

## The Roadmap for Financial Sustainability of ULBs: Rajasthan

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## The Roadmap for Financial Sustainability of ULBs: Rajasthan

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### Background

In May 2015, Janaagraha Centre for Citizenship and Democracy signed an MoU with the DLB, Government of Rajasthan to undertake Accounting and Audit Reforms in all 188 Urban Local Bodies (ULBs). The reforms target the two main issues which ULBs in India face when it comes to municipal finance: the dearth of financial data and lack of financial sustainability. These reforms are being implemented in two phases. The first phase addressed the backlog in preparation of accounts and audit of financial statements by constituting the Municipal Finance Reforms Cell in order to clear this backlog. In the second phase, we aim to ensure financial sustainability of these ULBs by introducing reforms for revenue enhancement and financial management. This document kick starts Phase II by laying down a 5-year roadmap to achieving financial sustainability.

Rajasthan is no stranger to the urban sprawl prevalent in India. The National Commission for population has estimated that 35% of its population will live in urban areas by 2050<sup>1</sup>. The growing size of its cities would call for better urban local governance by their ULBs. Now, at the heart of effective urban local governance lies an effective fiscal management by the ULBs. However, what we witness is an unhealthy fiscal situation in these ULBs, evident from the unavailability of financial data, excess of expenditure over revenue, and lack of self-sufficiency in revenue generation.

The DLB-Rajasthan and Janaagraha collaboratively have addressed the problem of unavailability of financial data of the state's ULBs in the first phase. And as a result, in Rajasthan

- The Municipal Finance Reforms Cell has been constituted,
- Books of accounts upto 2015-16 of all 188 ULBs have been brought in order, and been audited.
- CAs have been appointed in all the ULBs and
- 475 audited annual accounts were produced for the first time in less than a year

Moving ahead, in Phase II, the issues of financial sustainability need to be addressed.

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<sup>1</sup> Khani, S. (2017, July 11). By 2050, 35% people to live in urban areas. *Times of India*. Retrieved December 4, 2017, from <https://timesofindia.indiatimes.com/city/jaipur/by-2050-35-people-to-live-in-urban-areas/articleshow/59538626.cms>

## What Ails the Financial Sustainability of ULBs in Rajasthan?

The data from ULBs’ books of accounts shows that in 2014-15, the revenue generated by local bodies on their own in Rajasthan was only 41.07% of their total receipts.<sup>2</sup> The rest 58.93% constituted assigned taxes or government grants (data from the ULBs’ books of accounts). The table below depicts the shares of own revenue of the seven Municipal Corporations in Rajasthan in 2014-15:

Corporations	Ajmer	Bharatpur	Bikaner	Jaipur	Jodhpur	Kota	Udaipur
Share of Own Revenue (percentage of total revenue) in 2014-15	36.71	11.79	1.79	55.53	40.56	12.9	31.77

The tax collection efficiency of the ULBs are low owing to inaccurate estimation of potential tax collection, as a result of poor maintenance of records like fixed assets register. None of these MCs maintained proper records of their fixed assets.

Municipal Corporation	Fixed Assets records maintained?
Ajmer	No
Bharatpur	No
Bikaner	No
Jaipur	No
Jodhpur	No
Kota	No
Udaipur	No

Additionally, the ULBs enjoy low levels of general and fiscal decentralisation constraining their autonomy regarding their own fiscal matters. The following observations come about on perusal of the Rajasthan Municipalities Act 2009:

<sup>2</sup> Audited accounts of ULBs

Power	Do the ULBs have power?	Remarks
<b>Fiscal</b>		
Property Tax	No	Rates set by the State Govt. u/s 102 of the RMA 2009
Advertisement Tax	No	Rates set by the State Govt. u/s 102 of the RMA 2009
Loans	No	Prior approval of the State govt. Required u/s 142 of RMA 2009
Budgets	Partly	Some constraints from the State Govt u/s 88 of RMA 2009

The low revenue generating capacities of the ULBs are accompanied with low levels of capital expenditure. The ASICS Report 2016 scores Jaipur Municipal Corporation at a dismal 0.5 (on a scale of 1-10) on per capita capital expenditure (of 12600.95 lakh) in 2014-15. We have used this score to extrapolate similar scores for capital expenditures in 2013-14 of six Municipal Corporations. These are presented below.

Municipal Corporation	Capex in 2013-14 (in Lakh)	Population (as per Census 2011) (in Lakh)	Per Capita Capex (2013-14)	Score (on a scale of 1-10)
Ajmer	467.61	5.42	86.27	0.1
Bharatpur	3106	25.48	121.89	0.1
Bikaner	3472.36	6.47	536.68	0.6
Jaipur	24175.46	30.73	786.7	0.9
Jodhpur	21013.88	10.33	2034.25	2.4
Kota	8533.84	10.01	852.53	1
Udaipur	6934.89	4.51	1537.66	1.8

Source: Municipal Corporations' official websites (Capex), Census 2011 (Population), ASICS Report 2016 (Capex Score of Jaipur for 2014-15)

The current situation reveals that the ULBs in Rajasthan must address the following issues to ensure financial sustainability:

- The ULBs have control on only a limited number of revenue streams, contracting their revenue
- The ULBs have to adhere to State or Central Government-decided tax rates, even for the revenue streams which are under their control.
- Over a threshold amount of financial expenditure, the ULBs need the State government's approval to spend more
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- There is no coordinated treasury function for the city that ensures sound financial management of the city's resources
- Weak institutional capacities- financial, human and technological
- Absence of a robust Fiscal Responsibility and Budget Management mechanism
- Absence of medium range planning from a financial management perspective
- Lack of enabling laws and policies that place transparency and accountability in the DNA of civic institutions, and where they exist, absence of penal provisions and expedient redressal mechanisms

## The Roadmap

The key challenges to attaining financial sustainability are ULBs’ dependence on the state and central government grants for their revenue, and a very low share of their own revenue in total revenues. This 5-year roadmap addresses these challenges by bringing in reforms for revenue enhancement and financial management.

Year	Initiatives	Specifics
<b>Revenue Enhancement</b>		
Year 1	Establish a Land and Property Management division in the ULBs	To create a GIS-based database of all land property owned by the central/state/local governments, as well as other agencies in the city. To ensure appropriate usage of property and revenue collection. To periodically review and revise lease agreements to ensure marking to market.
	Assign a percentage of Rajasthan’s GST collection to the ULBs	To ensure fiscal decentralisation.
	Augment the existing tax base	(i) Use updated guidance values for property tax assessment (ii) Geo reference buildings database to property tax payers database (iii) Compare databases with other civic agencies to identify non-residential users (iv) Improve property tax systems at the back end by having a complete database of tax collectable vs collected, ensuring all properties in ULB’s jurisdiction are geo-tagged etc.
Year 2	Explore land-based financing and PPPs	Coordinate with the Indian Railways to identify land parcels in the city for joint development and/or planning, and to free up land in excess of requirement of Railways. These will apply to any government land parcels
	Assign certain percentage of Stamp Duties and Registration Charges to the ULBs	To ensure more buoyant sources of revenue for the ULBs
Year 3	Outsource the billing and collection for taxes and fees to improve collection efficiency	Outsourcing these functions after a rigorous evaluation will allow the ULBs to focus on ascertaining their tax base effectively, and ensure 100% assessment.
Year 4	Establish a treasury division in all the ULBs	To undertake integrated treasury management, including liquidity and debt management.
Year 5	Tap into private capital through municipal bonds	To issue capital through municipal bonds, the credit rating of the municipality has to be A+. Currently, only Kishanganj has an A+ Rating. While only 6 others have obtained a credit rating. Other municipalities must work on obtaining their credit ratings, and improving them.

Year	Initiatives	Specifics
<b>Financial Management</b>		
Year 1	Mandate a Medium Term Fiscal Plan of 5 years (MTFP)	The budgets of all the ULBs must be based on the MTFP for each city, and must include the estimates of the remaining years. (Eg. Budget for year 1 accompanied by projection for years 2-5 on how MTFP will be met).
	Implement integrated financial management system	To serve as a city resource planning platform, on the lines of an ERP System for each city.
	Restructure the terms of existing debt	Delete?
	Initiate adoption of open data framework	Ensure offline and online dissemination of data on the ULBs' financials. Ensure the official ULB websites have a separate clear section on its financial information and is available to view/download in a machine readable/open data compliant format.
Year 2	Establish a performance MIS framework	Mandate production of MIS reports for each department in the ULBs at regular intervals, and link them to everyday operations, through technology and policy.  Cadre and Recruitment Rules to be amended to introduce a Chief MIS Officer at the ULB level, and an MIS Officer in each department of the ULBs, in charge of timely production of MIS reports
	Amend Cadre and Recruitment rules of the ULBs and strengthen institutional capacities	Amend these rules in order to match skills and qualifications of the staff with their job profiles.
Year 3	Create formal platforms, structured processes for citizen participation in the annual budgeting process	Simple processes like providing online and offline ward-level forms to citizens to invite suggestions and issues, to ensure civic participation in budgeting should be implemented.
Year 4	Establish an independent Finance Commission for the cities	To make recommendations on distribution of resources within various agencies, and zones/wards within each city's jurisdiction, based on their infrastructure situation.  To recommend revenue enhancement measures to the ULBs  To review financial position and performance, as well as Public Expenditure Management processes (including standards for budgeting, financial reporting, performance measurement and reporting, and the related information systems).
Year 5	Adopt Accounting Standards of the ICAI	The State government-appointed committee to collaborate with the ICAI to prepare a mandatory guiding document for all ULBs prescribing all applicable accounting standards.

## Going Ahead...

The roadmap requires a consistent effort from the ULBs as well as the Government of Rajasthan to strengthen ULBs fiscal situation. The State government must take steps to ensure greater levels of fiscal decentralisation by devolving power of setting property, advertisement etc tax rates to the ULBs, among taking other such measures. The ULBs, on the other hand, must ensure efficient revenue collection, and look towards newer sources of income as well.