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Improved Creditworthiness of Bhubaneswar Municipal Corporation, India

Final Report

Indo-USAID Financial Institutions Reform and Expansion Project—
Debt & Infrastructure Component (FIRE-D Project)

USAID-TCGI Contract No. 386-C-00-04-00119-00

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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Consulting Team
Infrastructure Professionals Enterprise (P) Ltd.

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LIST OF ABBREVIATIONS

BDA	:	Bhubaneswar Development Authority
BMC	:	Bhubaneswar Municipal Corporation
CDP	:	City Development Plan
CAGR	:	Compound Annual Growth Rate
CLR	:	Casual Labor Roaster
DEAS	:	Double Entry Accounting System
DLR	:	Daily Labor Roaster
DMA	:	Department of Municipal Administration
FIRE - D	:	Financial Institution Reforms and Expansion (Debt) Project
FRS	:	Financial Reporting System
GDP	:	Gross Domestic Product
GoI	:	Government of India
GoO	:	Government of Orissa
HDI	:	Human Development Index
IPE	:	Infrastructure Professionals Enterprise (P) Ltd.
JNNURM	:	Jawaharlal Nehru National Urban Renewal Mission
LFS	:	Local Fund Service
MoUD	:	Ministry of Urban Development
NLFS	:	Non-Local Fund Service
NMR	:	Nominal Muster Roll
OMC Act	:	Orissa Municipal Corporation Act, 2003
O & M	:	Operation and Maintenance
PFDF	:	Pooled Finance Development Facility
PPP	:	Public private participation
RIAP	:	Revenue Improvement Action Plan
UDF	:	Urban development funds
ULB	:	Urban Local Bodies
USAID	:	United States Agency for International Development
74 th CAA	:	74 th Constitutional Amendment Act

EXECUTIVE SUMMARY

Introduction

Government of Orissa (GoO) has embarked on a programme of municipal reforms in its urban local bodies (ULBs) and has requested support of the Indo-US Financial Institutions Reform and Expansion project - Debt component (FIRE-D) for pursuing a program to help its ULBs improve delivery and management of urban services and enhance their creditworthiness. FIRE-D has subsequently agreed to support the state to develop a municipal accounting manual; improve resource mobilization and creditworthiness in Bhubaneswar Municipal Corporation (BMC); and introduce and implement double entry accrual based accounting system (DEAS) and improved financial management in BMC.

This programme focuses on providing technical assistance to BMC to improve its resource mobilization and creditworthiness. The main tasks under the programme include review of its organization structure; analyzing past revenue and expenditure trends; reviewing present methods of tax and non-tax assessment, billing and collection, MIS, budgeting, accounting, auditing, and other aspects of financial management; organizing stakeholder consultation workshops; and developing a short-term action plan for improved creditworthiness of BMC.

The timing of this initiative is relevant in the context of recently launched Jawaharlal Nehru National Urban Renewal Mission (JNNURM). BMC's City Development Plan (CDP) has already been approved by Gol and, along with this effort to improve its creditworthiness, it is also working towards conversion of its accounting system to DEAS. In addition, BMC has also initiated work in areas of increased community participation and e-Governance. Together, the entire range of municipal reforms in BMC has been named as 'Prayas'. The programme 'Prayas' was officially launched on June 9, 2006 and first few rounds of orientation workshops organized with key officials of the BMC in the following months. Following the initial workshops, the consultant team has been working closely with the key officials of the BMC to understand the systems and accordingly develop the action plan for improved creditworthiness.

Organization Structure

BMC came into existence on October 1, 2003, following the enactment of Orissa Municipal Corporation Act, 2003 (OMC Act). Under the provisions of the Act BMC is mandated to discharge various obligatory (section 24) and discretionary functions (section 25) and provide a range of specified civic services/infrastructure facilities to its citizens.

The organizational setup of BMC comprises a political and an executive wing. The Act provides for four authorities in the Corporation i.e. The Corporation; Mayor; Standing Committees; and Commissioner. The apex body is the 'General Body' of BMC headed by the Honorable Mayor and consists of 9 Standing Committees. The political wing is an elected body comprising Councilors from different wards in the city. Ward committees are constituted with the area Councilor as the chairperson and representatives of Mayor and Municipal Commissioner as members.

The executive wing, headed by the Municipal Commissioner, looks after the day-to-day functioning of BMC and supports the political wing in the decision-making process. Under the Municipal Commissioner, the wing is assisted by Deputy Commissioner and several Branch Officers. The BMC employee strength as of July 31, 2006 was 3,055. There are some officers on deputation from the state government as well.

The different sections within BMC are classified by the different functions of the Corporation viz. finance, revenue, civil, administrative, enforcement, audit, legal, public health, medical, environment and slums. These functions have been assigned to different Branch Officers. While the reporting hierarchies for most of these functions have been clearly defined, certain functions also have considerable overlap. Some of the issues are discussed below.

Finance Functions: Headed by the Chief Finance Officer (CFO), covers Accounts, Cash, Income Tax (employee) and Contributory Provident Fund Sections have been kept. The CFO also co-ordinates the preparation of the budget and controls the fund utilization by the different sections as per the budget.

- Budgets prepared are generally rigid and do not provide adequate information and details to review effective use of funds. The concept of policy based budgeting is missing and due to lack of relevant information, most revenue estimates are based on ad hoc or incremental increases over the previous year's budget. On the positive side, BMC acknowledges some of these issues and from the year 2006-07 for the first time a shelf of projects for civil works has been prepared.
- Accounting in BMC is done manually on a cash based single entry system. While most accounts in BMC are found to be up-to-date; discrepancies between the Cash Book and Abstract Register exist. Under a parallel programme the system of accounting is being transferred to DEAS and these anomalies should get addressed in the process.
- Cash section receives and disburses all cash payments made by or to the Corporation. Records of receipts are maintained in a disaggregated way, wherein, the details are maintained by individual departments and only total figures are entered in the Cash Book (main accounts), results in lack of transparency and difficulty in reconciliation of accounts.
- Bill Section deals with preparation of bills for payment against salary of regular employees of the Corporation. Since this happens manually, it leads to wasteful use of resources in repetitive processing of almost similar salary bills every month. Thus there is an urgent need for implementation of a computerized payroll management system.

Revenue Function: In BMC, revenue as a function does not fall in the purview of any one department/officer. Responsibility for assessment, collection and enforcement for different revenue resources is distributed across the board.

- Holding Section consists of four Tax Daroga's and 76 Tax Collectors. They are supported by one Cashier. The Tax Collectors are involved in door-to-door collection of taxes from holdings. They are also responsible for assessment and enforcement in their jurisdiction. The door-to-door collection is a very cumbersome and resource consuming system for collection of taxes, which needs to be immediately restructured.
- Market Section deals with the management of markets and demand and collection of rent from the markets under the Corporation limits. The Section is headed by a Market Superintendent who is supported by eight Market Supervisors and nine Rent Collectors. This Section needs further strengthening in order to have better enforcement.
- License Section is responsible for issue of license for dangerous and offensive trades, private shops, markets, advertisement, banner, parking, temporary sheds, carts and carriages, etc. While the enforcement in areas such as license for dangerous and offensive trades is weak because of lack of staff members to carry out ground checks, the Carts and Carriage Section seems to be overstaffed. There is a need for restructuring within the License Section to focus more on areas with better revenue potential.

Civil Works Function: The civil works functions of the Corporation fall under the purview of the Engineering Section. The Engineering Sections (Div-I & Div II) are mainly concerned with the preparation of estimates of new works and also for the repair and maintenance of existing assets, civil buildings, roads, bridges, embankments, drains, etc; invitation of tenders and appointment of contractors; execution of works; measurements on works executed under contracts; and completion reports. From this year on, the Section is also preparing a 'shelf of projects' detailing the works to be carried out during the year and every quarter. Vehicle Section also falls under the purview of City Engineer. Though the structure of the Engineering Section is quite streamlined there is a need for segregation of the procurement activity from the

department. This is required for more transparency in the system as well as keeping in view the expected increase in workload with the JNNURM funds being available.

Administrative Function: Several sections fall under the administrative functions of the Corporation, including General Establishment, Pension, DLR, General Stores, Grievance and Conservancy. The administrative functions are headed by the Establishment Officer.

- The major functions of General Establishment is fixation of pay; issue of periodical increment certificates; deputation, resignation and retention/termination of employees; maintenance of leave account, service records, personal files and service books; etc. The Service Book and other details of all the employees are maintained manually, which is a very time consuming process and often leads to oversights and errors. As discussed earlier, there is a need for computerized HR and payroll management systems.
- Grievance Section looks after complaint redressal for the Corporation. The complaints are recorded manually in the respective registers based on the issue and are forwarded to the Establishment Officer for review and recording and forwarding to concerned department. BMC is in the process of developing a Citizens Charter and working towards computerization of its Grievance Redressal System.
- General Stores contain the entire store items required by BMC. Procurement of the goods is done on an annual basis. However, concept of just-in-time supply is yet not used. The inventory management for the Stores is manually done. Though up-to-date, it does not lead to efficient management of the resources. Annual procurement leads to high storage and administration costs. There is need for inventory management systems in the Corporation that allows for 'just-in-time' supplies and reduces handling costs.

Enforcement Functions: The enforcement functions of BMC are handled by the Revenue Officer. Three different Sections viz. Enforcement, Cattle Drive Squad and Land fall under his purview. The enforcement functions related to tax compliance are with individual tax collection departments. There is a need for consolidation of the enforcement wing, as well, in the Corporation for increased transparency and prudence in the system.

Audit Functions: The main purpose of the Audit and Inspection Section is to bring to the notice of the Corporation the lacunae in the rules and regulations and to suggest whatever possible ways and means for the execution of plans and projects with greater expenditure efficiency and economy. However, due to lack of sufficient strength and lack of reconciled accounts statements, such monthly auditing is not possible. Yearly audits are also pending since 2001.

Legal Functions: Law Section has only advisory duties to other sections and is involved in the preparation of various bye-laws for the Corporation. Most of the legal work is outsourced to retainers and due to lack of ULB own staff in the department, monitoring of the legal disputes and regular follow-up is difficult.

Other Functions: The other functions of BMC include Public Health, Medical, Environment and Slums. A lot of activities like Solid Waste Management under the Public Health Function have been privatized. The Medical Section almost functions independently of the Corporation with very limited interactions. The Environment Section deals with urban forestation and environmental protection of the city. The Slum Improvement Section is responsible for providing urban basic services to the urban poor living in slum areas.

Overall, the organization structure of BMC is streamlined and adequately staffed, but with a need for re-structuring in some areas. Some of the emerging issues from the organizational review include need for constitution of departments especially for functions like Revenue, Procurement and Enforcement; need for restructuring of outdated and defunct sections like Carts and Carriage, Bills Section, etc. and allocate more resources to pressurized sections like Audit, Accounts, Law and Enforcement; need for adoption of new technology such as a payroll management system and move towards computerization of Accounts, Procurement and Inventory Management functions; and need for a human resource development policy.

Revenue and Expenditure Profile of BMC

Overall, the revenue and expenditure profile of BMC provides a mixed picture. In terms of revenue receipts, there has been an improvement in own revenue from 15 percent in 2001-02 to 31 percent in 2005-06. While tax revenue has increased from 10 percent in 2001-02 to 23 percent in 2005-06, the non-tax revenue has also increased from 4.83 percent to 8.9 percent during the same period. The total revenue receipts of BMC have been on the rise. The major contributors to this have been the tax revenue from own sources (primarily Holding Tax) which has grown from a mere 10.5 percent in 2001-02 to 23 percent in 2004-05. The increasing trend of own revenue is partially due to the hike in tax rates in 2005 and partially due to proactive efforts of BMC to bring more assessments into the tax net.

Holding Tax remains the most important source of own tax revenue. While there have been positive trends with increasing current and arrears collection, which have increased by around 80 percent in the FY 05-06 over FY 04-05, still only 50-60 percent of properties are currently in the tax net. There is a need for adoption of a simplified tax assessment system (unit area method) and for people friendly billing and collection (self-assessment). Options for decentralized bank collection may also be explored.

Other areas of own tax revenue such as Carts and Carriage have been showing a decreasing trend in collection and there is a need to explore internal restructuring of the departments for better revenue realization. This can be done by utilizing excess human resources in certain sections (Carts and Carriage) in other areas like licensing for Dangerous and Offensive Trades where more resources are required for strengthened enforcement.

In terms of non-tax own revenue, rental income from municipal properties is the major source. Rent from markets, other fees and user charges has seen an increase from 4.83 percent in 2001-02 to 8.99 percent in 2005-06. Though the collection from markets has increased due to construction of new markets and addition in the number of vendors, arrears collection is still minimal. There is also scope for revision in rent; however, being a politically sensitive issue there is a need for consensus building with the market associations through a pro-active communication strategy. Revenues from other sources like kalyan mandap and yatri niwas are also on a decreasing trend, primarily due to the opening of a number of hotels in the city providing better services and infrastructure. There is need to revive these heads of revenue by investing for infrastructure upgradation and improved maintenance and service.

Though the collections from license fees for Dangerous and Offensive Trade have been on the rise, there is need for ground level enforcement to bring all such trades in the tax net. Rough estimates show that only 60 percent of all such trades operating in the city are currently under the tax net. Other areas of revenue such as advertisement hoarding on private properties are also being explored. BMC has drafted bye-laws to levy tax on such properties and notification of the same is expected soon.

The dependence of the Corporation on Assigned Revenue from the state government has also decreased from a high 76.27 percent in 2001-02 to 61.48 percent in 2005-06. Though an encouraging trend, the dependence is still high. Also given the fact that in absolute terms the contribution of assigned revenue has been almost stagnant, there is a need to put more emphasis on own resources of tax and non-tax revenue in the future. The predictability of such revenues is also low and intercepts at the state level against BMC's dues to other line departments is an issue and demands transparency. Assigned revenue is also currently limited to compensation in lieu of Octroi. The BMC needs to demand its share of entertainment tax, stamp duty, road tax, etc., from the state government.

In terms of revenue expenditure, most of the expenditure has been in the area of General Administration and Administrative Expenses. Together these two heads account for almost 98% of all revenue expenses. The General Administration expenses consisting of salaries and wages have decreased considerably, which in normal circumstances would be considered to be an encouraging sign. However, on closer scrutiny the real picture emerges. It may be noted here

that this reduction is nothing but a result of a shift of salaries and wages of conservancy staff to Administrative Expenses, following privatization of the services. Overall, the general administration and administrative expenses are on the rise, which demands financial prudence for expense control. One of the positive features on the expenditure side has been the improvement in level of expenditure on capital works from 9% in 2001-02 to 44% in 2005-06. Use of revenue surplus for capital works is a healthy and encouraging sign.

Other Achievements and Issues

Besides the areas of good performance and the issues discussed above, the consultant team has come across many other areas where BMC's performance needs to be commended and where more strengthening is required for long-term sustainability of reforms.

In recent times BMC has taken several initiatives, like public private partnership in sanitation works, streetlight management, transparent grievance redressal system, formation of grass root level ward committees to look into civic problems, participatory approach in developing colony parks, introduction of e-Governance in office management and improvement in the city's drainage and road network, and several other developmental works. BMC is also stressing capacity building of the entire organization, its employees and citizens.

- The initiatives for Public Private Partnership for streetlight management is expected to increase the efficiency in delivery of services and at the same time reduce the expenditure incurred by the Corporation.
- Community participatory approach in developing colony parks is working out to be an ideal mechanism for partnership with citizens as well as for local level infrastructure development.
- Public Private Partnership in Solid Waste Management is also expected to increase the efficiency in delivery of services and at the same time reduce the expenditure incurred by the Corporation.
- Based on the past successes of PPP in urban infrastructure development, BMC now envisages developing a state of the art multiplex on PPP model at one of the prime locations in the BMC area.
- Realizing the need to prevent disease transmission and open defecation in slum areas, BMC has taken up an initiative for construction of community latrines. There is also scope for development of pay and use public conveniences in major markets in the BMC area. BMC will need to explore appropriate PPP models for this purpose.
- Another achievement for BMC in the recent past has been the improvement in the ratio of cost of revenue collection. There has been a decrease in the ratio of collection of revenue from 14.3 percent in 2003-04 to 8.6 percent in 2004-05. However, the ration is improving primarily because of the increased levels of revenue generation and is not necessarily a result of cost cutting. This is also happening only as a result of the increase in revenues under Holding Tax and is not a general scenario.

Other Areas of Weakness

- While the level of interaction with citizens and stakeholders on various issues related to the Corporations functioning is picking up, there is still a need for a proper communication strategy as most of these efforts have been ad hoc and individual driven.
- Finally, but not the least, BMC has reached a critical mass where it needs to shift to more advanced management systems. The requirement for use of e-Governance is not only to fulfill one of the mandatory requirements of JNNURM, but also required for efficient functioning of the Corporation.

Reform Interventions: Short-Term Action Plan

BMC has been trying all possible measures and initiatives to provide more effective and efficient services to its citizens. But due to limited financial resources and expertise, the progress in this direction has been slow. There is a need to provide a push to this reform process and this programme of technical support intends to do that. Also given the current reform agenda, driven primarily by JNNURM, this is necessary.

Given the requirements for additional resources under the Capital Investment Plan of the City Development Plan of Bhubaneswar, a resource mobilization plan for BMC is required. Based on the situation analysis presented in the previous sections and the special requirements under JNNURM, several options have been discussed with BMC officials to reach a consensus on the most suitable interventions in the current scenario. A series of workshops were organized to discuss the various components of the action plan framework with the key officials of BMC during October 10-12, 2006.

During the course of the presentation and subsequent discussions, it was agreed that BMC would like to take up the following short- to medium-term interventions for implementation. The short-term action plan primarily looks at four complementary action areas of revenue enhancement, financial and expenditure management, e-Governance, and organization development. All this is envisaged within an overall framework of citizen interface and PPPs.

Short- to Medium-Term Interventions

AREA OF INTERVENTION	SHORT-TERM INTERVENTIONS	MEDIUM-TERM INTERVENTIONS
Revenue Enhancement	<ul style="list-style-type: none"> • Returns by property owners/occupiers • Zoning of city in different rate zones • Computerization of holding tax, market rent and license records • Survey for hoardings on private land • Increased enforcement and vigilance for license and market rent collection 	<ul style="list-style-type: none"> • Conversion to Unit Area Method • Property mapping and GIS • Development of municipal assets on PPP model
Financial and Expenditure Management	<ul style="list-style-type: none"> • Implementation of DEAS • Computerized payroll management 	<ul style="list-style-type: none"> • Improvement in procurement and inventory management
e-Governance	<ul style="list-style-type: none"> • Online complaint redressal system • Computerization of key revenue functions 	<ul style="list-style-type: none"> • Development of Municipal Information System and e-Governance strategy
Organization Development	<ul style="list-style-type: none"> • Institutionalization of citizen/stakeholder interface – development of communication strategy • Restructuring of defunct and underutilized departments 	<ul style="list-style-type: none"> • Development of internal HR policy • Constitution of key departments for revenue and procurement function

Revenue Enhancement

Property Tax Reforms: Given that the rate of Property Tax was recently revised by BMC in 2004, there is a need to improve the coverage, assessment mechanism and collection efficiency for Property Tax for improved resource mobilization. The current system of assessment, i.e., based on Annual Rental Value (ARV) should be revised. As per the OMC Act 2003, BMC should adopt a more simplified tax assessment method, i.e., Unit Area Method (UAM). BMC should start the process of implementing assessment on Unit Area Basis as early as possible.

- This would require drafting of bye-laws, which will lay down the guidelines for a more rational assessment based on zoning of the Corporation area on property values and

level of infrastructure available. The bye-laws will need to spell out clearly the enforcement rules and penalty clauses for non-compliance.

- It has come out of the situation analysis that currently as many as 30-40% of the properties in BMC area are outside the property tax net. The OMC Act 2003 provides for issue of notice asking property owners and occupiers liable to pay property tax to furnish returns regarding their property in prescribed formats. This would help the Corporation in the short-term to increase the number of properties under the tax net.
- The Corporation also in the short-run needs to establish different zones in the city with established rates for each zone considering the prevailing market values, level of infrastructure, location, etc.
- BMC will need to start conversion of its PT system to UAM. The starting point for this will be the short-term interventions mentioned above. Subsequent to which the Municipal Valuation Committee (MVC) will need to be appointed for finalization of the zone-wise rates under the UAM. However, before the appointment of MVC actually takes place, the Corporation will need to do a lot of preparatory groundwork including appointment of technical consultant to do groundwork and assist MVC; sample ward-wise rental market survey; setting up a group for framing byelaws; appointment of MVC; approval by government of MVC terms and conditions; and finalization of the report of MVC.
- In parallel to conversion to the UAM system for improvement in assessment and collection, BMC should also start the process of property mapping and GIS. For the purpose of improving the coverage and the assessment net of the BMC, the Corporation will need to map the properties under its jurisdiction.
- For improving the demand and collection efficiency, BMC will need to adopt people friendly bill collection systems. Under the UAM, BMC may introduce a self-assessment system with a progressive rebate mechanism for early declarations. BMC will need to separate its assessment, collection and enforcement systems.

Hoardings on Private Land: One of the potential areas for revenue enhancement identified by BMC is the hoardings on private land. BMC has recently drafted and notified bye-laws in this regard for collection of tax from hoardings erected on private land, but visible to the general public from roads/public spaces. While a limited database of such hoardings exists with BMC, there is a need for an extensive survey for identification of all such hoardings.

Advertisement Fees: The short-term action plan would need to focus on bringing other advertisements within the tax net. According to enabling provisions in the law, advertisement tax is to be levied on all advertisements other than those in newspapers such as cinema halls, on television, and even wall posters come within the purview of this tax. BMC will need to be sensitised to bring these advertisements into the tax net.

Market Rent: Rent from BMC markets is one of the most potent sources of income for the Corporation and also the most under-sourced. The channel of communication between the market associations and the BMC is currently weak and needs relationship and trust building, if BMC wants to raise its revenue. It will require a partnership model between BMC and the market association to achieve a win-win situation. It is proposed that a Joint Task Force with select market associations be formed for devising ways of increasing infrastructure levels and revenues from the markets. BMC also needs to side-by-side start the process of computerization of records of markets for an effective demand and collection system. Currently, the system is manual, which makes it difficult to do proper reconciliation of current and arrears demand.

License Fees: License fees from dangerous and offensive trades have recently been on the increase. However, collection remains much lower than the potential. Currently, the license fees are primarily collected based on self-disclosure, while there is no mechanism for enforcement nor to ensure that all such trades apply for licenses. Rough estimates suggest that almost as many as 30-40 percent of trades could be avoiding payment. The Corporation will need to organize special drives to ensure increased compliance. Given the shortage of staff, the Corporation should look at using the staff responsible for collection of license fees from Carts and Carriages (where the potential is much lower) for the purpose of enforcement drives. In the short-term BMC will need to computerize information on establishments.

Development of Municipal Assets on PPP Model: BMC has a substantial amount of properties at prime locations in the city. There is a need for effective utilization of these passive assets and to use them as a source of revenue. The option of developing a few such properties on PPP model may be explored. BMC has identified a land parcel in Saheed Nagar Area for commercial and retail development for this purpose. BMC also owns a number of other assets from which the level of revenue generation has decreased over the years. Two such assets include the kalyan mandaps and yatri niwas it owns and operates in the city. BMC also needs to explore different options for infrastructure improvement if it intends to maintain previous levels of revenue or increase them from these assets. While infrastructure improvement through its own sources may not be possible, BMC can explore the option of PPP for this purpose.

Financial and Expenditure Management

Implementation of DEAS: BMC is already in process of adopting a double entry accrual based accounting system (DEAS). The biggest problem area in this regard is the lack of proper asset records with the BMC. The Corporation will need to ensure that up-to-date asset valuations are available so that the process of conversion to the new system can be expedited. A team of consultants is already in place for this.

Payroll Management: BMC needs to improve its payroll management and move to computerized systems from the existing manual system. This will not only help in freeing the much needed human resources, but also will help in better management of salaries and employee details.

Improvement in Procurement and Inventory Management: Given the expected increase in the amount of capital works BMC will need to take up in the near future, especially with the introduction of JNNURM, it becomes essential that BMC institutes a central procurement department. This will not only ensure speedy procurement, but with the separation of the user and procurer, the system will also become more transparent. This is also expected to reduce the unit cost of procurement and thus help in expenditure management. Along with improvements in procurement, BMC will also need to improve its inventory management systems and adopt more rational systems such as annual procurement to allow for just-in-time (JIT) supply.

Support BMC on Ongoing Initiatives: There are several initiatives that BMC has taken up in the recent past for improved service delivery and cost management. The consultants will provide full support to the Corporation especially in areas of PPP for SWM, sanitation works, streetlight management, etc. The consultants will provide hand holding support to the Corporation as and when desired in these areas for further up scaling and/or upgradation of the initiatives.

e-Governance

Online Complaint Redressal System: BMC is already in process of procuring software for an online complaint redressal system. The system will enable the Corporation to provide online tracking of complaints lodged by its citizens through the Corporation website or through the toll-free helpline established by the Corporation. The Corporation is also in the process of finalization

of its Citizens Charter. The timelines for complaint redressal in the Charter will be linked with the online system as discussed in the previous section.

Computerization of Property Tax, Market Rent and License Records: As discussed earlier, it will be critical for BMC at this stage to computerize its various revenue functions for proper functioning and improved revenue collection. To start with, the Corporation will need to develop an integrated system for recording details with regards to property tax, market rent and license records.

Development of Municipal Information System: The next area for improving general management practices is to consider introduction of modern methods of information management through e-Governance, i.e., to consider introducing, managing and maintaining information (both financial and non-financial) on a computerized platform and using the same for timely and effective decision-making. This would not only help in developing required MIS reports with authenticated data, thus ensuring prompt decision-making, but also help in sharing relevant information with different stakeholder groups.

Organization Development

Institutionalization of Citizen/Stakeholder Interface – Communication Strategy: BMC needs to develop an internal and external communication strategy to institutionalize its citizen interface. The communication strategy to start with could specifically look at an orientation programme for Corporation employees and citizen groups in areas of tax compliance. BMC may establish a taxpayer education programme and organize local camps for clarification of doubts and provide assistance in filling out forms for its citizens; establish a dispute resolution mechanism; and establish a mechanism for rewarding and acknowledging honest and prompt taxpayers.

Restructuring of Defunct and Underutilized Departments : BMC in the short-term will also need to take a decision on defunct and underutilized departments such as the Bill Section and Carts and Carriage Section. A proper strategy for restructuring of these departments will need to be developed and the staff members will need to be reassigned to other departments in need of personnel.

Development of Capacity Building and Internal HR Policy: BMC will need to develop a capacity building plan and internal HR policy. The HR policy will need to look at helping BMC plan for improving working conditions for its employees; have a clear policy to ensure stability in postings to key departments; have a training and capacity building plan for study tours and professional development programmes; institute motivation and orientation programmes for its employees; develop learning and operational manual for different departments; and provide basic IT training to all its employees.

Constitution of Key Departments for Revenue and Procurement Function: Finally, BMC, in the medium-term, also needs to constitute certain new departments for its revenue and procurement functions, respectively. As discussed earlier, this is essential to ensure proper functioning, internal control and to bring in transparency in the system. To make available additional human resources for these new departments, BMC could look at using the resources that would become available after restructuring of its defunct and underutilized departments (such as Animal Section, Carts and Carriage Section, etc.).

The above-mentioned interventions are expected to help increase the revenues of BMC by as much as Rs. 3 crores in year 1 and by Rs. 6 crore and Rs. 12 crores in year 2 and 3. In addition, these would also help in reduction of revenue expenditure to the tune of 20-30% from year 2 onwards.

1 INTRODUCTION

1.1 Current Programme

1. Government of Orissa (GoO) has embarked on a programme of municipal reforms in its urban local bodies (ULBs). To start with, GoO has requested support of the Indo-US Financial Institutions Reform and Expansion project - Debt component (FIRE-D) for pursuing a multi-track program to help ULBs in Orissa improve delivery and management of urban services and enhance their creditworthiness.

2. FIRE-D has subsequently agreed to support the following activities in the state:

- Develop a state municipal accounting manual;
- Improve resource mobilization and creditworthiness in Bhubaneswar Municipal Corporation (BMC); and
- Introduce and implement double entry accrual based accounting system (DEAS) and improved financial management in BMC.

3. This programme focuses on one of these activities, i.e., to provide technical assistance to BMC to improve its resource mobilization and creditworthiness. Based on preliminary analysis, FIRE-D project has agreed to carry out a rapid assessment of the financial situation of BMC, identify areas of intervention, and support BMC in implementation of identified interventions.

4. Infrastructure Professionals Enterprise (P) Ltd. (IPE) have been appointed as consultant to provide technical support to BMC in this area (refer Annex 1 for terms of reference). The main tasks under the programme include:

- Reviewing of the organizational structure of the revenue department of BMC;
- Analyzing past revenue and expenditure trends of BMC;
- Reviewing present methods of tax and non-tax assessment, billing and collection, asset inventory, management information system, budgeting, accounting, auditing, and other operational aspects of financial management;
- Identifying a menu of potential short-term interventions required to strengthen revenue base and expenditure management of BMC;
- Organizing a study visit of officials to cities that have successfully enhanced revenue mobilization and managed expenditure;
- Organizing consultation workshops to discuss various measures identified to improve revenue base; and
- On basis of the consultation workshop, developing a short-term action plan (one year) for BMC for improving its revenue base.

5. The timing of this initiative is particularly relevant in the context of the ongoing reform agenda of Ministry of Urban Employment and Poverty Alleviation (MoUEPA) and Ministry of Urban Development (MoUD), Government of India (GoI) for improved service provision and governance in ULBs in India through recently launched Jawaharlal Nehru National Urban Renewal Mission (JNNURM).¹ Bhubaneswar is one of the select cities under the reform mission.

¹ The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has been launched for 63 largest and most important cities of India. A similar program for remaining ULBs has also been simultaneously launched under the name of Urban Infrastructure Development of Small and Medium Towns (UIDSMT).

6. Primary objective of the JNNURM² is to create economically productive, efficient, equitable and responsive cities. In line with the objective, the mission focuses on:

- Integrated development of infrastructure services;
- Securing linkages between asset creation and maintenance for long-run project sustainability;
- Accelerating the flow of investment into urban infrastructure services;
- Planned development of cities including the peri-urban areas, urban extensions and corridors;
- Renewal and re-development of inner city areas; and
- Universalization of urban services so as to ensure their availability to the urban poor.

7. Some of the municipal reforms are mandatory under the JNNURM. These reforms comprise:

- Adoption of a modern, accrual-based, double entry system of accounting;
- Introduction of a system of e-Governance using IT applications, GIS and MIS for various urban services;
- Reform of Property Tax with GIS, and arrangements for its effective implementation so as to raise collection efficiency to 85 percent;
- Levy of reasonable user charges, with the objective that full cost of operation and maintenance is collected within seven years;
- Internal earmarking of budgets for basic services to the urban poor; and
- Provision of basic services to the urban poor, including security of tenure at affordable prices.

8. BMC's City Development Plan (CDP) has already been approved by GoI and, along with this effort to improve its creditworthiness, is also working towards conversion of its accounting system to DEAS. All these activities are being undertaken with support of FIRE-D project. In addition, BMC is initiating work in the area of increased community participation and municipal e-Governance from its own resources. Together, the entire range of municipal reforms in BMC has been named as 'Prayas'.

1.2 Final Report

9. The primary purpose of this final report is to present the short-term action plan. It also presents the situational analysis of BMC in terms of its organization structure, and revenue and expenditure profile that formed the basis for designing the short-term action plan. It develops on detailed interactions with key officials and staff members of BMC and aims to describe the main issues identified so far. The report also draws on the main issues raised in the various workshops organized with elected functionaries and staff members of BMC and the consultative process adopted for finalization of the short-term action plan.

10. The report begins with a brief background and project objectives followed by a detailed chapter describing the overall organization structure of BMC, including the employee strength of individual departments, their capabilities and background. This information is essential to identify the capacity of different departments to undertake reforms, understand their acceptability to reforms, the administrative processes of information flow and record keeping. It is followed by a detailed discussion on the revenue and expenditure profile of BMC. Some of the other key areas such as public private partnerships in provision of municipal services and for resource mobilization are also discussed.

² GoI (2005), JNNURM Toolkit, Ministry of Urban Employment and Poverty Alleviation and Ministry of Urban Development, Government of India.

11. The report then presents the short-term action plan (one year) for BMC to implement agreed local level measures to improve the revenue base. The action plan provides in detail the different milestones to be achieved, resources required for implementation of the interventions and time-frames for the same. The action plan also details out the expected impact of the interventions on revenues and creditworthiness of the Corporation.

The above intent is covered in this report as follows:

Chapter 1: Introduction- briefly talks about the overall objectives of the programme and the structure of the interim report.

Chapter 2: Approach and methodology- provides the approach and methodology for preparation of the short-term action plan and the workshops organized till date.

Chapter 3: Organization profile of BMC – discusses the organizational development issues related to various department/sections in BMC with specific reference to strengths, responsibilities, intradepartmental information exchange, capacity, etc.

Chapter 4: Revenue and expenditure profile of BMC – discusses the finances and revenues of BMC. It goes on to describe in detail the revenue sources of BMC and expenditures incurred under different heads.

Chapter 5: Other achievements and issues – describes the areas where BMC has already taken reform initiatives and discusses some of the other issues that need to be addressed.

Chapter 6: Reform interventions: short-term action plan – discusses the need for reforms in the current scenario driven by JNNURM agenda and presents in detail the interventions proposed under the short-term action plan including timelines, resources required and milestones to be achieved. The action plan also presents the expected impact of the interventions on resource base and creditworthiness of BMC.

Annexes

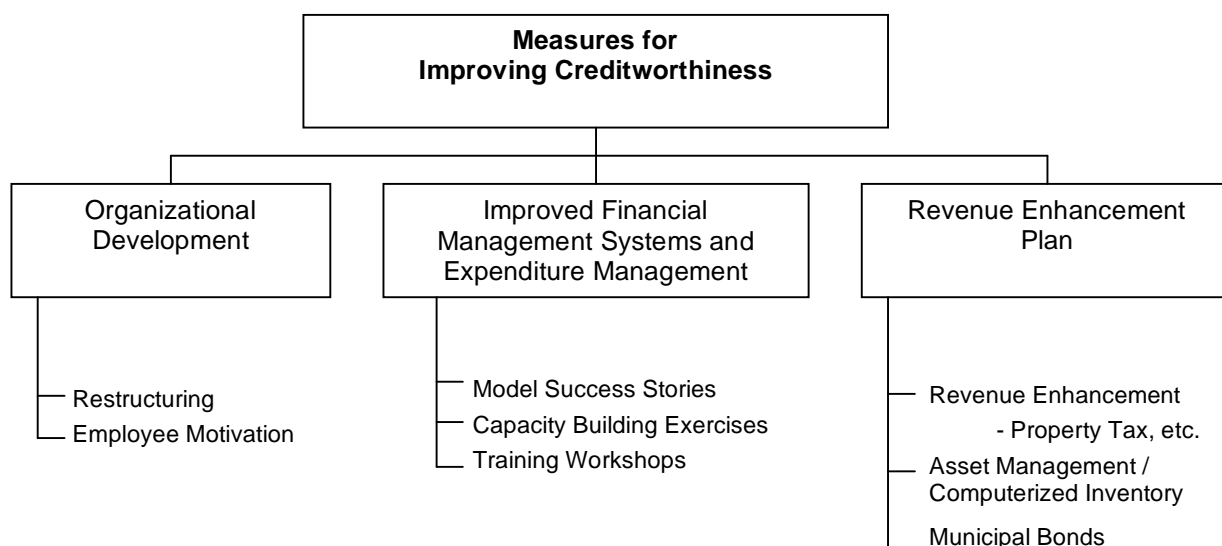
2 APPROACH AND METHODOLOGY

2.1 Background

12. Considering the weak financial position of BMC and increasing need for infrastructure development and improved service delivery, the obvious way ahead is to strengthen the revenue base and to consider alternative sources of financing including JNNURM, municipal bonds and loans from external lending agencies. In order to be able to explore such options, BMC needs to improve its creditworthiness.

13. Given the intent of BMC to be self reliant and it also being one of the cities under JNNURM, the purpose of this programme is to improve the creditworthiness of the Corporation as a whole. It is based on the premise that improvement in own revenues, expenditure management and improved financial management will help BMC improve service delivery to its citizens. The components of such reforms will include improving organization structures, financial management systems and working out ways for revenue enhancement from own resources (Figure 2.1).

Figure 2.1: Measures for Improving Creditworthiness

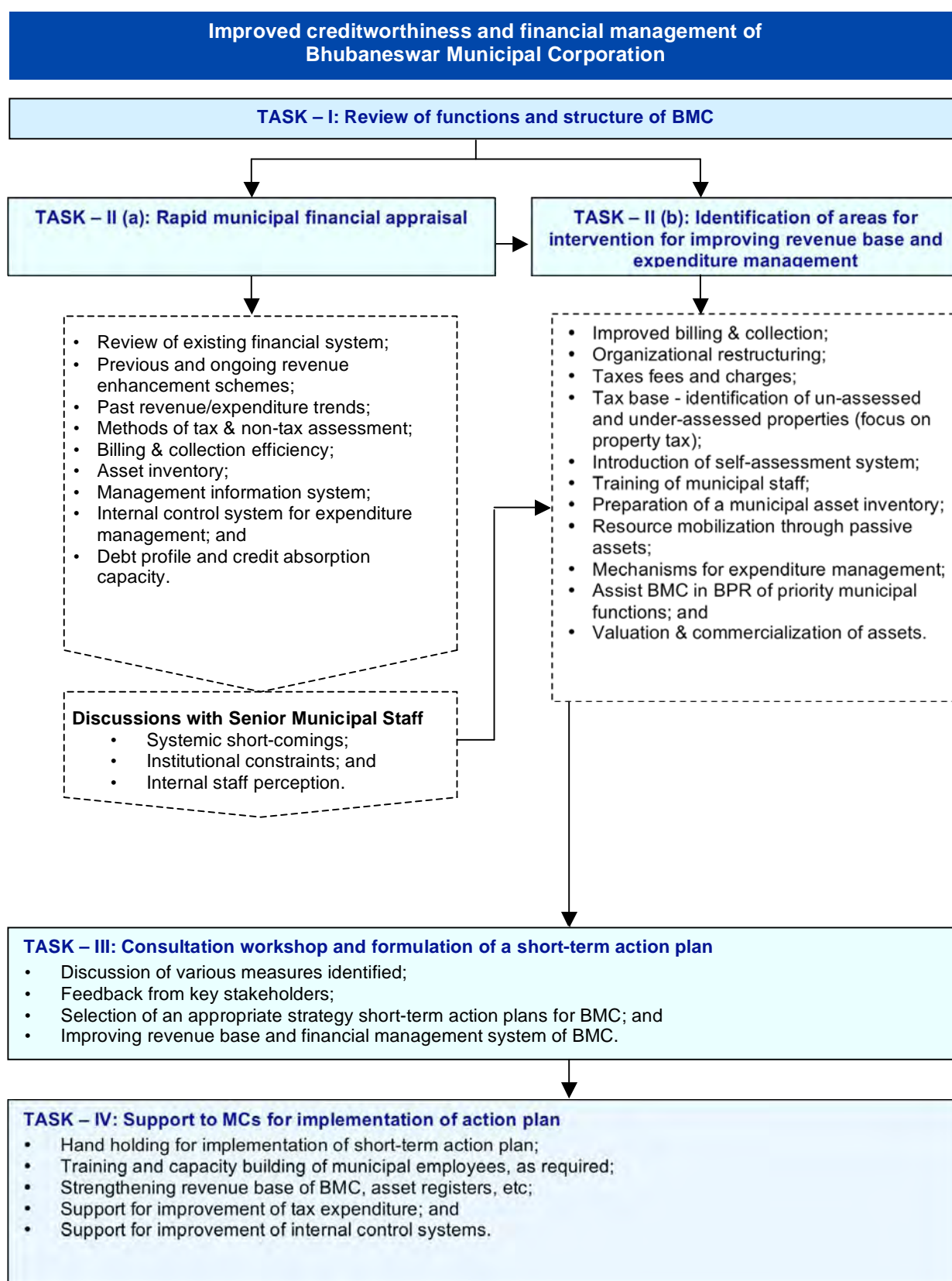


2.2 Methodology

14. Based on initial interactions and experience of similar reforms in other cities, the following methodology has been developed (Figure 2.2). It consists of the following specific tasks:

- Task 1 – review of functions and structure of revenue and accounts department of BMC;
- Task 2 – review of existing financial management system including analysis of financial records and statements, legal framework, user charges, etc. and identification of areas of intervention;
- Task 3 – consultative process/short-term action plan: consultative process with administrative and elected officials of BMC, and other stakeholders including community to decide on the first steps; and
- Task 4 – implementation support for the action plan: support and hand hold BMC for a period of 12 months to implement the action plan.

Figure 2.2: Methodology for the Assignment



Task I - Review of functions and structure of revenue and accounts department

15. In order to assess the context of municipal reforms for increased creditworthiness of BMC, a review of the functions and organizational structure of BMC is being carried out. The objective of organizational review is to assess contextual setting for reforms and identify critical gaps that need to be addressed in order to facilitate reforms. While a detailed review of revenue and accounts department has been carried out, a general review of other critical departments is also being undertaken. Some of the emerging issues are discussed in the section 3.

16. The review is carried out in the following areas:

- Functions of BMC – obligatory and discretionary functions as per the Orissa Municipal Corporation Act, 2003 (OMC Act), and the organizational structure in BMC;
- Administrative structure, i.e., departments and sections of BMC which carry out the various activities; and
- Staffing structure – including review of staffing position, capacity and training needs.

17. Various tasks being undertaken include:

- Soliciting feedback from municipal staff on their perception of the problems;
- Holding discussions with Corporation officials including commissioner, departmental staff and other officials;
- Carrying out gap analysis, i.e., identification of areas which need to be improved; and
- Developing recommendations for improving organizational structure in the critical departments for succeeding in the revenue improvement plan.

Task II – Rapid municipal financial appraisal and identification of areas of intervention

18. Task-II includes two subcomponents, namely (a) rapid municipal financial appraisal, and (b) identification of areas of intervention. The objective of this subcomponent is to conduct a rapid assessment of the sources of income and expenditure, BMC systems including financial management and control systems, etc., and identify current and likely future gaps.

19. The objective of this task is to (i) identify various sources of revenue and expenditure, (ii) review current financial performance and assess its recent trends, (iii) appreciate the issues which affect revenue and expenditure growth, (iv) focus on increasing financial sustainability and creditworthiness by enhancing revenue growth and improving financial systems, and other internal control systems, (v) review the tax, charges and fees levied, (vi) identify potential areas for improving revenue base and expenditure management, (vii) develop systems for improved financial performance, and (viii) institutionalize a process of continuous revenue enhancement. Some of the initial findings and emerging issues have been discussed in the next section.

20. A study of other contributing factors is also being conducted including review of systems for maintenance and updating of asset registers, methods used for determining cost of service provision, review of fees, charges and taxes, and bases for these.

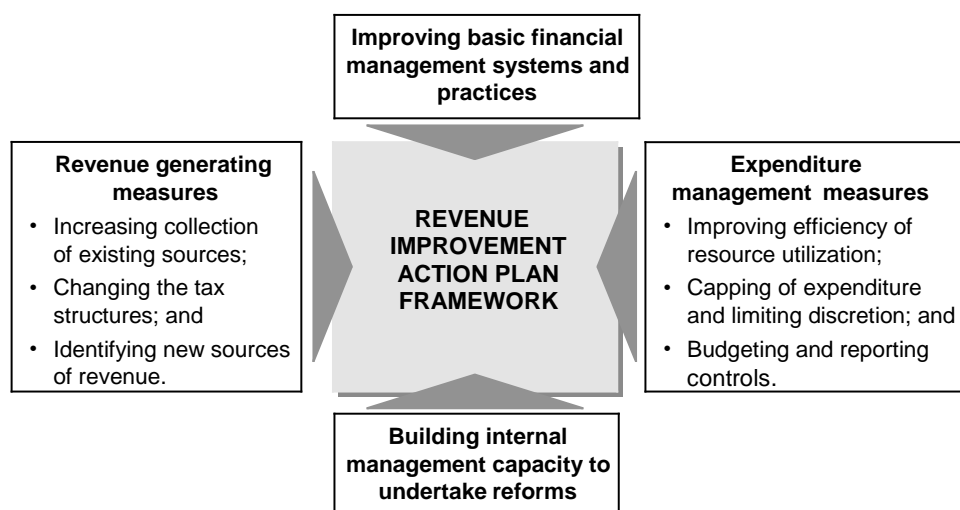
21. Further to the rapid appraisal of municipal finances, the study would identify, under this task, areas of intervention where significant impact in improving the financial performance and creditworthiness of BMC can be made. The aim of these interventions will not be merely to improve BMC's own revenues, but also to strengthen systems and facilitate its access to capital market through municipal bonds, pooled fund, debt swap, etc. It will be essential that interventions identified are complementary to each other and assert towards enhancement of the creditworthiness of BMC.

22. A Revenue Improvement Action Plan (RIAP) framework will be used for identifying the various areas of intervention. The framework will be structured into four main areas as follows (Figure 2.3):

- Measures to improve general financial management practices and to establish a credible information base for strategic financial management;

- Measures to increase revenue collection;
- Measures to reduce expenditure; and
- Measures to build general financial management capacity within BMC to undertake financial improvement measures and embark on a more strategic approach to financial management.

Figure 2.3: Revenue Improvement Action Plan



Task 3 – Consultative process/short-term action plan

23. Based on RIAP framework, areas of intervention which BMC can adopt for improving its financial performance will be identified in consultation with administrative and elected officials of BMC, and other stakeholders including the community. The RIAP, hence, will be the central document bringing out the various activities BMC needs to carry out in order to record financial improvements. Following considerations will be kept in mind at this stage:

- **Participative:** The RIAP will involve views of BMC staff and other stakeholders and have their acceptance, as its success will depend on their ownership of the initiatives;
- **Realistic:** The targets, goals, activities, timelines and perceived financial benefits will be realistic considering the situation of BMC and its environment;
- **Action Based:** The interventions will identify the detailed actions (as opposed to broad outputs) that need to be taken, in order to achieve desired outputs. Each action will be identifiable with a responsible person; and
- **Encompassing:** The RIAP will consider the various funding opportunities such as the JNNURM, Pooled Finance Development Facility (PFDF), etc. The action plan will include the activities/tasks which further enable BMC to access funds through specific schemes.

24. The various options under Task-II will be formalized and a clear time-bound short-term action plan for effective implementation of the interventions and organizational restructuring measures along with the capacity building exercise of the municipal staffs will be prepared.

25. The approach would be to develop a fairly comprehensive strategy of financial improvements and strengthening creditworthiness, and then focus increasingly around a more limited number of key actions which are more likely to be undertaken by BMC in the short-term. These key interventions will be decided through a series of workshops, small group discussions, and one to one meetings with key stakeholders.

26. This will include engaging with 'consultative groups' in BMC for facilitating direct dialogue with concerned municipal officials. The methodology for agreeing on the proposed interventions would include:

- Presenting the financial review of BMC and identifying areas of concern for improving financial performance;
- Involving key staff in discussions and creating a participatory process towards problem identification;
- Usage of problem-tree structure for encouraging BMC to identify and segregate symptoms from the causes;
- Encourage them to think through solutions to the identified issues; and
- Develop consensus on the desired actions and identify responsibilities, time lines and monitoring mechanisms for each of the activities.

Task IV – Support to BMC for implementation of the action plan

27. The final task of the assignment will entail the actual implementation of the action plan in BMC. The implementation phase of the assignment is a partnership activity of BMC, FIRE -D team along with the consultants. The actual work plan for this task will be developed once the action plan is finalized. The consultants will provide hand holding support to BMC to ensure successful implementation of the action plan.

2.3 Activities under the Programme

2.3.1 Launch Workshop

28. The programme ‘Prayas’ was officially launched on June 9, 2006 in the presence of Mr. Kanak Vardhan Singh Deo, Cabinet Minister, Urban Development and Public Enterprise, GoO; Shri Biswabhusan Harichandan, MLA, Bhubaneswar Constituency and Cabinet Minister, Rural Development, Industries and Law, GoO; Shri Mihir Kumar Mohanty, Mayor, BMC; Dr. Arun Kumar Panda, Special Secretary to Government, Housing and Urban Development, GoO; Mrs. Aparajita Sarangi, Commissioner, BMC; and Mr. Lee Baker, Chief of Party, FIRE–D project. It was attended by municipal councilors, officers and representatives of two citizens’ groups.



It was attended by municipal councilors, officers and representatives of two citizens’ groups.

2.3.2 Orientation Workshop

29. Following the official launch, the orientation workshop for BMC staff was organized on June 21, 2006 (refer annex 2 for orientation note). The workshop was attended by about 35 of the key staff members of BMC (refer annex 3 for list of participants). The workshop was divided into two (three-hour each) pre- and post-lunch sessions. In the pre-lunch session, BMC staff was introduced to the overall concept of municipal reforms and improved creditworthiness with focus on Property Tax reforms and resource mobilization. A few success stories from Municipal Corporations of Agra, Indore, Mumbai, Madurai and Ludhiana were also presented. The post-lunch session presentation was on improved financial management system with focus on double entry accounting system. The presentations were followed by a one-hour discussion between the staff and the consultants on the various aspects of the proposed reforms.

30. Some of the issues that came up in the discussions included the need for computerization of the processes of BMC. The consultants clarified that the current programme did not precisely look at the issue of computerization. However, given that BMC on its own has initiated a programme for e-Governance, the consultants will provide full support in design and assessing the system requirements.

31. The other issue discussed was on introduction of a self-assessment scheme for Property Tax assessment. The consultants clarified that it was difficult to implement a self-assessment scheme given the current system of Property Tax i.e. based on annual rental value. The consultant team is currently working with BMC to devise the most appropriate way for self-assessment in the given system.

32. Many of the officials also pointed out the need for capacity building of the staff in the key aspects of the proposed reforms. It was conveyed that capacity building and on-the-job training was an integral part of the programme and detailed capacity building activities would be carried out in due course.

33. Overall, the orientation workshop proved useful in breaking the initial barriers and apprehensions that one encounters in a reform programme of this nature. Following the workshop, the consultant team is conducting department-wise meetings and discussions with smaller groups, which were well received.

2.3.3 Rounds of Discussion

34. Following the initial workshops, the consultant team has been working closely with the key officials of the BMC to understand the systems and accordingly develop the action plan. Several rounds of discussions have been organized in smaller groups. Based on the situation analysis presented in this report, the team has developed a short-term action plan and shared the same through a series of workshops with the key officials of BMC from October 10-12, 2006 and other stakeholders. Based on the workshops and subsequent discussions, the team has finalized the short-term action plan for BMC and the same is also presented in this report.

3 ORGANIZATION PROFILE OF BMC

3.1 Introduction

35. Under the provisions of Bihar and Orissa Municipal Act, 1922, Bhubaneswar was first constituted as a Notified Area Committee on February 1, 1948 with an area of over 17.51 square kilometers. It was reconstituted as Notified Area Council (NAC) under the provisions of Orissa Municipal Act, 1950 with effect from October 1, 1952 with an area of 26.08 square kilometers. It continued to be a NAC till 29th March 1979, when it became a municipality. On October 1, 2003, the Orissa Municipal Corporation Act, 2003 (OMC Act) was enacted and Bhubaneswar Municipal Corporation (BMC) came into being with an elected Mayor and council³.

3.2 Functions of BMC

36. BMC discharges various obligatory (section 24) and discretionary functions (section 25) as per the provisions of the OMC Act, 2003 and provides a range of specified civic services/infrastructure facilities to its citizens (Table 3.1).

Table 3.1: Obligatory and Discretionary Functions of BMC

Obligatory Functions	Discretionary Functions
i) Conservancy services and solid waste management;	i) Developing new areas and streets for urban beautification;
ii) Construction and maintenance of roads, drains and markets;	ii) Constructing and maintaining public gardens and buildings;
iii) Street lighting;	iii) Urban forestry, protection of ecology;
iv) Regulating public markets and slaughter houses;	iv) Organizing fairs, exhibitions, competitions, tournaments;
v) Maintaining public gardens, recreation, public places and open spaces;	v) Destruction and detention of stray dogs;
vi) Maintaining public monuments and other municipal properties;	vi) Meeting calamities;
vii) Prevention and control of food adulteration and infectious diseases;	vii) Urban poverty alleviation; and
viii) Maintaining cremation and burial grounds;	viii) Maintaining washing and bathing places.
ix) Registering births, deaths and marriages;	
x) Slum improvement and urban community development; and	
xi) Removing obstructions and encroachments.	

3.3 Organizational Structure of BMC

37. As per the provisions of the OMC Act, 2003 the apex body is the 'General Body' of BMC headed by the Honorable Mayor. The Act provides for the State Election Commission to conduct and monitor elections to the Corporation and empowers the elected persons by assigning the functions of the Corporation. It also provides for four authorities in the Corporation as indicated below:

³ Aahwan, 2005, Mahangar Nigam Samachar, Bhubaneswar Municipal Corporation.

- i) Corporation;
- ii) Mayor;
- iii) Standing Committees; and
- iv) Commissioner.

38. The organizational setup of BMC comprises a political and an executive wing. The political wing is an elected body comprising Councilors from different wards in the city and is headed by the Honorable Mayor. The executive wing, headed by the Municipal Commissioner, looks after the day-to-day functioning of BMC and supports the political wing in the decision-making process.

39. **Political Wing:** The general body headed by the Honorable Mayor consists of 9 Standing Committees, dealing respectively with:

- i) Taxation, finance and accounts;
- ii) Public health, electric supply, water supply, drainage and development;
- iii) Public works;
- iv) Planning and development;
- v) Education, recreation and culture;
- vi) License and appeals;
- vii) Contracts;
- viii) Corporation establishment;
- ix) Grievance and social justice; and
- x) Settlement of mutual disputes between two adjoining Corporations.

40. **Administrative Wing:** Under the Municipal Commissioner, the wing is assisted by a Deputy Commissioner, Secretary, Deputy Secretary, Establishment Officer, Chief Financial Officer, Recovery Officer, Slum Improvement Officer, Environment Officer, City Engineers, City Health Officer, Chief Medical Officer and Law Officer (Figure 3.1).

41. **Ward Committees:** Ward committees are constituted with the area Councilor as the chairperson and representatives of Mayor and Municipal Commissioner as members. The ward committees are responsible for the overall control of public health, street lighting, sanitation and conservancy in the ward and also for the protection of the environment and ecological aspects of the ward.

42. **Employee Strength of BMC:** The current BMC employee strength as of July 31, 2006 was 3,055. BMC's employees can be classified as regular employees consisting of Local Fund Service (LFS) and Non-LFS staff and temporary employees consisting of Nominal Muster Roll (NMR), Daily Labor Roaster (DLR) and Casual Labor Roaster (CLR) staff. There are some officers on deputation from the state government as well.

Table 3.2: Employee Strength of BMC

Classification of Posts	1st Grade	2nd Grade	3rd Grade	4th Grade	Total
Deputation	20	35	24	16	96
Local Fund Service		2	145		147
Non-Local Fund Service			345	951	1296
Temporary Workers					
a) NMR					74
b) DLR					561
c) CLR					881
TOTAL					3055