounds and electric crematoriums.
- Cattle ponds, prevention of cruelty to animals.
- Vital statistics including registration of births and deaths.
- Public amenities including street lighting, parking lots, bus stops and public conveniences.
- Regulation of slaughter houses and tanneries.

The following functions would continue to be performed by government departments/agencies as mentioned below:-

- Fire services : Fire Fighting Department
- Urban forestry : Forest Department
- Protection of environment and Promotion of ecological aspects : Environment Department
- Safeguarding the interest of Weaker sections of society including the handicapped and mentally retarded : Urban Poverty alleviation an employment department through SUDA and DUDA.
- Slum improvement and upgradation : -do-

**The responsibility of discharging the following functions has been divided between ULBs and other government agencies:**

- Urban planning including town planning : Urban Development Authorities in 22 cities and by ULBs in Remaining towns.
- Regulation of land use and construction of buildings : Development Authorities in 22 cities, Regulated area Authorities in 95 towns and ULBs in Remaining towns.
- Promotion of cultural educational, and aesthetic aspects :
  - (i) Cultural Activities : State Cultural Deptt. And ULBs.
  - (ii) Education : Education Deptt. except middle level schools in corporations
  - (iii) Aesthetic aspect : Government Deptts. and ULBs.
- Planning for economic and social Development : Development Authority, Vikas Parishad, ULBs, SUDA, U.P.Jal Nigam, U.P.Jal Sansthan and other government Department.
- Roads and bridges : Development Authorities&ULBs.

The said G.O. restricts the role of ULBs to their traditional functions of provision of civic amenities and public health. ULBs have been given limited role with respect to planning for economic and social development. The present arrangement, in our view, is not in keeping with the spirit of the 74<sup>th</sup> Constitutional amendment. Even with respect to the provision of some basic civic services like provision of drinking water and slum improvement other agencies are functioning parallels. This raises problems of overlapping jurisdiction and inter-agency coordination. **Serious thought needs to be given to the issue of making the ULBs adequately empowered to discharge the responsibilities entrusted to them in the amended Municipal Acts in the light of the XIIth Schedule of the Constitution.**

### **(B) Urbanisation Trends in U.P.**

Urban population in U.P. has experienced considerable growth in the recent decades increasing from 8.6 million in 1951 to 27.6 million in 1991, i.e. almost by four times (Table 3.1). The ratio of

urbanization over this period increased from 13.7 % to 19.8%. The major jump occurred between 1971 and 1981 due to increase in the number of urban bodies through reclassification.

**Table 3.1**  
**Urbanisation Trends in U.P. (Including Uttranchal): 1951- 1991**

Year	Urban Population (in lakh)	Total Population (in lakh)	Urban population as % of total population
1	2	3	4
1951	86.26	632.16	13.7
1961	94.80	737.46	12.9
1971	123.89	883.41	14.0
1981	198.99	1108.62	18.0
1991	276.06	1391.12	19.8

Source : Census Reports.

Excluding Uttranchal, U.P.'s urban population stood at 19.01 million in 1981, increasing to 25.97 million in 1991 and, further, to 34.51 million in 2001 (Table 3.2). That is an increase of over 80 % in two decades. Urban population has been increasing at a steady rate of around 3% per annum in the past two decades, which is much higher than the growth rate of 2.30% per annum in the total population of the State.

**Table 3.2**  
**Growth of Urban And Total Population of U.P. (excluding Uttaranchal):1981-2001**

Year	Urban population (in lakh)	Total population (in lakh)	Urban population as % of total population	Decadal growth of urban population (%)	Decadal growth of total population (%)
1	2	3	4	5	6
1981	190.08	1051.37	18.08		
1991	259.70	1319.99	19.67	36.63	25.55
2001	345.13	1660.53	20.78	32.90	25.78

Source: Calculated from Census Reports.

The degree of urbanization in U.P. is much lower as compared to the national average or the situation obtaining in other relatively developed States. Thus, the urbanization ratio in 2001 was 43.9% in Tamil Nadu, 42.4% in Maharashtra, 37.4% in Gujarat, 34.0% in Karnataka and Punjab and 27.8% in the country as a whole as compared to the figure of only 20.8% in U.P. (Table 12.3). The growth rate of urban population in the State during 1991-2001 (2.89% per annum), however, slightly exceeded that of the country as a whole (2.75%), though it was distinctly lower than that of Haryana, Punjab and Tamil Nadu.

**Table 3.3**  
**Urbanisation Ratios in Major States: 1991 and 2001**

Sl.No.	States	Urban population (in million)		Urban population as % of total population		CAGR 1991-01 (%)
		1991	2001	1991	2001	
1	2	3	4	5	6	7
1	Andhra Pradesh	17.9	20.5	26.9	27.1	1.37
2	Bihar	11.4	14.7	13.1	13.4	2.57
3	Gujarat	14.2	18.9	34.5	37.4	2.90
4	Haryana	4.1	6.1	24.6	29.0	4.05
5	Karnataka	13.9	17.9	30.9	34.0	2.56
6	Kerala	7.7	8.3	26.4	26.0	0.75
7	Madhya Pradesh	15.3	20.3	23.2	25.0	2.87
8	Maharashtra	30.5	41.0	38.7	42.4	3.00
9	Orissa	4.2	5.5	13.4	15.0	2.73
10	Punjab	6.0	8.3	29.5	34.0	3.30
11	Rajasthan	10.1	13.2	22.9	23.4	2.71
12	Tamil Nadu	19.1	27.2	34.2	43.9	3.60
13	Uttar Pradesh	26.0	34.5	19.8	20.8	2.89
14	West Bengal	18.7	22.5	27.9	28.0	1.87
	<b>All India</b>	<b>217.6</b>	<b>285.4</b>	<b>25.7</b>	<b>27.8</b>	<b>2.75</b>

Source : Census of India 1991 and 2001.

Note: Figures for U.P. are for the reorganized State (excluding Uttranchal).  
Figures for Bihar and M.P. include Jharkhand and Chhatisgarh, respectively.

### Distribution of Urban Population By Class Size Of Towns

The distribution of urban population by size category of towns is an important indicator of the structure of urbanization. The smaller towns dominate the urban structure in U.P. in numbers. Thus, 383 out of 670 towns had population of less than 20,000 and another 171 between 20,000 and 49,000 (Table 3.4). But, these account for only less than one-third urban population of the State. 62.2 per cent of the State's urban population lives in 55 towns with population above 1 lakh and another 10 per cent live in towns with population between 50,000 and one lakh. Class I towns (i.e. those with population above 1 lakh) have also registered a distinctly higher demographic growth rate as compared to other size classes. It is this category of towns which is facing severe and increasing pressure of populations on the limited civic services available with them.

**Table 3.4**  
**Population by Class Size of Towns in U.P. : 1991 and 2001**

Town Class and population size	1991		2001	
	No. of towns	% share in urban population	No. of towns	% share in urban population
(1)	(2)	(3)	(4)	(5)
Class I (Above 1 lakh)	38	56.5	55	62.2
Class II (50,000-99,999)	42	11.5	51	10.0
Class III (20,000-49,999)	118	13.7	171	14.4
Class IV (10,000-19,999)	222	12.3	253	10.4
Class V & VI (Below 10,000)	211	6.1	130	3.1
Total	631	100.0	670	100.0

Source: Census Reports.

Note: The figures are for the reorganized State of U.P.

## Projected Population of U.P.

Urban population of U.P. increased at a CAGR of 3.17% during 1981-1991. The growth rate declined somewhat to 2.9% per year during 1991-2001. For the entire period, i.e. 1981-2001, CAGR of urban population comes to 3.02% per annum. Even if the natural growth rate of population declines in the coming decade, the growth rate of urban population is not likely to go down because of migration from rural areas and from smaller to bigger towns. In fact urban population growth may be expected to accelerate in the coming years. Alternative projections for 2001-2011 have been worked out on the assumed CAGR of 2.9%, 3% and 3.2%. Urban population of U.P. is likely to increase by around 114 lakhs between 2001 and 2011 according to the low projection, around 119 lakhs according to the medium projection and 128 lakhs according to the high projection (Table 3.5). In other words, urban population in the State is expected to increase by 11 to 13 lakhs every year aggravating the problems of civic services in urban areas, especially in larger towns and cities.

**Table 3.5**  
**Alternative Projections of Urban Population for U.P.: 2001 to 2011**  
(in lakh)

Year	Low Projection	Medium Projection	High Projection
1	2	3	4
2001	345.13	345.13	345.13
2002	355.14	355.48	356.17
2003	365.44	366.15	367.57
2004	376.04	377.13	379.33
2005	386.94	388.45	391.47
2006	398.16	400.10	404.00
2007	409.71	412.10	416.93
2008	421.59	424.47	430.27
2009	433.82	437.20	444.04
2010	446.40	450.32	458.25
2011	459.34	463.83	472.91

**Notes :** Low, medium and high projections have been worked out assuming CAGR of 2.9%, 3% and 3.2% respectively.

## Challenges of Urbanisation

The main challenges thrown up by growing urbanisation in the State include, among others, increasing slum population, acute shortage of housing, shortage in supply of potable drinking water, environmental hazards like air, water and noise pollution, insanitation, increasing congestion, pressure on land, encroachments, haphazard urban growth, etc. These challenges have to be faced boldly and imaginatively. It is ULBs, which are already hard pressed to find finances to discharge their functions, who have to bear the incessantly increasing pressure of providing basic civic amenities like safe drinking water supply, sanitation, drainage, sewerage, street lights, roads, etc. to a rapidly growing population, specially in the larger towns and cities. For being able to do so the resource base of ULBs has to be widened and deepened, their organizational capacities have to be strengthened and their empowerment assured.

## Chapter 4

### Review of the Financial Situation of ULBs

#### I. Introduction

In this chapter the financial situation of ULBs in the State is being discussed. The present system of maintenance and reporting of data in the Directorate of Urban Local Bodies suffers from a number of deficiencies as a considerable number of ULBs either do not submit their accounts to the Directorate or the statements furnished do not provide full information on different items of income and expenditure. Even the amounts of devolution reported by ULBs to us do not tally with the figures shown in documents of the Directorate in some cases. Due attention, therefore, needs to be paid to proper maintenance of accounts by ULBs and their timely reporting to and compilation by the Directorate.

#### II. Over-All Financial Situation of ULBs

Table 4.1 shows trends in income and expenditure of different categories of ULBs for the period 95.00. Total revenue of all ULBs has almost doubled from Rs.414.43 crore in 95-96 to Rs.824.52 crore in 99-00. Total expenditure, however, has more than doubled, rising from Rs.399.46 crore to Rs.855.08 crore over the same period. In most of the years combined revenues of the three types of ULBs have exceeded their expenditure by small margins. However, for the year 99-00 a deficit of Rs.30.56 crore has been reported. NNs account for about half of the total expenditure of all ULBs and NPPs about 40%. The share of NPs in the total is hardly around 10 per cent.

Per capita expenditure has increased by 77.97% in case of NNs, 97.49% in case of NPPs and 157.34% in case of NPs. However, differentials in per capita expenditure continue to be very marked among the three types of ULBs. Thus, per capita expenditure in NNs in 99-00 was Rs.357.14 as compared to Rs.251.03 in NPPs and only Rs.147.20 in NPs. This indicates that the level of services provided in the NPPs, and specially NPs, is of much lower order as compared to NNs.

#### (a) Income Trends

Earlier, grants contributed nearly 70% of total revenue of ULBs. Now, these have been replaced largely by SFC recommended devolution. The share of grants has come down to just around 7% (Table 4.2). SFC devolution now contributes around two-thirds of total income of ULBs. The share of income from own sources has gradually come down from around 28% in 95-96 to around 25% in 99-00.

Table 4.1  
Trends in Income and Expenditure of Urban Local Bodies : 1995-2000

Year	Total Receipts (Rs.Crore)	Total Expenditure (Rs.Crore)	Receipts minus Expenditure (Rs.Crore)	Per Capita Receipts (Rs.)	Per Capita Expenditure (Rs.)
1	2	3	4	5	6
Nagar Nigams					
1995-96	229.77	216.52	13.25	212.95	200.67
1996-97	255.04	251.82	3.22	229.23	226.33
1997-98	308.24	306.61	1.63	268.71	267.29
1998-99	402.59	369.50	33.09	340.37	312.39

1999-00	415.14	435.53	-20.39	340.42	357.14
<b>Nagar Palika Parishads</b>					
1995-96	152.28	152.52	0.24	126.91	127.11
1996-97	177.56	173.70	3.86	144.30	141.16
1997-98	198.91	204.11	-5.20	157.63	161.75
1998-99	322.50	289.85	32.65	249.21	223.98
1999-00	319.92	333.17	-13.25	241.05	251.03
<b>Nagar Panchayats</b>					
1995-96	32.36	30.38	1.98	60.93	57.20
1996-97	42.59	42.13	0.46	78.38	77.53
1997-98	50.83	47.88	2.95	91.44	86.13
1998-99	85.33	72.48	12.85	150.04	127.45
1999-00	89.51	85.64	3.87	153.85	147.20
<b>All Urban Local Bodies</b>					
1995-96	414.43	399.46	14.97	147.46	142.14
1996-97	475.43	467.87	7.56	164.69	162.07
1997-98	558.28	558.70	-0.42	188.27	188.41
1998-99	810.88	732.16	78.72	266.22	240.38
1999-00	824.52	855.08	-30.56	263.53	273.29

Source : Information provided by ULBs to SSFC.

**Table 4.2**  
**Total Income of All ULBs by Sources : 1995-96 to 1999-2000**

Year	Total Income (Rs.Crore)						Share in Total Income (%)				
	Income from Own Sources	Grants	Xth FC Devolutio n	SFC(I) Devolu tion	Loans	Total Income	Incom e from Own Sourc es	Grants	Xth FC Devolu tion	SFC (I) Devolu tion	Loa ns
1	2	3	4	5	6	7	8	9	10	11	12
1995-96	116.74 (41.54)	284.08 (101.08)	0.00	0.00	13.61 (4.84)	414.43 (147.46)	28.16	68.55	0.00	0.00	3.29
1996-97	139.93 (48.47)	327.39 (113.41)	5.97 (2.07)	0.00	2.14 (0.74)	475.43 (164.69)	29.43	68.87	1.25	0.00	0.45
1997-98	159.90 (53.92)	362.59 (122.28)	23.75 (8.01)	9.49 (3.20)	2.55 (0.86)	558.28 (188.27)	28.64	64.95	4.25	1.70	0.46
1998-99	183.80 (60.34)	58.11 (19.08)	29.79 (9.70)	528.22 (173.42)	10.96 (3.60)	810.88 (266.19)	22.67	7.17	3.67	65.14	1.35
1999-2000	201.96 (64.55)	55.47 (17.73)	37.25 (11.90)	525.38 (167.91)	4.46 (13.95)	824.52 (263.52)	24.49	6.72	4.52	63.72	0.55

Source : Information provided by ULBs to SSFC.

Note : Figures in brackets show per capita income based on projected population of the year.

Own income of ULBs increased at a CAGR of 14.69% between 95-96 and 99-00. NNs showed the highest growth rate of own income (18.30% per annum). However, in case of NPPs and NPs the performance was low key with a CAGR of 10.36% and 12.03% respectively (Table 4.3).

**Table 4.3**  
**Growth of Own Income of All ULBs : 1995-96 to 1999-2000**

Sl. No.	Local Body	(Rs.Crore)						CAGR (%)
		1995-96	1996-97	1997-98	1998-99	1999-2000		
1	2	3	4	5	6	7	8	
1.	Nagar Nigams	57.92	72.97	85.78	103.04	113.44	18.30	
2.	Nagar Palika Parishads	44.89	50.83	55.31	60.41	66.59	10.36	
3.	Nagar Panchayats	13.92	16.13	18.81	20.34	21.93	12.03	
	<b>Total ULBs</b>	<b>116.73</b>	<b>139.93</b>	<b>159.90</b>	<b>183.79</b>	<b>201.96</b>	<b>14.69</b>	

Source : Information provided by ULBs to SSFC.

Table 4.4 shows main items of own income of ULBs. Taxes contribute over half of the total own income of ULBs. Around one-third of the total revenue and nearly 60% of tax revenue is contributed by property tax alone. The next most significant source of tax revenue is water tax the contribution of which is around 25%. The dominant position of these two taxes in the total tax income of ULBs has remained unchanged over these five years. There is no noticeable growth in the share of income from other taxes except vehicle tax.

Among non-tax sources **tahbazari** is the most important source contributing around one-fifth of total non-tax revenue. Rent is another important source and contributes around 12-13 per cent of non-tax income. The structure of non-tax income of ULBs has remained more or less stable over the period.

**Table 4.4**  
**Structure of Tax and Non-Tax Income of All Urban Local Bodies : 1995-96 to 1999-2000**

Item	Income (Rs.Crore)					Percentage Share				
	1995-96	1996-97	1997-98	1998-99	1999-2000	1995-96	1996-97	1997-98	1998-99	1999-2000
1	2	3	4	5	6	7	8	9	10	11
<b>(a) Tax Revenue</b>										
(1) Property Tax	35.43	38.43	48.07	53.16	65.37	30.35	27.46	30.06	28.92	32.37
(2) Water Tax/charges	16.47	17.74	19.36	21.98	25.77	14.11	12.68	12.11	11.96	12.76
(3) Sewer Tax	1.43	2.69	2.14	2.41	2.84	1.23	1.92	1.34	1.31	1.41
(4) Advertisement Tax	1.68	1.85	2.80	3.02	2.71	1.44	1.32	1.75	1.64	1.34
(5) Vehicle Tax	1.81	2.50	2.85	3.22	4.26	1.55	1.79	1.78	1.75	2.11
(6) Other Taxes	3.81	5.86	6.27	8.74	6.24	3.26	4.19	3.92	4.76	3.09
<b>Total (a)</b>	<b>60.63</b>	<b>69.07</b>	<b>81.49</b>	<b>92.53</b>	<b>107.19</b>	<b>51.94</b>	<b>49.36</b>	<b>50.96</b>	<b>50.34</b>	<b>53.08</b>
<b>(b) Non-Tax Revenue</b>										
(1) Fees	2.70	3.17	3.71	3.71	4.83	2.31	2.27	2.32	2.02	2.39
(2) Rent	8.18	9.23	9.19	10.43	12.31	7.01	6.60	5.75	5.68	6.10
(3) Tahbazari	10.44	14.17	15.68	17.44	18.55	8.94	10.13	9.81	9.49	9.18
(4) Sale of Property	5.83	4.61	3.56	3.70	5.56	4.99	3.29	2.22	2.01	2.75
(5) Others	28.96	39.68	46.27	55.98	53.52	24.80	28.36	28.94	30.46	26.50
<b>Total (b)</b>	<b>56.11</b>	<b>70.86</b>	<b>78.41</b>	<b>91.26</b>	<b>94.77</b>	<b>48.06</b>	<b>50.64</b>	<b>49.04</b>	<b>49.66</b>	<b>46.92</b>
<b>Total Own Income (a)+(b)</b>	<b>116.74</b>	<b>139.93</b>	<b>159.90</b>	<b>183.79</b>	<b>201.96</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source : Information provided by ULBs to SSFC.

Per capita overall income of ULBs has increased from Rs.147.46 in 95-96 to Rs.263.53 in 99-00. However, per capita income from own sources (tax and non-tax) stood much lower at Rs.41.54 in 95-96 and Rs.64.55 in 99-00. The proportion of their own income has come down from 28.16% in 95-96 to 24.49% in 99-00. This proportion was somewhat higher for NNs (27.33%) as compared to NPPs (20.81%) and NPs (24.50%).

#### (b) Expenditure Trends

Table 4.5 shows trends in expenditure of ULBs. Total expenditure was Rs.399.46 crore in 95-96 which rose to Rs.855.08 crore in 99-00, showing a CAGR of 20.96%. Salaries and establishment costs constitute the major items of expenditure of ULBs, though their proportion has declined somewhat from 68.74% in 95-96 to 60.59% in 99-00. Expenditure on core services shows a rise in the share in total expenditure from 18.25% to 25.02% over the period. The share of non-core services in total expenditure has remained stable at around 13-14%.

**Table 4.5**  
**Composition of Total Expenditure of All ULBs : 1995-96 to 1999-2000**

Item	Expenditure in Rs.Crore						CAGR during 1995-2000
	1995-96	1996-97	1997-98	1998-99	1999-2000	Average Annual Expenditure 1995-2000	
1	2	3	4	5	6	7	8
1. Expenditure on salaries, pensions, PF, etc.	274.60 (68.74)	312.34 (66.76)	351.58 (62.93)	438.49 (59.89)	518.03 (60.59)	379.01 (62.89)	17.20
2. Expenditure on core services	72.90 (18.25)	97.42 (20.82)	128.41 (22.98)	199.59 (27.26)	213.97 (25.02)	142.46 (23.64)	30.89
3. Expenditure on non-core services	51.96 (13.01)	58.11 (12.42)	78.71 (14.09)	94.08 (12.85)	123.08 (14.39)	81.19 (13.47)	24.06
<b>Total</b>	<b>399.46</b>	<b>467.87</b>	<b>558.70</b>	<b>732.16</b>	<b>855.08</b>	<b>602.66</b>	<b>20.96</b>

Source : Information provided by ULBs to SSFC.

Note : Figures in brackets denote percent share in total expenditure.

Itemwise expenditure incurred on core civic services is depicted in Table 4.6. Expenditure on road maintenance and construction accounts for the highest share of around 60% of the total expenditure on core civic services. Next in order of importance is expenditure on drainage (9.99%) followed by that on street lighting (9.09%), water supply (7.76%) and scavenging and waste disposal (4.08%).

Major headwise per capita expenditure of ULBs for the period 95-96 to 99-00 has been shown in Table 4.7. Per capita expenditure has increased from Rs.122.53 in 95-96 to Rs.262.29 in 99-00. Of the total per capita expenditure of Rs.263.18 in 99-00, Rs.158.90 was spent on establishment, while only Rs.65.63 were spent on core services and Rs.37.76 on non-core services.

**Table 4.6**  
**Expenditure of All ULBs on Core Civic Services (Revenue and Capital)**

Item	(Rs.Crore)					
	1995-96	1996-97	1997-98	1998-99	1999-2000	CAGR 1999-2000 over 1995-96 (%)
1	2	3	4	5	6	7
1. Water Supply	6.72 (9.22)	8.70 (8.93)	9.51 (7.41)	13.43 (6.73)	16.61 (7.76)	25.39
2. Roads	41.45 (56.86)	57.38 (58.90)	75.50 (58.79)	119.98 (60.11)	129.50 (60.52)	32.94
3. Street Lighting	8.47 (11.62)	8.58 (8.81)	11.18 (8.71)	18.81 (9.43)	19.46 (9.09)	23.11
4. Sanitation &	3.06	2.64	2.12	4.00	4.43	9.69

Sewerage	(4.20)	(2.71)	(1.65)	(2.00)	(2.08)	
5.Drainage	5.29 (7.25)	10.69 (10.97)	11.88 (9.25)	18.00 (9.02)	21.37 (9.99)	41.77
6.Scavenging and Waste Disposal	4.89 (6.71)	5.89 (6.05)	8.67 (6.75)	10.20 (5.11)	8.73 (4.08)	15.59
7.Others	3.02 (4.14)	3.54 (3.63)	9.55 (7.44)	15.17 (7.60)	13.87 (6.48)	46.39
<b>Total</b>	<b>72.90</b> (100.00)	<b>97.42</b> (100.00)	<b>128.41</b> (100.00)	<b>199.59</b> (100.00)	<b>213.97</b> (100.00)	<b>30.89</b>

Source : Information provided by ULBs to SSFC.

Note : Figures in brackets denote percent share in total expenditure.

**Table 4.7**  
**Per capita Expenditure of All ULBs : 1995-96 to 1999-2000**

Item	1995-96	1996-97	1997-98	1998-99	1999-2000	Average Annual Expenditure 1995-2000
	2	3	4	5	6	7
Expenditure on salary, pensions, PF, etc.	84.23	95.81	107.85	134.51	158.90	116.26
Expenditure on Core Services	22.36	29.88	39.39	61.22	65.63	43.70
Expenditure on Non-Core Services	15.94	17.83	24.14	28.86	37.76	24.90
<b>Total Expenditure</b>	<b>122.53</b>	<b>143.52</b>	<b>171.38</b>	<b>224.59</b>	<b>262.29</b>	<b>184.86</b>

Source : Information provided by ULBs to SSFC.

### III. NAGAR NIGAM

This discussion on financial situation of NNs covers 11 such bodies and excludes Jhansi, which was given the status of NN as recently as on 7.2.02 by a Government Notification.

#### (a) Trends in Income

The composite picture of the total income of NNs from all sources has been shown in Table 4.8. Income from own sources of NNs, which comprises tax and non-tax revenues, accounts for only around one-fourth of their total revenue receipts. Devolutions from Central and State Finance Commissions contribute around three-fourths of their total revenue. Borrowings, mostly from State Government, are negligible. There is practically no inflow from institutional financial sources.

Details of tax and non-tax revenue have been shown in Table 4.9. Property tax is found to be the most important source of tax revenue with a share of around 70%. Water tax is another important source contributing around 15% of the tax revenue of NNs. Other taxes like, advertisement tax, vehicle tax, etc. contribute the balance tax revenue.

**Table 4.8**  
**Componentwise Percent Share in Total Revenue of Nagar Nigams : 1995-96 to 1999-2000**

Components of Revenue	Total Revenue (Rs.Crore)					Percentage Share in Total Revenue				
	1995-96	1996-97	1997-98	1998-99	1999-2000	1995-96	1996-97	1997-98	1998-99	1999-2000
1	2	3	4	5	6	7	8	9	10	11
1. Tax Revenue	35.03	39.55	49.73	57.40	68.40	15.25	15.51	16.13	14.26	16.48
2. Non-Tax Revenue	22.88	33.42	36.05	45.64	45.04	9.96	13.10	11.70	11.34	10.85
3. Own Revenue (1+2)	57.91	72.97	85.78	103.04	113.44	25.20	28.61	27.83	25.59	27.33
4. Grants	160.37	180.70	205.28	42.85	40.55	69.80	70.85	66.60	10.64	9.77
5. Devolution from Xth FC	-	0.71	9.24	14.60	20.68	-	0.28	3.00	3.63	4.98
6. Devolution from SFC (I)	-	-	6.14	232.60	236.72	-	-	1.99	57.78	57.02
7. Loans	11.49	0.66	1.8	9.50	3.75	5.00	0.26	0.58	2.36	0.90
<b>Total</b>	<b>229.77</b>	<b>255.04</b>	<b>308.24</b>	<b>402.59</b>	<b>415.14</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source : Information provided by NNs to SSFC.

Non-tax income includes income from fees, rent, tahbazari, sale of property, licencing, etc. Non-tax revenue contributes about 10% of total revenue receipts and about 40 per cent of own income of NNs. Income from rent and sale of property is the most important source of non-tax revenue followed by tahbazari (Table 4.9).

### (b) Trends in Expenditure

The expenditure of NNs which stood at Rs.216.52 crore in 95-96 increased to Rs.435.73 crore in 99-00 (Table 4.10). It is observed that a very high proportion (around 60%) of their total expenditure is being incurred on salaries and establishment costs. Only around one-fourth of expenditure is incurred on core civic services and the balance of around 20% on non-core services.

**Table 4.9**  
**Structure of Tax and Non-Tax Income of Nagar Nigams : 1995-96 to 1996-2000**

Item	Income (Rs.Crore)					Percentage Share in Total Income				
	1995-96	1996-97	1997-98	1998-99	1999-2000	1995-96	1996-97	1997-98	1998-99	1999-2000
1	2	3	4	5	6	7	8	9	10	11
<b>(a) Tax Revenue</b>										
(1) Property Tax	25.22	27.24	35.95	39.98	50.34	43.55	37.33	41.91	38.80	44.38
(2) Water Tax/charges	6.20	6.84	7.20	8.25	10.26	10.71	9.37	8.39	8.01	9.04
(3) Sewer Tax	0.95	2.17	1.55	1.77	2.20	1.64	2.97	1.81	1.72	1.94
(4) Advertisement Tax	1.59	1.76	2.68	2.90	2.55	2.75	2.41	3.12	2.81	2.25
(5) Vehicle Tax	0.55	0.58	0.68	0.69	1.54	0.95	0.79	0.79	0.67	1.36
(6) Other Tax	0.52	0.96	1.67	3.81	1.51	0.90	1.32	1.95	3.70	1.33
<b>Total (a)</b>	<b>35.03</b>	<b>39.55</b>	<b>49.73</b>	<b>57.40</b>	<b>68.40</b>	<b>60.49</b>	<b>54.19</b>	<b>57.97</b>	<b>55.71</b>	<b>60.30</b>
<b>(b) Non-Tax Revenue</b>										
(1) Fees	0.47	0.51	0.52	0.65	0.98	0.81	0.70	0.61	0.63	0.86
(2) Rent	3.27	3.96	3.39	4.40	5.50	5.65	5.43	3.95	4.27	4.85
(3) Tahbazari	1.48	3.43	3.90	4.37	4.18	2.56	4.70	4.55	4.24	3.68
(4) Sale of Property	4.42	3.94	2.87	2.25	4.01	7.63	5.40	3.35	2.18	3.53
(5) Others	13.24	21.59	25.37	33.97	30.37	22.86	29.58	29.58	32.97	26.77
<b>Total (b)</b>	<b>22.88</b>	<b>33.43</b>	<b>36.05</b>	<b>45.64</b>	<b>45.04</b>	<b>39.51</b>	<b>45.81</b>	<b>42.03</b>	<b>44.29</b>	<b>39.70</b>
<b>Total Own Income (a)+(b)</b>	<b>57.91</b>	<b>72.98</b>	<b>85.78</b>	<b>103.04</b>	<b>113.44</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source : Information provided by NNs to SSFC.

**Table 4.10**  
**Total Expenditure (Revenue and Capital) of Nagar Nigams : 1995-96 to 1999-2000**  
(Rs.Crore)

Items	1995-96	1996-97	1997-98	1998-99	1999-2000
<b>A-Revenue Expenditure</b>					
1. Salaries, Pension, PF, etc.	151.12 (69.79)	169.14 (67.17)	189.19 (61.70)	214.45 (58.03)	254.91 (58.50)
2. Core services	24.87 (11.49)	31.60 (12.55)	44.02 (14.36)	67.84 (18.36)	68.17 (15.65)
3. Other Items	27.80 (12.84)	30.46 (12.09)	38.88 (12.68)	43.33 (11.72)	59.44 (13.64)
<b>4. Total - A</b>	<b>203.79</b> (94.12)	<b>231.20</b> (91.81)	<b>272.09</b> (88.74)	<b>325.62</b> (88.11)	<b>382.52</b> (87.79)
<b>B-Capital Expenditure</b>					
1. Core services	7.48 (3.45)	15.07 (5.99)	22.50 (7.34)	29.17 (7.89)	32.56 (7.47)
2. Other Capital expenditure	5.25 (2.43)	5.55 (2.20)	12.02 (3.92)	14.77 (4.00)	20.65 (4.74)
<b>3. Total B</b>	<b>12.73</b> (5.88)	<b>20.62</b> (8.19)	<b>34.52</b> (11.26)	<b>43.94</b> (11.89)	<b>53.21</b> (12.21)
<b>C-Total Expenditure on core services</b>	<b>32.35</b> (14.94)	<b>46.67</b> (18.53)	<b>66.52</b> (21.69)	<b>97.02</b> (26.25)	<b>100.73</b> (23.13)
<b>D-Total Expenditure (Revenue and Capital)</b>	<b>216.52</b> (100.00)	<b>251.82</b> (100.00)	<b>306.61</b> (100.00)	<b>369.56</b> (100.00)	<b>435.73</b> (100.00)

Source : Information provided by NNs to SSFC.

Note : Figures in brackets show per cent to total expenditure.

It is evident that NNs are not fully or even optimally utilizing their taxation powers. Thus, tax on trade, callings and professions has not been imposed nor is betterment levy being charged though provisions for the same exist in law. Tax rates and licence fees have not been revised for long in most cases. The recovery position is also far from satisfactory though it has improved in recent years. The ratio of recovery to total demand was 65.33% in 97-98, 71.96% in 98-99 and 77.25% in 99-00.

NNs show a marginal surplus of revenue over expenditure except in the year 99-00. But, this does not reflect the real picture because NNs owed liabilities to the tune of Rs.160.47 crore as on 31.3.1999 on account of loans and salary, pension and gratuity dues, etc.

As shown in Table 4.11 below, in 99-00 per capita tax revenue of NNs varied from Rs.26.35 in Agra to Rs.120.85 in Ghaziabad. Per capita non-tax revenue ranged from Rs.14.86 in Bareilly to Rs.61.92 in Gorakhpur. Revenue performance of Ghaziabad NN is much better than that of other NNs of the State due to its better economic base. The least satisfactory performance in raising own resources is shown by NNs of Bareilly, Moradabad and Agra.

Per capita expenditure levels similarly show large variation - from Rs.235.10 in Moradabad to Rs.393.29 in Ghaziabad. Differences in per capita expenditure on core services are even sharper (Table 4.11).

**Table 4.11**  
**Nagar Nigamwise Per Capita Income and Expenditure : 1999-2000**

Nagar Nigam	Per Capita Income (Rs.)					Per Capita Expenditure (Rs.)			
	Tax Revenue	Non-Tax Revenue	Total Own Revenue	% of Total Income	Total Income	Establishment Expenditure	Core Services Expenditure	Other Items	Total
1	2	3	4	5	6	7	8	9	10
Agra	26.35	32.62	58.97	21.77	270.87	243.65	77.06	18.10	338.81
Aligarh	53.44	22.46	75.90	22.69	334.43	206.14	157.04	23.80	386.98
Allahabad	43.94	44.24	88.18	31.31	281.62	239.49	37.07	18.28	294.85
Bareilly	27.29	14.86	42.14	14.09	299.14	207.29	95.43	11.86	314.57
Ghaziabad	120.85	59.24	180.08	54.84	328.38	202.79	110.01	80.50	393.29
Gorakhpur	51.36	61.92	113.28	29.82	379.84	188.80	95.20	22.40	306.40
Kanpur	63.51	44.83	108.33	30.62	353.75	291.51	66.63	20.85	378.99
Lucknow	50.75	28.05	78.79	22.83	345.08	182.51	81.74	73.63	337.88
Meerut	61.36	23.46	84.82	24.76	342.55	213.97	67.60	67.60	349.16
Moradabad	32.14	20.44	52.57	20.87	251.95	164.43	43.21	27.46	235.10
Varanasi	40.05	27.43	67.48	20.86	323.52	230.25	78.47	14.71	323.43
<b>Total</b>	<b>53.58</b>	<b>35.27</b>	<b>88.85</b>	<b>27.33</b>	<b>325.17</b>	<b>224.88</b>	<b>78.91</b>	<b>37.50</b>	<b>341.29</b>

Source : Calculated from the information provided by NNs to SSFC.

#### IV. NAGAR PALIKA PARISHADS

##### (a) Trends in Total Income

Trends in revenues of NPPs have been shown in Table 4.12 below. Their total revenue has more than doubled during the last five years, rising from Rs.152.28 crore in 95-96 to Rs.319.92 crore in 99-00. This has been mainly on account of large financial transfers by way of SFC devolution, which now accounts for over 70% of total revenue of NPPs. Correspondingly, the share of State grants has declined sharply. The share of own revenue of NPPs in total income has come down from around 30% in 95-96 to around 21% in 99-00. Tax revenue contributes about one-tenth of total revenue of these bodies; another one-tenth comes from non-tax revenue.

**Table 4.12**  
**Componentwise Trends in Total Revenue of NPPs : 1995-96 to 1999-2000**

Components of Revenue	Total Revenue (Rs.Crore)					Percentage Share in Total Revenue				
	1995-96	1996-97	1997-98	1998-99	1999-2000	1995-96	1996-97	1997-98	1998-99	1999-2000
1	2	3	4	5	6	7	8	9	10	11
1. Tax Revenue	20.56	23.98	25.17	27.56	31.49	13.50	13.51	12.65	8.55	9.84
2. Non-Tax Revenue	24.33	26.85	30.14	32.85	35.10	15.98	15.12	15.15	10.19	10.97
3. Own Revenue (1+2)	44.89	50.83	55.31	60.41	66.59	29.48	28.63	27.81	18.73	20.81
4. Grant	105.54	122.73	130.28	11.36	11.01	69.31	69.12	85.50	3.52	3.44
5. Devolution from Xth FC	-	2.88	10.73	11.80	13.34	-	1.62	5.39	3.66	4.17
6. Devolution from SFC (I)	-	-	2.23	237.93	228.75	-	-	1.12	73.78	71.50
7. Loans	1.85	1.12	0.36	1.00	0.23	1.21	0.63	0.18	0.31	0.07
<b>Total</b>	<b>152.28</b>	<b>177.56</b>	<b>198.91</b>	<b>322.60</b>	<b>319.92</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source : Information provided by NNs to SSFC.

Tax income contributes around 47% of total own income of NPPs (Table 4.13). Water and property tax are the two most important sources each contributing about one-fifth of their total own income and 40% of their tax income. The next most important source of own income is *tahbazari* followed by rent.

**Table 4.13**  
**Share of Tax and Non-Tax Income in Own Income of NPPs : 1995-96 to 1999-2000**

Item	Income (Rs. Crore)					Percent Share in Own Income				
	1995-96	1996-97	1997-98	1998-99	1999-2000	1995-96	1996-97	1997-98	1998-99	1999-2000
1	2	3	4	5	6	7	8	9	10	11
<b>A – Tax Revenue</b>										
1. Tax on Land and Building	8.05	8.93	9.67	10.33	12.56	17.93	17.56	17.47	17.11	18.85
2. Water Tax/Charges	8.69	9.12	9.97	11.47	13.15	19.37	17.95	18.02	18.98	19.75
3. Sewer Tax	0.43	0.48	0.54	0.60	0.59	0.96	0.93	0.98	0.99	0.89
4. Advertisement Tax	0.09	0.10	0.12	0.11	0.15	0.20	0.20	0.22	0.19	0.23
5. Vehicle Tax	0.47	0.94	0.81	0.77	1.04	1.04	1.86	1.46	1.27	1.56
6. Other Taxes	2.83	4.41	4.06	4.28	4.00	6.30	8.67	7.35	7.09	6.01
<b>Total – A</b>	<b>20.56</b>	<b>23.98</b>	<b>25.17</b>	<b>27.56</b>	<b>31.49</b>	<b>45.80</b>	<b>47.17</b>	<b>45.51</b>	<b>45.63</b>	<b>47.29</b>
<b>B – Non-Tax Revenue</b>										
1. Fees	0.98	1.00	1.18	1.18	1.56	2.19	1.97	2.13	1.96	2.35
2. Rent	4.36	4.63	4.96	5.36	6.08	9.71	9.12	8.97	8.87	9.14
3. Tahbazari	5.37	6.24	6.84	7.84	8.62	11.96	12.27	12.38	12.97	12.94
4. Sale of Property	0.92	0.29	0.35	0.97	1.04	2.04	0.57	0.62	1.61	1.56
5. Others	12.70	14.69	16.81	17.50	17.80	28.30	28.90	30.39	28.96	26.73
<b>Total – B</b>	<b>24.33</b>	<b>26.85</b>	<b>30.14</b>	<b>32.85</b>	<b>35.10</b>	<b>54.20</b>	<b>52.83</b>	<b>54.49</b>	<b>54.37</b>	<b>52.71</b>
<b>Total Own Income (A + B)</b>	<b>44.89</b>	<b>50.83</b>	<b>55.31</b>	<b>60.41</b>	<b>66.59</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source : Information provided by NPPs to SSFC.

Recovery of arrears of tax and non-tax dues has remained below 50% of the total demand reflecting slackness of efforts in this regard.

### (b) Trends in Expenditure

Details of expenditure of NPPs under major heads are given in Table 4.14 below:

**Table 4.14**  
**Major Headwise Expenditure of NPPs : 1995-96 to 1999-2000**

Items of Expenditure	(Rs. crore)				
	1995-96	1996-97	1997-98	1998-99	1999-2000
1	2	3	4	5	6
1. Salary and Allowances, Pensions, Provident Fund and Group Insurance	105.45 (69.14)	120.60 (69.43)	136.02 (66.45)	184.25 (63.57)	216.87 (65.09)
2. Maintenance & Provision of Core Services	32.21 (21.12)	36.35 (20.93)	46.82 (22.94)	79.37 (27.38)	84.59 (25.39)
3. Non - Core Services	14.86 (9.74)	16.75 (9.64)	21.27 (10.41)	26.23 (9.05)	31.13 (9.34)
<b>Total Expenditure</b>	<b>152.52</b> <b>(100.00)</b>	<b>173.70</b> <b>(100.00)</b>	<b>204.11</b> <b>(100.00)</b>	<b>289.85</b> <b>(100.00)</b>	<b>333.17</b> <b>(100.00)</b>

Source : Information provided by NPPs to SSFC.

Note : Figures in brackets denote share in total expenditure.

NPPs utilise roughly, two thirds of their total expenditure on salaries, allowances, etc. Hardly one-fourth is incurred on maintenance and provision of core services like water supply, roads, street lighting, sanitation, sewerage and drainage. Around one-tenth of expenditure is incurred

on non-core services. Per capita expenditure on core services amounted to only Rs.64 in 99-00, a small amount indeed.

## V. NAGAR PANCHAYATS

### (a) Trends in Total Income

Total income of NPs by sources has been shown in Table 4.15 below:

**Table 4.15**  
**Total Income of Nagar Panchayats by Sources : 1995-96 to 1999-2000**

Year	Total Income (Rs.Crore)					Percent Share in Total Income					
	Income from Own Sources	Grants	Xth FC Devolu tion	SFC (I) Devolu tion	Loans	Total Incom e	Income from Own Sources	Grants	Xth FC Devolu tion	SFC (I) Devolu tion	Loans
1	2	3	4	5	6	7	8	9	10	11	12
1995-96	13.92	18.17			0.28	32.37	43.00	56.13	0.00	0.00	0.87
1996-97	16.13	23.74	2.35		0.37	42.59	37.87	55.74	5.52	0.00	0.87
1997-98	18.81	27.12	3.75	0.74	0.41	50.83	37.00	53.35	7.38	1.46	0.81
1998-99	20.34	4.54	3.39	56.57	0.49	85.33	23.84	5.32	3.97	66.30	0.57
1999-2000	21.93	4.92	3.20	58.96	0.50	89.51	24.50	5.50	3.57	65.87	0.56

Source : Information provided by ULBs to SSFC.

Total revenue of NPs has increased from Rs.32.37 crore in 95-96 to Rs.89.51 crore in 99-00. Their share of revenue from own sources has steadily declined from 43.00% in 95-96 to 24.50% in 99-00. Devolution from the State Government now contributes slightly above 70% of the total revenue of NPs. Loans contribute less than one per cent.

The total revenue of NPs during 95-00 has increased at a CAGR of 28.96 percent mainly on account of the sharp increase in SFC devolutions. However, their own tax revenue increased at a rate of only 9.70%, whereas revenue from non-tax sources increased at a rate of 13.29%.

Itemwise tax and non-tax revenues and their relative share in own sources is given in Table 4.16 below: Approximately one-third of own revenue of NPs is from taxes and two-thirds from non-tax sources. Around one-tenth of own revenue is contributed by property tax and another one-tenth by water tax. Vehicle tax is the only other important tax source contributing around 8 per cent of their own income. It would thus look that NPs are not at all utilizing their tax powers effectively. It has been reported that as many as 68 NPs do not levy property tax at all. The recovery rates are low and have remained around 55 per cent of the demand during the last three years.

Tahbazari is a prime source of non-tax revenue contributing around one-fourth of own revenue of NPs. Licencing fees contribute around one-tenth of their own revenues.

**Table 4.16**  
**Share of Tax and Non-tax Revenue in Total Revenue of NPs : 1995-96 to 1999-2000**

Components	Absolute (Rs.crore)					% Share in Total Revenue				
	1995-96	1996-97	1997-98	1998-99	1999-2000	1995-96	1996-97	1997-98	1998-99	1999-2000
1	2	3	4	5	6	7	8	9	10	11
<b>A – Tax Revenue</b>										
1. Tax on Land & Building	2.17	2.26	2.46	2.84	2.47	15.58	14.01	13.08	13.96	11.26
2. Water Tax	1.58	1.77	2.19	2.27	2.36	11.35	10.97	11.64	11.16	10.76
3. Sewer Tax	0.04	0.05	0.04	0.05	0.05	0.31	0.31	0.21	0.25	0.23
4. Vehicle tax	0.79	0.97	1.36	1.76	1.69	5.67	6.02	7.23	8.65	7.71
5. Other taxes	0.46	0.49	0.54	0.64	0.73	3.30	3.04	2.87	3.15	3.33
<b>Total A</b>	<b>5.04</b>	<b>5.54</b>	<b>6.59</b>	<b>7.56</b>	<b>7.30</b>	<b>36.21</b>	<b>34.35</b>	<b>35.03</b>	<b>37.17</b>	<b>33.29</b>
<b>B – Non - Tax Revenue</b>										
1. Fees	1.25	1.67	2.01	1.87	2.29	8.98	10.35	10.69	9.20	10.44
2. Rent	0.55	0.64	0.84	0.68	0.73	3.95	3.97	4.47	3.34	3.33
3. Tahbazari	3.59	4.51	4.93	5.24	5.75	25.79	27.96	26.21	25.76	26.22
4. Sale of Property	0.49	0.37	0.35	0.48	0.51	3.52	2.29	1.86	2.36	2.32
5. Others	3.00	3.40	4.09	4.51	5.35	21.55	21.08	21.74	22.17	24.40
<b>Total B</b>	<b>8.88</b>	<b>10.59</b>	<b>12.22</b>	<b>12.78</b>	<b>14.63</b>	<b>63.79</b>	<b>65.65</b>	<b>64.97</b>	<b>62.83</b>	<b>66.71</b>
<b>Total Own Revenue (A + B)</b>	<b>13.92</b>	<b>16.13</b>	<b>18.81</b>	<b>20.34</b>	<b>21.93</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source : Information provided by NPs to SSFC.

Per capita income of NPs from own sources amounted to merely Rs. 37.69 in 99-00, of which Rs.12.55 were contributed by tax and Rs.25.14 by non-tax revenue.

### (b) Trends in Expenditure

Table 4.17 below, shows trends in total expenditure of NPs from 1995-96 to 1999-2000.

**Table 4.17**  
**Componentwise Expenditure of Nagar Panchayats : 1995-96 to 1999-2000**

Year	Total Expenditure (Rs.in Crore)				Per Capita Expenditure (Rs.)			
	Establishment	Core Services	Other Items	Total	Establishment	Core Services	Other Items	Total Expenditure
1	2	3	4	5	6	7	8	9
1995-96	19.39 (63.82)	8.33 (27.42)	2.66 (9.58)	30.38 (100.00)	36.50	15.68	5.01	57.21
1996-97	24.47 (57.79)	14.35 (33.09)	3.31 (7.81)	42.13 (100.00)	45.03	26.41	6.09	77.53
1997-98	28.60 (59.73)	15.04 (31.41)	4.24 (8.85)	47.88 (100.00)	51.45	27.05	7.63	86.13
1998-99	42.70 (58.91)	23.09 (31.86)	6.69 (9.23)	72.48 (100.00)	75.08	40.60	11.76	127.45
1999-2000	48.59 (56.74)	28.49 (33.27)	8.56 (9.99)	85.64 (100.00)	83.52	48.97	14.71	147.20

Source : Information provided by ULBs to SSFC.

Note : Figures in brackets show per cent to total expenditure.

Establishment cost represents the largest component of the expenditure of NPs, though its share has come down from around 64% in 95-96 to around 57% in 99-00. Expenditure on core services accounts for roughly one-third of the total expenditure of NPs. Though per capita expenditure on core services has increased by more than three times between 95-96 and 99-00, it is still at a low level of below Rs.50 per year.

NPs as a whole show marginally surplus budgets over the years, but this is in no way indicative of the good health of their finances. It does not reflect the arrears of Rs.43.60 crore that they have to pay by way of salaries, pension, gratuity, electricity bills, etc. as on 31-3-1999.

## VI. INTER- STATE COMPARISONS

Table 4.18 below, gives per capita income and expenditure levels of ULBs in some major States for the year 97-98, which is the latest year for which comparative figures are available. Per capita own income of ULBs in UP in that year was only Rs.10.37 as compared to the average figure of Rs.52.05 for other major States. The comparable figure for Punjab was Rs.167.16, for Gujarat Rs.160.14 and for Tamil Nadu Rs.106.09. U.P.'s position in raising own resources compares unfavourably even with that of other poor States, with the exception of Assam.

Similar inter-state differences are revealed in per capita expenditure levels. Per capita expenditure of ULBs in U.P. in 97-98 was only Rs.36.48 as compared to the average figure of Rs.88.39 for major States. In a number of States per capita expenditure of ULBs was three to four times higher than in U.P. Differences in per capita expenditure on core services were even more sharp. Thus, per capita expenditure on core services was only Rs.8.0 in U.P. which was only one-fourth of the average level for other States and around one-tenth of the expenditure level in States like Haryana and Tamil Nadu.

## VII. CONCLUSION

The above review of the financial position of ULBs in U.P. reflects their unsatisfactory performance. What emerges is a rather dismal picture with respect to internal resource mobilization through tax and non-tax measures. The rates of tax and fees, etc. are low and have remained unrevised for long in most cases. Recovery of dues is also very unsatisfactory. There is an overwhelming dependence on external resources through devolution, etc. There is practically no inflow of institutional finances.

**Table 4.18**  
**Statewise Per Capita Income and Expenditure of ULBs : 1997-98**

S.N.	States	Per Capita Own Income (Rs.)			Per Capita Total Income	Per capita Own Income as % of Per capita Total Income	Per Capita Expenditure (Rs.)	
		Tax Income	Non-Tax Income	Total Own Income			Core Services	Total Expenditure
1	2	3	4	5	6	7	8	9
1	Assam	3.09	5.80	8.88	14.89	59.67	7.60	20.26
2	Gujarat	142.47	17.67	160.14	235.59	67.97	72.98	187.92
3	Haryana	31.76	17.56	49.33	84.46	58.40	77.98	163.16
4	Karnataka	25.72	5.09	30.81	79.09	38.96	28.81	84.60
5	Kerala	24.76	11.08	35.83	82.10	43.64	26.57	85.73
6	Madhya Pradesh	14.58	9.96	24.54	80.21	30.59	37.54	102.89
7	Orissa	19.74	3.46	23.20	31.96	72.60	10.82	37.57
8	Punjab	130.83	36.34	167.16	192.98	86.62	21.64	147.90
9	Rajasthan	51.37	15.92	67.29	90.27	74.54	61.90	86.55
10	Tamil Nadu	53.97	52.11	106.09	197.28	53.77	83.90	201.60
11	Uttar Pradesh	4.07	6.30	10.37	37.74	27.49	8.08	36.48
12	West Bengal	NA	NA	NA	NA	NA	12.22	47.52
	<b>Total</b>	<b>37.06</b>	<b>16.00</b>	<b>62.60</b>	<b>93.74</b>	<b>66.78</b>	<b>33.07</b>	<b>88.39</b>

Source : Calculated from the information given in the Report of the Eleventh Finance Commission.

Note : Figures for Andhra Pradesh and Maharashtra have not been calculated as they seem to suffer from an unknown degree of error.

The poor financial position of ULBs in the State gets evidently reflected in the very low per capita levels of expenditure. A large part of expenditure is incurred on establishment costs with the result that very little is left for provision of core services and maintenance. Thus, a vicious circle of low income generation and poor quality of civic services is operating in urban areas of the State. To come out of this trap urgent and bold steps for raising financial resources are called for. We have given many suggestions in that direction at appropriate places in this Report.

## Chapter 5

### Tax and Non-Tax Resources of ULBs and Other Financial Measures

At present urban local bodies in the State, as in other parts of the country too, depend heavily on funds devolved by the State and Central Governments through the SFC, the Central Finance Commission and grants made for other purposes or loans extended, etc. The contribution of revenue from ULBs' own resources remains quite low. This is primarily so because the present resource base of ULBs is narrow, shallow and inelastic, and also, because the full potential of even the available base has not been adequately exploited due to a number of reasons. To achieve an adequate degree of fiscal autonomy for ULBs, it is imperative to raise the level as well as the proportion of revenue generated by own resources of these bodies. This would, inter-alia, require steps in the following directions:

- (a) Widening and deepening of the existing resource base (tax and non-tax) of ULBs through revision of rates, expansion of base, etc;
- (b) Enlargement of fiscal powers of ULBs by devolving additional taxes and regulatory powers which are of a local nature for them;
- (c) Larger share of ULBs in State's taxes which have a local base/or are of local nature;
- (d) Tapping of institutional and external sources of funding including market borrowing.

Own revenue resources of ULBs include the following:

- (a) income from tax revenue;
- (b) income from licence fees, duties, tolls, etc.;
- (c) income from various other fees, charges and penalties; and
- (d) income from property.

Though income from own sources of ULBs, as a whole, has recorded steady growth rate of around 15% per annum during the last 5 years in U.P. there is indeed a large unexploited potential for raising it further.

In this chapter we propose to discuss (a) measures for raising revenues of urban local bodies through deepening as well as widening of their existing tax and non-tax bases and (b) additional measures for augmenting the resource base of ULBs through additional tax powers, enhanced sharing in specific taxes, the mobilising of institutional funds and borrowings, etc.

#### I. Restructuring the Tax Regime of ULBs

##### (A) Nagar Nigams:

Under Section 172 of the U.P. Municipal Corporation Act, 1959, Nagar Nigams are required to levy the following obligatory taxes:

- (i) property tax which includes a general tax, water tax, drainage tax and conservancy tax;
  - (ii) a tax on vehicles other than mechanically propelled vehicles and other conveyances plying for hire or kept within the city or on boats moored therein and;
  - (iii) a tax on animals used for riding, driving, draught or burden kept within the city.
- In addition NNs may levy the following discretionary taxes;

- (i) a tax on trades, callings and professions and holding of public and private appointments;
- (ii) a tax on dogs kept within the city;
- (iii) a betterment tax;
- (iv) a tax on deeds of transfer of immovable property situated within the city;
- (v) a tax on advertisement excluding advertisements published in newspapers.

The Act also lays down the minimum and maximum rates of property tax which, at present, are 22% and 32% respectively of the annual value of the building or land. The Government is also authorised to prescribe maximum rates of taxes on vehicles, boats and animals. All these taxes, except the one on deeds of transfer of immovable property, are levied and collected by Nagar Nigams. However, the tax on deeds of transfer of immovable property in urban areas is collected by the State Government in the form of 2% extra Stamp Duty on the value or consideration and passed on to ULBs levying this tax on the basis of origin.

NNs are, by and large, levying the taxes specified in the Act. However, the tax on trades, callings and professions and betterment tax are not being levied by them at present. The Commission feels that it would be appropriate to make the tax on trades, callings and professions and the tax on deeds of transfer of immovable property obligatory for NNs. We are also suggesting that, as early as possible, the tax on trades, callings and profession, should be replaced by a comprehensive Profession Tax in both urban and rural areas. Detailed proposals about these two taxes are given in the report separately. The Commission is also recommending an Urban Vacant Land Tax as an obligatory tax for Nagar Nigams. This proposal is being discussed in detail later.

The recommended tax regime for Nagar Nigams is summarised below:

**RECOMMENDED TAX STRUCTURE FOR NAGAR NIGAMS**

<b>Tax Structure</b>	<b>Rates of Taxes</b>
<b>A. Obligatory</b>	
<b>1. Property Tax</b>	Aggregate of the Property Tax shall in no case be less than 22% and not more than 32% of annual value.
<b>(a) General Tax</b>	(a) Not less than 10% and not more than 15% of annual value
<b>(b) Water Tax</b> , where water is supplied by Nigams	(b) Not less than 7.5% and not more than 12.5% of annual value
<b>(c) Drainage tax</b> leviable in areas provided with sewerage system	(c) Not less than 2.5% and not more than 5% of annual value
<b>(d) Conservancy tax</b> in areas in which the Nigam undertakes the collection, removal and disposal of excrementitious and polluted matter from privies, urinals and cess-pools.	(d) Not more than 2% of annual value
<b>2. Tax on vehicles</b> other than mechanically propelled vehicles and other conveyances plying for hire or kept within the city or on boats moored therein.	Minimum and Maximum Rates To Be Prescribed by Government
<b>3. Tax on animals</b> used for riding, driving, draught or burden when kept within the City.	Minimum and Maximum Rates To Be Prescribed by Government
<b>4. Tax on trades, callings and professions</b> and holding of public or private appointments.*	Minimum and Maximum Rates To Be Prescribed by Government

5. Tax on deeds of transfer of immovable property situated within the City (Additional Stamp Duty)	2% extra stamp duty
6. Urban Vacant Land Tax	Minimum and Maximum Rates To Be Prescribed by Government
<b>B. DISCRETIONARY</b>	
1. Tax on dogs kept within the City.	Minimum and Maximum Rates To Be Prescribed by Government
2. Betterment tax	
3. Tax on advertisements not being advertisements published in newspapers	Minimum and Maximum Rates To Be Prescribed by Government
4. Theatre tax	Minimum and Maximum Rates To Be Prescribed by Government

\* Note : It is proposed to replace this tax by a comprehensive Profession Tax.

**(B) Nagar Palika Parishads and Nagar Panchayats**

According to the U.P.Municipalities Act, 1916, as amended, Nagar Palika Parishads and Nagar Panchayats may impose the following taxes:-

- (i) A tax on the annual value of buildings or lands or on both;
- (ii) A tax on trades and callings carried on within the municipal limits and deriving special advantages from or imposing special burdens on municipal services.
- (iii) A tax on trades, callings and vocations including all employments remunerated by salary or fees;
- (iv) A theatre tax (tax on amusement or entertainments);
- (v) A tax on vehicles and other conveyances plying for hire or kept within the municipality or on boats morred therein;
- (vi) A tax on dogs kept within the municipality;
- (vii) A tax on animals used for riding, driving, draught or burden when kept within the municipality;
- (viii) A tax on inhabitants assessed according to their circumstances and property;
- (ix) A water tax on the annual value of buildings or lands or of both;
- (x) A drainage tax on the annual value of buildings leviable on such buildings as are situated within a distance, to be fixed by rule in this behalf for each municipality from the nearest sewer line;
- (xi) A scavenging tax;
- (xii) A conservancy tax for the collection, removal and disposal of excrementitious and polluted matter from privies, urinals, cess pools;
- (xiii) A tax on deeds of transfer of a immovable property situated within the limits of the Municipality.

Provided that taxes at serials (iii) and (viii) above, and at serials (x) and (xii) shall not be levied at the same time.

All the above taxes are legally optional though imposition of taxes enumerated under section 128 of the U.P. Municipalities Act, 1916 has been made compulsory by an executive order vide G.O. No.2371(1)/ix-9-1998 dated September 23, 1998. This order, we feel, needs to be given legislative sanction.

As imposition of house tax and other taxes is optional in Nagar Palika Parishads and Nagar Panchayats in law, the minimum and maximum limits of these taxes have not been provided in the U.P. Municipalities Act, 1916. This lacuna needs to be removed.

The present tax regime of municipalities, that is NPPs and NPs, as laid down under the existing law, suffers from a number of shortcomings. None of the taxes which the municipalities are empowered to levy, has been made obligatory. It has come to our notice that there are some ULBs which are not levying any tax on buildings or land or tax on deeds of transfer of immovable property. It is also understood that no ULB is levying tax on trades, calling and vocations. The law also does not specify minimum and maximum limits of property and other taxes in case of NPPs and NPs with the result that there are wide variations in the incidence of rates prevalent in different NPPs/NPs.

In the light of above, the Commission recommends a revamp of the tax regime of municipalities (which includes NPPs and NPs), through required changes in law along the following lines;

(i) the existing taxes dealing with tax on property, water tax, drainage tax, scavenging tax and conservancy tax should be grouped under the broad category of property taxes as in the case of Nagar Nigams. Minimum and maximum rates of these taxes should also be fixed by the Government which may be lower for Nagar Panchayats as compared to Nagar Palika Parishads. The Commission suggests the following rate structure for these taxes;

**PROPOSED RATES FOR PROPERTY TAXES IN NPPs/NPs**

Taxes	Proposed rates of Taxes			
	For NPPs		For NPs	
	Minimum	Maximum	Minimum	Maximum
1	2	3	4	5
1. Property Taxes	15% of AV	25% of AV	12% of AV	21% of AV
(a) General tax	8% of AV	12% of AV	6% of AV	10% of AV
(b) Water Tax	5% of AV	9% of AV	4% of AV	8% of AV
(c) Drainage tax leviable in areas provided with sewer system	1% of AV	3% of AV	1% of AV	2% of AV
(d) Conservancy tax	Not exceeding 1%		Not exceeding 1%	

(ii) The following taxes should be made obligatory for NPPs/NPs as we have recommended in the case of Nagar Nigams:

- a) Property tax including water, drainage and conservancy tax;
- b) Tax on vehicles;
- c) Tax on animals;
- d) Tax on trades, callings and professions;
- e) Tax on deeds of transfer of immovable property; and,

f) Urban Vacant Land tax.

(iii) We recommend that urban vacant land tax may be introduced in municipalities as an obligatory tax on the same lines as we have recommended in case of Nagar Nigams. Details thereof have been discussed in a later section. In addition, we recommend that municipalities should also be empowered to levy betterment tax and tax on advertisements other than advertisements in newspapers as discretionary taxes. Nagar Nigams are already empowered to levy these taxes.

To ensure that the mandatory taxes are imposed by all ULBs we recommend that the Government may withhold a part of SFC devolution, say 20 to 25%, in case of municipal bodies not levying and/or collecting the prescribed mandatory taxes. The recommended tax structure for Nagar Palika Parishads and Nagar Panchayats is summarised below:

**RECOMMENDED TAX STRUCTURE FOR NAGAR PALIKA PARISHADS AND NAGAR PANCHAYATS**

Tax Structure	Proposed Rates of Taxes			
	For NPPs		For NPs	
	Minimum	Maximum	Minimum	Maximum
<b>A. Obligatory</b>				
<b>1. Property Tax</b>	15% of AV	25% of AV	12% of AV	21% of AV
<b>(a) General Tax</b>	8% of AV	12% of AV	6% of AV	10% of AV
<b>(b) Water Tax</b>	5% of AV	9% of AV	4% of AV	8% of AV
<b>(c) Drainage tax</b> leviable in areas provided with sewer system	1% of AV	3% of AV	1% of AV	2% of AV
<b>(d) Conservancy tax</b> in areas in which the NPP/NP undertakes the collection, removal and disposal of excrementitious and polluted matter from privies, urinals and cess-pools.	Not exceeding 1%		Not exceeding 1%	
<b>2. Tax on vehicles</b> other than mechanically propelled vehicles and other conveyances plying for hire or kept within the city or on boats moored therein.	Minimum and Maximum Rates to be prescribed by Government			
<b>3. Tax on animals</b> used for riding, driving, draught or burden when kept within the City.	Minimum and Maximum Rates to be prescribed by Government			
<b>4. Tax on trades, callings and professions</b> and holding of public or private appointments. *	Minimum and Maximum Rates to be prescribed by Government			
<b>5. Tax on deeds of transfer of immovable property</b> situated within the City (Additional Stamp Duty)	2% Extra Stamp Duty			
<b>6. Urban Vacant Land Tax</b>	Minimum and Maximum Rates to be prescribed by Government			
<b>B. DISCRETIONARY</b>				
1. Tax on dogs kept within the City.	Minimum and Maximum Rates to be prescribed by Government			
2. Betterment tax				
3. Tax on advertisements not being advertisements published in newspapers	Minimum and Maximum Rates to be prescribed by Government			
4. Theatre tax	Minimum and Maximum Rates to be prescribed by Government			

\* Note :- We are separately proposing the replacement of this tax by a comprehensive Profession Tax.

## II. Property Tax Reform

Property tax is one of the most important and widely used local taxes in developing as well as the developed countries. It fulfils the basic criteria needed for an appropriate local tax. Its base is easily identifiable and immovable across space. It also does not overlap the tax base of the Central and State Governments. Earnings from this tax are relatively stable and can be buoyant, too. It also possesses the characteristics of a benefit tax. Through this tax the cost of some of the local services can be raised from the users of such services. Property tax also fulfils the requirement of equity in taxation and does not cause distortion in resource locations.

In India Property Tax is the most important source of revenue of ULBs other than octroi (Octroi has since been abolished in many States). It is even more significant in States not levying octroi. According to a study by the National Institute of Public Finance and Policy the estimated yield from property tax in 1997-98 in the country as a whole amounted to Rs.2764 crore or around 13% of total municipal revenues. In many States property tax contributes one-fourth to one-half of municipal revenues. Per capita incidence of property tax was estimated at Rs.106/- for the country as a whole. However, the incidence varies from as low as Rs.2/- in Manipur to Rs.237/- in Himachal Pradesh (Table 5.1). Growth of income from property tax also shows large variations across States.

**Table 5.1**  
**Statewise Share of Property Tax in Municipal Revenues : 1992-93 & 1997-98**

States	% share of Property Tax in Municipal Revenues		Per Capita Revenue from Property Tax (Rs.)		Percentage increase in per capita P.T.in 1997-98 over 1992-93
	1992-93	1997-98	1992-93	1997-98	
1	2	3	4	5	6
Andhra Pradesh	35.27	34.54	86.94	141.79	63.1
Assam	20.65	14.72	9.52	11.75	23.4
Bihar	28.10	26.11	12.00	29.53	146.1
Gujarat	20.21	23.46	77.19	165.97	115.0
Haryana	11.72	11.41	44.41	60.60	35.1
Karnataka	18.62	15.10	37.17	57.62	55.0
Kerala	27.47	22.78	42.41	62.74	47.9
Madhya Pradesh	12.69	9.85	22.82	29.64	29.9
Maharashtra	8.68	7.65	83.34	146.64	76.0
Orissa	1.06	1.10	2.05	2.54	23.9
Punjab	7.67	5.14	19.83	25.66	29.4
Rajasthan	4.96	6.28	13.58	30.10	121.6
Tamil Nadu	39.99	20.84	86.32	88.43	2.4
Uttar Pradesh	12.78	12.14	21.65	27.83	28.2
West Bengal	33.39	36.30	132.50	206.30	55.7
Himachal Pradesh	38.66	15.27	208.89	237.41	13.7
Manipur	0.35	2.08	0.22	2.23	913.6
Meghalaya	16.85	19.00	37.41	51.09	36.6
Tripura	42.54	27.31	16.57	27.69	67.1
<b>Total</b>	<b>14.74</b>	<b>12.87</b>	<b>65.79</b>	<b>105.68</b>	<b>60.6</b>

Source: O.P.Mathur, **Options for Closing the Revenue Gap of Municipalities, 2000-01 to 2004-05**, NIPFP, New Delhi, 2000.

In spite of its importance revenues from property tax are much below their potential. There are large variations in the incidence of this tax across the country. The laws of property tax in India and their implementation generally suffer from a number of problems relating to matters like fixation of the tax base and rates, tax assessment, tax collection, tax exemptions, disputes and their resolution, etc. This tax also often suffers from lack of simple, scientific and discretionless methods of its determination. The process of assessment is plagued by arbitrariness and collusion between the tax assessors and property owners. The revenue potential of this tax is further undermined by the fact that even the assessed taxes are not collected fully due to laxity and other weaknesses in the revenue collection machinery of ULBs.

#### **Property Tax Reform in India**

Reform of property tax in India has been debated for a fairly long time. In the past decade efforts have been made in a number of States to reform structure of this tax and its administration. Patna Municipal Corporation in Bihar was one of the first municipal bodies to reform its property tax system. The model adopted by this Corporation is characterised by 'simplicity and low rates'. An area based assessment method was adopted and tax rates were fixed on the basis of location of holding, use of holding, type of construction and measurement of carpet area. Patna city was divided into three areas on the basis of location on principal main roads, main roads and all other roads. Buildings were similarly classified into three groups i.e. commercial, residential and others. Again, buildings were classified into three categories based on the type of construction. The tax rates were brought down to 9% from 43.75% of ARV. The success of this effort can be gauged from the fact that the demand jumped from Rs.4 crore to Rs.17 crore while potential demand has been assessed at Rs.40 crore. The new rules were challenged in the Patna High Court which set aside the formula of tax assessment on the grounds of inadequate and incomplete classification. However, the Supreme Court has upheld the validity of the rules.

Andhra Pradesh is another State which took steps to overhaul its property tax system in 1993. The A.P. Property Tax Reform aimed at introducing a scientific method of assessment and levying of property tax on the principle of equity. The model adopts a more elaborate and rigorous classification. For purposes of the tax the entire municipal area was to be divided into several zones based on a number of criteria including those of availability of services, markets and shopping centres, educational and commercial institutions, etc. Buildings in each zone were classified into as many as seven categories on the basis of the nature or use of the property. The AP model also introduced an area based assessment of tax and delinked the operation of Rent Control Act from the assessment of this tax. To determine the prevalent rental value and fix rental charges from each zone a sample survey of 20% of all properties in each zone was to be carried out. The system of collection and payment was also simplified. As a result of the introduction of these reforms yield from property tax in Andhra Pradesh is reported to have increased from Rs.375.3 crore in 1992-93 to Rs.590.0 crore in 1995-96.

Tamil Nadu and Karnataka are the other major States which have taken important steps to reform of their property tax regimes resulting in substantial revenue gains to ULBs. The Commission has in particular examined the system of property tax introduced by the Bangalore Nagar Mahapalika. The system introduced here is elaborate and scientific but also simple. The salient features of the property tax system of Bangalore Nagar Mahapalika have been highlighted in Box-1. Detailed structure of rates prescribed for different types of properties have been shown in Appendix I. Revenue from property tax as a result of the adoption of the new system has sharply jumped from Rs.75 crore in 1999-2000 to more than Rs.150 crore in 2000-01. The Commission feels that the Bangalore Municipal Corporation system provides a good model which can be adopted or adapted with suitable modifications atleast in the Nagar Nigams of Uttar Pradesh.

Based on the experience of property tax reform in Bihar, Andhra Pradesh, etc., the Ministry of Urban Development, Government of India, issued guidelines for reforms of this tax in October, 1998. According to these guidelines a good property tax structure should contain the following principles:

- (i) Low rate of property tax so as to make it acceptable by the public at large;
- (ii) Minimise the discretion on the part of assessors in tax levy;
- (iii) Make the process of assessment, levy and collection transparent and simple;
- (iv) Facilitate self-assessment tax by property owners/occupiers.

The salient features of the guidelines are given in the Box-2. The guidelines advocate the adoption of area based method for levying property tax which should be linked to factors like location of the building, type of construction, use of the property and carpet area of the building. The guidelines emphasise that property tax should aim at the recovery of the cost of basic services. These suggest that water tax may be gradually replaced by water charges based on metering and drainage and sewerage charges may be levied as the percentage of water charges. These also recommend that property tax exemption should be kept to the minimum. The guidelines also suggest the linking of the property tax rates to an inflation index and re-assessment once in every five years. Constitution of Municipal Tax Appellate Authorities is also recommended.

#### **Income From Property Tax in U.P.**

After the abolition of octroi in U.P. property tax constitutes the single most important source of revenue of urban local bodies. Taken together property tax contributes about 60% of the total tax revenue and about 30% of total own revenue of all ULBs (See Table 2). Corresponding figures for Nagar Nigams are much higher at around 70% and 40% respectively.

Total income from property tax in U.P. has increased from Rs.35.43 crore in 1995-96 to Rs.65.37 crore in 1999-2000. Per capita incidence of property tax, however, is only around Rs.20/- which is far below the national average of around Rs.100/- and hardly one-tenth of West Bengal and Himachal Pradesh which have per capita incidence of Rs.206/- and Rs.237/- respectively. More than three-fourths of property tax revenue in the State is contributed only by the 11 Nagar Nigams. The performance of other ULBs is very dismal in this respect, especially in case of Nagar Panchayats.

**BOX - 5.1**

**Salient Features of the Scheme of Self-Assessment of Property Tax introduced by Bangalore Municipal Corporation on 13.03.2000**

The Scheme has been evolved on the mass appraisal system of properties. The city of Bangalore has been classified into six zones based on property valuation done by the Deptt. of Revenue. Further the properties have been classified on the basis of the cost of construction value at current market rate. Per sq.ft. per month rates applicable are related to the Zone and class of buildings. The rates for rented buildings have been fixed at much lower levels than prevailing market rates. The owner occupied buildings have been given a concession of 50%. The rates for different classes/zones have been arrived at after carefully taking into consideration several criteria like location, type of construction, built-up area, use of property and the age of the building. Two months deduction in annual rateable value has been given for repairs, etc. Vacant land exceeding three times of the built up area is assessed at the rate of 30% of the rate fixed for built up area of such property. Further, concession is given according to the age of building. Tax is levied at the rate of 20% of ARV for residential use and 25% for non-residential use. A cess of 34% is levied on the property tax which covers education cess (10%), health cess (15%), beggary (3%) and library cess (6%).

**Residential properties** have been classified into 5 types on the basis of type and cost of construction as follows:

- Category - I : Cost of construction more than Rs.250 per sq.ft.(RCC Madras Terrace)
- Category - II : Cost of construction between Rs.150 - 250 per sq.ft. (RCC Madras Terrace)
- Category - III: Cost of construction less than Rs.150 per sq.ft. (RCC Madras Terrace)
- Category - IV: Cost of construction less than Rs.150 per sq.ft. (Tiles/Sheets)
- Category - V : Thatched houses or huts.

The **non-residential buildings** have been classified into Group 'A' and Group 'B'.

**Group 'A'** consists of six categories of building and per sq.ft. rate is based on the zone in which the property is located. Varying rates have been fixed on the basis of the type of use of property and the zone of location.

**Group 'B'** consists of non-residential buildings for which the per sq.ft. rate is not related to zonal classification but is based on certain norms.

The properties are again grouped into 5 categories covering the star hotels, cinema theatres, community and marriage halls, industrial buildings and hospitals and nursing homes. Each category is again sub divided into 4 or 5 groups for purposes of assessment.

The rates are to be revised every 5 years. The tax can be deposited at any of the branches of specified banks or the Zonal Offices of the Corporation.

The Scheme was introduced from 1.4.2001 and has been well received by the citizens. Out of 4 lakh property owners 2.30 lakh property owners have already opted for the scheme.

As a result of the introduction of the Self-Assessment Scheme, the collection of property tax of Bangalore Municipal Corporation has jumped from Rs.113 crore in 1999-2000 to Rs.157 crore during the year 2000-2001. Annual target for 2001-2002 has been put at Rs.175 crore.

**Source:** Based on information obtained from Bangalore Mahapalika.

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- (iii) Make the process of assessment, levy and collection transparent and simple;
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The salient features of the guidelines are given in the Box-2. The guidelines advocate the adoption of area based method for levying property tax which should be linked to factors like location of the building, type of construction, use of the property and carpet area of the building. The guidelines emphasise that property tax should aim at the recovery of the cost of basic services. These suggest that water tax may be gradually replaced by water charges based on metering and drainage and sewerage charges may be levied as the percentage of water charges. These also recommend that property tax exemption should be kept to the minimum. The guidelines also suggest the linking of the property tax rates to an inflation index and re-assessment once in every five years. Constitution of Municipal Tax Appellate Authorities is also recommended.

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**BOX 5.2**

**SALIENT FEATURES OF THE GUIDELINES FOR PROPERTY TAX REFORMS ISSUED BY GOVERNMENT OF INDIA, MINISTRY OF URBAN DEVELOPMENT, OCTOBER 1998**

1. A good property tax structure should contain the following principles:
  - (i) Low rate of property tax so as to make it acceptable to public at large;
  - (ii) Minimise the discretion on the part of assessors in tax levy;
  - (iii) Make the process of assessment, levy and collection transparent and simple;
  - (iv) Ensure equity between classes of tax payers/property owners;
  - (v) Facilitate self-assessment of the tax by property owners/occupiers;
2. Area based methods to levy property tax should be adopted. Tax on built up (both residential and non-residential) property may be linked to factors like location of the building, type of construction, use of the property and carpet area of the building.
3. Water tax component of property tax may be gradually replaced by water charges based on metering. If metering is not possible in the short run, water tap charges may be adopted. Drainage and sewerage charges may be levied as a percentage of the water charges. The water and drainage/sewerage charges may be such that they reflect at least the costs of operation and maintenance of water supply, drainage and sewerage systems as well as depreciation and loan servicing costs. They may also contain an element of cross-subsidisation for the poor.
4. Buildings may be considered as symbolising occupancy and service use. Therefore, building tax should be such that at least the direct (major) services like local roads, conservancy, lighting and fire services whose costs and benefits are well-understood and which are amenable to the principles of benefit taxes on residents may broadly correspond to the costs of those services.
5. Costs of other services listed in the 12th Schedule, cross-subsidisation needs for the urban poor and funds required for lumpy capital projects of city-wide significance/loan servicing may be broadly linked to the General Tax or land tax component of the property tax.
6. Property tax exemptions should be kept to the minimum; even in the case of tax exempted properties only the General Tax and not the building tax meant to finance the services may be exempted. When exemptions are granted by the State Government, full compensation may be provided to the Municipalities.
7. Property tax rate should be linked to the inflation index preferably related to the cost of municipal services for capital works.
8. The task of verification and measurement of properties and detailed costing of services may be undertaken in a comprehensive manner once every five years.
9. Municipal Tax Appellate Authorities be constituted for hearing appeals from property owners.
10. Properties under dispute or unauthorised construction should pay property tax as per law.

**Source : Based on Guidelines For Property Tax Reforms, Government of India, Ministry of Urban Development, New Delhi, October 1998.**

**Table 5.2**  
**Revenue From Property Tax and Percent Share of Property Tax in Total Tax Income and Own Income in ULBs in U.P.**

	Type of ULB	1995-96	1996-97	1997-98	1998-99	1999-2000
1	2	3	4	5	6	7
<b>A.</b>	<b>Income From Property Tax (Rs.Lakh)</b>					
1	Nagar Nigams	2521.51	2724.31	3595.21	3998.12	5034.10
2	Nagar Palika Parishads	805.00	892.52	966.54	1033.54	1255.36
3	Nagar Panchayats	216.59	225.77	245.91	284.42	247.14
	<b>Total</b>	<b>3543.10</b>	<b>3842.60</b>	<b>4807.66</b>	<b>5316.08</b>	<b>6536.60</b>
<b>B.</b>	<b>Percent Share in Tax Income</b>					
1	Nagar Nigams	71.98	68.89	72.29	69.65	73.59
2	Nagar Palika Parishads	39.15	37.22	38.4	37.49	39.87
3	Nagar Panchayats	42.99	40.76	37.32	37.6	33.85
	<b>Total</b>	<b>58.44</b>	<b>55.64</b>	<b>58.99</b>	<b>57.45</b>	<b>60.98</b>
<b>C.</b>	<b>Percent Share in Total Own Income</b>					
1	Nagar Nigams	43.54	37.33	41.91	38.8	44.38
2	Nagar Palika Parishads	17.93	17.56	17.47	17.11	18.85
3	Nagar Panchayats	15.56	14	13.08	13.99	11.27
	<b>Total</b>	<b>30.35</b>	<b>27.46</b>	<b>30.07</b>	<b>28.92</b>	<b>32.37</b>

Source : Calculated from information supplied by ULBs to the Commission

#### Shortcomings in the Property Tax System in U.P.

The First State Finance Commission has exhaustively discussed issues related to property tax. It identified the following main problems in this regard in U.P.:-

- (1) The present system of assessment of property taxes is very archaic and gives large amount of discretionary powers to assessing authorities, specially lower category personnel.
- (2) Under the present system of property taxes, buildings covered by Rent Control Act, which are quite large in number, are not subject to provision of property tax from the point of view of re-assessment, as is possible in the case of other properties. Whenever an attempt has been made to reassess such properties, it had led to large number of litigations.
- (3) The procedure for assessment of property taxes is very cumbersome and in a democratic set up, the present procedure prescribes much scope for interference from elected representatives.
- (4) The present dispensation for exemption of houses with annual rental value upto Rs.360/- for purposes of levy of property taxes is resulting in large evasion of property tax revenue.
- (5) Under the present system, if the rental value is not determined and property tax not assessed then local bodies are not able to levy even water and sewage charges/rates.

- (6) Complete enumeration of buildings has not been undertaken for several years with the result that a large number of houses have been left out of the assessment net.
- (7) Periodical assessment of property tax has not been carried out regularly. Thus the old assessment rates continue to linger on for more than 10 years.
- (8) Imposition of property tax is not obligatory under the U.P. Municipalities Act, 1916. The result is that as many as 29 Nagar Palika Parishads do not impose any such tax in their area.

This Commission agrees with the above assessment of the FSFC. The situation shows little change over the last five years in these contexts. We have been informed that as many as 13 out of 195 Nagar Palika Parishads and 68 out of 417 Nagar Panchayats are not levying or collecting property tax as this is not a mandatory tax in law. In case of Nagar Nigams also several problems have come to our knowledge with respect to this tax. According to information supplied to us by NNs as many as 3,19,118 houses out of the reported number of 15,23,591 are not assessed. The actual total number of houses may well be much higher. The number of unassessed houses has been reported at 1,40,592 in Kanpur, 44,570 in Agra, 27,093 in Lucknow, 26,208 in Ghaziabad and 24,900 in Bareilly.

In most of NNs the last assessment was carried out during the period 1987-89. In case of Varanasi the last assessment is reported to have been done as far back as in 1976. During last 15 years values and rentals have substantially gone up in urban areas but no revision in assessment has been made with the result that NNs are losing out heavily in potential revenue.

We are told that most properties are under-assessed due to unhealthy collusion between house owners, tax authorities and the elected representatives. Even the grossly under assessed amounts are not collected in many cases. On an average hardly two-thirds of the demand of property tax is recovered. The demand and recovery position of property tax in Nagar Nigams during the last three years is shown in the following table.

**Table 5.3**  
**Demand and Recovery of Property Tax of Nagar Nigams during 1997-98 to 1999-2000**

Year	Demand (Rs.lakh)	Recovery (Rs.lakh)	Recovery As % of demand
1	2	3	4
1997-98	8396.16	4605.58	54.85
1998-99	9108.08	5680.70	62.37
1999-2000	10068.25	6891.91	68.45

**Source :** Information provided by Nagar Nigams to the Commission.

According to information supplied by NNs, recovery ratio, in 1999-2000, exceeded 70% only in Aligarh, Ghaziabad, Gorakhpur, Kanpur, Lucknow, Meerut and Varanasi. On the other hand the recovery was only 54% in Allahabad, 40% in Bareilly and as low as 25% in Moradabad and 22% in Agra. This is a regrettable state of affairs which needs to be corrected at the earliest.

#### **Highlights of the Recommendations of The First State Finance Commission**

The FSFC emphasized the necessity for wholesale reform of the then existing system of property taxes in Uttar Pradesh and made a number of important suggestions in this regard.

The highlights of the recommendations of First State Finance Commission are given below:

- (i) With a view to linking the assessment of annual rental value of property with a firm non-discretionary base there should be complete restructuring of property tax and its linkage with carpet area of buildings. For this purpose carpet area rates for different localities, type of construction, uses of property and age of the building have to be given due consideration to arrive at the tax rate.
- (ii) Reassessment of properties after every five years may continue as hitherto -fore.
- (iii) Property tax, water tax and latrine or sewerage tax are to be collected by the ULB concerned and so long as a decision to put Jal Sansthan and Development Authorities under one umbrella is not taken by the State government, receipts of water and latrine/sewerage taxes are to be passed on by the urban local bodies to the concerned Jal Sansthan or executing body of the water supply and sewerage scheme.
- (iv) The existing exemptions from property tax should be given a go by.
- (v) Delinking of annual rental value of the property from the rent control laws was also recommended as the new tax bases would be the carpet area.
- (vi) Tax collection should be made on self-assessment basis and a sufficient penalty be imposed for default and wilful concealment of information.
- (vii) The tax should be billed and collected on annual basis and 10 percent rebate in tax amount may be provided for prompt payment within a month from the date of service of the bill and penalty may be fixed at the rate of 2 percent per month for late payment after the expiry of rebate period.
- (viii) The exemptions from payment of property tax should be minimal and prescribed by law. Service charges related taxes should be collected in all cases while exemption can be confined to property tax only. Exemption should not be granted on recommendations of the State Government unless the latter compensates the urban local body. Concerned for loss incurred on that account.
- (ix) Enumeration of houses within a ULB should be conducted regularly and a number plate allotted to each house so that no house escapes the tax net.
- (x) A comprehensive enactment embracing the foregoing recommendations of the Commission (that is FSFC) should be made, which may over-ride the present different provisions under various acts so that a uniform policy for levy and recovery of property and other taxes in all the urban local bodies, i.e. Nagar Nigams, Nagar Palika Parishads, Nagar Panchayats is adopted and implemented. Wider powers need to be given for ensuring speedy recovery of property and other taxes.

This Commission agrees in principle with the above recommendations of the FSFC. Our specific recommendations on different aspects are given in the following paragraphs. We would like to emphasise that property tax reforms have to be carried out in a comprehensive manner covering different aspects like identification of tax base, criteria and system of tax assessment, review of assessment, system of collection, disposal of appeals, etc. Piece-meal reforms in separate aspects of this tax will not serve the purpose.

#### **Introduction of Carpet Area Based System of Property Tax Assessment in Nagar Nigams**

Following the recommendations of the FSFC, U.P. Government took a decision to introduce the carpet area based assessment system of Property Tax in Nagar Nigams of the State broadly on the Patna Corporation Model, with the aim of bringing about transparency and objectivity in the procedure of assessment of this tax and improving the financial position of Nagar Nigams. The Nagar Mahapalika Act, 1959 was amended in 1999 for this purpose. Detailed rules thereof

[U.P.Nagar Nigams (Sampati Kar) Niyamawali, 2000] were issued vide Department of Urban Development G.O.No.1435/9-9-2000-63-Ja/95-TC dated 22.4.2000. The salient features of the new scheme are:

1. The system is applicable to all Nagar Nigams excluding the areas which have been included in their municipal areas during last 10 years and houses which have been built on plots having an area of upto 30 sq.meters or the carpet area of which is less than 15 sq.meters.

2. Only residential houses have been covered under the Scheme.

3. Properties falling in every ward are to be classified into three categories on the basis of their location on : (a) roads more than 24 meters wide; (b) roads between 12 to 24 meters wide and (c) roads less than 12 meters wide. Further, houses are to be classified into three categories on the basis of nature of construction, i.e. (a) pucca houses with RCC or RBC roofs; (b) other pucca house, and (c) kachcha houses.

4. The MNA is required to determine, once in every two years, rates of minimum monthly rent per sq.foot of carpet area keeping in mind: (a) the circle rate fixed by the Collector for purpose of Indian Stamp Act, 1899 and (b) the prevailing minimum rental values for such buildings or plots. For purpose of assessment area under bathrooms, toilets, porticos and staircases have been excluded, while balconies, corridors, kitchens and store areas are to be taken at 50% of the covered area and the garage area at 25%.

5. The proposed rates are to be published in two daily newspapers for inviting objections from affected persons. After disposing off objections received the minimum per sq.ft. rates will be finalised by the MNA and notified in local newspapers.

6. The MNA is required to calculate house tax including General Tax, Water Tax, Sewer Tax and Conservancy Tax on the above basis and serve the bills on property owners or occupants.

7. Property owners are also authorised to make self assessment of their annual tax liability and deposit the amount in the notified bank. In such cases there is provision for imposing penalty for furnishing wrong information or hiding facts in the filled up proforma submitted to the MNA. Property owners are also required to inform the NN about any changes and/or expansions in the house within three months of these having been made.

8. Rebates on annual value are allowed according to the age of the building - at the rate of 25% in case of houses that are less than 10 years old, 32.5% for houses which are 10 to 20 years old and 40% for houses that are more than 20 years old.

9. In case of rented out houses annual value is to be enhanced by 25% if the house is less than ten years old and by 12.5% for houses more than 10 years but less than 20 years old. For houses more than 20 years old no such enhancement is to be made.

10. The standard rents under the Rent Control Act will not be taken into account for assessment of the annual value of houses.

The new system of tax assessment being introduced in Nagar Nigams is a step in the right direction. It is marked by simplicity and ease in implementation. However, there are certain aspects which require further improvement as indicated below:-

(i) Under new rules areas which have been included in the municipal limits during the preceding 10 years are excluded from the provisions of assessment. As a result of this Nagar Nigams remain deprived of revenue from new properties added in such areas which acquire high value as a result of urbanisation for a considerable period of time. This Commission, therefore,

recommends that the exemption given for 10 years to new areas included in the municipal limits should be reduced to 5 years.

(ii) At present property tax covers only the built up area and excludes un-covered land in the premises of houses which are used as open spaces, lawns, kitchen gardens, etc. It is recommended that property tax should also be imposed on un-covered area of the plot exceeding three times the built up area. The open area thus calculated, however, should be assessed at a lower rate, which may be fixed at 30% of that fixed for built up area of such property.

(iii) Under revised rules minimum rates based on carpet area are to be revised once in every two years. Given past experience this is too short a period for revision. We, therefore, recommend that revision of rates should be carried out once in 5 years in a comprehensive manner but in no case should this period be exceeded for purposes of revision. Such five yearly revision should be made mandatory.

(iv) We also recommend that when the next assessment is carried out ULBs should switch over to a more detailed system of classification of properties similar to the Bangalore Mahapalika model as shown in Appendix I, in place of the present 3x3x3 pattern of assessment.

(v) The new system at present is restricted to the assessment of residential properties alone. Non-residential properties continue to be assessed on the old pattern based on capital value which is open to manipulations through under-assessment and leaves ample scope for discretionary favours by tax assessing authorities or elected representatives. The prevailing system is also vitiated by problems related to the review of assessments by designated ULB committees and prolonged delays in litigation and disposal of cases. We, therefore, recommend that the carpet area system of valuation which takes into consideration the location, use and other aspects of the residential property should be extended to non-residential properties also as has been done in other States like Tamil Nadu and Karnataka. Here, again, the Bangalore Mahapalika model for assessment of non-residential properties can be adopted or adapted in the State with suitable modifications.

We are also concerned with the slow pace of implementation of property tax reforms in Nagar Nigams. Although the new rules were issued in April, 2000 in none of the Nagar Nigams property tax is, as of now, actually being collected under the revised system to the best of our knowledge. Most of the NNs have also not finally notified minimum carpet area rates for different zones. The year 2001 being an election year for NNs, among other things, fear of protest by property owners about enhanced assessment may have been responsible for this situation. The best strategy in our view would be to keep the tax rates low for switching over to the new system and then gradually increase these. A very sharp increase say beyond two times of the existing rates in the beginning may prove to be counter productive. Apprehensions about the new system of assessment among the citizens should be removed through publicity campaigns, discussions and area - wise open meetings. This is a clear need to take steps to ensure that the revised system and the rules made for it are actually implemented without any further delay.

#### **Extension of Carpet Area Based System of Assessment To Municipalities (NPPs and NPs)**

As mentioned earlier the new system of assessment of property tax has been provided only for Nagar Nigams in the State. In other municipal areas the property tax system continues to be plagued by well known problems related to this tax. The tax has not been made obligatory in case of NPPs and NPs with the result that many of these bodies do not even levy it. The rates of the tax have also not been specified with the result that large variations exist in different municipalities (NPPs/NPs). The system of assessment continues to be open to manipulations resulting in a high degree of under assessment. The recovery rates are also indeed very low.

In view of the present system being plagued by many problems it is imperative that property tax reform in a comprehensive manner is also introduced in all NPPs and NPs in the State. We have earlier recommended that property tax should be made an obligatory tax in all ULBs. We have also suggested the minimum and maximum rates for various components of property tax for NPPs/NPs, which are lower than the rates prescribed for NNs. We recommend that the system of carpet area based assessment should be extended to all municipal bodies (NPPs/NPs) in the State on the lines suggested below.

For the purpose of assessment of rental value, a municipal area may be divided into three to six zones depending upon the size of the municipality on the basis of (a) circle rates fixed for purposes of Stamp Duty; and (b) availability of different types of business infrastructure and, educational and civic services. In each zone properties may be classified on the basis of their location on the type of roads e.g. main roads, sub-main roads, local roads, etc. Buildings in each category may be classified according to the nature of construction, e.g. (i) pucca houses with RCC/RBC roof; (ii) other pucca houses and (iii) kachcha houses. Buildings should be further classified according to their use for residential, commercial or other purposes.

Monthly rental value for each type of property should be determined per sq.ft. of carpet area. Prevailing rental values for pucca houses with RCC or RBC roof may be taken as the standard rental value. Other pucca houses may be assessed at 50% of these values and kachcha houses at 25% of these values. In case of rented out buildings the rates may be increased by 25%. Similarly, buildings under commercial or industrial and similar uses may be assessed at a higher rate than residential buildings. Exemption may be given to houses with a built up area of less than 15 sq.meters or plot area of less than 30 sq.meters.

For purposes of fixing the per sq.ft. rental values a Committee may be constituted in every NPP/NP which may include the ADM/SDM of the concerned area as Chairman and the Executive Officer and Tax Officer of the municipal body concerned and an Assistant Engineer of PWD as members. The proposed rates should be published in two local or nearest published daily newspapers and may be finalised by the above Committee after disposal of objections received from concerned persons. The concerned NPP/NP should issue the bills for property tax on the basis of the notified rental values and the rates of tax approved by the municipal body. House owners may also be authorised to self assess their tax liability and deposit the due amounts in notified bank branches.

We would like to clarify that the above suggestions are essentially suggestive. The Government would need to introduce the required changes in the U.P.Municipalities Act 1916 and frame detailed rules as has been done in the case of Nagar Nigams. The main recommendation we wish to make is that the revised property tax system must be extended to NPPs/NPs with suitable modifications so as to improve the regime of this tax and substantially improve their resource base.

#### **Property Tax and Service Charges on Central/State Government Properties**

Article 285 (1) of the Constitution provides that the properties of the Union Government shall, save in so far as Parliament may by law otherwise provide, be exempt from all taxes imposed by a State or by any authority within a State. Parliament, in its wisdom, has not made any law for imposing any taxation on the properties of the Central Government. Such properties, however, are subject to payment of service charges as per four orders of 10th May 1954, 29th March 1967, 28th May 1976 and 26th August 1986, issued by the Ministry of Finance, Govt. of India. However, there have been several disputes on this score. The Eleventh Finance Commission has recommended that levy of user charges on government properties should be regulated by a suitable legislation. The Ministry of Finance, Government of India, in their aforementioned orders has stipulated that the service charges shall be calculated in the following manner:-

(1) In respect of isolated Central Government properties, where all services are availed of by the Central Government in the same manner as in respect of private properties, the Central Government will pay service charges equivalent to 75 per cent of the property tax realised from private individuals;

(2) In the case of colonies which do not directly avail of civic services within the area and are self sufficient in all respects, the payment of service charges will be restricted to 33.5 per cent of the normal rate of property tax applicable to private properties;

(3) In respect of colonies where only partial use of the services is made, service charges will be paid at 50 per cent of the normal property tax rate;

(4) In respect of colonies where all the services normally provided by the Municipal Body to the residents of other areas within its limits are being availed of the service charges will be paid as 75 per cent of the property tax realised from private individuals.

As per Supreme Court's decision properties vested in the statutory corporations or companies do not enjoy exemption from property taxation and service charges.

As per provisions of the U.P.Nagar Nigam Act, 1959 and the U.P.Municipalities Act, 1916, properties owned by State Government have not been exempted from payment of property tax except in case of buildings solely used as jails, court houses, treasuries and educational institutions run or managed by the Government.

The officers and representatives of urban local bodies have vehemently brought to the attention of this Commission that, in the light of the provisions contained in aforementioned laws and the related Central Government orders, they are levying property tax and service charges on State Government buildings and service charges on Central Government buildings but payment of such tax/service charges from most of the State/Central Government Departments and agencies or PSUs are not being received, with the result that huge arrears on this account are outstanding against them which are mounting. Though complete data regarding outstanding dues on this account are not available, information received from nine Nagar Nigams shows that an amount of Rs.40.09 crore is outstanding against State Government buildings and Rs.15.13 crore against Central Government buildings in respect of tax/service charges. These figures are indicative of the huge dimensions of outstanding dues on this account.

In the State budget separate heads of account are prescribed for the payment of house tax and water tax/charges on government buildings. For rent, fees and taxes, Head No.10 has been allotted, whereas for water and water charges, Head No.17 has been earmarked. However, budgetary provisions made by Departments under these heads appear to have been simply inadequate to meet the requirements leading to accumulation of huge arrears.

In this connection, the Commission held a meeting in September 2001 with the representatives of the Finance Department, Nagar Vikas Vibhag, Estate Department and ULBs. In this meeting the representative of the Finance Department was impressed upon to issue instructions to all Heads of Departments/Heads of Offices to ensure that adequate provisions are made in their departmental budgets for payment of local body taxes/service charges and that such charges are paid to ULBs without delay. It was also emphasised that the matter of outstanding dues by way of service charges on Central Government buildings be taken up by the State Government with the Central Government Ministries to find out ways by which the payments due are regularly received by the ULBs.

Mounting arrears of tax and non-tax dues on government properties are a cause of serious concern. Such dues adversely affect the financial position of ULBs. There is need for greater efforts on the part of ULBs to recover tax and non-tax charges due in respect of State/Central Government properties. The common plea taken by various Government Departments/Agencies

is that they are not provided with adequate funds through budget allotments for payment of ULB taxes and charges and are, therefore, not in a position to pay dues on this account.

With a view to find a solution of this problem, there is imperative need at the level of Director of Local Bodies to introduce a system of procuring an annual report of outstanding dues of house tax, water tax and service charges on Government buildings from each ULB for monitoring the progress of recovery of dues. The Commission recommends that a form should be prescribed on which each ULB should be required to prepare and furnish annually to the Director, Local Bodies, details of dues on account of property tax/service charges in two separate departmentwise lists, one regarding buildings of State Government and State public sector undertakings and the other regarding buildings of Central Government and Central Government undertakings within its area. Each list should incorporate departmentwise names and addresses of buildings, the amount of tax/service charges due for payment against each building, the period to which it pertains and the rates according to which the demand of tax/service charges have been arrived at. These lists should be furnished to the Director, Local Bodies in advance. On the basis of the information thus received, the Departmentwise/officewise or PSU/agencywise consolidated lists of outstanding dues will be prepared in the office of Director, Local Bodies and sent to the concerned Secretary of the Government and Head of the Department or PSU/Agency to ensure that necessary budget provisions, districtwise and departmentwise are made in the budget and payments of tax/service charges dues are made therefrom to the concerned ULB. These allocations should be non-divertable. The Heads of the Departments, PSU/Agencies should be made responsible for ensuring that the dues on account of property tax/service charges are paid by the district/lower level officials to the concerned ULB in time.

As far as bills against Central Government/PSUs are concerned, these may be forwarded by Directorate of Local Bodies to the State Government, which may take up the issue with the concerned department of Government of India.

14.51 The Commission would also like to clarify that the existing system of preparing and serving the bills of property tax/service charges to the local offices of State/Central Government Departments/PSUs by the concerned ULB shall continue. The local bodies should also exercise greater persuasion and regular follow up at local level in this regard.

#### **Other Recommendations Pertaining to Reforms in Urban Property Tax**

##### **(i) Assessment**

Concerted attempts need to be made for complete enumeration of properties and for identification of uncovered buildings. In case of Nagar Nigams GIS technology supplemented by property census/surveys can be utilised for full enumeration as is reported to have been done in Kanpur Nagar Nigam area. In Nagar Palika Parishads and Nagar Panchayats, which are not in a position to bear the cost of GIS, special periodic census/surveys for listing of all properties including uncovered buildings should be made. Such campaigns have been launched in the States like Andhra Pradesh. Even in Uttar Pradesh, Mirzapur Nagar Palika Parishad is a striking example of raising revenues of the Parishad manifold through enumeration of all properties falling in its geographical limits, by application of modern computerised coding and enumeration methods under Indo-Dutch Project (see Appendix-II). The income of Mirzapur NPP increased more than four times through the adoption of modern methods. The data collected regarding number of properties should be computerized, so that malpractices observed in ULBs may either be completely eliminated or drastically minimized. We are given to understand that probably computerisation of property data collected is in progress in 11 Nagar Nigams. As per orders of the State Government, action is said to have been initiated at the Directorate level for inviting tenders for property computerisation work in Nagar Palika Parishads having population of more than 1 lakh. The Nagar Nigams of the State should get all properties identified and listed through GIS by engaging reputed private agencies having experience of this work, in order to bring all properties, including residential, non-residential and commercial ones in the property

tax net. To bring all buildings within the tax net is essential not only for raising revenues from property tax but also for levy and recovery of user charges. Under the present system, if the ARV is not determined and property tax not assessed, ULBs are not able to levy even water and sewerage charges.

**(ii) Property Tax on Land of ULBs Occupied by U.P. Power Corporation Ltd:**

ULBs have demanded that they should be empowered to charge property tax on powerhouses, sub-stations, transformers, electric poles built/installed by U.P. Power Corporation Ltd., (UPPCL), on their lands. According to G.O. No. 1262/IX-9-2001-95ja/96 dated 27<sup>th</sup> April, 2001 of the Urban Development Department, it has been decided that ULBs will not levy property tax on transformers of UPPCL, but that property tax may be levied on its sub-stations and other structures, as provided under Section 128 of Nagar Palika Adhiniyam, 1916 and Section 172 of Nagar Nigam Adhiniyam, 1959.

**(iii) Revision of Rates:**

Most ULBs have not revised their assessments as required under law for nearly two decades or so. It is recommended that revision of property tax rates, based on detailed surveys, may be done on a comprehensive and compulsory basis once in 5 years. It does not appear to be practicable to revise rates after every two years as provided now for Nagar Nigams. If a ULB fails to revise property tax rates within the stipulated time a part of its share in SFC devolution may be withheld.

**(iv) Inflation Indexing**

The Guidelines For Property Tax Reforms issued by Government of India, Ministry of Urban Development make following recommendations in this regard:

*“The tasks of verification and measurement of property and detailed costing of services may be undertaken in a comprehensive manner once every five years. Additions or alterations and new constructions may be reported by owners/occupiers of property in the self-assessment forms or may be brought into account by municipal personnel during their normal field visits/inspections. Regarding costing of major services, it is suggested that such costing may be made a part of the regular budgetary exercises and the rate of taxation per square foot may be linked to the projected annual budget. If such linking is not feasible every year, then square footage rate may be linked to the annual increment in the budget due to inflation and other factors. Alternatively, the rate may be linked to an inflation index, preferably related to the costs of municipal services or capital works. For example, the CPWD index or index published by the State PWD Department for the purpose of determination of the Schedule of rates may be used. However, when a comprehensive reassessment of property is taken up every five years, detailed costing-based square footage rates may be calculated”.*

In the light of the above we recommend that inflation indexing may be introduced at a rate not exceeding 5 per cent of basic rate every year for revision of ARV. If such inflation indexing is done then the revision will lead to automatic growth in revenue from property tax to meet the escalation in the cost of services. This will also avoid sudden sharp increases in the tax payable by the tax payers on periodic assessment.

**(v) Settlement of Objections/Disputes**

During the course of several meetings held by the Commission at the divisional level the elected representatives and officers of ULBs, by and large, were of the view that, for raising the resources of these bodies, it is essential that for hearing of objections/appeals against tax assessment, some independent arrangement should be made and that elected members should not be involved in the process. It is certainly not a good democratic or parliamentary practice to associate/involve elected or other members of local bodies with the processes of tax assessment or tax appeal/objection disposal. The system is prone to pressures, undue influence and many other types of malpractices. The Commission, therefore, agrees with the view generally

expressed in the divisional level meetings of ULBs and recommends that elected and other members of ULBs should not be associated with the process of assessment of the tax or the hearing of objections. These powers vested in the Executive Committee under Section 213 of Nagar Mahapalika Adhinyam regarding settlement of disputes should be dispensed with. The powers should be given to MNAs after making suitable changes in the Adhinyam. In case of NPPs/NPs, the objections raised by assesses should be heard and resolved by the Committee, headed by the Addl/City/Sub Divisional Magistrate of the city or town concerned as suggested earlier.

#### **(vi) Enlargement of Coverage and Rationalisation of Existing Exemptions**

Buildings covered by the Rent Control Act should come under the property tax net. Rent Control Act needs to be appropriately modified for purposes of property tax. ARV should not be linked with actual rent but to rates determined through the procedure specified earlier.

At present there is a legal provision that properties having ARV of Rs.360/- or less located in the geographical limits of ULBs are exempt from property tax. This provision has often been misused to avoid payment of the tax. The Commission recommends that this exemption may be removed but buildings having a covered area less than 15 sq.meters or constructed on a plot of less than 30 sq.meters may remain exempted from property tax as at present.

According to Section 177 of the U.P.Nagar Nigam Adhinyam, 1959, educational institutions run or managed by the Government are exempted from property tax. In this connection the Nagar Vikas Vibhag of the State Government had issued a G.O.(No.1674/IX-9-98 dated 22<sup>nd</sup> July, 1998), whereby property tax would be imposed on all schools and colleges except the following:-

- (a) All Government schools/colleges
- (b) Such schools and colleges where education is imparted to disabled/deaf-dumb/mentally retarded persons.
- (c) Such schools and colleges which do not charge more than Rs.50/- per month from students as fees or other charges.

The Commission is of the view that exemptions mentioned at (a), (b) and (c) above are in order and recommends that necessary provision to that effect should be made in the Adhinyam or Rules as required.

Property tax and service charges should be imposed on buildings attached to public places of worship and charitable institutions, which are utilized as commercial properties as provided in law.

Exemption from payment of property tax should be minimal and prescribed by law. Exemptions should not be granted on recommendations of the State Government unless the latter compensates for the loss the ULB concerned fully.

#### **III. Sharing of Additional Stamp Duty Among Municipal Bodies, Development Authorities and The U.P. Housing and Development Board**

Clause (g) of sub-section (2) of Section 172 and Section 191 of the U.P.Municipal Corporation Act, 1959, and clause (XIII-B) of sub-section (1) of Section 128 and Section 128-A of the U.P. Municipalities Act, 1916, empower Municipal Corporations and Municipalities, respectively, to levy 2 percent tax in addition to State imposed stamp duty on transfer of immovable properties located in their respective territorial jurisdictions. Urban local bodies have to frame their own bye-laws for this purpose and make available copy of such bye-laws to the Sub-registrar of the concerned area. This is among the taxes which local bodies are empowered to levy. The rates are, however, fixed by the State Government and the collection is made by the Registration Department. This 2 percent tax is collected alongwith the stamp duty and, after deducting

collection charges, the net amount is distributed amongst concerned Municipal Corporations / Municipalities / Development Authorities and the Housing Board in such proportion as may be fixed by the State Government. At present the ratio fixed for distribution of the net proceeds of this 2 percent tax, among the above three types of bodies is as given below :-

(1) Where a Municipal Corporation / Municipality / Development Authority or the set-up of the State Housing Board exists, out of net proceeds of 2% tax, 33.5 percent is earmarked for the Municipal Corporation / Municipality concerned, 33.5 percent for the Development Authority concerned and 33 percent for the State Housing Board.

(2) Where only a Municipal Corporation / Municipality, and Development Authority exist with the same ULB the amount is allocated in the ratio of 50:50 between them.

During meetings held by the Second State Finance Commission at the headquarters of different revenue divisions in the State, many representatives of urban local bodies demanded that the entire net proceeds of this 2 percent tax should be allocated to ULBs. They strongly pleaded that all new colonies which are being developed or have been developed by the State Housing Board or the concerned Development Authority are ultimately transferred to the concerned ULB owing to which they have to bear the continuing infrastructure development costs as also expenditure on provision of essential services/amenities for the inhabitants of these colonies.

The Directorate of Urban Local Bodies has, however, suggested that the amount of 2 percent tax collected as additional stamp duty on transfer of immovable properties which pertains to an area which is being developed by the concerned Development Authority / or the State Housing and Development Board and has not been transferred to urban local bodies may be allocated amongst Municipal Corporation / Municipalities, the Development Authority and the State Housing & Development Board on the basis of the existing sharing pattern. However, the Directorate has added to say that the tax collected which pertains to an area wholly under the jurisdiction of Municipal Corporation / Municipality, including colonies developed by the State Housing & Development Board/Development Authority and transferred back to the concerned ULB, should be allocated to these bodies only and no share in such proceeds be given to the concerned Development Authority or to the State Housing & Development Board.

This Commission is of the view that the present pattern of sharing of additional stamp duty amongst Municipal Bodies, Development Authorities and U.P. State Housing and Development Board is not fair. Ultimately colonies developed by the State Housing & Development Board or Development Authorities are transferred to ULBs for provision of civic services and maintenance. Moreover, the total area developed by the Development Authorities and U.P. Housing and Development Board constitutes a relatively small proportion of the total municipal area of ULBs. For this reason also equal sharing among the three types of bodies does not seem to be equitable. Land is a very important, substantial and fast growing resource available to ULBs which can and should be properly tapped. The financial contribution through the sharing of additional stamp duty received by Development Authorities and U.P. Housing and Development Board is not significant in relation to their total financial resources. However, in case of ULBs, the share in additional stamp duty can make an important difference to their financial position. In view of these considerations and, for improving the financial position of ULBs, the Commission recommends that the entire amount of net proceeds of 2% additional stamp duty on deeds of transfer of immovable properties in urban areas should be made available to the concerned urban local body according to the decentralised procedure suggested below.

**Simplification of Disbursement Procedure of 2 Percent Tax (in addition to Stamp Duty) on Deeds of Transfer of Immovable Properties to Urban Local Bodies**

The present system of payment of proceeds of additional stamp duty to ULBs is dilatory and cumbersome. Receipts from the 2 percent tax are exhibited in the State Budget under the head of account "0030- Stamps and Registraion-02-Stamps Non-judicial 901/- Deduct payment to

Local Bodies of net proceeds of Duty on Transfer of Property" and released to the concerned local body or parastatal by the Inspector General of Registration on presentation of bills duly verified by the Additional District Magistrate (Finance and Revenue) of the concerned district. A certificate of the District Magistrate countersigned by the Director, Local Bodies to the effect that no government loan is outstanding against the local body has also to be enclosed with the bill. The concerned local body has also to collect details from the concerned Sub-Registrar's office in its district of location regarding the transfer deeds executed and the amount of 2 percent tax collected during the year. On the basis of this information, bills are prepared by the concerned local body and presented to the Inspector General of Registration for payment after completing all the formalities mentioned above.

During the course of discussions that the Commission had with the representatives of urban local bodies, it was brought to its notice that the existing payment procedure is most cumbersome and time taking. It involves inordinate delays and unnecessary expenditure. The result is that a number of the local bodies are deprived of their share and if they do get the payment, it is unduly delayed and that, too, with long written and personal persuasion at all levels and incurring expenditure for frequent visits to the tehsil / district headquarters and to the office of Inspector General of Registration located at Allahabad.

The amount due and paid to ULBs, Development Authorities and the U.P. Housing Board on account of 2 percent tax on deeds of transfer of immovable properties is given in the following table :-

(Rs. lakhs)				
Items	1996-97	1997-98	1998-99	1999-2000
1-Net proceeds of 2 percent tax	1151.07	1657.17	3024.09	5475.50
2- Amount disbursed	716.13	1485.18	2499.54	4860.63
3- Balance	434.94	171.99	524.55	614.87
(1-2)	(37.8)	(10.4)	(17.3)	(11.2)

**N.B.** Figures in parentheses show percentage to net proceeds

**Source :** State Budget and Board of Revenue, U.P.

The yearwise figures of amounts collected and paid show that there was variation in percentages of amounts remaining unpaid during the period 1996-2000. These varied from 10.4% in 1997-98 to 37.8% in the year 1996-97.

With a view to safeguarding the pecuniary interest of urban local bodies, it is necessary that wholesome reform in the existing procedures is brought about. The Commission is of the view that a revised system of payment be evolved which should be simple and decentralised and, by which, urban local bodies may get payments at the district level with speed.

The requirement of enclosing a certificate of the D.M. concerned duly countersigned by Directorate of Local Bodies regarding outstanding govt. loans should be done away with. The loan, if any, outstanding against a particular urban local body can be adjusted against the devolution amount of that local body.

Here, the Commission would like to draw attention to the practice being followed in Tamil Nadu, where payments of surcharge on stamp duty are being paid to ULBs through the concerned Collector. The First State Finance Commission of Tamil Nadu recommended that "the District Registrar may indicate the distribution for the various bodies as is done now and authorise the local body concerned to get credit in their accounts in the treasuries by drawing necessary bills." The Commission recommends that a similar procedure may be adopted for disbursement of additional stamp duty to ULBs in U.P. too, and necessary changes in the accounting systems and procedures be made to this effect. Such a system, in the opinion of the Commission, will ensure timely and prompt disbursement of additional stamp duty dues to ULBs and put to an end to the existing delays and hassles in obtaining payment of rightful dues by these bodies.

## IV New Taxes And Additional Share In Selected Taxes

As already indicated above, there is considerable scope for raising revenues from the existing taxes of ULBs. At the same time, there is a strong case for expanding the own fiscal domain of ULBs to strengthen their financial position. In this section we have given recommendations in this regard. We have proposed that the tax on trades, callings and professions should be replaced by a comprehensive Profession Tax which may be levied and collected by the State government and half of its proceeds shared with local bodies. We have also recommended that entertainment tax should be taken out of the existing shareable pool and 50% of the revenue from this tax be shared with the local bodies. We have recommended two additional taxes, namely, a cess on sale tax on motor spirits and a vacant land tax. An entry tax has also been suggested for consideration of the State Government. Detailed proposals are given below.

### (a) Profession Tax

Taxes on business, trade and professions are an important source of income of ULBs world over. The Indian Constitution specifies 'taxes on professions, trades, callings and employments' under entry 60 of the State List. This is the only tax mentioned in connection with local bodies in the Constitution under Article 276. Profession tax is one of the few direct taxes which the State Governments can levy. The merit of the tax is that it has a broad base and can be imposed on a large number of tax payers engaged in economic activities either as salaried employees or as professionals and self-employed persons. The revenue potential of the tax is, however, restricted by the ceiling put in the Constitution, which at present is Rs. 2500/- per person per year. Payment towards such tax is also eligible for exemption under Income Tax.

At present profession tax is being levied in 14 States in India. Total revenue collected by these States from this tax amounted to Rs. 1179.76 crore in 1998-99 and is likely to have gone up to around or over Rs. 1800 crore in 1999-2000. However, only six States contribute around 95% of receipts from this tax, namely, Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra and West Bengal. Receipts from profession tax in these six States are shown in Table 5.4, below. Per capita revenue from profession tax varied from Rs. 14/- to Rs.61/- in the year 1998-99. In Maharashtra, which contributes around half of revenue from profession tax in the country, a little under 4% of the State's tax revenue emerges from this source. This shows the high revenue potential of this tax.

**Table 5.4**  
**Receipts From Profession Tax in Selected States: 1990-91 & 1998-99**

1	States	1990-91			1998-99		
		Receipts from Profession Tax (Rs. in crore.)	Share of Profession Tax in Own tax Revenue (%)	Per capita Revenue from Profession Tax (Rs.)	Receipts from Profession Tax (Rs. in crore)	Share of Profession Tax in Own tax Revenue (%)	Per capita Revenue from Profession Tax (Rs.)
2	3	4	5	6	7	8	
1.	Andhra Pradesh	27.55	1.04	4	121.67	1.53	16
2.	Gujarat	38.06	1.59	9	75.33	0.99	16
3.	Karnataka	40.22	1.72	9	114.26	1.65	22
4.	Madhya Pradesh	40.31	2.30	6	109.54	2.14	14
5.	Maharashtra	190.71	3.73	24	546.27	3.85	61
6.	West Bengal	73.83	3.46	11	140.00	2.93	18
	Total	410.68	1.40		1107.07	1.33	

Source: Based on RBI Studies on State Finances as reported in The First Report of The Tax Reforms Commission, Government of Karnataka, 2001.

Generally, profession tax is levied and collected by ULBs. In some States, e.g. Kerala, Maharashtra and Tamil Nadu, GP are also empowered to levy this tax. However, in some others, such as Andhra Pradesh, Maharashtra and West Bengal, the collection of profession tax has been taken over by the State Government and revenue from this tax is shared with local bodies in varying proportions. This has reportedly led to substantial improvement in revenue collections from this source.

The tax is being imposed in the above mentioned States on individuals as well as companies on the basis of their income or turn-over. Exemptions are also provided for certain categories. In Kerala the exemption limit of income is Rs. 4800/- in rural areas and Rs. 7200/- in urban areas. Similarly, in Karnataka, persons with salaries below Rs. 3,000/- p.m. and persons above 65 years of age are exempt from payment of this tax.

Generally, multiple slabs have been laid down and different rates of tax prescribed for different slabs. The first SFCs of different States, which have gone into the question of profession tax, have recommended that the number of slabs should be reduced for better tax recovery. Suggestions have also been offered by them for extending the coverage of profession tax and for better identification of eligible tax payers. **The Karnataka Tax Reforms Commission, 2000-01** has recommended that there should be only three slabs of Rs. 1000/-, Rs. 1500/- and Rs. 2500/- within which all professionals must be covered.

Some other State Finance Commissions have also favoured the levying of profession tax by local bodies, where this tax is not being levied at present. For instance, the First State Finance Commission of Punjab recommended that this tax should be levied and collected by the concerned municipality and should cover individuals, traders, commission agents, shopkeepers, etc. depending on their income.

**EFC**, too, has recommended that States should levy profession tax with a view to supplement the resources of local bodies or they should empower LBs to levy it. It has suggested that the rates should be suitably revised to bring these nearer to the ceiling prescribed under the Constitution. EFC was also of the view that the ceiling of Rs.2500/- per tax payer per year fixed in 1988 needs to be suitably enhanced and that the Parliament should be empowered to fix this ceiling without going in for a Constitutional amendment every time.

In Uttar Pradesh the U.P. Municipal Corporation Act 1959 and U.P. Municipalities Act 1916, under section 172 and section 128 respectively, empower the concerned ULB to levy a tax on trades, callings and vocations including all employments remunerated by salaries or fees". However, as per information given by the Directorate of Local Bodies, U.P. this tax is not being levied by any ULB since 1973. Zila Panchayats, however, impose a tax on Circumstances and Property which shares some of the features of profession tax.

In the view of this Commission there is a good potential for raising revenue through profession tax to strengthen the finances of the State Government as well as of the local bodies. According to **Economic Census ,1998** there are 30.43 lakh enterprises in the State including self-employed persons and establishments, in which nearly 75 lakh workers are employed. Around 20 lakh persons in the State are employed in the organised sector including government employees. Even if persons engaged in different trades, callings and employment are taxed at a moderate rate, this tax can potentially yield annual revenue in the range of Rs.400 to Rs.500 crore in the State per year.

After careful consideration, this Commission recommends that the State Government should enact a law on Profession Tax on the pattern existing in other States like Maharashtra, Karnataka, etc. The tax should cover both urban and rural areas at uniform rates. It would be desirable to keep the base of the tax as broad as possible and the number of slabs should not be large. There should be a mandatory provision for deduction of tax at source by employers as in case of Income Tax. Onus of payment of tax should be on eligible persons/employers and

notice of demand should not be necessary, as also is the case in respect of Income Tax. In view of past experience it would be better, in the opinion of the Commission, if this tax is levied and collected by the State Government and the revenues are shared with the local bodies. The Commission recommends that 50% of the receipts from the proposed profession tax in urban areas should be shared with the local urban bodies on basis of origin. In case of rural areas, 50% of revenue from profession tax from the rural areas of a district should be shared with the concerned Zila Panchayat. When this tax is imposed in rural areas it should replace the existing Circumstances and Property Tax being levied by Zila Panchayats as already recommended by us in the section dealing with financial resources of ZPs.

**(b) Entertainment Tax**

Taxes on various forms of entertainment such as provided in restaurants, hotels, theatres, movie halls, public events, betting and gambling, etc., by their very nature, belong to the fiscal domain of local bodies. In most countries, local governments are free to fix the rates and base of entertainment tax and collect it. In the Indian Constitution this tax is included in the State List. The tax is generally levied and collected by State Governments, except in a few cases. The proceeds of the tax are generally shared between the State Government and local bodies in varying proportions.

In Andhra Pradesh, this tax was earlier allocated to local bodies. Later on, it was resumed by the State Government and shared with local bodies. Presently 90% of the proceeds are transferred to local bodies deducting 10% towards establishment charges and for contribution to the Andhra Pradesh Film Development Corporation. In Maharashtra also, this tax is shared between the State and local bodies. The proportion of share, however, varies according to type of municipal body. The First SFC of Maharashtra recommended that the tax should be shared at the rates of 25%, 50%, 90% and 100% in case of municipal corporations and 'A', 'B' and 'C' class of municipal councils, respectively.

In Tamil Nadu, this tax was earlier shared between the State Government and local bodies in the ratio of 35% and 65%. The first SFC of the State opined that, as this happened to be one of the local taxes, the benefits derived from it should go to local bodies in entirety subject to deduction of collection charges. The State Finance Commission accordingly recommended the assignment of 90% of the realisations out of this tax to local bodies.

14.89 In Kerala entertainment tax is in the hands of local bodies and constitutes an important source of revenue for them.

The first SFC of West Bengal recommended that entertainment tax should return to local bodies. The Commission was of the view that rather than fixing rates of entertainment tax the State Government may lay down some general guidelines giving some discretionary powers to them.

In Uttar Pradesh entertainment tax is levied and collected by the State Government. The details of receipts and expenditure of this tax during the last two years are given below:

**Income From Entertainment Tax in U.P.**

(Rs. Crores)

Year	Gross Receipts	Expenditure on Establishment	Net Receipts (Col.2-3)
1	2	3	4
1999-2000(Actual)	135.89	7.52	128.37
2000-2001(R.E.)	140.15	5.92	134.23

Source : U.P. Budget 2001-2002

At present, proceeds from entertainment tax form part of the shareable tax pool with the local bodies and only 11% of the same is shared with them according to general formula of resource sharing.

An analysis of districtwise collection from this tax shows that there are wide variations in its collection. Income per capita as well as income per cinema hall from this tax also show large variations across districts. Nearly half of the tax is contributed by eleven Municipal Corporations alone. The relevant details are given in Appendix 13.3.

Entertainment tax, in the recognised principles of public finance, is generally treated as a local tax. Local bodies also incur expenditure on provision of civic facilities in the areas where such facilities and cinema halls are located. It, therefore, appears logical that income from this tax should go in entirety to local bodies according to the principle of origin. It would, however, be advisable, in our view, that this tax is levied and collected by the State Government, as at present, for achieving uniformity in the State in relation to methods and processes of its levy and securing better compliance.

The Commission is of the view that the State Government needs to move in the direction of the assignment of entertainment tax to local bodies. However, at present a balance between the needs of the State Government and local bodies has to be maintained. The Commission, therefore, recommends that entertainment tax should be taken out of the shareable pool and the realization from this tax should be shared between the State Government and local bodies in the ratio of 50:50 on the basis of origin, net of collection charges. This would substantially improve the revenue base of urban local bodies without much adverse impact on State finances.

The Commission further recommends that the State Government should take steps to reform the present system of entertainment tax on the lines attempted in some southern States like Kamataka and Kerala, where the tax is levied on the basis of seating capacity of picture halls. It is further recommended that coverage of entertainment tax should be extended to new forms of entertainment like fashion and music shows, amusement parks, recreation centres, etc., which have, and are, coming up in different parts of the State.

#### **(c) Urban Vacant Land Tax**

International, and even national, experience indicates that vacant land tax can be an important source of revenue for ULBs. In many developing countries, as for example, in Latin America, vacant land is taxed at a higher rate when compared to built-up property. The main objectives of such a tax are curbing of speculation on land on the one hand and promotion of housing on the other. Both objectives are important for urban areas. This source is not exploited in U.P. since vacant land tax is not being levied. It would be relevant here to mention the following observations of the First Maharashtra State Finance Commission regarding tax assessment of open plots:-

**"The urban bodies are empowered under the act to levy property tax according to the rateable value of buildings and lands. However, tax is not levied on open lands in the jurisdiction of many of municipal corporations and municipal councils. Layouts of many of such open plots are sanctioned, but, there is no clear provision in the rules as to how rateable value should be determined in respect of the plots, which are kept vacant, without developing them. A number of urban bodies are doubtful about the assessment of such plots.**

The Commission recommends that when such plots are transferred in a sale transaction the valuation for the purpose of tax should be the same as is worked out by the Town Planning Department as base value for the purposes of stamp duty. This base value should be increased by 6% per year to fix the rateable value. This will require provision in the rules. It is necessary that suitable guidelines should be laid down regarding the method of assessment, valuation and tax rates regarding open plots in urban areas".

In Tamil Nadu the First SFC recommended a low rate of 0.5 to 1% of the capital value as vacant urban land tax. It further added that a prescribed life-cycle for vacant land tax system may be adopted in the case of subsequent sellers of such land. Under this system the tax for 10 years may be collected at one go in the manner suggested by the Commission.

This Commission recommends that, with a view to curbing speculation in land, promoting housing activities in urban areas and improving the financial position of ULBs, a vacant land tax may be introduced in U.P. It may be levied @ 0.5-1% of the capital value being based on the circle rates of the area on annual basis. Vacant land should be clearly defined to prevent avoidance of the tax. If covered area is less than one-fifth of the plot area, it should be treated as a vacant plot.

The tax should be levied on open land and unbuilt plots. Also lands which are being used by erecting temporary structures for purposes of accommodating marriage parties, receptions or for entertainment purposes should be covered by the vacant land tax, for which tax rates should be kept at a higher level. Open ground of educational institutions, hospitals, stadia, clubs, parks etc. may be exempted from such tax. It is clarified that this tax is not intended to be levied on agricultural lands falling within ULBs which are being cultivated.

#### **(d) Cess on Sales Tax on Motor Spirit and Diesel Oil**

Taxes on ownership and use of motor vehicles are potentially important sources of revenue for ULBs, which have not been utilized effectively so far. These taxes can be a very buoyant source of revenue for ULBs as the number of motor vehicles is increasing at a very fast pace. These taxes are also justified for meeting the cost of public expenditure on construction and maintenance of city roads, etc., because of increasing automobile use. These taxes can also help in controlling the high cost of urban vehicular congestion.

By its nature taxation of automobiles in cities belongs to the fiscal domain of ULBs who are responsible for constructing and maintaining urban road infrastructure. Moreover, it is urban residents who bear the social cost of congestion and pollution as a result of increasing vehicular crowding. A variety of local automotive taxation has been used in different parts of the world, such as, annual licence fees, registration fees, fuel tax and transfer taxes.

In some countries local authorities have imposed local fuel taxes on gasoline, e.g., Bogota, Guatemala City and Singapore. In the Philippines, municipalities could impose (before 1974) a tax on gasoline upto 25% of the national gasoline tax. This tax was also introduced in Indonesia in 1969, but later withdrawn. Reluctance of provincial/central governments to share this buoyant tax seems to be the reason for its limited use or withdrawal.

Leading fiscal experts have supported introduction of local fuel tax, which is regarded as a substantial and buoyant financing source for local governments in terms of revenue performance, social equity and administrative ease and also for its effectiveness in helping to curb congestion (see Roy W. Bahl and Johannes F. Linn **Urban Public Finance in Developing Countries**, World Bank and Oxford University Press, Oxford, 1992, pp.196-199).

In India State Governments are authorized to levy registration tax on motor vehicles and sales tax on petrol and diesel and petroleum products. In some States proceeds from registration fees on motor vehicles are shared with ULBs in varying proportions. In general, ULBs, including those in U.P., are empowered to levy licence fees on non-motorised vehicles only, restricting their tax base. The main reason for this has been the reluctance of State Governments to part with a buoyant source of their tax revenue.

In U.P. trade tax on petroleum products is levied as per provisions of the U.P. Sales of Motor Spirit, Diesel Oil and Alcohol Taxation Act, 1939, as amended from time to time. This tax is levied on the first sale of motor spirit and diesel in the State. It is payable to the State

Government by the dealer affecting such sale. The present tax rate is 20 per cent ad valorem on the sale price of motor spirit and diesel oil.

The abolition of octroi duty in the State has adversely affected the financial position of ULBs, who have been deprived of the most buoyant source of their income. The EFC has expressed the view that there is need for replacing octroi with a suitable tax that is buoyant which can be collected by local bodies. We are of the view that a local cess or surcharge on State sales tax on motor spirits can to some extent compensate ULBs for loss of octroi.

Tax on sale of motor spirit and lubricants is one of the most buoyant State taxes in U.P. Revenue from this source has gone up from Rs.261.59 crore in 1991-92 to Rs.1359.31 crore in 1999-2000, (showing a CAGR of around 20%) and has been put at Rs.1590.38 crore in budget estimates for 2001-02. Even a moderate cess of 5% on this tax can generate a revenue of around Rs.80 crore at current levels. This would not put any noticeable burden on the automobile users as the incidence would be hardly around 30 paise per litre. Such a levy is also justifiable on grounds of city road system strengthening need, social equity and environmental improvements.

In view of the above considerations, we recommend that the State government should impose and collect a cess of 5% on sales tax on motor spirit and lubricants, the proceeds of which should be passed on in entirety to the local bodies. The levying of this cess will not involve any additional administrative burden or cost on the State Government as it is already collecting sales tax on motor spirit from the companies selling these products in the State. We further recommend that 70% of the annual proceeds of this cess should be transferred to ULBs on the basis of their population share. The remaining 30% should be transferred to Zila Panchayats in the ratio of their population shares. These proceeds should be earmarked for expenditures on road construction, improvements and maintenance. We have already recommended in the chapter dealing with tax and non-tax resources of PRIs that proceeds of this cess should be deposited in the proposed ZP Level Rural Infrastructure Funds.

#### **(e) Entry Tax**

Octroi used to be the most important source of revenue for ULBs in U.P. However, the collection of this tax was full of deficiencies, malpractices and caused harassment. It also imposed negative economic costs due to impediments on movement of goods carriers leading to wastage of fuel and substantial time delays. A decision was taken at the national level to abolish octroi and compensate LBs through appropriate mechanisms for loss of revenue caused. The U.P. Taxation Enquiry Committee Report, 1980 also recommended abolition of octroi. In the alternate, it suggested levy of entry tax on selected commodities. Subsequently, in many States, including U.P., octroi was abolished. Some States like Maharashtra and Gujarat did not follow suit. In U.P. it was decided to levy surcharge on sales tax, proceeds of which were to be distributed to ULBs as grants to compensate them for the loss of revenue. In course of time the surcharge was merged in trade tax. Now, instead of grants, ULBs are receiving a share of 7% in the net tax receipts following the recommendations of FSFC. The volume of transfers to ULBs has substantially improved under the new system. In 1995-96 the total non plan grants to ULBs in UP amounted to Rs.285 crore. Against this the devolution to them exceeded Rs.700 crore in 2001-02, an increase more than two and a half times in seven years.

In our meetings with representatives of ULBs the issue of revenue loss on account of abolition of octroi was raised time and again and reintroduction of octroi was suggested by some. This, in our view, would be a retrograde step. Various national and State level Committees which have gone into this question unanimously rejected the re-introduction of octroi. The EFC has made the following observations in this context:

**"Besides the property/house tax, octroi has been the major source of revenue for the municipalities, and in some States, even for the panchayats. Many States have, however, abolished octroi with a view to**

remove impediments to the physical movement of goods, though several other new barriers have been created. Some States have introduced a levy in lieu of octroi, usually the entry tax, the net proceeds of which are transferred to the local bodies in the form of grant. During our interaction with the representatives of the local bodies, we were told that though the grant in lieu of octroi given to the local bodies was raised by a certain percentage from year to year, it does not have as much buoyancy as the octroi had. There have also been numerous complaints of delay in release of the compensatory grants. While we do not advocate re-introduction of octroi, we do feel that there is a need for replacing it with a suitable tax that is buoyant and can be collected by the local bodies".

We have received suggestions from different quarters that entry tax for ULBs may be introduced in U.P. As mentioned earlier, the U.P. Taxation Enquiry Committee, 1980 recommended its introduction on selected commodities to recoup revenue loss of ULB caused by the abolition of octroi. The Committee recommended that the liability of payment of entry tax should be that of the dealer and that it should be administered by the Trade Tax Department. It recommended that entry tax may be levied on goods entering into a local area for the first time and should be assessed on the basis of books of accounts, bills, etc. The Government may consider this proposal carefully. Care has to be taken to ensure that the new system, if introduced, does not create delays and other problems associated with octroi. This tax may be collected by the Trade Tax Department through its existing check posts. The principles of sharing the proceeds of entry tax among ULBs also need to be laid down. Ideally such a tax should be related to the level of economic activity/consumption in ULBs. A simpler alternative to this perhaps could be imposition of a surcharge of 5% on the present trade tax which may be shared with ULBs on the principles of collection or population.

Due to time constraints we have not been able to examine all the pros and cons of a local entry tax or see its working in other States where it is in existence. We, therefore, recommend that before taking a final decision on entry tax, the State Government may appoint a Committee, which should also include outside experts, which may examine the case for imposition of such a tax. It may also go into the working of the system in other States where it is in operation.

#### **V. Reforming the Non-Tax Regime of Urban Local Bodies**

Non-tax sources of the income of ULBs include licence fees, duties, tolls, user charges, rent, **tahbazari**, other fees, sale of property, etc. From details made available to this Commission by ULBs, it has emerged that, during 1999-2000, the share of non-tax revenues to their total own revenues amounted to 46.9 per cent; the corresponding percentage from taxes was 53.1. This proportion was 39.70 per cent for NNs, 52.71 per cent for NPPs and 66.70 per cent for NPs. This shows the vital importance of revenues from non-tax sources for ULBs in the State, specially for Nagar Panchayats.

Amongst non-tax sources of income of ULBs in 1999-2000, the relative shares of different items as reported were as follows: **tahbazari**, 19.6% ; rent, 13.0%; licence fees, 5.1%; sale of property, 5.9%; and miscellaneous items (such as road cutting charges, development charges, interest receipts, sewerage disposal charges, etc.), 56.4%.

According to the data on income of ULBs given in the report of EFC, per capita non-tax income of ULBs in U.P. was only around Rs.38 on the basis of 1991 Census population. The corresponding figures for most of the other States were much higher, e.g. Rs.347 in Maharashtra, Rs.170 in Tamil Nadu, Rs.147 in Punjab, Rs.91 in Haryana and Rs.89 in Rajasthan.

Keeping in view the existing resource crunch faced by ULBs, there is imperative need, and much scope, for raising revenues through non-tax sources by widening their base and revising the rates from time to time, taking into consideration the rise in prices.

In the following paragraphs we have discussed the issues related to (i) licence fees, (ii) **tahbazari**, (iii) user charges and (iv) other measures and given our recommendations for revamping the non-tax regime of ULBs.

### **(i) Licence Fees**

Licence fees are by and large levied as part of the regulatory functions of ULBs. Such fees have considerable revenue potential. With a view to raising non-tax revenues from this category of fees, the State Government, in the Nagar Vikas Vibhag, issued a comprehensive order vide G.O.No.2399/IX-9-94-204(General)/90 dated 27<sup>th</sup> October, 1994, laying down revised quanta of fees in case of those items on which licence fees were already being levied earlier and also specifying fees for certain new items. The said G.O. lists out 134 items for which either revised fees have been prescribed or new items for licence fees have been indicated. Subsequently, the State Government, in the Nagar Vikas Vibhag, through another order No.1847/IX-9-97-23 ja/97) dated 19<sup>th</sup> June 1997, finalized the revised rates of licence fee of 43 items, which listing was further reduced to 39 items, vide G.O. No.16(CM)IX-9-97-23 ja/97 dated 16<sup>th</sup> December, 1997. This GO further advised ULBs to revise the rates of licence fees for items (other than the listed 39 items), for which they may have been charging such fees for a long time already, keeping in view the rise in prices.

It has come to our notice that, in most ULBs, the revised licence rates have still not become operational inspite of the passage of several years, for one reason or another, the main being the reluctance of elected ULB members to raise rates apprehending resistance by or annoyance of the people. This is not a happy situation in our view and requires strong remedial measures.

In some cases where licence fees were revised/levied a number of people have procured stay orders from courts on jurisdictional grounds. To quote some examples, owners of nursing homes have obtained stay orders from courts against imposition of licence fee on the ground that this item was not specifically listed in the relevant Act. Similarly, though insurance companies were included in the listing of 39 items where licence fee was to be levied, they also do not pay the fee on the plea that it has not been listed in the Act. It is, therefore, necessary that the Government in the Nagar Vikas Vibhag, spell out clearly, by amending concerned laws, the items in respect of which licence fees can be imposed so that there remain no legal lacunae in their imposition.

There is also scope for widening the base of licence fees by covering new economic activities emerging in the cities and towns of the State. A few illustrative examples of such new activities may include, among others, the following:

1. Property dealers
2. Diagnostic centers
3. PCO/Fax Centres
4. Cyber Cafes
5. Coaching Colleges/Centres/Institutions
6. Computer Training Centres
7. Marriage/Community/Banquet Halls
8. Business and Call Centres
9. Entertainment Parks

The above items and similar others, if brought under licence fee regime, possess substantial potential for enhancing the income of ULBs. In addition to above the State Government may add up more items which have income generating potential after a careful study.

In the light of the above, the SSFC recommends that :

- (1) The Government, in the Nagar Vikas Vibhag, should identify the items for levying of licence fees, including additional items suggested by the Commission and others, which possess potential of generating income substantially.
- (2) Nagar Vikas Vibhag should classify the items of licensing fees into two categories viz. (a) Obligatory and (b) Discretionary and minimum and maximum rates of fees for each item should be fixed by the Government.
- (3) Activities considered vital from the point of view of public health, transportation, sanitation, environment, etc. should be included in the obligatory category of items of licencing fee.
- (4) Provision be made for periodic regular revision of rates or fees, at an interval of 5 years, keeping in view the rise in prices, incomes, etc.
- (5) The listings of licence fee items should be clearly specified in the U.P. Municipal Corporations Act 1959 and the U.P. Municipalities Act 1916, so that the imposing of such fees does have legal sanction and these are not questioned on jurisdictional grounds.
- (6) A clear set of disincentives should be provided for those ULBs which do not levy obligatory licence fees. These could be in the form of reduction in the devolution amount of the body or non-release of instalments of devolution funds till the body levies such fees.
- (7) A Committee may be constituted by the State Government which, after studying the licensing system and fee structure in U.P. as also in other States, should make suitable recommendations to the Government for decision making.
- (8) It has been reported that a large number of hand driven thelas, rickshaws, etc. ply in cities and towns in an unauthorized manner either without obtaining licences or caring to get their licences renewed in time as is required under rules. Checking should be undertaken from time to time and fines should be imposed on such defaulters. Special drives for this purpose might be launched. This is just one example of such types of default.

**(ii) Tahbazari**

**Tahbazari** (i.e. charges for using ULB land for putting up shops, stalls, etc.) contributes a little less than one – fifth of the income of ULBs from their own non-tax sources in the State. There is further scope of raising income from this source.

On the basis of information supplied by ULBs to this Commission, it was found that there are very large variations in the rate of charges for **tahbazari** even in municipalities of the same category. For instance **tahbazari** rates varied from 20 paise per sq.metre in Gangoh NP (Saharanpur district) to as much as Rs.8.00 per sq.metre in Bulandshahr NPP. Moreover, in many ULBs the rates have not been revised for the last two decades or even more.

The increase in urban population has resulted in the coming up of new markets as also expansion of existing markets in cities and towns. Income of ULBs can be increased through revision of **tahbazari** rates at regular intervals. There is also need for streamlining the collection machinery to augment income from this source.

The Government should frame model bye laws for **tahbazari** and should fix minimum and maximum rates for different tiers of ULBs. Periodic revision of these rates on a regular basis, atleast once in five years, should be made mandatory.

### **(iii) User Charges**

There are a number of services which are provided by ULBs to urban dwellers for which adequate charges are not levied. The first and foremost of these is the supply of safe drinking water. At present charges for supply of water are not realised at its full cost implying a high level of hidden subsidy particularly in big cities. Besides water supply, there are several other services provided by ULBs e.g. sewerage, garbage disposal, health and educational services, libraries, etc. Often the cost of these services is not realised directly from the users and they are financed through tax and such other income. In cases where user charges are levied these are often much below the cost of supply of such services. Recovery rates are low.

It is now generally accepted that subsidies should not be given in case of 'excludable goods', where the quantum of service consumed by a user can be measured. Where cross subsidies are considered desirable, these should be well targeted to benefit the poorer sections only. In other cases full cost of service should be charged from users. Such charges should be regularly revised to meet the rise in cost of the service.

In this connection the FSFC had observed,

*"In view of the precarious resource position of ULBs, the inaction of these bodies in revising user charges is unjustified. Perhaps, they are reluctant to revise the charges on the ground that this would invite adverse criticism from public. But if additional funds, thus raised are utilized for improving the level of civic services, the public at large will not mind paying revised user charges. ULBs have, therefore, to educate and instill confidence in the public while revising user charges so that they get the much needed additional resources for improving the level of different civic services".*

The EFC has also made specific observations in its report regarding levy of user charges:

*"In many States, the operation and maintenance costs of drinking water supply and many other civic services are met by the local bodies. However, the user charges are not revised periodically and a significant percentage of demand remains in arrears. The rate structure should be revised regularly to keep pace with inflation and to recover at least, as far as possible, the full operations and maintenance cost of providing these services. People should be willing to pay, if they get better services".*

The **Guidelines For Property Tax Reforms**, issued by the Ministry of Urban Development, GOI, made following recommendations with respect to user charges:

*"..... Water supply is eminently suitable to user charge financing. In view of this, it is suggested that the water tax component of the property tax may be replaced by water user charges based on metering. If metering is not possible in the short run, water tap charges may be adopted. Drainage and sewerage charges may be levied as a percentage of the water charges. The water and drainage/sewer charges may be such that they reflect at least the costs of operation and maintenance of water supply, drainage and sewerage systems as well as depreciation and loan servicing costs. They may also contain an element of cross-subsidisation to the poor".*

The guidelines have further added that:

*"While cross-subsidisation between user groups in water supply, drainage and sewerage is desirable, there may still be a need for property taxation with a view to subsidizing water supply to the poor or meeting the investment costs of capital-intensive water supply projects. Regarding other services, it is important that a correspondence, however rough it may be, is established between some major services such as roads, conservancy, street-lighting and fire services, which comprise bulk of the municipal service costs and property taxes".*

With a view to improving the financial position of ULBs and the quality of services provided by them the Commission make the following recommendations:

We should gradually move towards the goal of full cost pricing of services. However, in the beginning it would be too much to expect the average consumer to pay the capital cost of the provision of these services. But, attempts should be made to charge atleast the full operations and maintenance cost of providing these services from consumers. An element of cross-subsidy to the poorer sections may be provided by charging higher rates from the better off consumers and industrial users. Water user charges based on metering is a highly desirable goal, but it would involve practical problems given the large number of users. It should, however, be certainly possible to charge water rates based on metering in case of bulk consumers and industrial units. In other cases, water tap charges may be adopted. Drainage and sewerage charges may be levied as a percentage of water charges. The user charges should be periodically revised to adjust for the rise in cost of providing the services.

## **VI. Access to Institutional and External Funds**

Financing of urban infrastructure services on the requisite scale and quality poses a major challenge to ULBs. These projects are lumpy and capital intensive in nature with low returns and require large funds, which the cash strapped ULBs cannot provide from their existing resources. Traditionally, funds for urban infrastructure development in India have been provided by the Central and State governments to ULBs either as grants or as loans. With growing fiscal imbalances both at the Central and State levels such soft funding is no longer an easy or a feasible option. Possibilities and options of ULBs raising loans from the capital market on the basis of State government guarantees are also getting limited due to the increasing indebtedness of States. Apart from its limited and declining volume, the system of government or government guaranteed loans has discouraged the adoption of sound financial norms on the part of local bodies and prevented the development of a capital market specializing in financing of urban infrastructure.

In the post-liberalization era, however, a number of important initiatives have been taken aimed at the reform of capital and financial markets in the country which have important and far reaching consequences for the financing of urban infrastructure. Of late some progressive ULBs in different parts of the country have taken steps to seek access to institutional and external funding for infrastructure projects. Initiatives have also been taken for preparing ULBs for accessing the debt markets through initiatives like INDO-USAID Programme of Financial Institutions Reform and Expansion for developing long term debt markets in India (FIRE-D), which was launched in 1994. The Asian Development Bank, DFID and the Dutch Government have also extended assistance to ULBs.

ULBs have several financing options to raise funds for infrastructure projects. These include, among others, the following:

- (i) Municipal Bonds,
- (ii) Term Loans from HUDCO and other Financial Institutions,
- (iii) Loans from Commercial Banks,
- (iv) Lease Financing, and
- (v) Term loans from international donor agencies.

These options are briefly discussed below:

### **Term Loans From Financial Institutions**

Several national level financial institutions have started funding urban infrastructure. HUDCO, which opened a dedicated Urban Infrastructure Window in 1989-90, is the leading player in this field. During last 12 years (till 30-06-01) HUDCO had financed 1843 infrastructure projects with loan assistance amounting to Rs.15619 crore, which is reportedly around 80% of the institutional financing in the core urban infrastructure sector. Major share of this assistance has gone to the

fields of water supply, sewerage and drainage, roads and bridges. HUDCO is also offering low cost loans for social infrastructure projects like housing schemes for the poor, slum upgradation and solid waste management. During the Tenth Plan, HUDCO's assistance to infrastructure projects is projected at Rs.28,740 crore.

LIC is another public sector financial institution which is providing funds for socially oriented schemes such as urban housing and infrastructure. Mention may also be made of **Infrastructure Development Finance Corporation (IDFC)** which was started in 1999-2000 with a view to promote availability of private capital for commercially viable infrastructure projects. IDFC, in addition to providing loans, also acts as a financial consultant, advisor and guarantor of projects. ICICI is another emerging player in infrastructure financing and provides medium term project loans as well as financial and advisory services. It has also entered into collaborative endeavours with State governments of Kerala, West Bengal and Tamil Nadu. Another important financial institution in this field is the **Infrastructure Leasing Financial Services Ltd. (IL & FS)**.

### **Borrowings From Commercial Banks**

Commercial banks have, in recent years, enlarged their portfolio by extending term loans for urban infrastructure projects. Vadodra Municipal Corporation has signed loan agreements with commercial banks for its urban development projects worth Rs.70 crore. With decline in lending rates of commercial banks borrowing from them has become a feasible finance option for ULBs for short and medium term loans. Loans from commercial banks, apart from being cheaper, have the added advantage of flexibility.

### **Municipal Bonds**

Some municipal corporations in the country have taken the initiative of raising funds from the capital market directly by issuing municipal bonds. Bangalore Municipal Corporation raised an amount of Rs.125 crore with State Government Guarantee in 1997. Ahmedabad Municipal Corporation was the first municipal body in the country to float in bond of Rs.100 crore in 1998 without State guarantee. Since then a number of municipal corporations have raised funds through issue of municipal bonds, e.g., Ludhiana, Nagpur, Nasik, etc. So far 10 ULBs in the country have received investment grade credit ratings. Six of them have successfully issued municipal bonds, while several others are in the process of going to the market to raise funds.

In order to encourage private investment in municipal bonds, the Ministry of Urban Development, Government of India, has come out with the **Guidelines for the Issue of Tax Free Municipal Bonds** in March 2001 (see Appendix 14.3) according to which bonds can be issued by ULBs, parastatals and public sector companies engaged in providing urban infrastructure as well as groups of local authorities /governments. The purposes for which funds raised from such bonds can be utilized include capital investment projects relating to water supply, sewerage and sanitation, drainage, solid waste management, roads, bridges, fly-overs and urban transport. The funds can also be utilized for expansion or improvement of existing infrastructure. Debt equity ratio for the projects has been kept at 3:1. The Guidelines require compulsory credit rating by concerned ULBs before the issuance of bonds and provide for the creation of Escrow Accounts for debt redemption and interest payments with earmarked revenues. Income earned as interest on investment on municipal bonds has been exempted from income tax upto 10.50%.

Even though some of the provisions of Government of India's Guidelines are quite restrictive in nature, provision of tax free municipal bonds is expected to go a long way in the direction of developing capital market for financing urban basic services. Initially a ceiling of Rs.200 crore per year was placed on the issue of tax free municipal bonds, but this limit was raised to Rs.500 crore per year in the budget 2002-03.

## External Funding

Apart from domestic sources mentioned above, substantial external funding from various sources is also available for financing urban infrastructure projects. In recent years urban development has assumed high priority in the aid agenda of multilateral and bilateral donor agencies. Several international agencies have been providing loans, grants and technical assistance for projects in the urban sector, e.g. the World Bank, Asian Development Bank, DFID, KFW, OECF, etc. Such agencies have provided funds for various projects in urban sector in the fields of housing, water supply, sanitation, roads, drainage, solid waste management, etc. Such assistance also covers training for urban management and capacity building of ULBs. It is estimated that urban development assistance to India amounted to Rs.583.59 crore in 1995-96 and Rs.549.70 crore in 1996-97 (see Shipra Maitra, "Financing Urban Development : Flow of Funds from External Sources, **Economic and Political Weekly**, December 15, 2001). Roughly 5 to 6 per cent of external assistance is flowing into the urban sector in the country.

A brief reference to some of the major externally assisted projects in the urban sector may be made here. The World Bank has been focusing on improving institutional and financial capacity of municipal institutions for long. Two of its major on-going projects in India are the Tamil Nadu Urban Development Project and the West Bengal Municipal Development Project. Asian Development Bank is assisting two infrastructural programmes in Karnataka and Rajasthan and one environmental management programme in Karnataka. Recently, it has announced a loan of 250 million US dollars to Kolkata Municipal Corporation for an environmental improvement project. DFID has been supporting slum improvement projects in several cities of India since 1983. Similarly, the Dutch government assistance has been made available for slum up-gradation and training in urban management. Bangalore Urban Poverty Alleviation Project started in 1993 is a major programme under Dutch assistance. The Dutch Government is also providing assistance for urban development projects in Kanpur and Mirzapur in U.P.. Germany has provided technical assistance for slum improvement in Nagpur. The USAID launched the FIRE-D programme in 1994 for strengthening the capacity of selected ULBs to access debt market. These are only a few illustrative examples of the type of external assistance available for urban development in the country.

## Suggestions For Increasing Access Of ULBs To Capital Market

A major limitation for institutional and external funding available to urban sector has been the bias of these agencies in favour of large municipal bodies which are relatively better off financially and possess repayment capacities. Unfortunately, in U.P. even large ULBs have not been able to tap the capital market for want of both credit rating and sound project preparation. The medium and small sized ULBs are nowhere in the picture as of now in this context. A major constraint faced is the dismal financial structure of these bodies. They do not possess capabilities to prepare technically sound and financially viable projects which may be eligible for loans from financial institutions. Only a handful of large municipal corporations in the country are in a position to get sound credit ratings. No wonder that no municipal body in U.P., including the Nagar Nigams, has been able to raise funds from the capital market so far through loans or issue of municipal bonds.

This Commission is of the view that, in future, the importance of institutional funds as sources of urban finance will increase and ULBs in the State should be geared up so as to be able to start tapping such funds. This will require sustained efforts towards sound financial management, building up of own resources and capacity building of ULBs in the State in several dimensions. The ULBs have to put their own finances on a firm footing by deepening and widening their tax/non-tax resource bases and moving towards regimes of cost based user charges. Financial management and accounting system of ULBs needs to be reformed so as to become compatible with the prevailing commercial practices even though this may be in somewhat modified form. In addition, several legal and administrative changes will be required to remove constraints on decision-making by ULBs. Simultaneously, technical and managerial capacities of ULBs will

have to be improved to enable them to prepare, or get prepared, technically sound and financially viable projects.

This is indeed a large agenda, which ULBs cannot hope to take up on their own. Considerable support of the State Government would be needed in this area. The Urban Development Department of U.P., should take initiatives in this direction and seek assistance of agencies like FIRE-D, etc. which have considerable experience in this field.

Substantial resource assistance can be sought and received from the recently announced schemes of the Central Government, namely, (i) the Urban Reform Incentive Fund to provide reform linked assistance to States, and (ii) the City Challenge Fund proposed to be set up to provide incentive based facilities to cities undertaking reforms in municipal management and service delivery.

14.152 This Commission has recommended two important institutions in this regard, namely, (i) the setting up of an Urban Management, Development, Research and Training Academy, and (ii) the setting up of an Urban Infrastructural Development Fund (UIDF) in the State. Detailed suggestions in respect of the Training and Research Academy have been given in a later chapter, while the proposal in respect of the UIDF has been outlined below.

## **VII. Proposal for the Setting Up of U.P. Urban Infrastructure Development Fund**

Development of urban infrastructure in the form of roads, fly-overs, sewerage, water, sanitation and waste disposal projects, etc., requires large investments. Urban local bodies, generally, are not in a position to finance these projects from their own resources. The potential of raising loans from capital market is limited in case of most ULBs unless their credit ratings are sound and they are credit worthy. There is need to link city infrastructure financing requirements with the domestic capital market, as also external funding possibilities, but that is an objective for which a road map has yet to be identified.

In India the sources of municipal debt in the past have been largely limited to State Governments or financial institutions such as LIC, HUDCO, etc. on the basis of guarantees provided by State Governments. The experience in this regard has not been happy as such. State based debt funding is often marked by lack of transparent accounting systems, absence of collaterals and poor cost recovery. There is, hence, an urgent need for developing innovative Special Purpose Vehicles which can meet medium and long term capital requirements of ULBs based on sound project preparation, remunerative nature of proposed investments, effective financial management and accounting systems, and reliable repayment mechanisms.

In the United States, the State Reserve Fund, financed by the Federal and State capitalization grants and funds raised through US Bond Banks, have played a very prominent role in funding infrastructure projects of local bodies at low rates of interest. In India, also, special purpose vehicles or specific institutions have been created for funding urban infrastructure projects in some States like Tamil Nadu, Gujarat and Kamataka. There is urgent need of creating a similar instrumentality for funding of urban infrastructure in our State also.

The FSFC of U.P. had suggested the creation of a corporate body for municipal infrastructure development, under the Companies Act 1956, to prepare, formulate and implement projects relating to infrastructure development in urban areas of the State and to render financial assistance to urban local bodies by way of loans and advances. The State Government, however, did not agree to the creation of such a body possibly because of financial constraints and the general experience about the performance of public sector institutions in the State.

In July 1998 the Urban Development Department of U.P. Government issued instructions for the creation of Urban Infrastructure Funds in all ULBs of the State. The following receipts were earmarked for this Fund:

- i) Receipts from disposal of non-productive or encroached properties of the ULBs;
- ii) Interest earned on bank deposits made out of SFC & TFC devolutions and other sources of income;
- iii) Share in fees from compounding approved by the Development Authorities or the Housing and Development Board; and,
- iv) Proceeds from additional stamp duty on transfer of properties.

These local body level Funds were to be utilized on recommendations made by a Committee chaired by the Divisional Commissioner in case of NNs and the District Collector in case of NPPs/NPs. These funds were to be utilized for financing schemes related to urban infrastructure development which had to be in the nature of creating remunerative capital assets. It is reported that, till 31.3.2001, an amount of Rs.5.02 crore could be deposited in these Funds in 9 Nagar Nigams. Details of the amounts deposited by other ULBs and their utilization are not available. The ULB level Funds are a mechanism for generation of internal resources earmarked for certain types of investments. The amounts collected have been very limited and their utilization has been non-uniform, even indifferent. This mechanism cannot be treated as a substitute one for a State Level Infrastructural Development Fund which seeks to link civic infrastructural financing needs of ULBs with State and national level financing institutions and capital markets and even external funding sources.

This Commission strongly feels that fresh thought needs to be given to the creation of a Special Purpose Vehicle (SPV) which can meet long and medium term capital requirements of ULBs. The Tamil Nadu Urban Development Fund which was set up in 1988 provides a type of model which can be adopted or adapted in the State with suitable modifications. The TNUDF was constituted as a trust under the Indian Trusts Act, 1882, and is managed by an Assets Management Company, namely, Tamil Nadu Urban Infrastructure Financial Services Ltd. The share of Tamil Nadu Government in the equity of the Trust is limited to 49%. The other share holders include ICICI, HDFC and IL&FS which contributed 21%, 15% and 15% of equity capital, respectively. ICICI acted as the lead institution. The functioning of the Fund is reported to be characterised by financial discipline, strict project accounting and professional management.

The TNUDF has obtained a World Bank Loan of 80 million US dollars to be released on the basis of certain performance criteria. It has raised Rs.110 crore from the indigenous capital markets on the basis of an LAA +(SO) rating by ICRA. Till 31.3.2001 the Fund had approved 177 projects costing Rs.669.60 crore. It has disbursed loans amounting to Rs.445.91 crore for constructions like bridges and roads, bus stations and markets, sewerage and sanitation facilities, water supply projects and storm water drains and even commercial complexes. The total assets of TNUDF amounted to Rs.657.52 crore on 31.3.2001 and its net worth was Rs.179.82 crore. The surplus of income over expenditure amounted to Rs.24.04 crore during 2000-01. Reportedly there are no non-performing assets of the Fund and the recovery rates are very high.

The SSFC recommends that a **U.P. Urban Infrastructure Development Fund (UPUIDF)** be created with an authorized capital of Rs.100 crore. U.P. Government may provide a seed capital of Rs.25 crore. Another Rs.25 crore can be provided out of the devolution money to be given to ULBs during 2002-03. Remaining 50% capital can be contributed by institutions like HUDCO, ICICI, HDFC, IL&FS, LIC, IDFC, etc. The Fund should be authorized to raise loans from the capital market and by issuing tax free Municipal Bonds. One percent of SFC devolution to ULBs should be deposited with the Fund to augment its finances on annual basis.

Creation of such a Fund can help in mobilising resources from national level infrastructure development institutions and external funding institutions like World Bank, ADB, DFID, etc. Loans from these institutions for urban development schemes can also be channeled through the proposed Fund.

The ULBs of the State should have a stake in the Fund. They can be allotted shares on a pro-rata basis out of the deductions made from SFC devolution for the Fund. They should also be entitled to contribute to equity capital out of their own funds. Representatives of all the three levels of ULBs should be included in the Management Board of the Fund. The ULBs would contribute 20% of the loan taken from the Fund as margin money. The existing ULBs level infrastructure funds can be used as margin monies for raising loans from the Fund.

The objectives of the Fund should include the following:

- i) Funding of urban infrastructure projects including water supply, sewerage, sanitation, drainage, solid waste management, roads, bridges, fly-overs, slum development, etc.
- ii) Facilitation of private sector participation in urban infrastructure through joint ventures and public-private partnerships.
- iii) Providing technical assistance to ULBs in preparation of fundable projects for urban infrastructure development.
- iv) Providing technical assistance to ULBs for improvement in their financial and general management practices.
- v) Providing subsidy on interest rates on loans for urban infrastructure projects which are non-remunerative or have low returns or which are meant for serving very poor populations specifically.
- vi) Leveraging the financial resources of the Fund for raising ULB project finance from other sources.

The Fund would be used for giving loans for setting up of new projects as well as for expansion or improvement of existing ones. The eligible borrowers should include ULBs, statutory boards like Urban Development Authorities, Public Sector Undertakings and Private Corporates for investment in urban infrastructure projects in U.P.

The Fund should be a public trust as in Tamil Nadu. It should be managed by a professional and autonomous Board. Its lending operations should ensure financial viability, transparency and timely repayment through appropriate escrow mechanisms. The terms of repayment should be linked with the nature of investment. Suitable moratoria periods for repayment of loan should be allowed which can be different for different types of loans. In case of non-remunerative projects adequate moratorium period and longer repayment periods could be permitted and rate of interest should be kept at a low level or subsidised by the Fund. For this purpose and for funding schemes meant for the poorer sections of population a Soft Loan Window may be created in the Fund.

The Commission feels that the UPUIDF, suggested on the above lines, will help in augmenting substantially municipal finances in the State in an increasing measure and help ULBs in raising funds for meeting their investment requirements for improving urban services without putting an unacceptable burden on the State Government or their own finances.

## VIII. Suggested Measures for Cost Reduction

As a result of the often observed severe resource crunch, ULBs are unable to provide core services to people to the required extent, what to say of creating new assets and taking up of programmes of economic and social development, as indicated in the Twelfth Schedule of the Constitution. In this background, cost reduction measures assume urgency. These are simply a necessity. Cost reduction can reduce financial pressure on ULBs and provide some relief in facing severe resource constraints.

The main spheres in which cost reduction measures can yield perceptible yields are : (a) Establishment, (b) Construction, and (c) Maintenance. The measures which need to be undertaken in these fields are, illustratively, listed below:

### (a) Establishment costs

Establishment costs can be reduced through undertaking the following measures:

- (i) Restructuring of Departments;
- (ii) Reduction in the number of class iii and iv employees and shedding superfluous posts at higher levels;
- (iii) Reorganising of technical services and of the administrative and financial management set-ups;
- (iv) Increasing the role of MIS;
- (v) Computerisation;
- (vi) Abolition of dead cadres and surplus posts;
- (vii) Surplus staff should be trained to prepare bills for recovery of dues, records of stores, maintenance of accounts, etc. and should be adjusted against vacant posts;
- (viii) The number of personnel appointed should, in no case, exceed the sanctioned strength. It is a well known fact that in ULBs, specially in NPPs and NPs, the number of appointees often exceeds the sanctioned strength. Adhoc and unauthorised appointments should be banned, by law if necessary, as has been done in Andhra Pradesh;
- (ix) Expenditure limits should be fixed on telephones, mobile phones, pagers purchase of vehicles, fuel, operational costs etc. It merits mention in this context that in Nagar Nigams mobile phones have been provided to almost all officers.
- (x) Many ULBs, particularly the large ones, run fleets of various types of vehicles. Very old vehicles with high inefficiency in fuel consumption and requiring frequent repairs need to be replaced with modern, more efficient ones. Fleet efficiency needs to be improved and this would result in bringing down the cost of operations. Again, maintenance will be an important requirement to obtain efficiency gains.
- (xi) VRS schemes can be thought of in suitable cases.

### (b) Construction Costs

These can be reduced by :

- (i) Adoption of cost effective and economic work specifications and materials;
- (ii) Periodic **Schedule of Rates** should be prepared for different types of constructions and made available to local bodies. These schedules will be different for NNs, NPPs and NPs. Alongwith this some model designs should be developed and made available to local bodies based on economic costing, which can be adopted for different types of construction;
- (iii) There should be provision for technical audit. Unless audit is strengthened the cost and quality of work will suffer;
- (iv) There is need to reduce inventories to the minimum. Large inventories carry heavy costs.
- (v) Use of open tendering system for execution of works;
- (vi) Careful screening of approved tenderers/contractors and close supervision on construction;
- (vii) Mutual consultation should be undertaken among concerned departments before finalising any project. Efforts should be made to garner maximum cooperation from concerned departments. This would, for example, apply to areas like road cutting, traffic related works and environment impacting works;
- (viii) Development Authorities should work in coordination with ULBs;
- (ix) For installation of hand pumps, tubewells etc., proper training should be imparted to technical staff of ULBs;
- (x) Automation of tubewells, pumping sets, street lights, etc. should be done. Through mechanical devices several pumpingsets/ tubewells can be operated simultaneously;
- (xi) New technologies and innovations should be adopted by ULBs, so that efficiency of systems can be increased, which, in turn, would reduce costs ;
- (xii) There is considerable scope for public-private partnerships in construction works. Through this method costs can be brought down.

**(c) Maintenance Costs**

Some measures that can lead to reduction in maintenance costs could be:

- (i) Construction work should be based on modern cost-effective and economic methods and specifications. This will reduce maintenance expenditure
- (ii) A certain percentage of revenue expenditure should be earmarked for preventive maintenance.
- (iii) Lanes connecting main roads should be pucca instead of *kharanjas*. This will result in reduction of costs in the long run.
- (iv) Inter-departmental cooperation can lead to reduction in costs. For laying down telephone and electrical cables and water or sewerage pipe lines, roads are frequently cut and repairs have to be done repeatedly. This needs to be avoided through close inter-departmental and interagency co-ordination.

- (v) Wards Committees should be entrusted with the work of checking use of funds earmarked for maintenance of ULBs' works and properties.
- (vi) Through public-private participation and involvement of NGOs in maintenance works.
- (vii) Through enlisting the assistance of industrial/commercial units or other institutions in areas like maintenance of parks or greening of roads and open spaces or improving river banks or in other works of public interest.

**(d) Other Cost Reduction Measures**

Besides aforementioned measures, the following ones may lead to reduction in costs:

- (i) There is need for energy conservation. These measures can be adopted in areas like street lighting, automatic switching off of lights during day and use of luminaires which are low energy consuming.
- (ii) There is need for strict use of performance measurement indicators for providing services such as drinking water, sewerage or waste management. For these purposes if indicators are strictly followed costs will get reduced.
- (iii) Many types of services and functions can be farmed out on contract basis. This can reduce costs.

**ix Other Measures For Strengthening Financial Position of ULBs**

The following further measures need to be taken for augmenting the financial resources of ULBs :-

1. Complaints have been received by us that the price of ULB lands transferred to UPPCL or Development Authorities is often not paid to them. The U.P. Power Corporation Ltd., must pay the price of land taken over from ULBs to them at market rates on which transformers and substations have been installed/constructed by the Corporation, where this has not already been done. Similarly price of land of ULBs, taken by Development Authorities and U.P. Housing Board for construction of residential colonies, commercial complexes or similar other purposes, should be paid to them, where this has not been done.

2. Under the U.P. Urban Planning and Development Act, 1973, the responsibility of development of land and regulation of construction activities in the entire development area, including the areas under the operation of ULBs, has been given to the Development Authorities. This has deprived the concerned ULBs of one of their legitimate functions and, further, of an important source of revenue, namely, the fees for sanctioning building plans (including development fees, water charges, compounding fees and other prescribed fees) which are at present being charged by the Development Authorities in such areas. The representatives of many ULBs have demanded that they should be authorized to sanction plans of buildings and charge the necessary fees for the same or they should be given their due share in such fees. It has also been pointed out by them in this connection that the present system is affecting civic services in the areas under the jurisdiction of ULBs as they do not have the regulatory powers to control construction and other development activities in their areas of operation and they have to incur additional costs on this account. This is indeed a legitimate demand. The Commission, therefore, recommends that in case of such areas which are under the jurisdiction of ULBs, these bodies should be authorized to sanction plans of buildings and charge necessary fees for the same. Delays in transferring the developed colonies to concerned ULBs should be minimized so as to enable them to levy property tax and other charges in such areas.

Similarly, complaints have been received by this Commission that the stacking fees in respect of an area which is not being developed or has not been developed by the Development Authority are not transferred to the local authority within whose limits such area is situated, as required by law. To avoid disputes about the sharing of stacking fees, the Commission recommends that ULBs should be authorized to levy and collect stacking fees in areas which are under their operational jurisdiction.

3. An innovative practice has been adopted in Andhra Pradesh for widening of existing roads under which additional land is not acquired but option is given to people whose land is used to expand their buildings vertically in the form of additional floors. This broadens roads, makes for better traffic movement, improves property values and has a positive effect on improving overall urban environment. This, for example, is a step that has been taken in the Amir Peth area of Hyderabad city successfully. Such an innovative approach needs to be adopted in our State as well.

4. Half of the income accruing from conversion of Nazul land into free-hold land should go to ULBs, which are responsible for providing civic facilities in their jurisdictions.

5. The properties of ULBs that are not being used due to encroachments or other reasons, or are uneconomically used at present, should be sold off in a transparent way through open bid system according to a time bound programme and receipts from such sales should be utilised for creation of infrastructure locally. This is already being done to some extent, but the process is quite slow for various reasons.

6. The existing municipal laws and rules lay down the procedure of recovery of municipal taxes. However, similar provisions have not been made for the recovery of licence fee and other non-tax levies and dues. While NPPs and NPs have been authorized to send requests to district authorities for recovery of tax dues as arrears of land revenue under the U.P. Municipalities Act, 1916, a similar provision does not exist in the U.P. Municipal Corporation Act, 1959. Similarly, detailed proformaes have not been specified in law or rules in case of Nagar Nigams as has been done in the case of NPPs and NPs. It is, therefore, recommended that clear provisions should be made in municipal laws/rules for recovery of tax as well as non-tax dues. Detailed proformaes and procedures should be clearly specified. Powers of the municipal officials should be spelt out for effective recovery of tax and non-tax dues. Provision for recovery of dues as arrears of land revenue should also be made in case of Nagar Nigams.

7. For better realisation of revenue, adequate administrative support should be extended to municipal officials for making recoveries, whenever required.

8. Rebates may be provided for timely payment of dues. Penal interest should be charged @ 2% per month from defaulters for delay in payment of tax and non-tax dues to ULBs.

9. Week or fortnight long collection/recovery campaigns should be made a regular feature in ULBs every year.

10. A few ULBs are running educational institutions including degree colleges, (e.g., Nagar Nigams of Lucknow and Kanpur) but the fees charged are very low. It is recommended that the fee structure should be rationalised and revised at periodic intervals.

11. It is widely known that a large number of illegal water connections have been installed in urban areas. Campaigns should be undertaken periodically to detect such cases. Penalties should be imposed in all such cases and the connections should be regularised on payment of required penalties as well as charges.

12. It has been complained by many ULBs that road cutting charges are not being paid by many departments/agencies. It is recommended that such charges should be got paid in

advance. In some cities substantial revenues can be generated from such charges. Hyderabad Municipal Corporation, for instance, is reported to collect an amount of around Rs.70 crore annually under this head alone.

**Summing Up**

In the foregoing pages we have dealt in detail with the issue of tax and non-tax resources of ULBs in the State and given a set of suggestions for restructuring their finances and widening as well as deepening their income bases. If properly implemented these steps can result in substantial improvement in the financial condition of ULBs by generating larger internal resources and reducing expenditure. Both legislative and administrative steps in a time bound frame are required to give effect to these suggestions in a concerted way.

**Box 5.3****Management Contracts for Services in Indian Cities, 1993**

<b>Service/tasks</b>	<b>Cities</b>
<b>Sanitation and public health:</b> <ul style="list-style-type: none"> <li>• Conservancy/drain cleaning/ Sanitation/maintenance of STP</li> <li>• Construction and Maintenance of Toilets</li> <li>• Mosquito control</li> </ul>	Guwahati, Bangalore, Jodhpur, New Bombay, Ludhiana Faridabad, Delhi, Hubli-Dharwad, Aurangabad, Kalyan, Jaipur Cochin
<b>Solid waste management:</b> <ul style="list-style-type: none"> <li>• Garbage collection disposal/street Cleaning</li> </ul>	Guwahati, Ahmedabad, Rajkot, Baroda, Bangalore, Cochin Bombay, Pune, Jalandhar, Amritsar, Ludhiana, Jaipur, Baorda, Kalyan
<b>Roads and streets related:</b> <ul style="list-style-type: none"> <li>• Road construction</li> <li>• Road maintenance</li> <li>• Street lighting</li> </ul>	Ahmedabad, Cochin Bangalore, Cochin, Jaipur Ranchi, Rajkot, Faridabad, Jodhpur
<b>Tax Collection:</b> <ul style="list-style-type: none"> <li>• Collection of entry tax, other Local taxes/charges</li> <li>• Parking lots collection of charges Gardens and parks, etc.</li> <li>• Development and Maintenance of garden parks/playgrounds/sports Complex/swimming pool/ Planetarium/traffic islands</li> <li>• Social forestry, tree planting along streets</li> </ul>	Guwahati, New Bombay Guwahati, Pune Rajkot, Baroda, Bombay, Faridabad, Hubli-Dharwad, Bangalore, Cochin Kalyan, Pune, Amritsar, Ludhiana Jalandhar, Jaipur Baroda, Rajkot
<b>Others:</b> <ul style="list-style-type: none"> <li>• Bus terminus/shelters</li> <li>• Ward security</li> <li>• Market development</li> <li>• Maintenance of vehicles</li> <li>• Land development</li> <li>• Maintenance of libraries etc.</li> <li>• Milk market</li> </ul>	Ranchi, Cochin Ahmedabad, Rajkot Ahmedabad, Kalyan Rajkot Faridabad Faridabad Hubli-Dharwad

**Source :** Reproduced from O.P.Mathur (ed.), India: The Challenge of Urban Governance, NIPFP,

New Delhi, 1999, p. 210.

Chapter 6

Financial Requirements And Resources

There have been some attempts in the past to work out the gap between investment needs for providing of core services and resources of municipal bodies in the country. The first such definitive exercise was undertaken by the Committee of Ministers constituted in 1963 by the Central Government, popularly known as the Zakaria Committee. The Committee evolved a set of service norms for water supply, sewerage, storm water drainage, roads and street lighting. The physical norms recommended by this Committee are given in Table 6.1 below. Other agencies such as the Planning Commission, Government of India, Committee on Plan Projects (COPP), Operation and Research Group (ORG) and a few State Governments have, from time to time, proposed desirable levels of services, norms of investment, as also expenditure norms for setting up and operating and maintaining these types of urban services.

Table 6.1

Physical Standards for Provision, Operation and Maintenance of Selected Municipal Services as Per Zakaria Committee \*

Size Class by population	Water Supply	Sewerage	Storm Water Drainage	Roads
1	2	3	4	5
Above 20 lakhs	Full-fledged treatment plants having rapid sand or mechanical filters with chlorination plants, etc. Storage for 12 hrs- Distribution mains of cast iron at 60 gallons per capita per day. House connections to be metered- Terminal head 60 feet.	Complete treatment, 90% BOD reduction having sedimentation setting and digestion tanks and effluent to be treated on land.	Pucca covered drains with necessary culverts at road crossings designed for maximum run-off.	Ring Roads 200' ROW Arterial Roads 150' ROW Sub Arterial 100' ROW with neighbourhood roads of 80', 60', & 40' ROW to be surfaced with 1" to 2" bitumen carpeting over necessary soling and sub-grades with necessary cycle tracks on either side.
5-20 lakhs	Same as above with 45 gallons / capita / day	Same as above	Pucca open drains with culverts for maximum run-off	As above
1-5 lakhs	Tubewell water supply or slow sand filters- storage for 8 hrs and distribution on cast iron mains at 35 gallons/ capita. House connections to be metered- Terminal head 35 feet.	Partial sewage treatment with 50% reduction in BOD with sedimentation tanks, contact beds etc and effluent treated on land.	Open pucca street and outfall drains	Width of carriage way and surfacing be reduced to half the width as in above class with bitumen carpeting 1 to 1 1/2" with

50,000 – 1 lakh	Ground water supply from tubewells or infiltration galleries or wells with storage arrangements for supply or 25 gallons per capita / day. Distribution with ACC pipes. House connections to be metered- Supply for 8 hours- Terminal head 25 feet	Public sewers un aerobic treatment in sedimentation, septic tanks and effluent treated on land.	As above	necessary soling and subgrades. Major roads with 44' carriage way; main roads of 22' carriage ways; other roads 12' carriage way with 1" bitumen carpeting.
20,000 – 50,000	Ground water from tubewells or infiltration wells with necessary storage arrangements and distributions with ACC pipes. House connections to be metered and supply for 6 hrs. . Per capita supply 15 gallons. Terminal head 15 feet.	Septic tank latrines for individual houses with sullage collected in open drains and disposed of on land	Well cut earthen drains for streets with outfall drains constructed of pucca bricks or stones	Main roads with 22' carriage way other 12' with 1" bitumen carpeting in both cases.
Less than 20,000	Ground water through tubewells or open surface wells with necessary storage arrangements and distribution with ACC pipes. No house connections to be given and water supplied through public taps at the rate of 1 tap for 20 families (per capita supply 10 gallons) – Terminal head 10 feet	Bore hole latrines for houses at the backyards with sullage disposal on absorption trenches or sanitary sewers with disposal sewage lagoons if topography permits.	As above	Do- Small roads to be 10' wide metalled.

**Note:** \* For the purposes of calculation, etc., the same technical norms as adopted by the Zakaria Committee have been adopted by us. It is possible these might have become modified since then due to technological changes, etc.

**Source :** Reproduced from M.P. Mathur and Satpal Singh, "Financial Implications of Upgrading Municipal Services: A Normative Assessment", *Urban India*, Vol.XVIII, No.1 (1998).

Later on, in 1983, the Planning Commission, Government of India developed investment norms (it did not indicate any physical norms) for Urban Core Services. The price updated per capita investment norms, developed by the Planning Commission, are shown in Table 6.2 below: