A Municipal Finance Blueprint For India

A report commissioned by the Fifteenth Finance Commission

JANAAGRAHA

JANAAGRAHA CENTRE FOR CITIZENSHIP & DEMOCRACY

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Janaagraha Centre for Citizenship & Democracy

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Summary of recommendations

Over 400 million citizens live in India's cities. The population in cities is estimated to grow to over 800 million by 2050[1]. Over 70% of India's GDP and new jobs are expected to come from cities by 2030[2]. Cities therefore will be crucial from three inter-dependent perspectives – 1) quality of life, 2) as economic engines and 3) quality of democracy. Delivering on these counts depends to a large extent on how financially sustainable and accountable Urban Local Bodies (ULBs) will be.

In this summary section, we begin by highlighting recommendations arising out of a detailed roadmap to financial sustainability and accountability of ULBs comprising A) Fiscal decentralisation, B) Revenue optimisation, C) Fiscal responsibility and budget management, D) Institutional capacities and, E) Transparency, accountability and citizen participation. This is followed by our recommendations on allocations and transfers to ULBs.

A - Fiscal decentralisation

State governments need to devolve more own revenue streams to ULBs and give them greater powers over such revenue streams. State Finance Commissions (SFC) need to be overhauled into credible institutions, and state governments need to be held accountable for timely consideration and response to their Action Taken Reports (ATR).

Recommendations on devolution of revenue powers that correspond to functional decentralisation

We recommend that the Ministry of Housing and Urban Affairs (MoHUA), Government of India commission an eminent institute to undertake effort to draw up a standard empirical framework or a financial model that state governments and ULBs of different sizes and types can use

1. to estimate expenditure obligations for various functions listed under Twelfth Schedule of the Indian Constitution, vis-à-vis underlying key drivers such as population, area in sq. km, projected population, existing service levels, target service levels, per unit capital, and operations & maintenance cost for service delivery etc.
2. to estimate revenue potential of major revenue streams that could potentially be devolved or assigned to ULBs, and estimate the extent of devolution that could meet expenditure obligations estimated in 1 above, depending on the extent of functional devolution in respective states and ULBs.

1. *World Urbanisation Prospects 2018, United Nations*
2. *India's Urban Awakening: Building Inclusive Cities, Sustaining Economic Growth, McKinsey Global Institute, 2010*

In addition, the study may also consider the underlying expenditure obligations on ULBs of particular revenue streams (e.g. stamp duties and registration charges, motor vehicle registration charges, profession tax) and recommend appropriate formulae to ascertain percentage share that could be considered for assignment to ULBs. This would serve as an objective basis for states to evaluate and advance fiscal decentralisation of specific revenue streams recommended by the Fourteenth Finance Commission (XIV FC).

Further, the same study could also evaluate the extent of revenue foregone in respect of fees and user charges and evolve a mechanism to continuously compute and report the same, as well as factor performance on the same while determining untied grants.

Recommendations on predictability of grants and assigned revenues

Central Finance Commission (CFC) and SFC grants being made available to ULBs need to form part of medium-term fiscal plans of cities. Actual disbursements against awards should be tracked and reported. There is also a need for state governments to gradually increase grants through SFCs and reduce discretionary and tied grants, so as to facilitate proper fiscal planning in ULBs.

Based on the empirical framework or financial model referred to earlier, and finance commission awards, the MoHUA in collaboration with state governments, should arrive at a state-wise steady mix of own revenues and grants (incl. assigned revenues) for ULBs in respective states every five years, and track performance against the same.

Recommendations on enabling municipal borrowings and budget setting

A Comprehensive Debt Limitation Policy (CDLP) or equivalent provision for municipal borrowings needs to be introduced in all municipal acts, to open up municipal borrowings within a framework of fiscal prudence. ULBs need to be given full powers over budget-setting, eliminating the need for state government approvals.

States through urban infrastructure development finance corporations or equivalent special purpose vehicles should provide the specialised capacity building support and hand-holding that is required for ULBs to engage with capital markets.

Recommendations on ownership and control over land and property

A systematic and comprehensive effort needs to be undertaken to give greater powers over land and property to ULBs, through appropriate amendments to state municipal acts.

B - Revenue optimisation

ULBs need to optimise own revenue streams devolved to them by reviewing and reforming all stages of the lifecycle - enumeration, valuation and assessment, and billing and collection. Specific recommendations for revenue optimisation are as below;

Recommendations on optimising property tax revenues

Enumeration

Provision for periodic enumeration should be a part of state municipal acts. While municipal corporations may be in a position to implement their own GIS systems, states need to provide for a state-wide GIS facility for municipalities to access, through a specialised entity like the urban infrastructure development finance corporation or equivalent. MoHUA should consider a review of GIS implementations completed so far and publish a compendium with costs and benefits. MoHUA could also consider laying out broad guidelines or options for GIS implementation by states. Database integration across government databases such as power supply, gas agencies etc. should be considered to enable smooth update of property records on an ongoing basis.

Valuation and assessment

Unit area valuation (UAV) and self-assessment methodology should be progressively adopted across states and ULBs. A property tax board should be constituted in all states to provide independent advice and recommendations to ULBs on enumeration, valuation and assessment. Exemptions from property tax should be rationalised and always accompanied by details of underlying rationale and revenue foregone. The property tax register of the ULB should be published online with details of property, area, property type, guidance value, property tax amount, payment details, pending dues etc. with due safeguards built-in for privacy.

Billing and collection

ULBs should adopt end-to-end integrated information systems for property tax which provides for regular billing and reminders, online payments, digital records, integration with GIS system and property tax register, and facilitates monthly/quarterly property tax MIS. Penal provisions for delayed payments, and publication of defaulters' list should also be introduced and strengthened.

Normative standards should be drawn up for staffing of the revenue department, and an evaluation of costs and benefits of outsourcing of billing and collections should be carried out. The experience of Ranchi and other ULBs in Jharkhand in this regard may be instructive.

Recommendations on optimising other main revenue streams (such as rental income, development fees, and user charges)

ULBs should be encouraged to get their annual accounts audited so as to ensure systematic maintenance of fixed asset registers. MoHUA should draw up a model RFP for use by states and ULBs to empanel chartered/registered valuers or real estate consulting firms to undertake a review of their lease documents, as well as estimate the market value of their properties and provide recommendations on optimising return on assets from land and property.

In the case of all fees and user charges, there is a need to adopt functional costing whereby the cost of service delivery is compared to corresponding fees and user charges and the revenue gap ascertained and published. State municipal acts, rules or accounting manuals need to be duly amended to facilitate such a disclosure.

MoHUA should undertake a landscape study of all revenue streams other than property tax to provide knowledge support (in the form of implementation guidance) to states and ULBs on optimising them in a systematic manner.

C - Fiscal responsibility and budget management (FRBM)

There is a need for a FRBM framework for ULBs that focuses on realistic budget estimates, timely, credible and standardised audited annual accounts, uniform accounting standards, medium-term fiscal plans, performance reporting and citizen participation in budgeting and financial management.

Provisions in respect of budgeting in municipal acts and rules need to be overhauled, preferably through amendments to municipal acts and underlying budgeting rules in turn-based on a focussed FRBM framework for cities (including ULBs and other agencies providing city services). Such a framework should inter alia provide for/ensure the following:

1. Checks on budget variance, to ensure realistic budgets are drawn up by ULBs and variances are explained in detail along with next year's budget
2. Standardised budgets that are comparable and provide information on both operational and functional cost-types, including geographic allocations within the ULB (at a zone or division or ward level) to the best extent possible
3. Outcome budgets that indicate outputs and outcomes corresponding to expenditure outlays

4. Systematic citizen participation in budgeting accompanied by public disclosure of actionable financial and operational information
5. Medium-term fiscal plans with annual explanatory statements, alongside annual budget, for variances from medium-term fiscal plans

The Karnataka Local Fund Authorities Fiscal Responsibility Act 2002 presents a model that is worth emulating across states. The Karnataka Municipal Accounting and Budgeting Rules 2006 too incorporates several of the above recommendations.

D - Institutional capacities

Central and state governments need to build capacities of ULBs with specific reference to revenue and accounting functions. A full list of recemmondations is given below:

1. Cadre and recruitment (C&R) rules of ULBs need to be comprehensively updated, particularly in respect of revenue and finance functions. Normative standards need to be established for each role in revenue and finance functions. Skills and competencies need to be defined in contemporary terms. Performance measures need to be laid down. Workforce requirements in ULBs need to be reviewed at periodic intervals based on the growth of the city and the ULB through a medium-term workforce plan.
2. MoHUA should draw up certification-based online skilling programs for revenue and finance staff. State governments should mandate completion of different levels of these programs for different levels of staff.
3. Municipal Services should be identified as a sector under the Skills Mission, so a dedicated sector skill council can be created and jobs in revenue and finance departments given a thrust.
4. We also strongly recommend that the MoHUA undertake a serious evaluation of Municipal Outsourcing or Municipal Shared Service Centres which can surmount the challenge of staffing in ULBs, and also deliver significant benefits in terms of lower costs and better services.
5. We also urge the Ministry to make available standardised software for revenue and finance functions for use by ULBs who have been unable to utilise the same. It should also lay down standards for such software. State governments should facilitate fast-track adoption of the software by its ULBs.

E - Transparency, accountability and citizen participation

ULBs should practise radical transparency with respect to their finances and operations, following provisions of the public disclosure law and section 4 of the RTI Act in letter and spirit. Central and state governments should put in place systems and processes to collect and report timely and credible financial and operational information on ULBs in a comparative format. Provisions in respect of transparency and accountability in municipal acts and rules need to be overhauled, preferably through amendments to municipal acts. These should inter alia provide for/ensure the following:

1. Systematic citizen participation in budgeting accompanied by public disclosure of actionable financial and operational information at a work/contract level and street/ward level
2. Portals similar to Swachh Manch to encourage active citizenship and volunteering among citizens, and effective feedback loops
3. Formalise citizen charters that state service levels building on MoHUA's SLB framework, turnaround time and grievance redressal procedures
4. Implementation of National Data Sharing and Accessibility Policy (NDSAP) to facilitate easier access of data for citizens
5. Risk-based internal audit function in ULBs reporting directly to the elected council
6. Publication of audited annual accounts that are credible, timely and standardised
7. Implementation of accounting standards for local bodies issued by the Institute of Chartered Accountants of India in preparation of such audited annual accounts

At the central and state levels, to facilitate a consolidated view of finances of ULBs, we recommend the adoption of eXtensible Business Reporting Language (XBRL). MCA21 of the Ministry of Corporate Affairs, regulatory reporting by banks to the Reserve Bank of India, filing of Income Tax returns etc. all adopt XBRL methodology and standards.

Devolution by XV Finance Commission

1. 21st century challenges require global ideas but local action. Circular economy, mitigation of climate change, equitable resource allocation etc. will need to be facilitated through deep engagement at the local government level. The allocation to local bodies needs to increase from XIV FC's 2.7 % (Rs 287,436 cr)[3] to at least 4% of Gross Tax Revenues.
2. India's urbanisation will be the one of the most dominant demographic trends globally. It will have significant socio-economic implications (both challenges and opportunities) for India. ULBs will need to play a major role in surmounting the challenges and realising the opportunities presented by urbanisation. In order to facilitate the same, allocation to ULBs needs to increase from 30% of local bodies' allocation (Rs 87,143 cr)[4] to 40% share of local bodies' allocation.
3. Distinction needs to be made in allocation of grants between ULBs of the following population categories
    a. Greater than 1 million
    b. 100,000 to 1 million and
    c. Less than 100,000

3. XIV FC Report, 2015
4. Ibid

4. ULBs which are part of Urban Agglomerations with greater than 1 million population are mature metropolitan areas. They need to be provided a Metropolitan Challenge Fund (MCF) which is accessed on a challenge basis, for larger metropolitan goals linked to economy and environment.
5. To ensure continuity from past Finance Commissions (FCs) and in order to take to logical culmination, the agenda of credible, timely, comparable financial information on ULBs, we recommend that publication of audited annual accounts in XBRL format on websites of ULBs, be considered a basic eligibility condition for all ULBs to avail any XV FC award, including basic grants.
6. Audited annual accounts shall comprise independent auditor's report, balance sheet, income and expenditure statement, cash flow statement, receipts and payments statement, schedules to all of the above, a reconciliation between income and expenditure and receipts and payments statements, significant accounting policies and notes to accounts, and target and actual service levels (for water supply, sewerage, solid waste management, storm water drainage as notified by the Ministry of Urban Development in 2006), in accordance with respective state municipal accounting manuals.
7. We recommend the following, in addition
    a. MoHUA to implement a National Municipal Information System (NMIS) based on XBRL, to collate and publish in the public domain all of the above information
    b. MoHUA constitute a high-powered expert committee to conceive a comprehensive policy framework and implementation plan to modernise financial and performance reporting in ULBs, to harmonise municipal accounts and state government accounts, and to review the prevalent municipal borrowings framework and make recommendations to transform the same

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Chapter 1

Landscape of India's cities

CITIES ARE CRUCIAL TO INDIA'S SOCIO-ECONOMIC FUTURE

Over 400 million citizens live in India's cities. The population in cities is estimated to grow to over 800 million by 2050[5]. Over 70% of India's GDP and new jobs are expected to come from cities by 2030[6]. Cities therefore will be crucial from three inter-dependent perspectives

1. Quality of Life: Citizens in cities need access to basic infrastructure and services like water, housing, power, safety, sanitation, clean air and transport.

2. Economic: Cities are fast-growing economies. They attract capital and talent, deploy the capital productively, create aspirational jobs and drive high economic growth. Cities therefore should create an enabling environment for productive economic activity.

3. Democratic: Over 50% of India's citizens will live in cities by 2050[7], so the quality of democracy in cities, including trust between citizens and governments and nature and extent of citizen participation, will determine the quality of India's democracy itself.

INDIA'S CITIES COME IN MANY SIZES, AND WITH MANY NAMES

There are statutory towns and census towns

There are 4,041 statutory towns and 3,892 census towns (CT) in India as per census 2011. Statutory towns are governed as ULBs or as cities. CTs are designated as such by the census but governed as (or as part of) village panchayats. Statutory towns are generally designated as municipal corporations, municipal councils or town panchayats depending on their population, with few settlements belonging to other categories such as Industrial Notified Areas, Notified Area Committees and Cantonment Boards.

5. World Urbanisation Prospects 2018, United Nations
6. India's Urban Awakening: Building Inclusive Cities, Sustaining Economic Growth, McKinsey Global Institute, 2010
7. World Urbanisation Prospects 2018, United Nations

Table 1: **Statutory towns and census towns**

Particulars	Governed as	Number	Population (million)	Population %
Statutory towns (or ULB)	City	4,041	323	86%
Census towns	Village (or Panchayat)	3,892	54	14%
Total Urban		**7,933**	**377**	**100%**
% of total population			31%	

Source: Computed based on data as per Census 2011

Each state government defines their statutory towns differently, census town criteria are as per Census of India

Different state governments use different criteria to determine whether a settlement is a statutory town or a village, and if a statutory town, whether it is a municipal corporation, municipal council, or nagar/town panchayat.

1. Area
2. Population size
3. Population density
4. Occupation
5. Revenue
6. Economic importance
7. Pace of urbanisation
8. Demand for progressive services

These factors are used in different ways by states, making each state's definition unique. Further states even have different qualifying thresholds even where one or more factors from the above are common. These criterias are laid out in state municipal acts.

The Census of India classifies those villages as CTs which satisfy the following three conditions

1. A minimum population of 5,000
2. At least 75% of the male main working population engaged in non-agricultural pursuits; and
3. A density of population of at least 400 persons per sq. km.[8]

8. Computed based on data as per Census 2011

Statutory towns vary vastly in population, with a "large head" and "long tail"

Statutory towns themselves vary vastly in population. Of the 4,041 statutory towns, 3,565 (88%) have a population less than 100,000 each, with an average population of less than 30,000. Along with CT, they constitute over 40% of the urban population[9], making them a "long tail" of urban India i.e. large number of small settlements.

Table 2: **Categories and population of statutory towns**

Particulars	No.	Population (millions)	% of urban population	Average population
Municipal Corporations	147	161	43%	10,90,713
Municipalities incl. Town Panchayats				
Population > 100,000	328	59	16%	1,80,335
Population <=100,000	3,565	101	26%	28,878
Municipalities Sub total	**3,835**	**160**	**42%**	**41,832**
Cantonment Boards	59	2	1%	35,226
Census Towns	3,892	54	14%	13,943
Total	**7,933**	**377**	**100%**	

Source: Computed based on data as per Census 2011

Of the approximately 60% constituted by cities with population greater than 100,000, the municipal corporations (determined so by state governments based on differing definitions) taken together constitute over 40% of the urban population as per census 2011. Municipalities (again, determined so by state governments based on differing definitions) with population greater than 100,000 constitute only 16% of the total population .

Absence of a metropolitan governance paradigm is a stand-out characteristic of governance in India's cities

Unlike most countries, India does not have a metropolitan governance paradigm for its large cities. Article 243P of the Constitution (Seventy Fourth) Amendment Act defines a Metropolitan Area as an area having a population of ten lakhs or more, comprising one or more districts and consisting of two or more Municipalities or Panchayats or other contiguous areas. Article 243ZE requires every metropolitan area to have a Metropolitan

9. *Computed based on data as per Census 2011*

Planning Committee (MPC) to draft a development plan. However, only a handful of cities in India have designated metropolitan areas and constituted an MPC, and in most cases the MPC is defunct.

Census of India reckons Urban Agglomerations (UA) as a continuous urban spread constituting a statutory town and its adjoining Out Growths (OGs), or two or more physically contiguous towns together with or without OGs of such towns. A UA must consist of at least a statutory town and its total population (i.e. all the constituents put together) should not be less than 20,000 as per the 2001 Census .

Out of the total urban population of 377 million as per census 2011, 61% (230 million) live in 474 UAs that include ULBs, CTs and OGs. However, UA finds no place in the urban governance paradigm in India and is only part of the census vocabulary. UAs could well be the demographic basis of metropolitan governance in India.

Table 3: **Urban Agglomeration- Mumbai example**

City	ULB type	Population	Population %
Greater Mumbai	Corporation	1,24,42,373	68%
Mira-Bhayandar	Corporation	8,09,378	4%
Thane	Corporation	18,41,488	10%
Navi-Mumbai	Corporation	11,20,547	6%
Kalyan-Dombivli	Corporation	12,47,327	7%
Ulhasnagar	Corporation	506,098	3%
Ambarnath	Council	253,475	1%
Badlapur	Council	1,74,226	1%
Total		**1,83,94,912**	**100%**

Source: Computed based on data as per Census 2011

The absence of a metropolitan paradigm has resulted in not just fragmented governance and service delivery resulting in lack of accountability, but also inability of our cities to realize agglomeration economies. 21st century challenges of economic growth and job creation, climate change and environmental sustainability and equitable access to opportunities and services have direct dependence on cities, in terms of both problems and solutions. A metropolitan governance paradigm, including economically, is quintessential in 21st century India.

10. *Computed based on data as per Census 2011*
11. *Census of India, 2011*
12. *Computed based on data as per Census 2011*

Chapter 2

The state of municipal finance in India

ULBs ARE INSTITUTIONS OF LOCAL SELF-GOVERNMENT, YET REMAIN FINANCIALLY WEAK

The following high-level trends and ratios gleaned from available financial information on ULBs indicate that they continue to remain weak institutions.

Total revenues of ULBs in India to India GDP

Aggregate revenues of all ULBs in India put together are estimated (based on the available limited information) at less than INR 150,000 cr[13] (including the Municipal Corporation of Greater Mumbai, which by itself accounts for nearly 20% of total). This amounts to less than 1 % of GDP compared to greater than 6% in Brazil and South Africa[14]. Consequently, both revenue-wise and expenditure-wise, ULBs are not significant enough as institutions of local self-government.

Percentage of own revenues to total revenues

For the 13 states analysed as part of the 2017-18 data shared by states in response to the XV FC questionnaire, own revenues contribute 49% of total revenues, with the remaining predominantly comprising of grants and assigned revenues. ULBs in India are highly dependent on central and state government grants, schemes and missions for their financial sustenance.

Growth in own revenues

Based on data available for seven states (Maharashtra, Karnataka, Gujarat, West Bengal, Punjab, Chattisgarh and Uttarakhand) for the period 2014-15 to 2017-18, the average Compounded Annual Growth Rate (CAGR) in own revenues of ULBs was only 2.7%. Gujarat, Chattisgarh and Uttarakhand recorded CAGR in the range of 19%-28%. However this growth has not been uniform or consistent across years.

Collection efficiencies

Collection efficiency of property tax, the single largest source of revenues for ULBs, ranged from 32% to 72% for the five states (Karnataka, Madhya Pradesh, West Bengal, Himachal Pradesh, and Jharkhand) for which data was available from Comptroller and Auditor General of India (CAG) audit reports, for the period 2011-12 to 2015-16. While in Karnataka, Madhya Pradesh and West Bengal, the collection efficiency was in the range of 65-70%, in Himachal Pradesh collection was 52% in 2013-14, the only year for which data was available, and 32% in Jharkhand for the period 2011-12 to 2015-16.

13. *Financially Empowering Municipalities: Way Forward, Ms. Sunita Sanghi, Ms. Jaya Priyadarshini, Ms. Manshi Singh 14. Census of India, 2011*
14. *Municipal Finance in India – An Assessment, Reserve Bank of India*

Staffing

As per the Annual Survey of India's City-Systems (ASICS) 2017 report, an annual ranking of cities on governance parameters, the average staff vacancy in major ULBs was in the range of 18-60% (Ahmedabad, Bhubaneswar, Guwahati, Hyderabad, Jaipur and Mumbai), compared to sanctioned staff strength. Bengaluru and Hyderabad had in the range of 300-500 staff per 100,000 citizens. Johannesburg in South Africa has approximately 659 staff per 100,000 citizens for a city of 5 million citizens. Based on data collected through Right To Information applications, vacancy in the revenue departments of Bhubaneswar, Chennai, Guwahati and Pune were 18%, 11%, 44% and 52% respectively (including contractual staff and staff on deputation from state governments), compared to sanctioned staff strength. In the accounts and finance department, the situation was similar.

Accounting and audit

As per CAG audit reports, for 2,779 ULBs across thirteen states (including large states such as Uttar Pradesh, Bihar, Andhra Pradesh, Telangana, Maharashtra, Karnataka and Tamil Nadu), approximately 4,400 audits were pending in respect of their annual accounts, for years ranging from 2008-09 to 2015-16.

THERE IS A YAWNING GAP IN FINANCIAL INFORMATION ON THE STATE OF FINANCES OF ULBS

Successive FCs have cited and emphasised the lack of credible financial information with respect to ULBs. The XIII and XIV FCs, through performance grant conditions, pushed the envelope on improved accounting, auditing and financial reporting in ULBs, yet the state of financial reporting still requires significant improvement. The lack of comprehensive financial information on ULBs- at the ULB, state and central levels- is proving to be a major impediment in policy making and performance management.

There are three broad types of information that is required, which presently is largely unavailable in a timely, credible and standardised manner.

Economic

Cities are very important units of the economy. Therefore information on employment and jobs, migration, investments, GDP of cities, and their underlying key drivers such as number of business establishments, trade licenses etc. need to be collected and reported systematically.

Financial

Budgets, audited annual accounts, performance MIS, internal audit reports and medium-term fiscal plans of ULBs and other city agencies such as development authorities, water boards, and transport corporations need to be available on both stand-alone basis and also consolidated at a city level. Particularly, data on land and property of ULBs and city agencies is critical. These need to be available on a timely, credible and standardised manner to facilitate comparative analysis and to inform policy and decision making at the ULB, state and central levels.

Performance

Service Level Benchmarks (SLBs) for four services (water supply, sewerage and sanitation, solid waste management and storm water drains) as per guidelines issued by the MoHUA, which are essentially a combination of supply-side (functional performance) and demand-side (citizen outcome) indicators, were rightly emphasised by the XIII and XIV FCs. In addition, there is a need for SLBs for other services and functions. Further, there is also need for radical transparency in tenders and contracts including geo location at a street level and information through each stage of the lifecycle of each contract, and other public disclosure required by the Public Disclosure Law, a mandatory reform under the erstwhile Jawaharlal Nehru National Urban Renewal Mission (JnNURM).

SUCCESSIVE FCs HAVE HAD AN IMPACT ON THE STATE OF MUNICIPAL FINANCES

Recognising the poor state of ULB finances, the XI FC was the first to set aside funds for ULBs and subsequent FCs followed suit. The FC reports also included recommendations for ULBs to improve financial transparency and revenue augmentation. However, since the release of the funds set aside was not linked to fulfilment of any of above mentioned recommendations, the recommendations went unnoticed.

To address this, the XIII FC introduced performance linked grants, where nine conditions were laid out for ULBs (and states) to meet in order to tap into 10% of the grant amount set aside for ULBs. The conditions included the following:

i. Supplement to the budget documents to be prepared by the state government. The states should implement an accounting framework consistent with the accounting format and codification pattern suggested in the National Municipal Accounting Manual in all ULBs
ii. The state government must put in place an audit system. CAG must give Technical Guidance and Support (TG&S) over the audit of all ULBs.
iii. The state government must put in place a system of local body ombudsman. If the class of functionaries fall under the jurisdiction of the Lok Ayukta, ombudsman is optional

iv. The state government must put in place a system to electronically transfer local body grants within 5 days of their receipt. On lack of infrastructure, transfer within 10 days
v. The state government to prescribe qualifications of persons eligible for appointment to the SFC
vi. All local bodies to be enabled to levy property tax
vii. The state government must create a state level property tax board
viii. The state government must put in place standards for delivery of all essential services. (water supply, sewerage, storm water drainage, and solid waste management)
ix. Municipal corporations with more than 1 million population (2001) to create fire hazard response and mitigation plan

These conditions introduced new energy and thinking and set in motion reforms in audit and accounts of ULBs. The relatively lesser share of performance grants and limited capacities to implement a wide range of reforms, remained a challenge for states and ULBs.

The XIV FC attempted to simplify XIII FC's performance grant conditions and introduced only three conditions to be met by ULBs to tap into 20% share of performance grants. This included:

i. ULBs to publish audited annual accounts relating to a year not earlier than two years preceding the year in which the claim for performance grants is made
ii. ULBs to show an increase in own revenues over the preceding year
iii. ULBs to publish service level benchmarks relating to basic urban services each year for the period of the award

This ensured policy continuity with respect to the principles of performance grants and focus on publication of audited accounts, SLBs and own revenue enhancements. Poor quality of disclosures and data, relatively lesser incentives for larger ULBs, and limited capacities in smaller ULBs surfaced as challenges

WHY ARE CITIES IN INDIA FINANCIALLY WEAK: A ROOT-CAUSE ANALYSIS

Financial sustainability and financial accountability are the two pillars of municipal finance. ULBs needs to raise adequate funds to invest in infrastructure and services that can provide basic quality of life to every citizen as per pre-defined and pre-agreed benchmarks, and ULBs need to apply their funds optimally to meet citizen outcomes. We describe below challenges to financial sustainability and accountability faced by ULBs in India.

Challenges to financial sustainability of ULBs

ULBs do not estimate their medium-term and long-term financing requirements

ULBs are not required to estimate and do not estimate their long-term capital requirements based on the current infrastructure and service delivery gap and future projections. Therefore at any given point in time, there is no estimate available of the amount of financing required by ULBs. The annual budgets of ULBs are prepared without reference to a medium-term fiscal plan.

ULBs have access to limited own revenue streams, and exercise limited powers over them

ULBs do not have access to buoyant revenue streams. In addition, valuation and assessment or underlying methodology for levy of revenue streams is not appropriate to context e.g. guidance values hugely divergent from market values, exemptions not supported by sound rationale etc. Completeness of billing and poor collection efficiencies further accentuate weak revenue potential of ULBs.

Grants from state and central governments too do not make up for own revenue shortfall and are unpredictable in quantum and timing

The sufficiency, predictability and timely receipt of central and state government grants is also an important challenge faced by ULBs. There are several delays in constitution of SFCs, and delays in submission of their reports. There are several instances of ATRs not being placed before the state assembly or few recommendations being accepted.

ULBs are not able to leverage municipal borrowings

The weak financial position of ULBs and lack of sufficient independence and predictability of revenues puts them at a disadvantage when it comes to leveraging municipal borrowings (comprising the whole gamut of instruments such as term loans, public private partnerships, municipal bonds and pooled finance, and finance leases). In several states, ULBs require prior state government approval to avail municipal borrowings. ULBs need to achieve higher standards of financial reporting and public disclosure to instil confidence among potential investors or lenders, and recruit high quality talent required to structure projects and transactions.

Challenges to financial accountability of ULBs

ULBs have weak budgeting process, no medium-term fiscal plans

ULBs have significantly weaker budgeting process compared to central and state governments. There is significant variance between budgets and actuals rendering budget documents less credible (with 14 out of 23 cities covered under ASICS showing greater than 30% variance, going up to 76% in one case), and annual budgets themselves are not derived from medium or long-term fiscal plans. Further, budgets across states are incomparable in the absence of a national standard, most often only provide operational cost lines (e.g. salary, rent) and not functional cost lines (e.g. solid waste management, roads), and are too high-level (i.e no ward or neighbourhood level data) to facilitate public participation in them.

Accounting in ULBs remains cash-focussed, audit of annual accounts not firmly embedded

For the past twenty years, through several policy measures, there has been an effort to introduce double entry accrual-based accounting in ULBs. However, ULBs continue to largely follow cash-based accounting, and most ULBs that follow accrual-based accounting, follow both systems, with cash-based accounting used for day to day management, reporting and decision-making. The ultimate proof of accrual-based accounting are annual accounts audited by independent auditors. The performance grant condition under XIV FC requiring audited annual accounts has made an unprecedented push towards audited accounts in ULBs. Yet, their accuracy and completeness remain a matter of concern. The absence of certification-based skilling of accounting staff has resulted in accrual-based accounting and audited annual accounts remaining processes managed by consultants and contractors and not internalised by ULBs.

There is no credible performance management process in ULBs

ULBs are not required by municipal acts to put in place any performance management process or publish performance MIS reports, covering both financial & performance, at pre-defined intervals. Few states have implemented state-wide information systems for ULBs with performance MIS features that are meaningfully integrated with decision making processes.

There is low level of transparency in finances and operations of ULBs, and no scope for citizen participation

The degree of transparency in finances and operations of ULBs was generally found to be low across ULB, state and central levels. Essentially, not only is synthesised information at a ULB level not published systematically, but also summarised information on ULB finances and operations is not available at the state and central levels. There is also no scope for citizen participation in budgeting and financial management of ULBs, though all ULB expenditure directly benefit their citizens (unlike central and state government budgets).

ROADMAP TO FINANCIAL SUSTAINABILITY AND FINANCIAL ACCOUNTABILITY OF ULBS IN INDIA

We outline below a roadmap to financial sustainability and financial accountability of ULBs in India.

Fiscal decentralisation

State governments need to devolve more own revenue streams to ULBs and give them greater powers over such revenue streams. SFCs need to be overhauled into credible institutions, and state governments need to be held accountable for timely consideration and response to ATRs.

Revenue optimisation

ULBs need to optimise own revenue streams devolved to them by reviewing and reforming the five statges of the property tax lifecycyle namely valuation, assessment, billing, collection and reporting. Particular attention needs to be paid to completeness of assessment and billing, and maximising collection efficiency.

Fiscal responsibility and budget management

There is a need for a FRBM framework for ULBs that focuses on realistic budget estimates, timely, credible and standardised audited annual accounts, uniform accounting standards and prudent financial accounting principles, medium-term fiscal plans, performance reporting and citizen participation in budgeting and financial management.

Institutional capacities

State governments need to build capacities of ULBs in two particular areas. First, they need to estimate and then provide access to adequate number of skilled staff in revenue and accounts departments. Second, integrated information systems that handle end-to-end transaction processing and reporting need to be implemented.

Transparency, accountability and citizen participation

ULBs should practise radical transparency with respect to their finances and operations, following provisions of the public disclosure law and section 4 of the RTI Act in letter and spirit. Central and state governments should put in place systems and processes to collect and report timely and credible financial and operational information on ULBs in a comparative format.

Chapter 3

Fiscal decentralisation

FISCAL DECENTRALISATION REMAINS A NASCENT REFORM AGENDA

Fiscal decentralisation is a crucial enabler of better municipal performance, service delivery and accountability. However it remains a nascent, incomplete and dormant reform agenda across states in India. There are specific aspects of fiscal decentralisation that require attention.

What revenue powers to devolve and how much, to begin with, should be a function of extent of functional decentralisation

States show differing patterns of functional decentralisation to their ULBs. As per ASICS 2017 report, out of the 18 states surveyed, only 6-14 functions out of 18 have been devolved to ULBs by the state governments. Refer to Appendix 2 for state-wise status on devolution of power to ULBs.

While one could argue that the desired end state is for ULBs to be financially independent given their status as institutions of local self-government, global experience in decentralisation indicates there is no one right way. Countries such as Brazil, which have provided greater powers to city governments constitutionally, have chosen to assign percentage of federally levied revenues rather than devolve those revenue streams to ULBs. Even as the agenda of functional decentralisation progresses, there is a need to achieve a steady state in fiscal decentralisation, based on certain robust underlying principles.

Table 4: **Revenue streams devolved by states to ULBs**

Particulars	TS	BH	CH	GJ	HR	JH	KA	KL	MP	MH	OD	RJ	TN	WB
Property tax	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Duty on transfer of property	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y
Tax on vacant land	N	N	N	N	N	Y	N	N	N	N	N	N	N	N
Additional Surcharge on transfer of property	N	Y	N	N	N	Y	Y	Y	N	N	Y	N	N	N
Electricity Cess	N	Y	N	N	Y	Y	N	N	N	N	Y	N	N	N
Water tax	N	Y	Y	N	N	Y	Y	N	Y	N	Y	N	N	Y
Fire tax	N	Y	Y	N	N	Y	N	N	Y	N	Y	Y	N	
Drainage tax	N		Y	N	N	N	N	N	Y	N	N	N	N	Y
Professional tax	N	Y	Y	N	Y	Y	N	Y	Y	N	N	Y	Y	Y
Toll on roads, bridges, ferries,navigable channels, heavy trucks	N	Y	Y	N	N	Y	N	N	Y	N	Y	Y	N	N

Particulars	TS	BH	CH	GJ	HR	JH	KA	KL	MP	MH	OD	RJ	TN	WB
Tax on vehicles	Y	N	N	Y	Y	N	N	Y	N	Y	N	Y	N	Y
Development charge	N	Y	Y	N	Y	Y	N		Y	Y	Y	Y	N	Y
Sanitary cess	N	N	Y	N	N	N	N	N	Y	N	N	N	N	Y
Tax on deficit in parking spaces in any non-residential building	N	Y	N	N	N	Y	N	N	N	N	Y	Y	N	N

Source: State Municipal Corporation and Municipalities Acts N No Y Yes Not Mentioned

Two key trends stand out from the data on devolution of different revenue streams by states. First, that property tax and share of duty on transfer of property are the only significant revenue streams that are consistent across states. Second, that less urbanised states such as Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha and Rajasthan appear to have devolved more number of revenue streams compared to other states. In respect of property tax, the degree of devolution in terms of powers varies across states, with most states retaining for themselves powers over guidance values. In respect of stamp duties and registration charges (duty on transfer of property), what is devolved generally is a percentage share.

Therefore, a useful starting point for the fiscal decentralisation reform agenda could be to answer the question, how much money is required to meet functional obligations of a ULB, and therefore what revenue powers need to be devolved. This is important as several recommendations made by the XIV FC on devolution of revenue streams to ULBs have not seen the light of day and therefore there is a need to bolster the argument for fiscal decentralisation more empirically.

The report on Indian Urban Infrastructure and Services of the High Powered Expert Committee, estimated the per capita investment cost by sector for eight sectors (water supply, sewerage, solid waste management, urban roads, storm water drains, urban transport, traffic support infrastructure and street lighting) and arrived at an aggregate of Rs 43,386. Similarly, it estimated per capita annual operations and maintenance cost by sector for the same sectors and arrived at an aggregate of Rs 1,806[15].

Currently however, there is no empirical basis for estimation of expenditure required to meet pre-defined service levels for different functions discharged by the ULB, which is actively used by states and ULBs. Further, the potential of different revenue streams need to be estimated and compared with the expenditure obligations in order to determine what revenue streams and how much of each revenue stream would need to be devolved to enable ULBs to discharge their obligations effectively.

15. *Report on Indian Urban Infrastructure and Services, The High-Powered Expert Committee for Estimating the Investment Requirements for Urban Infrastructure Services, March 2011*

Recommendation

We recommend that the MoHUA, commission an eminent institute to undertake an effort to draw up a standard empirical framework or a financial model that state governments and ULBs of different sizes and types can use

1. to estimate expenditure obligations for various functions listed under Schedule XII of the Constitution, vis-à-vis underlying key drivers such as population, area in sq km, projected population, existing service levels, target service levels, per unit capital and operations and maintenance cost etc. and
2. to estimate revenue potential of major revenue streams that could potentially be devolved or assigned to ULBs, and estimate the extent of devolution that could meet expenditure obligations estimated in 1 above, depending on the extent of functional devolution in respective states and ULBs

The study may also recommend appropriate formulae to ascertain percentage share of revenue streams such as stamp duties and registration charges, motor vehicle registration charges and profession tax. The study could contribute objective research for states to determine expenditure obligations of ULBs corresponding to such assigned revenues.

Further, the same study could also evaluate the extent of revenue foregone in respect of fees and user charges and create a mechanism to continuously compute and report the same, and factor performance on the same while determining untied grants.

Grants and assigned revenues from the central and state Governments need to be predictable in quantum and timing

Not all expenditure obligations of ULBs need to necessarily be financed by own revenue streams. Grants and assigned revenues, as long as they are predictable in quantum and timing and derived from clearly laid down institutional processes like SFCs, can serve ULBs equally well.

Table 5: **Contribution of sources of funds for ULBs for the year 2017-18**

State	Own revenue	Grants and Assigned revenues	Others	Borrowings	Total
Karnataka	27%	71%	-	2%	100%
Chhattisgarh	53%	29%	-	18%	100%
Gujarat	47%	43%	-	10%	100%
Jammu and Kashmir	9%	85%	6%	-	100%
Meghalaya	73%	27%	-	-	100%
Maharashtra	62%	22%	15%	1%	100%
Manipur	4%	95%	1%	-	100%
Nagaland	92%	8%	-	-	100%

State	Own revenue	Grants and Assigned revenues	Others	Borrowings	Total
Punjab	83%	15%	1%	1%	100%
Sikkim	42%	58%	-	-	100%
Tripura	6%	54%	-	40%	100%
Uttarakhand	11%	89%	-	-	100%
West Bengal	20%	76%	3%	1%	100%
Total	**49%**	**41%**	**7%**	**3%**	**100%**

Source: Data provided by states in response to XV FC questionnaire

However, as one can observe there is wide divergence between states in the extent to which ULBs rely on grants and assigned revenues. Read along with the general ineffectiveness of SFCs, this points to the need for greater attention to make grants and assigned revenues more predictable in quantum and timing, so better budget management is enabled. This does not refer to any scheme or mission grants that are subject to conditions precedent or reform conditions, which by their nature would not be predictable as they are not untied in nature.

Recommendation

CFC and SFC grants being made available to ULBs need to form part of medium-term fiscal plans. Actual disbursements against FC awards should be tracked and reported. There is also a need for state governments to gradually increase grants through the SFC and reduce discretionary and tied grants, so as to facilitate proper fiscal planning at ULBs.

ULBs need powers over municipal borrowings, budget-setting and support from states to access municipal borrowings

Other than own revenues and grants, ULBs could also leverage municipal borrowings particularly to finance capital investments. Municipal borrowings could take the form of term loans, municipal bonds or pooled finance, PPPs or finance leases. Currently, any form of borrowing generally requires state government approval. Few states have put in place a CDLP within which ULBs are permitted to borrow.

Table 6: **Borrowing powers of ULBs**

ULBs authorised to raise borrowings without state government/central government approval?	Bhubaneswar, Jaipur, Patna, Ranchi
ULBs not authorised to raise borrowings without state government/central government approval?	Ahmedabad, Bengaluru, Bhopal, Chandigarh, Chennai, Dehradun, Delhi, Guwahati, Hyderabad, Kanpur, Kolkata, Lucknow, Ludhiana, Mumbai, Pune, Raipur, Surat

Source: Annual Survey of India's City-Systems (ASICS) 2017

It has been observed that most ULBs demonstrate strong preference for term loans. Few ULBs have accessed municipal bonds (aggregate issuances less than Rs 3,500 cr with another Rs 3,000 cr in the pipeline) or pooled finance or finance leases. PPPs too remain largely underinvested relative to their potential.

At a larger level, ULBs presently do not even have full powers over budget-setting.

Table 7: **Power of ULBs over budget-setting**

States	Should the budget be presented to the state government?	Does the state government have the power to modify the budget?
Andhra Pradesh, Bihar, Chandigarh, Chhattisgarh, Goa*, Haryana, Himachal Pradesh, Jharkhand*, Karnataka, Odisha, Rajasthan, Tamil Nadu*, Telangana, Uttar Pradesh*, Uttarakhand*,	Yes	Yes
Gujarat, Kerala, Maharashtra, Delhi	No	No
Madhya Pradesh, West Bengal	Yes	No

Source: State Municipal Corporation and Municipalities Acts

** The state governments can make amendments in case ULBs are indebted to them*

Recommendation

CDLP or equivalent provisions on municipal borrowings need to be introduced in all municipal acts to open up ULBs to municipal borrowings within a framework of fiscal prudence. ULBs need to be given full powers over budget-setting eliminating the need for state government approvals.

ULBs require support from states for strengthening their capacities to engage with the market

Only a handful of large ULBs in India are capable of independently accessing municipal borrowings across the spectrum of opportunities. Most ULBs in India, in their current level of capacities, require hand-holding in engaging with market players to access municipal borrowings. This hand-holding ranges from identifying projects, evaluating cost-benefits of various funding options, drawing up project financials, preparing annual accounts, getting them audited by a credible, independent Chartered Accountant, identifying a credible credit rating agency and undergoing a credit rating process, engaging with merchant bankers/arrangers and then finally with potential investors and stock exchanges.

Recommendation

States through urban infrastructure development finance corporations or equivalent special purpose vehicles should provide the specialised capacity building support and hand-holding that is required for ULBs to engage with capital markets.

ULBs need to be given greater degrees of ownership and control over their land and property, and capacity building support to leverage them

ULBs today barely exercise meaningful control over land and property in their jurisdiction. In the long-term, ownership or control over land and building would be critical for ULBs to raise revenues for infrastructure projects. For instance, there are restrictions on the value of immovable assets that may be acquired without the sanction of the state government and, in a lot of cases, these values are abysmally low. ULBs also generally do not have the authority to acquire properties on leases of a long-term leases. Disposal of properties is also subject to state government approval.

Recommendation

A systematic and comprehensive effort needs to be undertaken to give greater powers over land and property to ULBs, through appropriate amendments to state municipal acts.

Chapter 4

Revenue optimisation

THERE IS AN URGENT NEED TO OPTIMISE OWN REVENUES OF ULBs

Even as efforts are made to advance the cause of fiscal decentralisation, there is an urgent need for states and ULBs to ensure own revenues that are largely within the control of ULBs are fully optimised.

Today there is no credible data that is available on the extent of revenue efficiency in ULBs. This is primarily due to the absence of accrual-based accounting. In the absence of accrual-based accounting and corresponding financial reporting, one is not able to compare what was due and what was collected, for property tax and also other revenue streams. Secondly, even where the data is available, a serious evaluation of each stage of the lifecycle of each revenue stream, and thereafter measures to gain assurance on revenue efficiency, have not been systematically undertaken in states and ULBs.

Property tax offers the best test case for an evaluation of current practices and challenges in each of the five stages of lifecycle, being by far the largest source of own revenues for ULBs across states. The five stages of lifecycle of property tax are enumeration, assessment, valuation, billing, collection and reporting.

UNDERSTANDING EACH STAGE OF THE PROPERTY TAX LIFECYCLE IS CRITICAL

Enumeration

Enumeration refers to the process of having a count of properties in the ULB. As is seen from the Appendix 3, 12 state municipal acts do not have clear provisions for regular enumeration of properties. In several other cases, enumeration can be undertaken at the discretion of states or ULBs with varied time intervals.

Several states and cities are in various stages of implementing GIS-based solutions for enumeration of properties. However, two principal gaps remain. First, there is no provision for regular update either by mandatory linkage to building plan sanction systems or otherwise. Second, there is no institutional mechanism to ensure continuity beyond a one-time exercise, including knowledge transfer and creation of capabilities within the ULB or state intermediaries. It is also not clear if there is a need for a certain degree of standardisation in GIS-based solutions. Possibly, at least documentation of the interventions undertaken in states and cities so far, and their relative benefits and costs would benefit larger scale adoption of appropriate solutions by other states and cities.

Recommendations

Provision for periodic enumeration should be a part of state municipal acts. While municipal corporations may be in a position to implement their own GIS systems, states need to provide for a state-wide GIS facility for municipalities to access, through a specialised entity like the urban infrastructure development finance corporation or equivalent. Central government should consider a review of GIS implementations completed so far and publish a compendium with costs and benefits. The central government could also consider laying out broad guidelines or options for GIS implementation by states. Database integration across government databases such as those of power distribution companies and stamps and registration department should be considered to enable smooth update of property records on an ongoing basis.

Valuation and Assessment

There are several important aspects that merit attention at the valuation and assessment stages of the lifecycle, also the most complex stages of the lifecycle. Answers to the following questions will aid an informed evaluation of valuation and assessment.

i. Is the valuation methodology and process transparent, providing for
   a. Unit Area Value (UAV) method
   b. self-assessment and
   c. updating guidance values at regular intervals
ii. Are exemptions to property tax determined based on underlying data including revenue foregone, number and nature of beneficiaries, appropriate rationale?
iii. Are property tax rates revised at regular intervals through a clear and transparent process?

Based on reasonable data collection efforts, we found it hard to obtain copies of property tax rules. The municipal acts generally contain only high-level provisions on property tax; 8 out of 21 states we assessed do not have clear provisions in their state municipal acts on property tax assessment (refer to Appendix 4). Therefore much more can be done to ensure that valuation and assessment methodology and processes are more transparent. Few states have not yet moved to a self-assessment scheme.

We also found a lack of coherent approach towards updating guidance values (by whatever name called). There is also no integration between the databases of the stamp duties and registration department and the revenue department of ULBs. The XIII FC had recommended the creation of a property tax board at the state level for supporting ULBs in enumeration, valuation, assessment and exemptions, besides being an independent, credible institution that is able to lend transparency to property tax administration. However, 12 out of the 21 states have not established a property tax board. Appendix 5 enlists the provision about property tax board in state municipal acts.

While through the JnNURM and XIII FC there was a concerted effort to move towards UAV method of valuation and assessment, of the 21 states we evaluated, only 5 had transitioned to UAV method and the rest were following ARV method. The ARV method leaves room for discretion in estimating rental value. Refer to Appendix 6 for more state-wise details on valuation method being followed. Exemptions too differed widely between states, and were not supported by data on revenue foregone, and underlying rationale.

There were also no coherent provisions in municipal acts on revision of property tax rates. A dozen or so state municipal acts remain silent on property tax rate revision. Refer to Appendix 7 for more details.

Recommendations

UAV and self-assessment methodology should be progressively made mandatory across states and ULBs. A property tax board should be constituted in all states to provide independent advice and recommendations to ULBs on enumeration, valuation and assessment. Exemptions from property tax should be rationalised and always accompanied by details of underlying rationale and revenue foregone. The property tax register of ULBs should be published online with details of property, area, property type, guidance value, property tax amount, payment details, pending dues etc. with due safeguards built-in for privacy.

Billing and collection

Among the stages of the property tax lifecycle, collections has received most attention from both policy makers and administrators. However progress in reforming collection efficiencies has been slow.

Collection efficiency of property tax ranged from 32% to 72% for the five states for which data was available from CAG audit reports, for the period 2011-12 to 2015-16. While in Karnataka, Madhya Pradesh and West Bengal, the collection efficiency was in the range of 65-81%, in Himachal Pradesh it was 52% in 2013-14, the only year for which data was available, and 32% in Jharkhand for the period 2011-12 to 2015-16.

Table 8: **Property tax collection efficiency in ULBs across states**

State	ULB	Year	Tax Demand (in lakhs)	Tax collected (in lakhs)	Collection Efficiency%
Himachal Pradesh	All Municipal Corporations	2013-14	848	444	52%
Jharkhand	All Municipal Corporations	2011-12	1,488	615	41%
		2012-13	1,983	471	24%
		2013-14	2,098	644	31%
		2014-15	1,911	628	33%
		2015-16	2,646	848	32%

State	ULB	Year	Tax Demand (in lakhs)	Tax collected (in lakhs)	Collection Efficiency%
Karnataka (inclusive of arrears)	All Municipal Corporations	2011-12	35,628	28,872	81%
		2012-13	40,976	29,530	72%
		2013-14	49,849	36,226	73%
		2014-15	58,279	41,632	71%
		2015-16	66,641	43,083	65%
	BBMP	2011-12	1,60,000	1,21,000	76%
		2012-13	2,00,000	1,35,800	68%
		2013-14	2,50,000	1,32,318	53%
		2014-15	2,90,000	1,81,013	62%
		2015-16	2,90,000	1,96,019	68%
Madhya Pradesh(only current year demand)	All Municipal Corporations	2011-12	4,966	2,988	60%
		2012-13	5,114	2,989	58%
		2013-14	6,016	3,515	58%
		2014-15	6,366	3,732	59%
		2015-16	7,019	4,743	68%
	All Municipal Councils	2011-12	109	74	68%
		2012-13	106	74	70%
		2013-14	115	86	75%
		2014-15	123	90	73%
		2015-16	156	111	71%
West Bengal (only current demand)	All Municipal Corporations	2011-12	1,954	1,331	68%
		2012-13	1,995	1,360	68%
		2013-14	2,298	1,508	66%

Source: CAG audit reports

Collection efficiency is directly dependent on completeness of billing and also administrative efficiencies in the collection process. In many ULBs, there are no processes in place to ensure completeness of billing, timely billing and issuance of reminders for payment. Similarly, several ULBs continue to maintain manual records making them vulnerable to errors and frauds. Adoption of online payment of property tax has been relatively slow. Property tax MIS reports and regular publication of the same internally and externally was not a prevalent practice. We also found in certain cases significant staff vacancies in revenue departments directly impacting collection efficiencies.

From a policy standpoint, penal provisions too have been patchy, with 13 out of 21 states evaluated not making a reference to them. Even in the 13 states, as seen in Appendix 8, there are no provisions to enforce penalties.

Recommendations

ULBs should adopt end-to-end integrated information systems for property tax which provide for regular billing and reminders, online payments, digital records, integration with GIS system and property tax register, and facilitate monthly/quarterly property tax MIS. Penal provisions for delayed payments, and publication of defaulters' list should also be introduced and strengthened.

Normative standards should be drawn up for staffing of the revenue department, and an evaluation of cost - benefit of outsourcing billing and collections should be carried out.

In addition to property tax, a similar lifecycle approach needs to be adopted for other major revenue streams such as:

1. rental income from properties
2. plan sanction fees
3. development charges
4. share of stamp duties and registration charges
5. trade licence fees
6. profession tax
7. water charges and
8. other fees and user charges.

Land and property of ULBs is a heavily under-utilised asset and revenue stream. Most ULBs do not have complete and accurate records of their land holdings. Further, they do not have estimates of market value including market rental values. Overall, there is a need for greater systematic understanding of revenue streams, other than property tax, to understand their potential, buoyancy, reasons for low realisation etc. ULBs need to focus on growing their fee and user charge income in a systematic manner.

ULBs should be encouraged to get their annual accounts audited so as to ensure systematic maintenance of fixed asset registers. MoHUA should draw up a model RFP for use by states and ULBs to empanel chartered/registered valuers or real estate consulting firms to undertake a review of their lease documents, and estimate the market value of their properties and provide recommendations on optimising return on assets from land and property.

In the case of all fees and user charges, there is a need to adopt functional costing whereby the cost of service delivery is compared to corresponding fees and user charges and the revenue gap ascertained and published. State municipal acts, rules or accounting manuals need to be duly amended to facilitate such a disclosure. MoHUA should undertake a landscape study of all revenue streams other than property tax to provide knowledge support (in the form of implementation guidance) to states and ULBs on optimising the same in a systematic manner.

Chapter 5

Fiscal responsibility and budget management

ULBS NEED TO URGENTLY INVEST IN BETTER FINANCIAL REPORTING PRACTICES, UNDERPINNED BY COMPREHENSIVE FRBM PRINCIPLES

There is a need for a policy innovation in fiscal responsibility and budget management at the ULB level and city-level in order to embed a robust financial reporting framework as the foundation for financial sustainability and financial accountability in ULBs.

Budgets of ULBs need to be realistic, comparable and provide more actionable information

The budgetary discipline in ULBs is a far cry from central and state levels. There is significant variance between budgets and actuals rendering budget documents less credible, with 14 out of 23 cities covered under ASICS showing greater than 30% variance, going upto 76% in one case. Figure 1 represents the extent of budget variance across 23 cities.

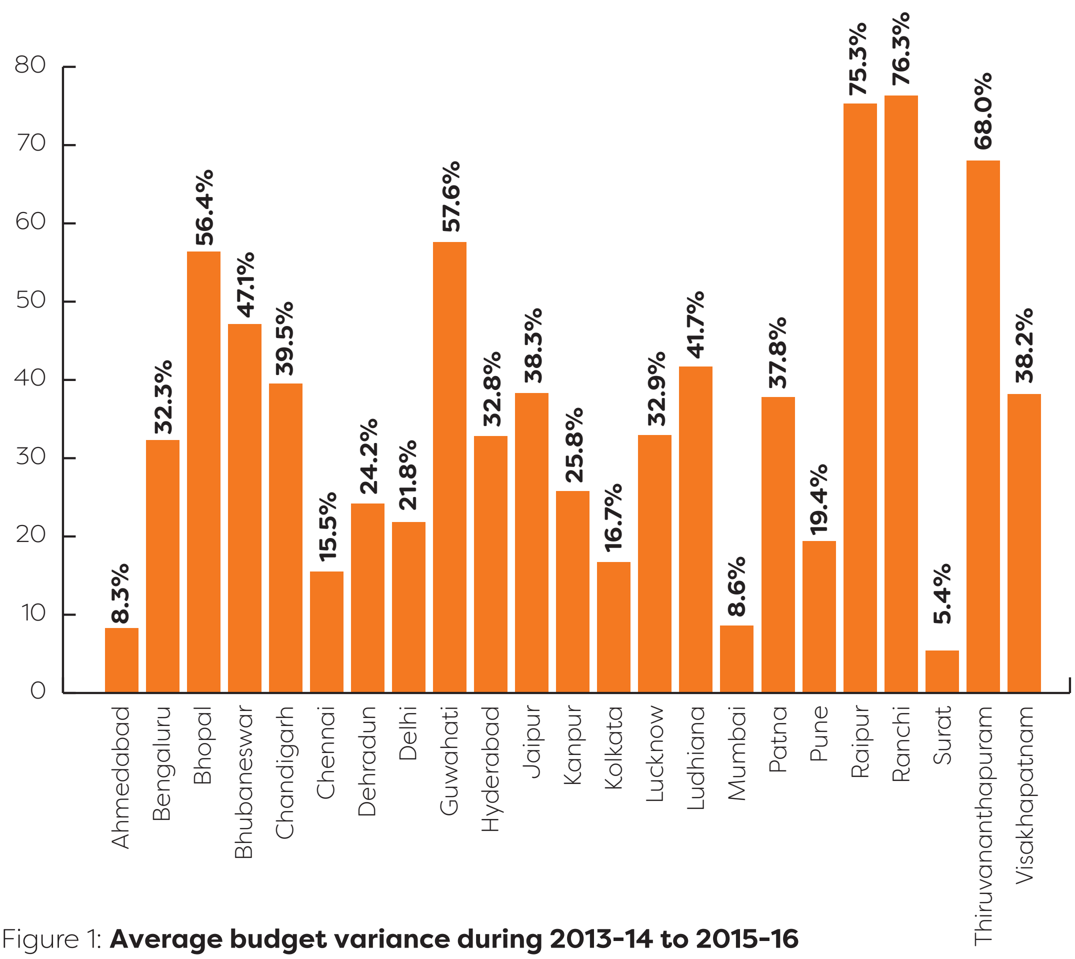

Figure 1: **Average budget variance during 2013-14 to 2015-16**

Further, budgets across states are incomparable in the absence of a national standard, notwithstanding the requirement to follow the national municipal accounting manual. Most often budget documents only provide operational cost lines (e.g. salary, rent) and not functional/service delivery cost lines (e.g. solid waste management, roads, streetlights etc.) thus impairing their utility. ULB budgets should provide both in order to facilitate meaningful analysis, besides a geographic-cut (e.g. ward) to the best extent possible, as the city is essentially a spatial unit.

Outcome budgets are being introduced at the central and state-levels, there is in fact greater relevance and need of outcome budgeting at the municipal level

Presently, ULB budgets are not linked to outputs and outcomes which they seek to achieve. Particularly at the ULB level (as against state and central government levels), it is easier and more relevant to track the direct benefit arising out of public expenditure, in the form of physical infrastructure and services (outputs) and in terms of quality of life of citizens (outcomes). Assurance on both effectiveness and efficiency of public expenditure cannot be obtained in the absence of tracking corresponding outputs and outcomes.

Budgets are annual projections, need to be anchored in medium-term fiscal plans

Budget of ULBs are annual projections of cash flows, essentially, projected receipts and projected payments. However, like in the case of central and state governments, ULB's too need medium-term fiscal plans from which annual budgets can be drawn up, and variance against which is explained. This is important both for financial planning (i.e. to raise adequate revenues to meet financing of infrastructure and services) and to ensure financial sustainability (i.e. to ensure that financial position of the ULB is sound). Presently, ULBs are not required to draw up and present medium-term fiscal plans.

Recommendations

Provisions in respect of budgeting in municipal acts and rules need to be overhauled, preferably through amendments to municipal acts and underlying budgeting rules in turn-based on a focussed fiscal responsibility and budget management framework for cities (including ULBs and other agencies providing city services). Such a framework should inter alia provide for/ensure the following:

i. Checks on budget variance, to ensure realistic budgets are drawn up by ULBs and variances are explained in detail along with next year's budget
ii. Standardised budgets that are comparable and provide information on both operational and function cost-types, including geographic allocations within the ULB (at a zone or division or ward level) to the best extent possible
iii. Outcome budgets that indicate outputs and outcome corresponding to expenditure outlays

iv. Systematic citizen participation in budgeting accompanied by public disclosure of actionable financial and operational information

v. Medium-term fiscal plans with annual explanatory statements alongside annual budgets for variances from medium-term fiscal plans. Refer Janaagraha's Primer of Medium-Term Fiscal Plan for Municipalities for a detailed walk through on how to prepare an MTFP (www.janaagraha.org/publications).

The Karnataka Local Fund Authorities Fiscal Responsibility Act 2002 presents a model that is worth emulating across states. The Karnataka Municipal Accounting and Budgeting Rules 2006 too incorporate several of the above recommendations.

Chapter6

Institutional capacities

AVAILABILITY OF ADEQUATE NUMBER OF SKILLED STAFF AND MODERN INFORMATION SYSTEMS ARE BOTH MAJOR WEAK LINKS IN THE ADMINISTRATION OF ULBS

ULBs have weak institutional capacities, which hinders their financial sustainability and their financial accountability. There are two components to this weakness. Firstly, ULBs do not have adequate number of skilled people, particularly in this context, in the finance and accounting and revenue functions. Secondly, while many ULBs use some form of information system, they are most often stand-alone and not integrated with workflows and processes. The twin challenges of lack of adequate human resources and information systems have taken together debilitated financial management in ULBs.

There are four essential ingredients to human resource management in ULBs, which are missing today

ULBs need to have normative standards for number of people they need in each function commensurate with underlying key drivers such as population, road length, tonnage of solid waste, number of properties/households, number of motor vehicles etc. and benchmark service levels they need to deliver. Secondly, (technical) skills and (behavioural) competencies required in each role need to be updated to 21st century urban requirements. Thirdly, organisation design should be fit for purpose, and aspects such as span of control need to be attended to. Lastly, performance management policy at an organisational, departmental and individual level needs to be defined with quantitative metrics.

Staff vacancies in ULBs are endemic

Staff vacancies in ULBs are pervasive.

Table 9: **Municipal staff vacancy**

City	Total sanctioned strength	Total permanent staff	% vacancy
Ahmedabad	21,375	11,199	48%
Bhubaneswar	1,439	1,088	24%
Guwahati	3,810	1,536	60%
Hyderabad	6,746	5,538	18%
Jaipur	9,745	6,161	37%
Mumbai	163,183	105,263	35%

Source: Annual Survey of India's City-Systems (ASICS) 2017

While vacancies compared to sanctioned strength are significant, the sanctioned strength itself is not based on normative standards and not updated periodically based on an enabling policy. When compared to the population they service and global peers, Indian ULBs come across as very poorly staffed.

Table 10: **Staff per lakh population**

City	Total Staff (including contract and deputation)	Population (in Lakhs)	Staff per lakh population
Bengaluru	26,800	84.4	317
Hyderabad	32,746	67.3	486
Mumbai	1,16,697	124.4	938
London	2,40,000	81.7	2,936
New York	4,92,300	83.3	5,906
Johannesburg	32,546	49.4	659

Source: Annual Survey of India's City-Systems (ASICS) 2017

While Bengaluru has close to twice the population of Johannesburg, it has fewer staff. Even after accounting for like-to-like functions handled by respective municipalities, the gap in staffing remains stark.

Information on staffing-across the board-including C&R rules and staffing numbers is hard to find for ULBs. For few cities, we were able to source data by grade for the revenue and finance departments. Number of sanctioned positions in Grades A and B are too few and within them vacancies are high. Please refer to Appendix 9 & Appendix 10 for detailed data on staff vacancy in select ULBs.

Use of information systems in ULBs continue to lag potential by a long distance, can potentially be a game-changer

Information systems can drive better effectiveness, efficiencies and serve as a force multiplier of innovation, by catalysing partnerships with business, academia and civil society. However ULBs have not successfully leveraged information systems to their advantage. Manual processes are rampant, particularly in revenue and finance functions. Information systems that exist are very often stand-alone and not integrated, and only yield limited benefits. Revenue and finance functions in particular have potential to benefit hugely from investments in information systems. E-Governance schemes since JnNURM to now have not yet fulfilled this need.

Recommendations

C&R rules of ULBs need to be comprehensively updated, particularly in respect of revenue and finance functions. Normative standards need to be established for each role in revenue and finance functions. Skills and competencies need to be defined in contemporary terms. Performance measures need to be laid down at organisation, department and individual levels. Workforce requirements in ULBs need to be reviewed at periodic intervals based on the growth of the city and the ULB through a medium-term workforce plan.

MoHUA, should draw up certification-based online skilling programs for revenue and finance staff. State governments should mandate completion of different levels of these programs for different levels of staff.

Municipal Services should be identified as a sector under the Skills Mission, so that a dedicated sector skill council can be created and jobs in revenue and finance departments given a thrust.

We strongly recommend that the MoHUA, undertake a serious evaluation of Municipal Shared Service Centres which can surmount the challenge of staffing in ULBs, and also deliver significant benefits in terms of lower costs and better services.

We also urge the Ministry to make available standardised software for revenue and finance functions for use by ULBs who have been unable to avail benefit of the same so far. It should also lay down standards for such software. State governments should facilitate fast-track adoption of the software by its ULBs

Chapter 7

Transparency, accountability and citizen participation

ULBS NEED TO URGENTLY INVEST IN BETTER FINANCIAL REPORTING PRACTICES

Financial and performance reporting by ULBs is emerging as one of the major impediments in improving their governance in general and financial management in particular. This is impacting both financial sustainability, in terms of improving own source revenues, optimising costs and also accessing market capital, and financial accountability.

There is a need to make existing operational and financial data available to citizens, create new types of hyperlocal data to facilitate meaningful citizen engagement, and to provide structured platforms for citizen participation and engagement.

Citizen participation in ULB budgets is necessary to ensure effective and efficient resource allocation between services and neighbourhoods

ULB budgets are presently insufficient to meet benchmark levels of infrastructure and services in cities. Further there is significant spatial inequity within all our cities i.e. some neighbourhoods have significantly better access to basic infrastructure and services than others, and certain neighbourhoods do not have access to even basic infrastructure and services. Presently, there are no provisions in municipal acts and rules that provide for feedback or inputs from citizens on ULB budgets, more specifically, identifying and prioritising services and locations for budgetary allocations which in turn would bring optimum citizen outcomes.

In order to ensure that limited resources of the ULB are targeted effectively (i.e. towards required needs, both service-wise, and location-wise) and efficiently (i.e. towards optimum citizen outcomes), there is a need to facilitate citizen participation in ULB budgets. However, such participation cannot just be in the form of open-ended public consultations.

There are three ingredients required for systematic citizen participation in budgets

1. Formal platforms for citizen participation like ward committees and area sabhas
2. Codified participatory processes for the functioning of ward committees and area sabhas,
3. Actionable data which can inform decision-making by ward committees and area sabhas.

Most states in India have only partially progressed on the agenda of formal platforms of citizen participation, vide the Community Participation Law (also refered to as Nagara Raj Bill), a mandatory reform under JnNURM. Please refer to Appendix 11 for status and extent of implementation of Community Participation Law in major cities.

Presently, there is no positive evidence to suggest that ward committees and area sabhas are functional even in states where rules have been notified.

In respect of providing actionable data too, states have only made partial progress, vide the Public Disclosure Law, a mandatory reform under the JnNURM. Making such data available helps ULBs leverage and tap into the enormous potential of ICT in India. A comprehensive open data policy would facilitate the process. However as per ASICS 2017, Hyderabad, Pune and Delhi are the only prominent ULBs in India that disclose some information in open data formats laid out in the National Data Sharing and Accessibility Policy (NDSAP).

Further, data can be actionable only when citizens can identify and engage with it. Therefore, there is a need to collate and present new and relevant hyperlocal data which could include information about street lights, footpaths, bus stops, water and electricity connection coverage etc. There is also a need to present existing data such as the budget, annual spends, status of civic works etc, at a ward level. Please refer to Appendix 12 for status and extent of implementation of Public Disclosure Law in major cities.

Recommendations

Provisions in respect of transparency and accountability in municipal acts and rules need to be overhauled. These should inter alia provide for/ensure the following:

i. Systematic citizen participation in budgeting accompanied by public disclosure of actionable financial and operational information at a work/contract level and street/ward level
ii. Portals similar to Swachh Manch to encourage active citizenship and volunteering among citizens and effective feedback loops
iii. Formalise citizen charters that state service levels building on MoHUA's SLB framework, turnaround time and grievance redressal procedures
iv. Implementation of NDSAP to facilitate easier access of data for citizens

ULBs are over-audited, but not necessarily rightly audited; ULBs need to put in place risk-based auditing of internal controls

ULBs are audited in different ways across different states. In certain ULBs, there are in-house audit departments under a Chief Auditor. The Chief Auditor generally audits cash-based accounting records, and undertakes an audit of individual transactions or procedures. There may also be an audit by the Department of Local Fund Audit (DLFA), which is part of the State Finance Department. The DLFA could undertake an audit of transactions or of annual accounts, but is generally found to be at a lag. Both chief auditor's and DLFA's audit reports are not accessible easily in the public domain.

In addition, pursuant to recommendation of the XIII FC, TG&S over the audit of ULBs was handed over by most (if not all) states to the CAG. Consequently, the CAG too undertakes an annual performance audit of ULBs, but on sample basis, covering certain ULBs and certain areas of their operations. The CAG audit reports are accessible in the public domain, on the CAG website. Further, ULBs also obtain fund utilisation certificates from third party auditors as per requirements of central missions, schemes and grants. Notwithstanding these audits, internal control environment of ULBs continue to remain weak and vulnerable to frauds and losses.

The ULBs therefore need to put in place risk-based auditing of internal controls which provide assurance to the elected council and citizens on the proper design and operating effectiveness of internal controls in ULBs.

Audit of annual accounts is the sine qua non of sound financial management, ULBs need to be mandated to publish their audited annual accounts in a credible, timely and standardised manner

Annual accounts of incorporated entities are supposed to comprise the following :

i. a balance sheet, which shows assets and liabilities of the entity as at financial year-end, and through that, the financial position of the entity
ii. an income and expenditure statement, which shows the income and expenditure of the ULB during the financial year, and through that, the financial performance of the entity for that year
iii. a cash flow statement or statement of receipts and payments, which shows the cash receipts and cash payments of the entity during the financial year, towards operations, investments and financing
iv. schedules to the balance sheet, income and expenditure statement, and cash flow statement which provide further details
v. significant accounting policies followed in preparing the annual accounts
vi. notes to accounts, with further disclosures on the operations of the entity

Most municipal acts and rules do not require ULBs to publish audited annual accounts in a credible, timely and standardised manner. Refer to Appendix 13 for state specific information on rules on audit of annual accounts of the ULB.

While some cities disclose their audited annual accounts, the quality of those leave much to be desired. Further, CAG audit reports indicate pendency in audit of annual accounts in a large majority of states and cities. Refer to Appendix 14 for details on state-wise pendency in audit of annual accounts.

Pursuant to the recommendation of the XIV FC to link performance grants and audited annual accounts, the status of audit of annual accounts has gradually improved. However these incentives have not resulted in a robust financial management system across all ULBs. Further, what constitutes audited annual accounts for the purpose of XIV FC performance grants has not been appropriately defined, and in many instances the audit reports were heavily qualified (i.e. there were numerous audit qualifications).

The accounting function in ULBs is outdated in terms of accounting standards, accounting manuals and standard operating procedures

While for the last two decades, concerted efforts have been made by both central and state governments to transition ULBs from cash to accrual-based accounting, results continue to be mixed. While most ULBs have claimed successful transition, they fail the litmus test of publishing audited annual accounts based on contemporary accounting standards and principles. In hindsight, the focus on just transition from cash to accrual-based accounting may have been counter-productive. What is needed is comprehensive modernisation of the accounting function, including most importantly, implementation of accounting standards for local bodies issued by the Institute of Chartered Accountants of India, updating state municipal accounting manuals and standard operating procedures being followed in the accounting function (many of which continue to mirror cash-based accounting).

Recommendations

State governments need to legally provide for and ULBs need to give effect to :

i. Risk-based internal audit function reporting directly to the elected council
ii. Publication of audited annual accounts that are credible, timely and standardised
iii. Accounting standards for local bodies issued by the Institute of Chartered Accountants of India in preparation of audited annual accounts

At the central and state levels, to facilitate a consolidated view of finances of ULBs, we recommend the adoption of XBRL. MCA21 of the Ministry of Corporate Affairs, regulatory reporting by banks to the Reserve Bank of India, and filing of Income tax returns etc. all adopt XBRL methodology and standards.

We are recommending a National Municipal Information System (NMIS) to be housed at the MoHUA which will serve as a repository of ULB's financial and operational information. With the aid of XBRL, such information will be available in a standardised and comparable format.

Given different states have their own state municipal accounting manuals, there is a need to draw up taxonomies for each state to bridge the accounting formats of that state with a single standard for the country, which could be prescribed by the MoHUA. This will be enabled by XBRL.

Chapter 8

Devolution by XV Finance Commission

CHALLENGES FACED IN DEVOLUTION OF FC GRANTS TO LOCAL BODIES

Basis of Award for Local Bodies

In the XIV FC recommendations Local Bodies were allocated 2.7% of Gross Tax Revenues (GTR) (Rs 287,436 cr)[16], using 13th FC numbers as a base, which allocated 1.6% of GTR.[17]

Challenges

While there appears to be a high-level basis for the percentage of GTR allocated to Local Bodies, the steps behind arriving at the exact percentage of allocation are unavailable in the public domain.

Allocation of local bodies grants between ULBs and PRIs

Similarly, Rs 2,87,436 cr was allocated between local bodies on the basis of urban-rural population mix in each state which amounts to Rs 87,143 cr and Rs 200,292 cr respectively[18] .

Challenges

Distinction between urban and rural is becoming blurred with the rising significance of 'city-regions'. Further thousands of PRIs (i.e. CTs) are showing urban characteristics. Earmarking funds specifically to ULBs and PRIs constrains the state from exercising discretion when local governance falls within the state list.

Allocation between basic and performance grants

In the XIV FC report the following was used as the split between basic and performance grants

ULBs: 80% Basic (Rs 69,715 cr) & 20% Performance (Rs 17,428 cr)

PRIs: 90% Basic (Rs 180,263 cr) & 10% Performance (Rs 20,029 cr)[19]

Challenges

The basis of the split between basic and performance grants is unavailable in the public domain.

16. *XIV FC Report, 2015*
17. *Ibid.*
18. *Ibid.*
19. *Ibid.*

Allocation of grants between ULBs

All ULBs, irrespective of size, have unconditional access to basic grants which are 80% of total grants. Latest available SFC recommendation is to be used to distribute basic grants between ULBs. In case, where not even one SFC has been formed/latest SFC has not submitted its recommendation, population (90%) and area (10%) are used to split basic grants.

Challenges

For large ULBs, 20% share of performance grants is insufficient to incentivise fulfilment of performance grant conditions.

Additionally, while the stipulation is to use SFC recommendations to decide allocation between local bodies, SFCs themselves have not been functional at optimal levels in many states. They are not constituted on time, with only 13 states even constituting V SFCs as per the mandate of 74th CAA[20].

Similarly, states also delay the submission of ATRs on SFC reports and in most cases the latest ATRs are not available in public domain. Only 9 out of 20 states assessed in ASICS 2017 have ATRs published online. Adherence of states to SFC recommendations is overall poor.

Recognizing the weak mechanism of SFCs, the XIV FC presented an alternative methodology of distribution of funds within ULBs and PRIs of a state i.e. population and area. The FCs prior to the XIV FC had left it entirely to the state to decide on the distribution in case SFCs were not active. However with the new alternative methodology there is even lesser incentive for states to strengthen the SFC mechanism.

Performance grants and conditions for availing the same

The performance grant conditions stipulated by the XIV FC are as follows:

i. Make available audited accounts that relate to a year not earlier than two years preceding the year of claim
ii. Measure and publish SLBs for the year of claim (only for ULBs)
iii. Improve own revenues over the preceding year

20. *State Finance Commissions: How Successful have they been in Empowering Local Governments? Manish Gupta and Pinaki Chakraborty, National Institute of Public Finance and Policy*

Challenges

Access to performance grants is determined by the staffing capacity of a ULB to fulfil performance grant conditions. Over 3,500 small ULBs have severe capacity constraints, and they are consequently unable to fully benefit from performance grants. As per data provided by the National Institute of Urban Affairs, only 44 out of 199 ULBs in Rajasthan could access performance grants in the year 2015-16 while in Uttarakhand only 30 out of 92 ULBs qualified to access them.

Inspite of performance grants incentivizing disclosure of financial data, the progress exhibited by cities in this regard has not been significant. In some cases, where the cities have fulfilled such disclosures, quality of data is poor.

Further, the MoHUA has increased the number of performance conditions despite the FC stipulating otherwise.

Table 11: **Performance criteria and weightage** (incl. additional criteria included by MoHUA)

Sl no	Reform	Weightage
1.	Audit of Annual Accounts	10
2.	Increase in Own Revenue Sources	40
2.1	Covering Establishment and O&M Costs from Own Income	20
2.2	Capital Expenditure as a % of Total Expenditure	20
3.	Publishing of Service Level Benchmarks	50
3.1	Water Supply Coverage Ratio	15
3.2	Reduction in Non-Revenue Water	15
3.3	Coverage of Water Supply for Public/Community Toilets	10
3.4	Scientific Disposal of Solid Waste	10

Source: XIV FC performance grant scheme and its qualifying indicators, MoHUA

The Ministry also had challenges in monitoring performance conditions of 4,041 ULBs through a manual process and this has resulted in delayed disbursement of performance grants of 2017-18.

Policy recommendations

Apart from the recommendations on fiscal transfers, FC also recommends critical fiscal reforms for states / ULBs to adopt.

E.g. State governments to share land conversion charges with ULBs, central government to raise the ceiling of profession tax from Rs 2,500 to Rs 12,000 per annum, state governments to devolve profession tax to ULBs etc.

Challenges

Policy recommendations laid out by the FC over and above devolution formulae and conditions have typically not been acted upon by the central and state governments proactively.

Principles underlying our recommendations to XV FC

Factoring the challenges referred to above, we have considered the following as basic principles that need to guide devolution to ULBs:

1. Ensure maximum funds are disbursed to ULBs (as against large undisbursed amounts at centre/state level), through a simple process (as against complicated criteria or conditions) and in the shortest possible timeframe.
2. Establish continuity from past FCs and take to logical culmination, the agenda of credible, timely, and comparable audited annual accounts of ULBs.
3. Move away from a one size fits all approach towards a more differentiated and nuanced approach with respect to devolution formula for large and small ULBs.

Recommendations

Our recommendations to XV FC on devolutions to ULBs are as outlined below.

1. 21st century challenges require global ideas but local action. Circular economy, mitigation of climate change, equitable resource allocation for urban poor, migrants and women etc. will need to be facilitated through deep engagement at the local government level. The allocation to local bodies needs to therefore increase from XIV FC's 2.7 % (Rs 287,436 cr) to at least 4% of Gross Tax Revenues.
2. India's urbanisation will be one of the most dominant demographic trends globally. It will have significant socio-economic implications (both challenges and opportunities) for India. ULBs will need to play a major role in surmounting the challenges and realising the opportunities presented by urbanisation. Allocation to ULBs needs to increase from 30% of grants to local bodies (Rs 87,143 cr) to 40% of grants to local bodies.
3. Classify ULBs into three categories based on their population for the purpose of XV FC's award, and firmly move away from a one size fits all approach. Distinction needs to be made in allocation of grants between ULBs in population categories greater than 1 million, 100,000 to 1 million and less than 100,000. For (ULBs in) Urban Agglomerations (UAs, as per census 2011) with population > 1 million, create a Metropolitan Challenge Fund (MCF), and provide no basic grants. For all other ULBs, award only basic grants. In the absence of any other suitable indicator to distinguish between the three categories, award for all ULBs to be based on equal per capita amounts.

   Based on an assumed award of Rs 240,000 cr for ULBs under the XV FC, MCF would be Rs 105,570 cr for 248 ULBs comprised in 51 million-plus UAs (excl. Delhi and Chandigarh which are Union Territories). Allocation to non-million-plus ULBs would

20. *XIV FC Report, 2015*
21. *Ibid*
22. *XIV FC Report, 2015*
23. *Ibid*

be Rs 134,430 cr at the same per capita amount. The CTs and OGs comprised in UAs are essentially part or whole of Panchayati Raj Institutions (PRIs) and are not necessarily independent administrative units. Therefore, we are excluding CTs and OGs, for ease of administration of the award.

4. Audited annual accounts, annual budgets and service level benchmarks are all basic markers of institutional accountability. While there has been improvement pursuant to performance grant conditions laid down by the XIII and XIV FCs, we believe the moment is right for taking this reform to its logical culmination.

   We are therefore recommending that publication of audited annual accounts, annual budgets and service level benchmarks be considered as basic eligibility condition for ANY ULB to avail ANY XV FC award, including basic grants. We recommend publication of audited annual accounts in XBRL format on websites of urban local bodies. Rs 1 cr per state may be allocated for this purpose for one-time implementation and ongoing maintenance. Any surplus left over shall be part of basic grants for ULBs in the state.

   Audited annual accounts shall comprise independent auditor's report, balance sheet, income and expenditure statement, cash flow statement (ie. receipts and payments statement), schedules to all of the above, a reconciliation between income and expenditure and receipts and payments statements, significant accounting policies and notes to accounts, in accordance with respective state municipal accounting manuals.

   MoHUA shall implement a NMIS based on XBRL, to collate and publish in the public domain all of the above information. ULBs with population > 100,000 must publish the following on their website and on the NMIS hosted by MoHUA –

i. Audited annual accounts by 30th September each year in a standardised format prescribed by the MoHUA in XBRL format, comprising independent auditor's report, balance sheet, income and expenditure statement, cash flow statement, schedules to balance sheet, income and expenditure statement, significant accounting policies and notes to accounts. MoHUA must ensure ULBs have published their audited annual accounts for the year by 30th September on the ULB website and the NMIS in XBRL format. The verification process must be completed on or before 15th December each year, preferably in an automated manner on the NMIS portal itself.

ii. Annual budgets before 31st March each financial year, in the format prescribed under respective state acts and rules. MoHUA must ensure ULBs have published their budgets for the year (duly approved by the state government) by 31st March on the ULB website and the NMIS. The verification process must be completed on or before 15th June, preferably in an automated manner on the NMIS portal itself.

iii. Independently certified SLBs for four key services as notified by the Ministry of Urban Development in 2006 plus SLBs for clean air and urban transport (targets for current year and actuals for previous year) by 30th September each financial year, with copy of certification. MoHUA must ensure ULBs have published their SLB information by 30th April on the ULB website and the NMIS. The verification process must be completed on or before 15th June, preferably in an automated manner on the NMIS portal itself.

ULBs with population < 100,000 must publish audited annual accounts and annual budgets as per i and ii above on their website and on NMIS hosted by MoHUA, but requirement on independent certification of SLBs considered for 100,000 to 1 million ULBs dropped giving due consideration to their capacity constraints.

5. In addition, we also recommend that the MoHUA constitute a high-powered expert committee to conceive a comprehensive policy framework and implementation plan to modernise financial and performance reporting in ULBs, to harmonise municipal accounts with state government accounts, and to review the prevalent municipal borrowings framework and make recommendations to transform the same.

Metropolitan Challenge Fund for Urban Agglomerations

6. UAs having population > 1 million as identified in Census 2011 correspond to the concept of metropolitan areas as envisaged under section 243P of the Constitution (Seventy-Fourth amendment) Act, 1992. These urban areas already have/should have latent economic potential. The best possible way in which the XV FC can meet its mandate to "augment the Consolidated Fund of a State to supplement the resources of the Panchayat and Municipalities in the State" is by facilitating the strengthening of their economy. Therefore, we have recommended the creation of a MCF which is accessed on a challenge basis, for larger metropolitan goals linked to economy and environment.

   Larger goals linked to metropolitan economy would serve to systematically augment the resources of municipalities through buoyant revenue streams. Performance grants awarded by the XIII and XIV FCs to this category of ULBs did not result in any significant improvement in their financial management as the awards in themselves did not constitute a significant percentage of their relatively large budgets. As a consequence, in many cases, the performance conditions were not met and the performance grants were not availed/disbursed. We are recommending a significantly large outlay, of 44% of the total award, to the 248 ULBs comprised in these 51 UAs, which would be a reasonable percentage of their annual budgets. We expect this award to make it attractive enough, if not substantive, for these ULBs to comply with the specific conditions tied to the MCF. Further, as these large ULBs have latent economic potential and are capable of raising adequate own sources of revenues, we are recommending there be no award of basic grants to them.

7. Specific conditions for the MCF be directly linked to disclosure of actionable data on the metropolitan economy.

Recognising, measuring and nurturing metropolitan economy is critical to augmenting resources of ULBs in UAs. Clean air and sustainable transport are two fundamental determinants of the ability of a city to attract investments and talent and nurture the metropolitan economy. While there are a number of determinants, at the present stage of urbanisation, quality of life and economic development of India's cities, we see these two factors of clean air and sustainable transport as being fundamental and systemic, besides being inter-related. In addition, there is a need to collect systematic data on level of economic activity in a city, as a stepping stone to eventually recognising the city as a unit of the economy. We are therefore recommending collection and publication of specific metrics on clean air, sustainable transport and economic activity in a city.

Clean air, like most other urban infrastructure and service delivery challenges, is a complex, systemic challenge which cannot be solved through financial outlays alone. To begin with, there is a need for credible, timely, systematic data on air pollution in our cities and the sources of such pollution, for a sustainable solution to emerge and be implemented.

Further, and more importantly, our analysis of past FC recommendations strongly points to significantly better compliance by ULBs and states with disclosure and data related recommendations rather than performance and service delivery related recommendations. We would therefore strongly recommend that ONLY data and disclosure indicators be considered, to also mitigate risk of significant amounts out of XV FC's award remaining undisbursed due to poor performance on complex and systemic infrastructure and service delivery challenges.

Our recommendations of conditions to which the MCF be tied are given in Table 12.

Table 12: **Conditions for Metropolitan Challenge Fund**

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
1. Clean Air and Sustainable Transport					
i. Undertake a source apportionment study	35%				
ii. Publish the findings of the study		7.50%			

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
iii. Establish adequate number of air quality monitors as prescribed by the Ministry of Environment and Forests (MoEF)	35%				
iv. Publish air quality indicator based on the data collected from Continuous Ambient Air Quality Stations as prescribed by MoEF		7.50%	8.20%	8.20%	8.20%
v. Publish % modal share of public transport		7.50%	8.20%	8.20%	8.20%
vi. Publish % of city covered by public transport		7.50%	8.20%	8.20%	8.20%
2. Economy (Publicly disclose on ULB website and the NMIS in open data format)					
i. Number of building plans submitted for approval with aggregate sq. ft split by residential and commercial, including nature and extent of compliance with green building norms.	10%	7.50%	8.20%	8.20%	8.20%
ii. Number of trade licenses issued, with number of employees and sales turnover of establishment*	10%	7.50%	8.20%	8.20%	8.20%
iii. Number of power connections by nature of usage		7.50%	8.20%	8.20%	8.20%
iv. Number and value of property registrations		7.50%	8.20%	8.20%	8.20%
v. Number of motor vehicle registrations by category of vehicles		7.50%	8.20%	8.20%	8.20%
vi. Number of registrations under EPFO		7.50%	8.20%	8.20%	8.20%

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
vii. Number of companies registered under Companies Act 2013, by category of industry		7.50%	8.20%	8.20%	8.20%
viii. Number and value of Foreign Direct Investments with details of the industry and nature of investment (equity/debt).		7.50%	8.20%	8.20%	8.20%
3. Third party certification					
i. Obtain and publish third party certification on published data	10%	10%	10%	10%	10%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

**Sales turnover data applicable only for GST registered establishments*

We recommend the following in respect of phasing of disbursements and timelines for compliance with above disclosure requirements

i. Data on air quality be published on the last day of every quarter on the ULB website in open data format and on the NMIS hosted by MoHUA. All the other data be published on the last day of every half year (30th September and 31st March) on the ULB website in open data format and on the NMIS hosted by MoHUA.
ii. The third-party certification be obtained at the financial year-end, including on the data published on 31st March, and be published on or before 30th April, each year.
iii. The MoHUA or its nodal agency appointed must verify the data published by 15th November and 15th May, each year.
iv. The MoHUA, on verification of the data will release money to the ULBs who have met the conditions, in two tranches, corresponding to each half year. First tranche will be released on or before 31st May and the second tranche will be released on or before 30th November, each year.
v. In case one ULB in the UA does not meet a/all conditions, the whole UA is denied the grant amount. However, ULBs with population less than 100,000 which are grouped under a UA that has not qualified to receive the grant amount, will still receive 50% of the grant amount. This is primarily because ULBs with population less than 100,000 are relatively more dependent on FC grants and not receiving any grant amount would affect their financial position. The unutilized grant amount of such a UA then gets re-distributed to the rest of the ULBs (who have met their applicable conditions) in that state on an equal per capita basis.

Appendices

APPENDIX 1: METHODOLOGY OF DATA COLLECTION

Data received based on XV FC's questionnaire:

The XV FC circulated a questionnaire containing 19 schedules specific to Local Bodies across all states, late in 2017. The schedules include:

1. Basic information on local bodies
2. 1A - Details of State Finance Commissions (SFC) - Constitution and Submission
3. 2D – Transfer of Resources to Local Bodies – Municipal Corporations
4. 2E – Transfer of Resources to Local Bodies – Municipalities
5. 2F – Transfer of Resources to Local Bodies – Town Panchayats
6. 3B - Functions/Services transferred to ULBs and Expenditure thereon
7. 4B - Expenditure and Sources of Revenue/Capital of ULBs
8. 5B - Own Revenue (Internal Revenue Mobilization) of ULBs
9. 6B – Expenditure of ULBs

We received data for 21 states. However, there were several internal inconsistencies noted in data between Appendices 4B and 5B and between 4B and 6B across 14 of the 21 states, rendering the data in the schedules unusable. Clarifications on the inconsistencies highlighted were not received from states.

Status of additional data requested by Janaagraha as part of the study

In addition to the questionnaire, up on Janaagraha' s request, the XV FC circulated a letter on 15th September 2018 to Principal Secretaries of states requesting for additional data. This was followed up by a letter and e-mail sent by Janaagraha on 8th October 2018.

Following were the additional datasets requested:

1. Audited Financial Statements of ULBs in the state (along with schedules) from 2012-13 to 2016-17.
2. Appendix 1 - Total number of ULBs in the state that have received XIV FC performance grants for the year 2015-16 & 2016-17.
3. Appendix 2 - Details of properties and land holdings in each Municipal Corporation
4. Appendix 3 - Collection efficiency of property tax & water tax for 2012-13 to 2016-17 for each Municipal Corporation

5. Appendix 4 - Total number of staff in all Municipal Corporations in grade A, B, C, D as against the sanctioned posts
6. Appendix 5 - Details of parastatals/civic agencies and state departments operational in Municipal Corporation areas
7. Appendix 6 - Budgets sizes/cash balance, borrowings and asset base of each of the parastatal agencies operational in Municipal Corporation areas

Post the above letters being issued, the Janaagraha team completed three rounds of follow up phone calls to Directorates of Municipal Administrations across all states. As on 5th March 2019, complete data was received only from Nagaland and Goa.

Other information sources:

Other information sources used for our analysis and recommendations include:

1. Annual Survey of India's City Systems 2017, 5th Edition which evaluates quality of governance in cities, covering 23 major cities in India across 20 states based on 89 questions
2. Consolidated data from latest CAG's Annual Technical Inspection Report on ULBs across 21 states in India. Such reports usually include data on status of books of accounts and audit of financial statements, historical financial data, staffing positions and collection efficiencies, apart from basic financial information
3. List of Municipal Acts, Rules and Notifications obtained through urban development departments, municipal corporation and municipal council websites:
    i. Andhra Pradesh Municipalities Act, 1965
    ii. Bihar Municipal Bill, 2007 (including amendments of 2009, 2011, 2013)
    iii. Chhattisgarh Municipalities Act, 1961 (including amendments till 2012)
    iv. Chhattisgarh Municipal Corporation Act, 1956 (including amendment of 2003, 2004)
    v. City of Panaji Corporation Act, 2002 (as modified up to 2006)
    vi. Delhi Municipal Corporation Ac, 1957 (including amendment of 2003 and 2011)
    vii. Goa Municipalities Act, 1968 (as modified up to 2010)
    viii. Greater Hyderabad Municipal Corporation Act, 1955
    ix. Gujarat Municipalities Act, 1963 (as modified up to 2006)
    x. Gujarat Provincial Municipal Corporation Act – (Bombay Provincial Municipal Corporation Act, 1949) (as modified up to 2006)
    xi. Haryana Municipal Corporation Act, 1994 (including amendment of 2012)
    xii. Haryana Municipal Act, 1973 (as modified up to 2003)
    xiii. Himachal Pradesh Municipal Act, 1994 (as modified up to 2007)
    xiv. Himachal Pradesh Municipal Corporation Act, 1994 (as modified up to 2008)
    xv. Jammu & Kashmir Municipal Act, 2000 (including amendment of 2010)
    xvi. Jharkhand Municipal Act, 2011 (including amendment of 2016)
    xvii. Karnataka Municipalities Act, 1964 (as modified up to 2005)
    xviii. Karnataka Municipal Corporation Act, 1976 (as modified up to 2001)

xix. Kerala Municipality Act, 1994 (including amendments of 1996, 2003, 2005, 2007, 2012 and 2013)

xx. Madhya Pradesh Municipal Corporation Act, 1956 (including amendment of 2011)

xxi. Madhya Pradesh Municipalities Act, 1961 (including amendment of 2011)

xxii. Maharashtra Municipal Corporation Act, 1949 (as modified up to 2014, and including amendment of 2015)

xxiii. Maharashtra Municipal Councils, Nagar Panchayats & Industrial Townships Act, 1965 (as modified up to 2013)

xxiv. Odisha Municipal Corporation Act, 2003 (including amendment of 2015)

xxv. Odisha Municipal Act, 1950 (including amendment of 2015)

xxvi. Punjab Municipal Act, 1911 (as modified up to 2003)

xxvii. Punjab Municipal Corporation (Extension to Chandigarh) Act, 1994 – adapted from Punjab Municipal Corporation Act, 1976 (including amendment of 2006, 2017)

xxviii. Rajasthan Municipalities Act, 2009 (including amendment of 2015)

xxix. Tamil Nadu - Chennai City Municipal Corporation Act, 1919 (Coimbatore is same - extends to other 9 corporation; (including amendment of 2011 and 2012)

xxx. Tamil Nadu District Municipalities Act, 1920 (including amendment of 2011 and 2012)

xxxi. Telangana - (adapted) Andhra Pradesh Municipalities Act, 1965

xxxii. Uttar Pradesh-Uttarakhand-Municipal Corporation Act, 1959 [as modified up to date)

xxxiii. Uttar Pradesh-Uttarakhand Municipalities Act 1916 (as modified up to date)

xxxiv. West Bengal Municipal Corporation Act, 2006

xxxv. West Bengal Municipal Act, 1993 [as modified up to 2015]

4. Report on Estimating Financing of Urban Infrastructure and Services of the High-Powered Expert Committee, 2011
5. India's Urban Awakening: Building inclusive cities, sustaining economic growth published by Mckinsey Global Institute, 2011

Appendices

APPENDIX 2: DEVOLUTION OF FUNCTIONS BY STATES TO ULBs

State	Number of functions devolved out of 18 functions listed in twelfth schedule to constitution
Maharashtra	14
Gujarat	10
Karnataka	10
Telangana	10
West Bengal	10
Andhra Pradesh	10
Madhya Pradesh	9
Odisha	9
Chhattisgarh	9
Kerala	9
Tamil Nadu	8
Punjab	8
Jharkhand	8
Assam	8
Uttarakhand	7
Uttar Pradesh	7
Rajasthan	7
Bihar	6

Source: State Municipal Corporation and Municipalities Acts

APPENDIX 3: PROVISIONS IN MUNICIPAL ACTS ON ENUMERATION OF PROPERTIES

States	ULB Type	What is the provision for enumeration?
Andhra Pradesh	All	Not mentioned
Bihar	All	Not mentioned
Chhattisgarh	Municipal Corporations	Conduct an assessment at least once in five years.
	Municipalities	The Council shall arrange for a survey at least once in four years
Delhi	Municipal Corporation	Not mentioned
Goa	Municipal Corporations	Conduct an Assessment at least once in five years.
	Municipalities	Conduct an Assessment at least once in four years
Gujarat	Municipal Corporations	Not mentioned
	Municipalities	Assessment list shall be completely revised every 4 years.
Haryana	Municipal Corporations	Corporation's discretion
	Municipalities	Corporation's discretion - with a limit of 10 years
Himachal Pradesh	Municipal Corporations	Corporation's discretion - with a limit of 5 years
	Municipalities	Corporation's discretion - with a limit of 5 years
Jammu & Kashmir	All	Corporation's discretion - with a limit of 5 years
Jharkhand	Municipalities	Not mentioned
Karnataka	All	Not mentioned
Kerala	All	Not mentioned
Madhya Pradesh	Municipal Corporations	Conduct an Assessment at least once in five years
	Municipalities	Conduct an Assessment at least once in four years
Maharashtra	Municipal Corporations	Not mentioned
	Municipalities	Assessment not required - to only update with alterations year on year.
Odisha	All	Assessment once every 5 years
Punjab	All	Commissioner's discretion
Rajasthan	All	Not mentioned

States	ULB Type	What is the provision for enumeration?
Tamil Nadu	All	Not mentioned
Telangana	All	Not mentioned
Uttar Pradesh/ Uttarakhand	Municipalities	Assessment once every 5 years
	Municipal Corporations	Assessment once every 2 years
West Bengal	All	Assessment once every 5 years

Source: State Municipal Corporation and Municipalities Acts

APPENDIX 4: PROVISIONS IN MUNICIPAL ACTS ON METHOD OF ASSESSMENT OF PROPERTIES

State	Type	What's the method of assessment of properties as per State Act?
Andhra Pradesh	All	Assessment by Municipality/ Municipal Corporation
Bihar	All	Assessment by Municipality/ Municipal Corporation
Chhattisgarh	All	Self – Assessment
Delhi	Municipal Corporation	Self – Assessment
Goa	Municipal Corporations	Self – Assessment
	Municipalities	Assessment by Municipality
Gujarat	All	Self – Assessment
Haryana	Municipal Corporations	Self – Assessment
	Municipalities	Assessment by Municipality
Himachal Pradesh	All	Assessment by Municipality/ Municipal Corporation
Jammu & Kashmir	All	Assessment by Municipality/ Municipal Corporation
Jharkhand	All	Assessment by Municipality/ Municipal Corporation
Karnataka	All	Self – Assessment
Kerala	All	Assessment by Municipality/ Municipal Corporation
Madhya Pradesh	Municipal Corporations	Assessment by Municipal Corporation
	Municipalities	Self – Assessment
Maharashtra	Municipal Corporations	Self – Assessment
	Municipalities	Assessment by Municipality
Odisha	All	Self – Assessment
Punjab	All	Assessment by Municipality/ Municipal Corporation
Rajasthan	All	Self – Assessment
Tamil Nadu	All	Self – Assessment
Telangana	All	Self – Assessment
Uttar Pradesh/ Uttarakhand	All	Self – Assessment
West Bengal	All	Self – Assessment

Source: State Municipal Corporation and Municipalities Acts

APPENDIX 5: DOES THE ACT MANDATE CREATION OF A PROPERTY TAX BOARD?

State	Type	Does the Act mandate creation of a property tax board?
Andhra Pradesh	Municipalities	Yes
Bihar	All	Yes
Chhattisgarh	All	No
Delhi	Municipal Corporation	No
Goa	All	No
Gujarat	All	No
Haryana	All	No
Himachal Pradesh	All	No
Jammu & Kashmir	Municipalities	Yes
Jharkhand	All	Yes
Karnataka	Municipalities	No
Karnataka	Municipal Corporations	Yes
Kerala	Municipality	No
Madhya Pradesh	All	No
Maharashtra	Municipal Corporation	Yes
Odisha	Municipal Corporation	Yes
Odisha	Municipalities	No
Punjab	All	Yes
Rajasthan	Municipalities	No
Tamil Nadu	All	Yes
Telangana	Hyderabad	No
Telangana	Municipalities	Yes
Uttar Pradesh/ Uttarakhand	All	Yes
West Bengal	All	Yes

Source: State Municipal Corporation and Municipalities Acts

APPENDIX 6: PROVISIONS IN MUNICIPAL ACTS ON METHOD OF VALUATION

State	Type	What's the method of valuation of properties as per State Act?
Andhra Pradesh	All	Annual Rental Value (ARV)
Bihar	All	ARV
Chhattisgarh	All	ARV
Delhi	Municipal Corporation	Unit Area Value (UAV)
Goa	All	ARV
Gujarat	Municipal Corporations	Unclear; rate per sq meter of carpet area is determined by the Municipal Corporation but the act does not specify the criteria for arriving at the unit rate
	Municipalities	ARV or the Capital Value or a percentage of Capital Value of the buildings or lands or both
Haryana	All	Unclear; the act mentions annual value but the not the criteria for calculation of the same
Himachal Pradesh	All	UAV
Jammu & Kashmir	All	UAV
Jharkhand	All	ARV
Karnataka	All	Capital Value (UAV in BBMP)
Kerala	All	ARV
Madhya Pradesh	All	ARV
Maharashtra	All	Capital Value or UAV
Odisha	All	UAV
Punjab	All	ARV
Rajasthan	All	Unclear; the act mentions assessment by unit area base method or by any other method
Tamil Nadu	All	ARV
Telangana	All	ARV

Appendices

State	Type	What's the method of valuation of properties as per State Act?
Uttar Pradesh/ Uttarakhand	All	Unclear; The Municipal Commissioner shall once in every two years fix the minimum monthly rate of rent per unit area (square foot) of the carpet area for every group of building within a ward or the applicable minimum monthly rate or rent per unit area (square foot) of the area for every group of land as the case may be having regard to - (a) the circle rate fixed by the collector for purpose of the Indian Stamp Act, 1899; and (b) the current minimum rate of rent in the area for such building or land
West Bengal	All	ARV

Source: State Municipal Corporation and Municipalities Acts

APPENDIX 7: FREQUENCY OF REVISION OF TAX RATES

State	Type	How frequently is the tax rate changed?
Andhra Pradesh	All	Not mentioned
Bihar	All	Not mentioned
Chhattisgarh	All	Not mentioned
Delhi	Municipal Corporation	The base unit area value of vacant land and the base unit area value of covered space of building in respect of a specified group in a ward shall remain in force for a period of 3 years.
Goa	All	Not mentioned
Gujarat	All	Not mentioned
Haryana	All	Not mentioned
Himachal Pradesh	All	Not mentioned
Jammu & Kashmir	All	Not mentioned
Jharkhand	Municipalities	The rate of tax on Annual Rental Value to be revised in 5 years or earlier with approval of State govt.
Karnataka	Municipalities	The property tax not to be assessed each year but shall stand enhanced by 15% once in every 3 years starting 2005-2006, with enhancement upto 30% once in 3 years
Karnataka	Municipal Corporations	The property tax not to be assessed each year but shall stand enhanced by 15% once in every 3 years starting 2005-2006, with enhancement upto 30% once in 3 years
Kerala	Municipality	On completion of every 5 years, the Government and the Council, respectively, shall, revise the rates of basic tax by making an enhancement at the rate of 5% on the existing limits and rates in each year.
Madhya Pradesh	All	Not mentioned

State	Type	How frequently is the tax rate changed?
Maharashtra	Municipal Councils	The revision of the rateable values of all properties in the municipal area shall, as far as possible, be done once in four years, and once done shall remain in force until they are revised.
Maharashtra	Municipal Corporation	Not mentioned
Odisha	All	Not mentioned
Punjab	All	Not mentioned
Punjab	All	Not mentioned
Rajasthan	All	Not mentioned
Tamil Nadu	All	Not mentioned
Telangana	All	Not mentioned
Uttar Pradesh/ Uttarakhand	All	Not mentioned
West Bengal	All	Not mentioned

Source: State Municipal Corporation and Municipalities Acts

APPENDIX 8: PENAL PROVISIONS FOR DELAY OR NON-PAYMENT OF PROPERTY TAX

<table>
<tr><th>State</th><th>Type</th><th>Is there a penalty provision to ensure enforcement?</th></tr>
<tr><td>Delhi</td><td>Municipal Corporation</td><td>A sum not exceeding 20%, of the amount of the tax as may be determined by the Commissioner may be recovered from the defaulter by way of penalty, in addition to the amount of the tax and the notice fee for the demand notice issued.</td></tr>
<tr><td>Gujarat</td><td>Municipal Corporation</td><td>Levy of simple interest at the rate of 18% per annum on the amount of property tax not paid</td></tr>
<tr><td rowspan="2">Haryana</td><td>Municipal Corporation</td><td>In case of non-payment of property tax, the competent authority may impose a penalty equal to the amount of the tax assessed, subject to minimum of Rs.100 and in case of late payment, interest at the rate of 1.5% per month from the date of default shall also be charged.</td></tr>
<tr><td>Municipalities</td><td>Not mentioned</td></tr>
<tr><td>Himachal Pradesh</td><td>Municipal Corporation</td><td>Defaulters shall be liable for penalty of 5% of the tax due.</td></tr>
<tr><td>Karnataka</td><td>Municipalities</td><td rowspan="2">(a) a penalty at 2% per month of the amount of property tax assessed may be charged (b) not exceeding 2 times the amount of difference between the tax assessed and the tax paid along with his return in the case of submitting knowingly an incorrect or incomplete return; c) Rs.100 in case of failure to submit return after payment of property tax in full</td></tr>
<tr><td>Karnataka</td><td>Municipal Corporations</td></tr>
</table>

State	Type	Is there a penalty provision to ensure enforcement?
Odisha	All	If any owner of any land or building or any other person liable to pay the property tax fails to file a return without sufficient cause or furnishes information in the return which is found to be incorrect, or it has been detected that there has been wilful suppression of information, the commissioner may, after giving such person a reasonable opportunity of being heard, direct him to pay in addition to the tax and interest, if any, payable by him, a penalty of 30% of the amount of tax with interest, if any, so payable.
Punjab	Municipal Corporations	Every owner the rateable value of lands & buildings being Rs.30,000 shall furnish a return of the rateable value of his lands and buildings, and in case of failure to do so or false information, shall be punishable with fine which may extend to Rs.5,000 or with imprisonment for a term which may extend to 3 months or with both.
Uttar Pradesh/ Uttarakhand	Municipal Corporation	Interest payable at rate of 12% per annum, by owner or occupier in case of non-payment of tax amount
West Bengal	Municipal Corporation	A defaulter is liable to pay a sum not exceeding 25% of the amount of tax, as may be determined by the Corporation may be recovered from him by way of penalty, in addition to the amount of the tax or the surcharge payable by him
West Bengal	Municipal	A defaulter is liable to pay a sum not exceeding 15% of the amount of tax, as may be determined by the Board of Councillors may be recovered from him by way of penalty, in addition to the amount of the tax and the fee payable for issuance of notice

Source: State Municipal Corporation and Municipalities Acts

APPENDIX 9: GRADE WISE VACANCY IN DEPARTMENT OF REVENUE

City	Particular	Grade A	Grade B	Grade C	Grade D	% of Vacancy*
Bhubaneswar	Total number of sanctioned post	4	0	74	17	18%
	Total number of permanent staff	0	0	64	13	
	Total number of contractual staff	0	0	3	0	
	Total number of staff in deputation	4	0	0	4	
	Grade-wise vacancy (Permanent staff - Sanctioned post)	-4	0	-10	-4	
Chennai	Total number of sanctioned post	3	29	378	41	11%
	Total number of permanent staff	3	24	333	39	
	Total number of contractual staff	0	0	0	6	
	Total number of staff in deputation	0	1	8	3	
	Grade-wise vacancy (Per. - San.)	0	-5	-45	-2	
Guwahati	Total number of sanctioned post	12	81	215	21	44%
	Total number of permanent staff	1	28	133	20	
	Total number of contractual staff	0	0	0	0	
	Total number of staff in deputation	0	0	0	0	
	Grade-wise vacancy (Per. - San.)	-11	-53	-82	-1	

City	Particular	Grade A	Grade B	Grade C	Grade D	% of Vacancy*
Pune	Total number of sanctioned post	1	3	75	677	52%
	Total number of permanent staff	1	2	36	321	
	Total number of contractual staff	0	0	0	0	
	Total number of staff in deputation	0	0	0	0	
	Grade-wise vacancy (Per. - San.)	0	-1	-39	-356	

Source: RTI Applications (2017-18)

APPENDIX 10: GRADE WISE VACANCY IN DEPARTMENT OF ACCOUNTS / FINANCE

City	Particular	Grade A	Grade B	Grade C	Grade D	% of Vacancy*
Bhubaneswar	Total number of sanctioned post	2	0	4	0	100%
	Total number of permanent staff	0	0	0	0	
	Total number of contractual staff	0	0	2	0	
	Total number of staff in deputation	0	0	2	0	
	Grade-wise vacancy (Per. - San.)	-2	0	-4	0	
Chennai	Total number of sanctioned post	1	35	223	18	7.2%
	Total number of permanent staff	0	16	223	18	
	Total number of contractual staff	0	0	0	0	
	Total number of staff in deputation	1	19	0	0	
	Grade-wise vacancy (Per. - San.)	-1	-19	0	0	
Guwahati	Total number of sanctioned post	0	17	11	4	40.6%
	Total number of permanent staff	0	4	11	4	
	Total number of contractual staff	0	0	0	0	
	Total number of staff in deputation	0	0	0	0	
	Grade-wise vacancy (Per. - San.)	0	-13	0	0	

City	Particular	Grade A	Grade B	Grade C	Grade D	% of Vacancy*
Pune	Total number of sanctioned post	6	0	176	22	30.39%
	Total number of permanent staff	2	0	126	14	
	Total number of contractual staff	0	0	0	0	
	Total number of staff in deputation	1	0	1	0	
	Grade-wise vacancy (Per. - San.)	-4	0	-50	-8	

Source: RTI Applications (2017-18)

APPENDIX 11: ENACTMENT OF COMMUNITY PARTICIPATION LAW

City	Has the State Government enacted the Community Participation Law (CPL) and have Rules implementing the CPL been notified?
Ahmedabad	Yes
Bengaluru	Yes
Bhopal	Yes
Bhubaneswar	Yes - Law enacted, rules not notified
Chandigarh	Yes - Law enacted along with rules only for Ward Committee
Chennai	Yes - rules for Area Sabhas not notified
Dehradun	Yes - Law enacted along with rules only for Ward Committee
Delhi	Yes - Law enacted along with rules only for Ward Committee
Guwahati	Yes
Hyderabad	Yes
Jaipur	Yes - Law enacted, rules not notified
Kanpur	Yes - Law enacted along with rules only for Ward Committee
Kolkata	Yes
Lucknow	Yes - Law enacted along with rules only for Ward Committee
Ludhiana	Yes - Law enacted, rules not notified
Mumbai	Yes - Law enacted along with rules only for Ward Committee
Patna	Yes
Pune	Yes - Law enacted along with rules only for Ward Committee
Raipur	Yes - Law enacted, rules not notified for Area Sabhas
Ranchi	Yes - Law enacted, rules not notified
Surat	Yes
Thiruvananthapuram	Yes - Law enacted along with rules only for Ward Committee
Visakhapatnam	Yes

Source: Janaagraha's Annual Survey of India's City-System 2017

APPENDIX 12: STATUS AND EXTENT OF IMPLEMENTATION OF PUBLIC DISCLOSURE LAW IN MAJOR CITIES

ULB (City Name)	Has the State Govt. en-acted PDL?	Have rules imple-menting the PDL been notified?	Is the State PDL compliant with the Model PDL with respect to:				
			Audited financial state-ment on quarterly basis	Audited financial state-ment on annual basis	Service level bench-marks	Partic-ulars of major works	Details of plans, income and budget
Ahmedabad	No	No	No	No	No	No	No
Bangalore	Yes	Yes	No	No	Yes	No	No
Bhopal	Yes	Yes	No	Yes	Yes	Yes	Yes
Bhu-baneswar	Yes	No	No	Yes	No	Yes	Yes
Chandigarh	No	No	No	No	No	No	No
Chennai	Yes	Yes	No	Yes	Yes	Yes	Yes
Dehradun	No	No	No	No	No	No	No
Delhi	No	No	No	No	No	No	No
Guwahati	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Hyderabad	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Jaipur	Yes	No	No	No	No	No	No
Kanpur	Yes	Yes	Yes	No	Yes	Yes	Yes
Kolkata	Yes	Yes	No	No	No	No	No
Lucknow	Yes	Yes	Yes	No	Yes	Yes	Yes
Ludhiana	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Mumbai	Yes	No	Yes	Yes	Yes	Yes	Yes
Patna	Yes	No	Yes	Yes	Yes	Yes	Yes
Pune	Yes	No	Yes	Yes	Yes	Yes	Yes
Raipur	Yes	No	No	No	No	No	No
Ranchi	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Surat	No	No	No	No	No	No	No
Thiruvanan-thapuram	Yes	Yes	No	Yes	Yes	Yes	Yes
Visakhapat-nam	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Janaagraha's Annual Survey of India's City-System 2017

APPENDIX 13: AUDIT OF FINANCIAL INFORMATION

Question	Are the annual accounts of the ULB mandated to be audited by an independent/external agency?	Are the audited annual financial statements/audited annual accounts of the ULB available in the public domain?
Ahmedabad	No	Yes
Bengaluru	No	No
Bhopal	No	Yes
Bhubaneswar	No	Yes
Chandigarh	No	Yes
Chennai	No	No
Dehradun	No	Yes
Delhi	No	No
Guwahati	No	No
Hyderabad	No	Yes
Jaipur	No	No
Kanpur	No	Yes
Kolkata	No	Yes
Lucknow	No	Yes
Ludhiana	No	No
Mumbai	No	No
Patna	No	No
Pune	No	Yes
Raipur	No	Yes
Ranchi	No	Yes
Surat	No	No
Thiruvananthapuram	No	No
Visakhapatnam	No	No

Source: Janaagraha's Annual Survey of India's City-Systems 2017

APPENDIX 14: PENDENCY IN AUDIT OF ANNUAL ACCOUNTS

State	Total no of ULBs*	Pendency in Audit	
		Year	Pending ULBs
Andhra Pradesh	110	2015-16	96
Assam	94	2011-12	20
		2012-13	32
		2013-14	16
		2014-15	27
		2015-16	26
Bihar	141	2015-16	75
Chhattisgarh	169	2008-09	169
		2009-10	169
		2010-11	169
		2011-12	169
		2012-13	163
Himachal Pradesh	52	2014-15	38
Karnataka	275	2014-15	105
		2015-16	190
Maharashtra	385	2010-11	384
		2011-12	384
		2012-13	359
		2013-14	367
		2014-15	133
		2015-16	379
Manipur	29	2012-13	18
Punjab	167	2014-15	106
Tamil Nadu	664	2014-15	110
		2015-16	643
Telangana	68	2014-15	53
Tripura	20	2012-13	8
Uttar Pradesh	636	2015-16	66

*Source: CAG reports; *Total ULBs as per 2011 census*

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