

## **CHAPTER-5**

### **MUNICIPAL FINANCES**

- 5.1** The financial position of ULBs in Assam is such that they are hardly in a position to provide quality civic services to the urban dwellers. As per 2001 census, Assam is one of the less urbanised states of India with only 12.90 per cent of the population living in urban areas compared to 27.78 per cent in the country as a whole. The rate of urbanisation in Assam in the preceding decade was 11.10 per cent against the all India figure of 26.13 per cent. The decadal growth of urban population in Assam during 1991-2001 was 36.24 per cent, slightly higher than the all India average of 31.13 per cent. Among the states of India, Goa has the highest level of urbanisation in 2001 being 49.77 per cent followed by Maharashtra with 42.40 per cent, Gujarat 37.35 per cent, Karnataka 33.98 per cent and West Bengal 28.03 per cent.
- 5.2** Despite the slow pace of urbanisation, ULBs in Assam have not been able to provide the minimum required civic amenities and infrastructure to the city dwellers. The performance of ULBs in the matter of augmenting own revenue from sources allocated to them has been dismal. The resultant inadequacy of fund has prevented them from discharging even their obligatory functions. The inevitable fall out is all-round ugliness in city and town life. The perennial resource crunch of municipal bodies has led to their growing dependence on State Government and gradual usurpation of many local functions by the state. That apart, many civic functions hitherto performed by the municipalities are now entrusted to Development Authorities, T.C.P, P.H.E, Capital Project and the like. This sort of encroachment obviously runs counter to the spirit of decentralization. This needs to be arrested from growing any further.

- 5.3 For the sake of convenience, municipal finance can be treated separately under two distinct groups viz, Municipal Boards and Town Committees (MBs/TCs) and Guwahati Municipal Corporation (GMC). MBs/TCs are governed by the provisions of the Assam Municipal Act, 1956 (as amended). These bodies are under the administrative control of Urban Development Department (UDD) and administered through the Directorate of Municipal Administration, Assam. While GMC is governed by the provisions of the Gauhati Municipal Corporation Act, 1971, and it is under the administrative control of Guwahati Development Department (GDD).**

#### **FINANCIAL PROFILE OF MBs/TCs**

- 5.4 As stated earlier there are 87 ULBs in Assam out of which 71 ULBs consisting of 28 MBs and 43 TCs are within the General Areas of Assam. The remaining 16 are within the jurisdiction of Sixth Schedule Areas and hence not covered by the recommendations of TASFC. The total area covered by MBs/TCs in general area is 472.68 sq km which is 0.60 per cent of the total geographical area of the state. There are only 3 MBs having population above one lakh and treated as Class I. These are Silchar with a population of 1, 42,199 followed by Dibrugarh with 1, 33,571 and Nagaon with 1, 07,667. The remaining MBs/TCs are classified as Class II to Class VI, depending on the size of their population. List of ULBs in Assam other than those in the excluded areas is at Annexure- 5.1.**

#### **SOURCES OF REVENUE OF MBs/TCs**

- 5.5 The principal sources of revenue of ULBs are (i) Collection from tax and non-tax sources allocated to them under the relevant Act, (ii) resource transfer from the state in the form of devolution of shared taxes and duties, (iii) grants-in-aid from the Government**

of Assam (GOA) and (iv) grants-in-aid from Government of India (GOI) under various Centrally Sponsored Schemes (CSS) and under award of successive CFCs.

### **TAXATION POWERS OF ULBs**

**5.6** As per Section 68 of the Assam Municipal Act, 1956, MBs/TCs are vested with the power to impose, within the limits of the municipality, the following taxes, fees and tolls, or any of them:-

- (a) a tax on holding situated within the municipality assessed on their annual value, payable by the owner;**
- (b) a tax, payable by the owner or occupier on the annual value of holdings;**
- (c) a lighting tax, payable by the owner or occupier on the annual value of holdings;**
- (d) a latrine tax, payable by the owner or occupier on the annual value of holdings;**
- (e) a drainage tax, payable by the owner, where a system of drainage has been introduced;**
- (f) a tax on private market payable by the owner;**
- (g) license fees on carts, carriages and animals used for riding or burden;**
- (h) a fee on the registration of dogs and cattle;**
- (i) a fee on boats mooring within the municipality;**
- (j) tolls on bridges;**
- (k) a betterment fee on holdings in any area of which value has increased due to improvement schemes completed at Board's cost;**
- (l) fees for setting up and maintenance of fire brigade;**

**(m) fees for conducting at the cost of the Board any scheme of social service for the improvement of public health;**

**(n) with sanction of the Government of Assam (GOA) any other tax, toll, rate or fee.**

**(o) license fee on boats.**

**5.7 Besides, ULBs may levy rents, tolls and fees on municipal markets, bus stand, truck stand, taxi stand, auto stand, parking yard, ferry service, fishery rental, fines and penalties under Section 148 and tolls on bridges under Section 136 of the Assam Municipal Act, 1956. Rules framed under Section 148 of the Assam Municipal Act also authorize MBs/TCs to sell municipal markets/ponds by the tender system.**

**5.8 Apart from the above, ULBs may impose an annual tax on urban immovable property as per the provision of the Assam Urban Immovable Property Tax Act, 1969 at the rate of 3 per cent of the annual value of holdings.**

#### **BASIS OF ASSESSMENT OF TAX**

**5.9 The basis of local taxation in the shape of holding tax, water tax, lighting tax and latrine tax that ULBs are authorised to impose is the annual value of the holdings. A holding means a well demarcated plot of land held under one title or agreement. The annual value of a holding is determined by ground rent and it is equivalent to the gross annual rental expected to be derived by letting out the holding. Where the holdings are not let out, annual value is determined by comparison of the annual value of let out holdings in the neighborhood. Once the annual value is determined, the rates of local taxes are fixed as a certain percentage of the annual value.**

- 5.10** The assessment of local taxes is done on a quinquennial basis. An assessor is appointed by ULBs under Section 86 of the Assam Municipal Act with the approval of GOA for assessment/reassessment of the annual value of holdings and local taxes. On being required by the assessor, the owners submit returns of rent on annual value of holdings with description of holdings within 15 days. The amount of rent is regulated by the Assam Urban Rent Control Act, 1972. As per this Act, 'standard rent' in relation to any house is derived from the rental value calculated on the basis of annual payment of an amount equal to 7.5 per cent of the aggregate amount of the estimated cost of construction and the market price of the land including local taxes; the monthly rent being one twelfth of the annual amount. In case the house is used as residence by the owner, the annual rental value will be reduced by 25 per cent while it will not exceed 6 per cent of the cost of construction; if the building is vested in government under Section 79 (2) and 79 (3) respectively of the Assam Municipal Act, 1956.
- 5.11** After preparation of the valuation list by the assessor, the rates of tax as a certain percentage of annual value of holdings are fixed by the respective ULBs under Section 80 of the Assam Municipal Act, 1956. ULBs do not have to seek any further approval of GOA on matters relating to fixation of rates and determination of basis in respect of taxes and fees leviable by them.
- 5.12** Given the statutory parameters empowering ULBs in raising revenue, the actual position in regards to exercise of taxation powers seem to be rather tardy as it is evident from the wide disparity between annual demand and actual collection. The gap between demand and collection per se is indicative of the fact that ULBs in general have failed to exploit the full potential from sources allocated to them. A statement showing unit-wise actual

collection of tax and non-tax revenues in 2005-06 and the estimated collection in subsequent years up to 2010-11, is at Annexure- 5.2.

**5.13 The actual collection of revenue by the ULBs in general areas of Assam during 2005-06 was as detailed below:**

Items	Amount (Rs. In lakhs)
<b>1. Tax Revenue</b>	<b>1016.39</b>
i). House Tax	492.51
ii). Water Tax	68.06
iii). Lighting Tax	67.67
iv). Latrine Tax	71.33
v). Market Tax	181.58
vi). Urban Immovable Property Tax	135.24
<b>2. Non-Tax Revenue</b>	<b>1426.38</b>
i) Fees, Fines, Fairs & Festivals including tourist bus fees, car, bus, taxi stand fees	1172.43
ii) Rental	253.95
<b>Grand Total</b>	<b>2442.77</b>

**5.14 Collection of municipal revenue, both tax and non-tax taken together was Rs. 2442.77 lakhs. This constitutes a meagre 0.04 per cent of GSDP, the widely accepted norm being 3 per cent. In per capita terms, the collection of municipal revenue is only Rs. 127, against GOA's per capita collection of Rs. 1760. More alarming is the situation pertaining to the demand and collection in respect of tax revenue. During 2005-06, the actual collection of tax revenue was Rs. 1016.39 lakhs against the actual demand of**

**Rs. 3221 lakhs which accounted for a poor 31.55 per cent of the total demand. On top of this, the annual demand most of-ten is low pitched as it is not made as per up to date assessment/reassessment of annual value. This indicates that there is ample scope for augmentation of revenue within the existing tax arrangement.**

## **RESOURCE TRANSFER FROM STATE GOVERNMENT**

- 5.15 Unlike the Assam Panchayat Act and the Gauhati Municipal Corporation Act, the Assam Municipal Act, 1956 does not contain any specific clause for mandatory sharing of the proceeds of state taxes with ULBs. However, as per decision of the state cabinet, 30 per cent of the net proceeds of Motor Vehicle Tax collected by GOA are made sharable with the ULBs including GMC. The divisible pool of 30 per cent of M.V. Tax is first allocated to each district on the basis of its registered vehicle population. Thereafter, the share of each district is further divided among ULBs within the district on the basis of their respective population. Share of M.V. Tax received by ULBs in general areas during 2005-06 was Rs. 302.10 lakhs. Apart from this, no other state tax or duty is shared with the ULBs.**
- 5.16 Next to devolution, grants-in-aid had been an important component of resource transfer from GOA to ULBs. Grants-in-aid used to be provided for both general and specific purposes like maintenance of PWD road side drains, communication grants, flood damage restoration grant and cash allowance to sweepers. The mechanism of transfer through grants-in-aid has gradually been discarded and the current level of grants to ULBs is almost negligible. The drastic reduction of grants from GOA has compelled ULBs to rely on plan funds for operation and maintenance expenses. However, allocation of fund for plan**

schemes has never been adequate and as a result municipal services continue to deteriorate.

### **RESOURCE TRANSFER FROM GOI**

- 5.17** Transfer of fund from GOI for ULBs channelised through GOA are mainly for the purpose of implementation of various CSS and also grants recommended under the award of successive CFCs. The Tenth Finance Commission, for the first time, awarded Rs. 1420 lakhs for ULBs for maintenance of civic services during the period of their award, that is, 1995-2000. It was stepped up to Rs. 2063.30 lakhs by the Eleventh Finance Commission and further to Rs. 5500 lakhs by the Twelfth Finance Commission. The funds received under CSS and under the award of CFC are tied to specific schemes and purposes and are not available for revenue gap filling. However, it is of particular relevance to TASFC in the context of capacity building of ULBs.

### **EXPENDITURE OF ULBs**

- 5.18** Non-plan revenue expenditure of ULBs can be conveniently grouped under two broad categories viz, (i) establishment expenses and (ii) expenditure on Operation and Maintenance (OM) of civic services. Establishment expenses include salary and wages of functionaries, both regular and Muster Roll (MR) employees, payment of Contributory Provident Fund (CPF) contributions, terminal benefits including gratuity and leave salary of regular employees and office expenses. O&M expenses are incurred for delivery of services and maintenance of assets like roads, drains, bridges and culverts, street light, water supply, sanitation, conservancy, cremation and burial grounds, community halls, children parks, markets and parking lots.
- 5.19** Salary and wages of regular and MR employees of ULBs including terminal benefits of regular employees constitute the main

component of establishment expenditure of ULBs. Unlike the PRIs, employees of ULBs are not provincialised nor do they have any formally approved staffing pattern. The Chairperson of each ULB is authorised in the matter of appointment of staff in his organization and the salary bill is met from its own resources. The number of employees in each unit is determined having regard to the internal revenue generation capacity of the individual unit. Hence, there is no uniformity in staffing pattern across ULBs in the state. Variation in number of employees is so wide that it ranges from a minimum of 7 in case of Silapathar TC to 225 in case of Silchar MB. The present staff strength of ULBs in Assam, other than Sixth Schedule areas, is 3588 under different categories. Out of the present staff in position, 1911 are regular employees borne on time scales of pay and 1677 are MR employees on fixed pay. A statement showing MB/TC wise number of employees is at Annexure- 5.3. The staff in position consists of Grade I, Grade III, Grade IV and MR employees. Category wise number of posts in each grade is shown at Annexure- 5.4. The post of Executive Officer (EO) does not seem to have been entertained as yet although there is a provision for the same under Section 53 of the Assam Municipal Act, 1956. Accordingly, both executive and legislative powers now vest in the Chairpersons.

- 5.20 On the basis of above staff strength, establishment cost actually incurred by ULBs during 2005-06 on salary and terminal benefits of regular employees, wages of MR labourers including office expenses aggregated to Rs. 1883.13 lakhs. Internal Revenue Mobilisation (IRM) by ULBs during the year was Rs. 2442.72 lakhs. Therefore, 77 per cent of IRM was spent on establishment alone. Per capita establishment cost has been Rs. 98 against per capita tax collection of Rs. 127. Establishment cost as a ratio

GSDP has been 0.03 per cent. ULBs in Assam have adopted the revised pay scales and dearness allowance (DA) formula applicable to GOA employees as per Assam Services (Revision of Pay) Rules 1998. But ULBs in general were not financially capable of honouring this commitment. Most of them have defaulted in regular payment of salary and wages to their employees. Consequently arrear of pay started accumulating and by the end of fiscal 2005-06 arrear pay snowballed to Rs. 1531.19 lakhs including Sixth Schedule areas. However, TASFC in its Ad Interim Report has recommendation liquidation of the entire amount within 2007-08.

**5.21** The other important component of revenue expenditure of ULBs is expenditure on delivery of civic services and maintenance of assets. Operation and Maintenance (OM) expenses relate to roads, bridges and culverts, drains, water supply, street lights, sanitation, conservancy, community halls, parks, markets and bus stands. The actual level of OM expenses in 2005-06 has been Rs. 1542.49 lakhs which accounted for about 63 per cent of their IRM. Per capita expenditure on OM has been Rs. 80 as against Rs. 98 on establishment. Out of the total expenditure of ULBs about 55 percent has been spent on establishment and 45 per cent on OM. The ratio of municipal spending and earning to GSDP in 2005-06 has been 0.06 per cent and 0.04 per cent respectively. A statement showing MB/TC wise expenditure of ULBs in 2005-06 with projection for the forecast period up to 2010-11 is at Annexure-5.5. For the purpose of projection an annual growth of 8 per cent in respect of establishment cost and 10 per cent in respect of OM expenses has been assumed over the base year 2005-06. The non-plan revenue deficit of ULBs at Annexure- 5.6.

**5.22** The above assessment in respect of income and expenditure of ULBs has been made on the basis of their assigned functions as

per existing arrangement. Eighteen subjects listed in the 12<sup>th</sup> Schedule of the Constitution have not yet been fully devolved to ULBs. Wherever devolution has been made fund and functionaries remain to be identified as yet. However, on a request from TASFC, Director, MAD, Assam has submitted a proposal indicating the fund required for 18 transferred subjects. The estimated amount is Rs. 4283.86 lakhs, which is stated to have been included in the budget for 2007-08. Out of this amount Rs. 2950.15 lakhs relates to Fire Services, which is too sensitive to consider for decentralization. The estimate lacks authenticity in the sense that the amount is not bifurcated between General and Sixth Schedule Areas. Further, the amount is not related to number of functionaries which will need to be transferred to ULBs. Hence, it is difficult to take cognizance of this amount for the purpose of revenue gap assessment of ULBs.

#### **ADDITIONAL RESOURCE MOBILISATION BY ULBs**

5.23 The on going scenario of municipal taxation has been marked by gross under-utilisation of available potential, sluggish attempt at enforcing periodical assessment/reassessment of annual value in conformity with the prevailing legislation and above all the poor rate of compliance (below 32 per cent) in spite of low pitched demand based on outdated property valuation. Consequently, ULBs have been entrapped in a vicious cycle of - low yield from taxation- low operational expenditure-low level of service delivery-low yield from taxation. The inevitable outcome has been their growing dependence on upper layers of government. This vicious cycle needs to be broken and for this purpose, apart from resource transfer, their own effort at augmenting revenue through Additional Resource Mobilisation (ARM) is of utmost importance.

**5.24** The major hurdles that ULBs normally face in the matter of resource mobilization has been the poor economic base and low productivity of local taxes, limitations imposed by government in levying taxes, inherent exemption clauses in the tax structure, apathy of elected representatives to impose taxes, resistance of public to pay higher taxes which often calls for judicial intervention and above all the weak administrative structure for collection of taxes. Usually people are averse to pay taxes because of the poor quality and high cost of municipal services. What is needed for successful imposition of taxes and user charges is a palpable improvement in the quality of services. Once the quality of services are improved people's resistance will naturally be mellowed down vastly and with gradual improvement in quality and quantity of services, the cost of providing services is also likely to come down.

**5.25** Tax on holdings, commonly known as house tax, is the principal source of revenue of ULBs. But here the position of actual collection against demand appears to be dismal, hovering a little above 30 per cent annually in spite of very low demand pending reassessment of valuation. As per Section 85 of the Assam Municipal Act, 1956, revision of valuation list has to be done once in every five years. Revision of valuation is expected to bring in additional revenue to ULBs. But regular revision has not been carried out years together either due to lack of initiative on the parts of ULBs or delay in giving approval to appointment of assessors by GOA. A change in the present valuation procedure from the outdated Annual Rental Value (ARV) to Unit Area Method (UAM) coupled with enlargement of tax net to cover properties which hitherto remained untapped and to those which were constructed newly is expected to yield substantial revenue to

**ULBs. The following measures, if adopted, are expected to check evasion and improve collection:**

- (a) To enforce occasional vigilance check to ascertain actual area of holdings liable for levy of tax. Unlike indirect taxation, there is not much scope for evasion of municipal taxes like property tax or trade license fees.**
- (b) To allow the payee to pay tax through post offices or commercial banks.**
- (c) To introduce system of rebate for timely payment.**
- (d) To introduce surcharge for payment after due date.**
- (e) To introduce computerized billing and collection system.**
- (f) To introduce the system of municipal tax clearance certificate in the matter of obtaining any license and electric or telephone connection.**
- (g) Appointment of an E.O. in each ULB will be of help in assessment of holdings and monitoring tax collection.**

**5.26 License fee on trades is an important source of revenue to ULBs. Suitable step up of the rates of trade license fees are expected to provide ULBs enough additional revenues. The yield from this source has been stagnating due to non-revision of rates in time. The SASFC recommended revision of trade license fees once in every three years, with freedom to ULBs to determine the rates and base of such fees. TASFC also recommends periodical revision of trade license fees with suitable step up of the rates. This would help augmenting resources of ULBs.**

**5.27 An important source of revenue of ULBs is tax/rent on private/municipal markets. Under Section 68 (f) of the Assam Municipal Act, 1956 taxes are collected by ULBs from private markets. While under Section 148, rent is collected from shops and markets**

owned by them. It is reported that shops and markets are also leased to private parties through sealed tender system. TASFC recommends periodical revision of the lease with suitable step up of rent.

**5.28** Another source of revenue for ULBs is grant of building permission. In this regard the proviso to Section 171 of the Assam Municipal Act, 1956 states that in an area in respect of which an authority has been constituted under the Assam Town and Country Planning Act, 1959, the power of giving sanction to erect, alter or re-erect any building shall vest in that authority and the sanction given by that authority shall be deemed to be sanction of the Board. This provision has eroded the authority of ULBs to grant building permission where Development Authority exists. It is reported that there are 20 Development Authorities in the State covering 21 ULBs. Hence, these 21 ULBs have been denied of their right to collect fees against granting of building permission. Since assessment of holdings and imposition of taxes are the subjects of ULBs, as such issuance of building permission should have been their prerogative only. If this power is vested in ULBs through amendment of relevant provisions in the respective Acts, ULBs would be able to supplement their income substantially.

**5.29** There are avenues in the Assam Municipal Act through which tax payers can secure exemption/concession in municipal tax leading to loss of revenue. Section 92 of the Assam Municipal Act, 1956 provide scope to municipal bodies to exempt any holdings used exclusively as a place of public worship or for the purpose of public charity from assessment of municipal taxes and to reduce or remit taxes on the grounds of excessive hardship to the person liable to pay the tax. While such steps are welcome on humanitarian grounds, however the abuse of such powers by ULBs will lead to unnecessary loss of revenue. It has come to the

notice of TASFC that taking recourse to the provision under this clause, elected representatives of Karimganj MB have given large scale exemption to tax payers on the grounds of excessive hardships thereby causing wanton damage to their own finance. TASFC holds that such discretionary powers should either be removed or “excessive hardship” should be strictly defined.

**5.30** In this connection, it is pertinent to mention that Section 148 of the GMC Act, 1971 allows GMC to consider exemption only in case of buildings and lands belonging to Central Government, religious and charitable institutions and owner occupied properties subject to the condition that rental value does not exceed Rs. 20 per month. It would be worthwhile to amend the Assam Municipal Act, 1956 in the light of the provisions contained in the GMC Act, 1971 regarding powers of exemption.

**5.31** Under Article 285 (I) of the Constitution of India, Central Government properties are exempt from all taxes by a State or by any authority within a State. Similar exemptions are enjoyed by the property and income of a State in respect of Union taxation. The issue of imposing taxes on Central and State Government properties by ULBs has been examined by the Eleventh Finance Commission (EFC) in detail. EFC was of the view that all properties located in rural and urban areas enjoy the benefit of civic services and therefore such properties can be subjected to levy of user charges. ULB may therefore, concentrate on levy and collection of user charges from Central and State Government properties for the purpose of augmenting their revenue.

**5.32** So far, the under-valuation of urban land has adversely affected collection of property tax by ULBs. The valuation of urban land in different urban areas has to be done realistically keeping in view the prevailing market prices. In the wake of relentless increase in land price, the value of land must be reassessed periodically by

**the Deputy Commissioner, so that it can be reflected in determination of ARV. Most importantly, the yawning gap between demand and collection must be narrowed down by a vigorous collection drive with a view to augmenting resources within the existing rate structure.**