Jharkhand Urban Local Bodies Journey of Financial Sustainability: Nirbhar to Atmanirbhar

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Urban Local Bodies, considered as engines of growth, are one of the most important pillars of our national economy and they need to be financially smart to play catalyst role in development of economy. However, due to its existence as government bodies, financial viability is often considered secondary, by putting forward its claim of fulfillment of social responsibility through better service delivery. However, this cannot be allowed to go on forever and local bodies need to generate enough funds to sustain their operations. Hence, it is time that these urban local bodies play important role in development of State and eventually to the Nation. Recently, Government of India guidelines like Smart City/AMRUT/National financial ranking and various Finance Commissions (FC) have advocated the robustness of urban local bodies own revenue.

"15th FC requires that increase in Property tax collection of cities over previous year shall be in tandem with the State Gross State Domestic Product"[1]

Strong municipal finances and urban infrastructure could be catalytic in unlocking growth and employment potential in public service sectors like transportation, healthcare, education, and others and will provide access to capital market through Muni Bonds. Healthy finances of ULBs are vital for provisioning of basic infrastructure to the citizens and for improving the quality of these services[2].*This article has been written to highlight the importance of self-generated revenue for cities with innovative interventions initiated by Government of Jharkhand to make its urban local bodies financially smart and sustainable.*

Introduction

Robust finances of urban local bodies (ULBs) are crucial for realizing the vision of ULBs as a viable third tier of Government and capitalising on the potential that cities represent for growth and development. Currently, ULBs in India are highly dependent on inter-governmental transfers, municipal revenues are <1% of the Gross Domestic Product and own revenues accounting for <50% of the total revenue of ULBs. This is reflected in the chronic deficits that ULBs run and, also among other things, in their inability to fund infrastructural demand or even meet the Operation and Maintenance (O&M) requirements.

Atma Nirbhar — The Conceptual Framework

ULBs in India are mandated to undertake certain basic civic functions such as water supply, roads, drains, street lighting and sanitation as per 74th Constitutional Amendment Act (CAA). However, to discharge these expected 18 functions mandated by 74th CAA, ULBs need robust governance backed up by strong financial base.

[1] *15th FC guidelines*

[2] *City Finance Ranking Guidelines, 2022(MoHUA)*

Even though the State and Central government support in provision of capital funding for the urban infrastructure, the onus of operations and maintenance and debt servicing is on the local government. The financial health of the city is determined by its ability to generate sufficient revenues to meet its ongoing expenses and have surplus to fund the future projects. Hence, to sustain and finance the urban services, it is important for the local governments to have reliable sources and plan to enhance own revenue income as fiscal sustainability is contingent on resource generation from own sources of revenue.

Atmanirbhar, as the phrase depicts, is the capability to produce money, i.e., the ability to generate enough surplus to survive. Atmanirbhartha objective in this context measures not the maximum surplus the ULB can produce but the 'minimum' is the rate of revenue required to meet its revenue expenses.

Need of augmented Self-Generated Revenue in National Policies

Several reports have appeared over the past few years drawing attention to the persisting fragility of the municipal system and made important suggestions for its revamping, like

- The Thirteenth Finance Commission (FC) (December 2009), for instance, *emphasizes on the need to refurbish property taxation as a key step to strengthening municipal finance* and suggests, as a part of its many recommendations, the establishment of state-level Property Tax Boards to impart uniformity in the system of property assessment.
- 14th FC (December 2014): For gram panchayats, the ratio between the unconditional basic and conditional performance grant was 90:10 and for municipalities the ratio was 80:20. *To be eligible for performance grants, the local governments would have to show an increase in own source of revenue* and submit audited annual accounts.
- For tied grants, 15th FC (October 2021) has mandated Ministry of Housing and Urban Affairs (MoHUA) to develop city-wise and year-wise targets, in consultation with the State Governments, for 2020-25 and recommend disbursal of grants. Accordingly, this marking scheme has been prepared

1	**Increase in Property tax collection over previous year in tandem with the State GSDP**	**Yes/No**
2	Increase in property tax collection over previous year (in %)	
3	Increase in GSDP over previous year (in %)	

- The High-Powered Expert Committee on Indian Urban Infrastructure and Services (March 2011) on estimating urban infrastructure investment requirements has set out *standard expenditure norms for municipal infrastructure and services, estimated the financial requirements, and proposed a pattern of financing them with a pivotal role for municipalities.*
- The World Bank's study on India: Developing a Regulatory Framework for Municipal Borrowing (October 2011) examines the supply-side constraints to municipal borrowing and emphasizes simplification of local government frameworks and elimination of ambiguities in regulations that govern municipal borrowing.
- Smart City Guideline issued by MoHUA in 2015 requires *ULBs own resources from collection of user fees, beneficiary charges and impact fees, land monetization,* debt, loans etc. to contribute not in meeting Smart City Capex but also its operation and maintenance (O&M)

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- AMRUT Guidelines issued by MoHUA in 2015 in Reforms Milestones and Timelines section for *AMRUT Cities requires Municipal tax and fees improvement and Improvement in levy and collection of user charges as precondition for claiming reform incentive.*

Thus, it is evident from various reports that financial robustness of own revenue of ULB is the need of the hour.

Self-Generated Revenue

Self-generated revenue implies revenue generated by ULB from its own sources from taxes, user charges and fees, interest etc either directly or through shared revenue from State Government in the form of assigned revenue. In common parlance, Own Source Revenue (OSR) indicates that revenue which has been generated by ULBs without depending on external aids. It is also known as Internally Generated Revenue (IGR) or Self-Generated Revenue (SGR). *As per National Municipal Accounting Manual (NMAM): Own Revenue covers items as listed in the following Table and apart from this, ULB also receives Grants from Government, from Finance commissions and under various schemes:*

Code No.	*Particulars*
1-10	Tax Revenue
1-20	Assigned Revenue & Compensation
1-30	Rental Income from Municipal Properties
1-40	Fees & User Charges
1-50	Sales & Hire Charges
1-70	Income From Investments
1-71	Interest Earned
1-80	Other Income self-generated by ULBs
A	Total - Own Source Revenue

Entry 243 X of constitution states that the Legislature of a State may, by law—

(a) Authorise a Municipality to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;

(b) Assign to a Municipality such taxes, duties, tolls and fees levied and collected by the State Government

(c) Provide for making such grants-in-aid to the Municipalities from the Consolidated Fund of the State.

In above backdrop, Section 151 of Jharkhand Municipal Act, 2011 provides power to local bodies to collect revenue from taxes, fees and user charges as self-generated revenue. To become Atmanirbhar, ULBs need to augment above sources primarily collection from property tax which is part of tax revenue as it accounts for more than 50% of own revenue of any ULB, followed by rental income from municipal properties and fees & user charges. *One of the preconditions for grants, put in by both, 15th FC and AMRUT is that collection from Property Tax shall be more than State GDP and State shall migrate to Capital value/ Guidance value so that there is auto increase in property tax demand annually.*

Genesis of Reforms in Jharkhand: Pre-Reform

Cities of Jharkhand were feeling the heat of archaic governance, lack of skilled manpower, absence of digital records, low coverage, low collection of property tax (Rs 23 Cr in 2013-14). This problem got aggravated leading to 3U's problem: Large number of Unassessed, Underassessed and Unpaid properties. Deficiencies in the existing system of property taxation did not allow for full exploitation of the revenue generation. To make ULBs financially empowered, urgent need for Financially reform was felt. **Some of the reasons which pushed Government of Jharkhand for financial reforms are discussed below:**

a) **Archaic Governance:** Tax rates were very low and have not been changed for many years. Further, for many taxes, user charges and fees, rules and regulations required for executing the collection of Taxes and Fees were missing.

b) **Limited Manpower:** To collect taxes, user charges and fees from more than potential 8,50,000 Households (HH) of Jharkhand, more than

400-500 Tax Collectors were required in ULBs of Jharkhand but present strength of tax collector strength till 31 March 2016, was on an average 100 tax collectors which is 70%-80% less than expected strength.

c) **Absence of IT tools and Technology in collection:** Collection of taxes, user charges and fees were done by ULBs manually which lead to cases of incomplete Demand, Collection and Balance (DCB) register, short deposit of cash due to instances of collusion among household and tax collector and lack of timely MIS reports lead to delay in taking preventive actions.

In this backdrop, Government of Jharkhand initiated tapping of private sector for capital, technology, and expertise to finance, develop, and manage the taxation in the 49 ULBs of Jharkhand through people involvement.

About the reform

Government of Jharkhand (GoJ) did pilot testing of Public Private Partnership (PPP) based revenue sharing model in capital city, Ranchi in 2013-14. Jharkhand armed its cities, with power of governance by implementation of Property Tax Rules as per Municipal Act. State of Jharkhand has introduced the scheme of Web based Self-Assessment of Property Tax through Self-Assessment form under Trust and Verify which leads to involvement of people. *The objective behind the introduction of Self-Assessment of Property Tax scheme is to ensure complete transparency and openness in the levy and collection of Property Tax and to enable citizens/tax-payers to understand the basis of taxation so as to calculate the tax by themselves.* Following reform measures were taken:

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a) **Governance/Statutory Reform:** No reform is successful unless backed up by strong governance and its institutionalisation, Government of Jharkhand replaced Old Provisions of Bihar Orissa Municipal Act 1922 by Jharkhand Municipal Act 2011 and Holding Tax Rules 2013. In line with the requirement of 15th FC and AMRUT, 2.0 guidelines, Government of Jharkhand has made necessary amendment in Jharkhand Municipal Act 2011 for implementation of capital value method of property tax assessment and calculation. Further, Water User Charges Rules were notified which allows urban local bodies to provide metred connection and allow volumetric based tariff. To optimise the cost of ULBs and provide additional revenue, *policy on maintenance of Municipal Parks* was notified whereby ULBs can outsource their park maintenance on PPP mode or under corporate social responsibility (CSR).

- **Migration to capital Value from Annual Rental Value (ARV) method of Property Tax: In line with 15th FC recommendation**

Under ARV method of assessment, no periodic increase in property tax rates was possible and it was not equity based as same rate was charged from different section of society in one city. Therefore, Government of Jharkhand decided to implement another leg of municipal financial reforms by migrating from ARV to Capital value in line within 15th Finance commission and Amrut 2.0 guidelines, from 1 April 2022. *Under capital value method:*

- There will be a periodic increase in property tax in line with growth of State GDP
- Provides balance of equity among all section of society as different section of society will have different rates
- Provides additional rebate of 5% to owners of residential HH *(Women/Senior Citizens/ Armed Forces officers/ Divyang/ Transgender)*
- Provides Property tax payment exemption

for HH having built up area upto 350 sq. ft. This will benefit poor needy people including PMAY beneficiaries.

This has allowed citizens to claim rebate upto 15% from payment of Holding Tax including early bird rebate of 5% and additional rebate of 5% for online payment promoting digital payments

b) **Financial Management reform:** No reform can sustain or be successful unless the organisations' financial system is strengthened. ULBs of Jharkhand prepare the annual financial statement on time as required by 15th FC, as per accrual based double entry system. Annual financial statement is prepared as per Jharkhand Municipal Accounting Manual which is based on National Municipal Accounting Manual. ULBs of Jharkhand have a full fledged accountant to carry out day to day accounting and internal audit for pre audit of transactions.

c) **Administrative Reforms:** Privatization of assessment and collection of Tax, Fees and User charges backed up by professional monitoring through PMU:

Appointment of Tax Collection Agency: The State has opted for PPP mode for increasing revenue collection and household coverage. Hence, three Tax collection agencies (TCAs) were selected through tender process and they are presently working in the field in 49 ULBs

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Appointment of Project Management Unit (PMU) for Monitoring-Revenue Augmentation (RA) in ULBs of the State: The Government of Jharkhand appointed the PMU (RA) with the objective of monitoring the functioning of tax collection agencies as well as the ULBs. PMU is assisting the State in empowering Governance by making various rules and policies to tap untapped sources based on best practices. PMU through ABC analysis techniques helped in targeting properties having huge tax collection demands and thus, reducing the unpaid demand. Further, PMU ensured that regular notices are being issued to defaulters and regular follow up is done. Apart from this, the PMU is also playing a link between the TCAs, ULBs and the Government to identify and resolve the issues – both technical and others - coming in the way of revenue collection from all the sources of the ULBs.

d) **Use of IT tools and technology:** The introduction of improved IT systems has long been hailed as a powerful – potentially transformative – tool for strengthening local property taxes. Jharkhand State has adopted the latest

Benefits of PPP Model

- Digital records were made available;
- Property Tax Management System was developed;
- Property tax demand notice was generated in real time using PoS machines for transparency;
- Army of trained Tax collectors was deployed in all cities;
- Doorstep collection of taxes has been introduced to help owners to make on-the-spot digital payments;
- Increased collection centres (Jan Suvidha Kendra: JSK) for ease of citizens were established in all cities;
- A wide range of digital payment platforms are being made available for online property tax payment to promote digital payments with special rebate of 5%. Presently, more than 20% property **tax is being** collected online.

technologies in various stages to take the advantage of this reform opportunity. A new system – Property Tax Management System was designed and developed whereby data was entered to update the software system in respect of assessment and other information including last payment details and photocopy of receipt collected from owners. This would generate Demand and Unique Property ID under the supervision of ULB officials. Unique House Number of 15 digits was provided to individual houses after survey and it was made mandatory for any new property registration in Jharkhand. The functionalities in the web-based site provide following services to all the stakeholders.

- An IT-enabled PT (Property Tax) calculator known as 'Tax Calculator' that assesses PT-based on parameters like category, type of house, location, year of construction, zone, built up area etc. was enabled for Self-Assessment Form (SAF);
- e- payment facilities with rebate for online payment to promote digital India;
- Regular SMS reminder for payment of taxes
- E generation of Notices to defaulters u/s 184 and 187 of Jharkhand Municipal Act(JMA) 2011
- Web-based property tax information facility;
- Citizens can access information on the tax collector of their ward known as "Know Your Tax Collector"
- Online Portal has already been placed with an accuracy upto 99.97% and 5% additional rebate is allowed to citizen for making payment online.

e) **Cross Mapping Technique**: To resolve 3 Us issue, Government of Jharkhand has introduced innovative intervention of cross mapping the data with other data base like building bye laws, Water User Charge, Solid Waste User Charge and Municipal Trade License. Further, Property tax ID is made mandatory for registration of property in Jharkhand.

f) **Increased IEC activities**: Public awareness is essential to collect tax etc. from the local residents. Various ways were deployed by Government of Jharkhand like organizing camps, miking, *nukkad nataks*, showing the slides in the cinema halls and cable TVs, distribution of pamphlets, jingles, rhymes, writings on the walls, teaching in the classrooms of the educational institutions, etc. The messages are crispy, the impact of which directly appeal to the minds of the people.

Benefits of Reforms taken by Jharkhand has been presented in figure 1:

Figure 1: Success Story : Jharkhand Revenue Augmentation

Government of Jharkhand is committed to continue this reform journey to make its cities engines of growth, Atmanirbhar and financially sustainable.

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