Background note on Municipal Finances/URIF

Local Governments constitute a critical tier in India's three level governance system. They provide social & economic benefits directly to citizens relative to the other levels of governance. Local governments are expected to meet out the demand for affordable housing, integrated transport system, basic infrastructure like water, electricity supply, schools, hospitals & Law & Order.

There are 78, Urban Local Bodies, in the UT of J&K, which includes 02 Municipal Corporations & 19 Municipal Councils having urban population nearly 34.33 Lakhs, headed by Housing & Urban Development Department, J&K. These Municipal Bodies provide important services to citizens ranging from sanitation to sanctioning of building permissions. These Municipal Bodies have status of local self Government with well defined powers/functions. However, economic condition of ULBs is not strong due to poor resource base. Only few institutions have been able to generate revenue out of limited infrastructure/sources such as shopping complex, building permissions, license fee etc.

For betterment of municipal bodies, 74th amendment Act has been implemented vide Administrative Council Decision No. 128/20/2020 dated 23.09.2020, the devolution of functions, functionaries and funds of seven departments viz., Health, & Medical Education, Social Welfare, School Education, Public Works (R&B), Forest, Ecology & Environment, Jal Shakti and Floriculture, Gardens & Parks Departments to Urban Local Bodies, in alignment with the mandate of the 74th Constitutional Amendment Act.

Apart from own resources/ GIA, Urban Local Bodies receive funds, under plan as well as under centrally sponsored schemes.

The position of resources/GIA (Devolution)/CSS/CAPEX of ULBs for the last three years is as under:

A. Own Resources mobilized for last three years. (₹in lakh)

S. No.	Name of ULBs	Own Resources 2019-20	Own Resources 2020-21	Own Resources 2021-22
1	Municipal Corporation, Srinagar (SMC)	2441.02	1321.00	2009.57
2	Municipal Corporation, Jammu (JMC)	1532.18	1985.62	2973.00
3	Urban Local Bodies, Kashmir (ULBK)	3012.46	1965.02	3965.50
4	Urban Local Bodies, Jammu (ULBJ)	2408.10	2908.25	2547.34
	Total	**9393.76**	**8179.89**	**11495.41**

Details of GIA/CAPEX/CSS provided to ULBs for last three years. (₹in lakh)

S. No	Name of ULBs	GIA Devolution			CAPEX			CSS		
		2019-20	2020-21	2021-22	2019-20	2020-21	2021-22	2019-20	2020-21	2021-22
1	SMC	21010.00	29474.00	21500.00	1962.50	1050.00	15611.00	8321.64	110.85	2811.20
2	JMC	14544.00	24993.11	21500.00	2720.00	1019.00	14150.00	6587.90	123.88	457.00
3	DULBK	13775.62	19016.83	19142.48	873.96	3998.00	18777.00	4167.00	602.88	0.00
4	DULBJ	9340.00	12536.39	14230.60	2417.93	4184.47	16628.00	2524.38	593.01	1722.00
	Total	**58669.62**	**86020.33**	**76373.08**	**7974.39**	**10251.47**	**65166.00**	**21600.92**	**1430.62**	**4990.20**

As could be seen from the above table that during the year 2021-22 an amount of ₹**146529.28** lakh were provided to the Centre/UT Government but their own resources mobilized were only ₹**11495.41** lakh. It is clear that grants provided by the Centre/UT Government is more than income mobilized by the ULBs for meeting out their expenditure needs.

In order to improve financial health of ULB's, Municipal Acts which are detailed here under have given adequate powers to ULB's to impose taxes, levy fees, user charges etc.

Chapter VI of J&K Municipal Act, 2000 deal with the powers of Municipalities to Impose taxes and fee

65. Taxes which municipality shall impose. —(1) For the purpose of this Act and subject to the provisions thereof every municipality shall impose the following taxes, namely:—

(a) taxes on lands and buildings or vacant lands or both situated within the municipal area (hereinafter referred to as 'property tax')

(b) if so authorised by the Government, a duty on transfer of property in the form of a surcharge on the duty imposed by the Stamp Act, Samvat 1977, on instrument of sale, gift and mortgage with possession of immovable property situated in municipal area at such rate as may be fixed by the Government not exceeding two per cent on, as the case may be, the amount of the consideration, the value of the property or the amount secured by the mortgage, as set forth in the instrument

66. Taxes that may be imposed. —(1) Subject to any general or special orders of the Government in this behalf and to the rules, a municipality may, from time to time, for the purposes of this Act, impose in the whole or any part of the municipality any of the following taxes, tolls and fees, namely:—

(i) a fee on profession, trade, callings and employments ;

(ii) a fee on vehicles other than motor vehicles, plying for hire or kept within the municipal area ;

(iii) a fee on dogs, kept within the municipal area ;

(iv) a show fee ;

(v) a fee for infrastructure development on motor vehicles suitable for use on road within the municipality.

(v)i a fee on boats moored within the municipal area ;

(vii) a fee on the consumption of electricity for every unit of electricity consumed by any person within the limits of the municipal area ;

(viii) a fee on buildings payable along with the application for sanction of the building plans:

(ix) a fee with regard to pilgrimage ;

(x) a fee with regard to drainage ;

(xi) a fee with regard to lighting ;

(xii) a fee for the purpose of collection, transportation and disposal of solid waste.

(xiii) a fee in the nature of costs for providing internal services under the scheme framed under section 205:

(xiv) an education cess ;

(xv) a local rate on land revenue ;

(xvi) with the previous sanction of the *[State Government], any other tax, toll or fee which the **[State Legislature] has power to impose in the Union territory of Jammu and Kashmir under the Constitution of Jammu and Kashmir.

Chapter VIII of J&K Municipal corporation Act,2000 deal with the powers of Municipalities to Impose taxes and fee.

84. Taxes etc. to be imposed by Corporation under this Act and arrangement of certain taxes collected by Government. —(1) The Corporation shall, for the purposes of this Act, levy the following taxes.-—

(a) taxes on land and buildings or vacant lands or both situated within the Municipal Corporation area (hereinafter referred to as property(tax)

(b) such other tax, at such rates as the 2[State Government] may, by notification, in each case direct ;

(c) a duty on the transfer of immovable properties situated within the limits of the municipal area in addition to the duty imposed under the Stamp Act, Samvat 1977, as in force for the time being in the [Union territory of Jammu and Kashmir], on instruments of sale, gift and mortgage with possession of immovable property situated in the municipal area at such rate, as the Government may, by notification, direct, which shall not be less than one per centum and more than two per centum on the amount of the consideration, the value of the property or the amount secured by the mortgage, as set forth in the instrument.

(2) Subject to the prior approval of the Government, the Corporation may for the purposes of this Act, in addition to the taxes specified in sub-section (1) levy :—

(a) a tax on profession, trades, callings and employments ;

(b) a tax on vehicles other than motor vehicles and animals ;

(c) a tax on the increase in urban land values caused by the execution of any development or improvement work ;

(d) show tax ;

(e) tax on consumption of energy for every unit of electricity
consumed by any person within the municipal area ;

(f) sewerage tax ;

(g) water tax ; and

(h) any other tax that may be imposed under the Jammu and Kashmir Municipal Act, 2000

85. Fees that may be charged by the Corporation. —(1) Subject to the prior approval of the Government, the Corporation may in the manner prescribed levy a fee with regard to the following :—

(i) a fee on advertisements other than advertisements in the newspapers ;

(ii) a fee on building applications ;

(iii) development fee for providing and maintaining civic amenities in certain areas ;

(iv) a fee with regard to lighting ;

(v) a fee with regard to scavenging ;

(vi) a fee in the nature of costs for providing internal services in a building scheme or town planning scheme ;

(vii) a fee for infrastructure development on motor vehicles suitable for use on road within the city.

(viii) a fee for the purpose of collection, transportation and disposal of solid waste.

(ix) any other fee as the Corporation may deem fit by for services rendered by it.

Along the increasing levels of urbanization and rising urban population growth, the economic importance of Indian cities is also increasing in an era of globalization; the development of urban infrastructure has to take place at a greater pace so as to absorb these pressures. This brings forth the need for the cities to mobilize adequate resources to deal with these issues and need to look for revenue resources beyond the conventional resources for undertaking urban infrastructure development.

The investment requirements of urban infrastructure services in UTof J&K are colossal and as such huge investment is required for urban infrastructure development in all the 78 ULBs of UT of J&K. the fiscal resource of this magnitudes cannot be easily mobilized from within the budgetary resources of ULBs. Therefore, it become imperative for the ULBs to revamp their revenues and step-up their spending in order to meet with the challenge of providing urban infrastructure services.

The ULBs need to be less depend upon the fund flows from upper tiers of government in the form of grants, they need to mobilize adequate funds from their own sources to meet the service provision objectives. Most of the ULBs use grants to finance their activities, while the other sources of revenue are not tapped to the potential that exists. For example, public debt available from market –both institutional and individual / retail investors- is rarely accessed to finance the creation of urban infrastructure.

The **following steps can also be taken for improving financial health of ULBs:**

1. Tapping both conventional and non-conventional sources to their potential for financing infrastructure projects.

2. Availing Public Debt from market – both Institutional and retail investors to finance the creation of Urban infrastructure.

3. Imposition of Property Tax , improvement/ betterment charges, land use conversion tax, purchasable development rights / actionable rights , land transfer tax and vacant land tax. to enhance the revenue generation as it is a major component of revenue generation on the pattern of other ULBs elsewhere in the country.

4. The ULBs may use general guiding principles of user pay, beneficiary pay and polluters pay to justify levy and make citizens aware of the need for contribution.

5. Periodic enhancement of Fees and user charges like empanelment & registration charges, licensing fees, fees for grant of permit, fees for certificates, development charges, regulation fees and penalties/fines, Taxes like vehicle tax, professional tax, advertisement tax, octoroi/toll/entry tax etc to such levels that they contribute adequately to the resource base of ULBs.

6. Inter –governmental transfers/ grants should be used to provide better infrastructure service delivery to the urban poor.

7. Collections of receipts need to be accelerated, by better financial management, especially creating awareness regarding payment of taxes/rent etc.

8. Rent charged by urban local bodies, can also be reviewed, for better revenue generation.

9. Municipalities can also enhance their financial strength by creating more revenue generating assets in the ULBs.

Urban Reform Incentive Fund (URIF) for UT of J&K:

The UT of J&K has earmarked ₹200.00 Crore during the current Financial Year under the scheme City Sustainable and Infrastructure Development-2022-23 for incentivizing the adoption of Municipal Reforms by ULB's

50% of the ULBs' allocation will be permitted to be released as incentive on the signing of MOU by the H&UDD and Heads of the ULBs for the agreed reforms and balance 50% on achievement of prescribed milestones for the current financial year and beyond. Releases for the current financial year onwards would be dependent upon the achievement of milestone(s) for that year for each agreed reform area separately.

The funds under City Sustainable and Infrastructure Development would be utilized by the ULBs only for various urban development projects / schemes including filling of any gaps in the funding of such projects/schemes.

The department has devised the benchmarks/ milestones to incentivize the ULBs through the Corpus available for the current Financial Year and beyond based on population and resource generation of the ULBs. Out of the various incentive reforms, the property tax, user charges and grievance redressal are mandatory.

Property tax reform will be focused on notifying property tax calculation containing guidance value/ circle rate along with provision for its periodic increase. The increase in property tax will be ensured through this notification and increase in coverage, & collection efficiency. Reforms on User Charges will be focused on notification by ULBs on user charges for water supply and sewerage, resolution of its adoption by all ULBs.

The benchmarks/ milestones/mechanism to incentivize the ULBs through the Corpus available for the current Financial Year and beyond is given here as under;

S.No	Particulars	Mechanism to be adopted	Year 1	Year 2	Year 3	Year 4	Year 5	Remarks
	Incentive Part (admissible to ULBs imposing Property Tax)							
1	Grant to match share of the ULB in total own resources of all ULBs	50% of the corpus * share of ULB collection in last FY to total collection of all ULB of UT in last FY	50% of the corpus	50% of the corpus	50% of the corpus	50% of the corpus	50% of the corpus	Ex: If total corpus is 200cr and total collection by all ULB in last year is 87 cr. Then 50% of corpus is 100cr Then a ULB which generated 2 cr last year will get = 100 *2/87= 2.29cr If total collection of all ULBs is 115 cr the a ULB with 2 cr collection will get = 100*2/115=1.73cr

2	Grant to reward performance on identified parameters (3-6 max)	Ranking based on marks Bottom 1/3 will be given 60% of per capita corpus * population middle 1/3 will be given 90% of per capita corpus * population Top 1/3 will be given per capita corpus of remaining amount * population Per capita corpus = 25% of corpus/total urban population of UT Per capita corpus of remaining amount = (25% of corpus-amount disbursed to bottom and middle 1/3 ULBs)/population of top 1/3 ULBs	25% of the corpus	25% of the corpus	25% of the corpus	25% of the corpus	25% of the corpus	Ex: If total corpus is 200cr and total urban population is 35 lakh then 25 % of corpus is 50 Cr Per capita corpus = 50 cr/35 lakh = 142.85 rs then a ULB of 5000 population among bottom 1/3 will get 142.85*.6*5000= 4,28,550 a ULB of 5000 population in middle 1/3 will get 142.85*.9*5000 = 6,42,825 if 18cr is distributed among 2/3 ULB in such way and remaining fund is 32cr and say total population of these 1/3 ULB is 20 lakh then per capita corpus of remaining amount = 32cr/20lakh = 160 rs then a ULB of 5000 population among top 1/3 will get 160*5000 = 8,00,000
3	VGF grant for projects identified through challenge	Self- sustaining projects which can also be considered through PPP mode shall be e taken up after identification through challenge mode. Challenge can be spelt out before the start of FY with 2-3 months to complete the selection process. theme for this year can be urban mobility, water sector and Grey water management, Green Space Projects etc.	10% of the corpus	15% of the corpus	20% of the corpus	25% of the corpus	25% of the corpus	To nudge the ULBs in the conceptualization, planning and execution of self-sustaining public use projects, a VGF grant can be used to incentivize the enhancement of capacities of the ULBs on this count. A maximum of 7-10 very good such projects can be selected for VGF grant. The share of this part would have to be raised over time as demand from new as well as old projects accumulates.
4	**Enablement Part (admissible to ULBs imposing Property Tax)**							
	Fund support for augmenting ULB capacity in 1-3 identified areas	May be utilized in IT enablement and adoption of Technology in Property mapping, enforcement of BP/illegal construction measures, revenue realization, public works management	15% of the corpus	10% of the corpus	5% of the corpus	nil	nil	This could be a tapering, tied grant which could be used for reform enablement by augmenting 1-3 identified capacities of the ULBs during a year. The focus for the current year could be making the IT infrastructure in the ULBs sufficiently robust so that they become capable of providing at least the common 21 services in fully online mode, are available online 24x7, and have the necessary hardware, software and competent manpower/ handholding support to operate these services in

								always on mode. Of the Rs 30 crore available for the current year as per this formula, 20 crores could be shared relatively uniformly among the ULBs for purchase of IT equipment and services except the web-application/ mobile app/ platform, and 10 crore could be used at UT level/ DLB J/K levels, to create/ customize the common web application/ mobile app/ platform.

Ranking of ULBs:

Parameter	Milestones	Weight age	Unit	Source of information
Property Tax Adoption (Property tax and User charges reform are compulsory for funding under AMRUT 2.0 after 2 yrs)	Adoption of property Tax Hassle free payments of taxes and user charges	25	Y/N	Notification copy
Financial discipline	A. Migration to double entry acc system	15	Y/N	Self certification
	B. Appointment of Internal Auditor	5	Y/N	Order copy
	C. Audit certificate and Annual financial statement on website	5	Y/N	Audit certificate and link of AFS
Online Service delivery under PSGA and Effective system for grievance redressal -	A. % of application disposed	10	5*% of application disposed under timeline/100	As per Service plus portal
	B. % of application disposed under PSGA timeline.	10	10*% of application disposed under timeline/100	As per Service plus portal
Budget on non-salary component	% of Budget spent on non-salary component	10	4*% of budget spent on non salary component/100	UC and self certification
Rejuvenation of water bodies with area preferably one acre	Number of water bodies to be rejuvenated	10	10*% of water bodies rejuvenated as per the criteria of AMRUT 2.0	UC and self certification
Sanitation	ODF certification	10	ODF - 5 ODF+ - 7 ODF++ - 10	Self certification
Total Score		**100**		