



# Improved Creditworthiness of Siliguri, Asansol, and Durgapur Municipal Corporations, 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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**DISCLAIMER**

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.

**Indo – USAID Financial Institutions Reforms and  
Expansion (FIRE-D) Project**

**Study on “Improved Creditworthiness of Siliguri,  
Asansol and Durgapur Municipal Corporations”**

**Report**

**Asansol Municipal Corporation**

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## **List of Abbreviations**

ADDA	Asansol Durgapur Development Authority
AFF	A. F. Ferguson & Co., Management Consultancy Division
AMC	Asansol Municipal Corporation
AMC Act	Asansol Municipal Corporation Act, 1990
BOT	Built-Operate-Transfer
CAGR	Compounded Annual Growth Rate
DMC	Durgapur Municipal Corporation
ECL	Eastern Coalfields Ltd.
FIRE	Financial Institutions Reform and Expansion Project
ISSCO	Indian Iron & Steel Company Ltd.
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
MIC	Mayor-in-Council
MIS	Management Information System
PSPs	Public Stand Posts
ULBs	Urban Local Bodies
URIF	Urban Reforms Incentive Fund
SMC	Siliguri Municipal Corporation
SPHE	State Public Health Engineering

## CHAPTER 1

# INTRODUCTION

1.1 This chapter provides a brief background and scope of work for the study. It also explains the approach and methodology followed for carrying out the study.

### **BACKGROUND TO THE STUDY**

1.2 The Constitution (74th Amendment) Act, 1992 has redefined the role, power, functions and finances of Urban Local Bodies (ULBs) in India. The Twelfth Schedule of the constitution lists the functions that are to be devolved to the ULBs. Carrying out the additional functions and activities in an effective manner would result in a significant increase in the expenditure incurred by ULBs.

1.3 Moreover, there has been a trend towards greater urbanisation. Urban population has been increasing rapidly. During the last two decades, urban population has grown at about 4% per annum (p.a.) as compared to 1.5% p.a. growth in rural areas in the last two decades. The level of urbanisation has increased from 23% of the total population in 1981 to 29% in 2001 and is expected to grow at a rapid pace in the future. Increase in urban population has resulted in an increased demand for urban services, which in turn has resulted in increased expenditure and the need for commensurate revenue growth to meet the increased expenditure.

1.4 Further, there has been a gradual trend of reduction and withdrawal from the traditional system of funding of ULBs based on plan and budgetary allocations. The ULBs are expected to increase revenue generation from own sources to meet their capital and revenue expenditure on their own.

1.5 The Central Government has been advocating the supplementing of traditional public funding of projects with private capital by accessing the capital markets and leveraging private finance. This is possible only with improved credit worthiness of the ULBs. The Government has already initiated steps in this direction, by introduction of tax-free municipal bonds and pooled finance development scheme to encourage the ULB to access capital markets.

1.6 To improve the creditworthiness of the ULBs and encourage them to take up Urban Reforms, the Central Government has launched the Urban Reforms Incentive Fund (URIF) and Jawaharlal Nehru National Urban Renewal Mission (JNNURM). The mandatory conditions to be fulfilled by the ULBs for availing funds under both the above programmes include conditions relating to improving credit worthiness and increasing revenue from own sources.

1.7 Thus, there is an urgent need for the ULBs to improve their creditworthiness and financial position.

1.8 In view of the above scenario, there has been recognition in the Government of West Bengal of the need to improve the financial resources of the ULBs in the state. In this respect, the State Government officials identified Asansol, Durgapur and Siliguri as the three ULBs where measures in this respect could be initially taken up, which could be subsequently extended to the other ULBs of the State.

1.9 Accordingly, a team from the USAID – FIRE (D) Project visited the three ULBs to assess the status and the manner in which the project can support these cities. Based on the preliminary fact finding and analysis, it was proposed to carry out a rapid assessment study of the three ULBs, covering analysis of the current situation, identifying areas of intervention and supporting them in improving their creditworthiness.

1.10 A. F. Ferguson & Co. (AFF), Management Consultancy Division has been appointed by USAID – FIRE (D) to carry out the rapid assessment study.

### **SCOPE OF WORK**

1.11 The Scope of Work for the study, as provided in the Request for Proposal, is as follows:

#### **Functions and Organisational Structure**

- Review the organizational structure of revenue and accounting departments of Siliguri Municipal Corporation (SMC), Asansol Municipal Corporation (AMC) and Durgapur Municipal Corporation (DMC).

#### **Existing Financial System**

- Describe major revenue sources and expenditure heads of SMC, AMC and DMC for last three years and projected performance for the next two years, if available. Analyze past revenue and expenditure trends. Review 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. Analyze the legal framework, role and sustainability of user charges.

### **Areas of Interventions**

- Identify a menu of potential short-term interventions required to strengthen the revenue base of SMC, AMC and DMC. These measures will include:
  - Improved billing and collection (decentralization, use of modern technology such as computers, improved monitoring systems, focus on large defaulters, etc);
  - Reorganize the structure of the revenue and accounting departments for enhanced productivity;
  - Training of revenue and accounting staff;
  - Review of fees, charges and taxes;
  - Identify and tax additional properties, which have escaped taxation;
  - Prepare a database linking information from diverse sources;
  - Identification and taxation of illegal water connections;
  - Relating cost of water supply with water charges;
  - Improved budgeting and accounting systems; and
  - Asset inventory and possible alternative uses of assets. The requirements of social and commercial infrastructure.
- Organize a study tour for the cities' municipal officials to cities that have successfully carried revenue mobilization.

### **Consultative Process/Short-Term Action Plan**

- Carry out a formal and informal consultative process with SMC, AMC and DMC administrative and elected officials (in conjunction with the FIRE project) to take a mutual decision on one or two first steps to build consensus and to begin to improve the Corporations' financial viability. Develop a short-term action plan to implement the agreed way forward.

### **Implementation of the Action Plan**

- Support and hand hold SMC, AMC and DMC with the implementation of the Action Plans.

### **Clarifications on the Scope of Work**

- The clarifications/ caveats to the Scope of Work, as provided by AFF in its proposal, are provided in Annexure 1.

**APPROACH & METHODOLOGY**

1.12 AFF's overall conceptual framework for the study is provided in Exhibit 1.1.

1.13 The broad approach and methodology followed by AFF for the study is summarised in Exhibit 1.2.

## CHAPTER 2

# OVERVIEW & FINANCIAL ANALYSIS OF ASANSOL MUNICIPAL CORPORATION

2.1 This chapter provides an overview of AMC and discusses the financial analysis for the last three years for which information was made available.

## OVERVIEW OF THE CITY

2.2 Situated in Burdwan District of West Bengal, Asansol is one of the important industrial and commercial cities in the state after Kolkata. It is the third largest city of West Bengal.

2.3 It covers a total area of 127.24 sq. kms. and has a population of 4.86 lakhs as per the 2001 census. The population has almost doubled in the last 10 years. Approximately, 32% of the total population is staying in slums and two-thirds of these are below the poverty line. Asansol has a literacy rate of about 73%.

2.4 The key demographics of Asansol are summarised in Exhibit 2.1.

### Exhibit 2.1

#### Demographic Profile

<b>Total Population</b>	486,304
<b>Female/ 1000 Males</b>	896
<b>Population Density</b>	3,822 persons per sq. km.
<b>Literacy rate</b>	72.57%
<b>Slum Population (%)</b>	1,58,946 (33%)
<b>BPL Households</b>	21.79%

*Source: AMC & Secondary Research*

2.5 The importance of Asansol has grown due to the vast reserves of coal, growing number of mining activities and proximity to the industrial town of Durgapur. The economy is primarily based on the coal and steel industries; Eastern Coalfields Ltd. and Indian Iron & Steel Company Ltd. being the largest employers.

2.6 Commercial and trading establishments also have a significant presence in Asansol and form an important part of the overall economy of the town.

### **OVERVIEW OF AMC**

2.7 AMC was established in 1885 as a municipality. It was converted into a Corporation in 1994, merging the areas covered by Asansol Municipality, Burnpur Notified Area Authority and Asansol Panchayat Samity. It is governed by the provisions of Asansol Municipal Corporation Act, 1990 (AMC Act).

2.8 AMC is divided into 50 wards, each ward being represented by a Councilor. For administrative purpose, the Corporation is divided into 5 boroughs.

2.9 The Corporation is governed under the overall supervision and guidance of the Mayor-in-Council (MIC), which consists of the Mayor, Deputy Mayor and seven other members. The MIC takes decisions in matters of administration, finance, water supply, public works, sanitation, trade license and all other matters placed before it for approval.

2.10 The Borough Offices mainly handle matters related to the issue and monitoring of trade licenses, sanitation, street light maintenance and garbage clearance. The rest of the activities are centralised at the Head Office.

### **Obligatory & Discretionary Functions of AMC**

2.11 The AMC Act lays down the obligatory and discretionary functions to be performed by AMC.

2.12 Some of the obligatory functions required to be performed by AMC are summarised below:

- In the sphere of public works:
  - Construction and maintenance of water works;
  - Construction, maintenance and cleansing of sewers and drains, sewerage and drainage works;
  - Construction, maintenance and cleansing of public latrines, urinals and similar conveniences;

- Construction, maintenance, alteration and improvement of public streets and street furniture, bridges and culverts, fly over, sub ways, cause ways and the like;
  - Naming of streets and numbering of premises;
  - Lighting of public streets and other public places;
  - Construction and maintenance of municipal markets and slaughter houses and the regulation of all markets and slaughter houses; etc.
- In the sphere of public health and sanitation:
- Scavenging, removal and disposal of filth, rubbish and other obnoxious or polluted matters;
  - Reclamation of unhealthy localities, removal of noxious vegetation and abatement of all nuisances;
  - Regulating and abating offensive and dangerous trades or practices;
  - Watering and cleansing of public streets and other public places;
  - Ensuring the wholesomeness of water supplied for drinking and domestic purposes;
  - Regulation of the places for the disposal of the dead and the provision and maintenance of places for the said purpose;
  - Public vaccination and inoculation; etc.
- In the sphere of town planning and development:
- Devising town planning within the limits of the city in accordance with the laws relating to town planning for the time being in force;
  - Regulating the land use pattern in the fringe areas of the city in accordance with the law applicable for the purpose;
  - Improvement of bustees;
  - Control of all building operations and regulation of building uses;
  - Co-ordination of all overground rights enjoyed by service agencies;
  - Co-ordination of activities of agencies relating to laying and maintenance of underground pipelines, tubes, cables and the like;
  - Laying out and maintenance of public parks, squares, gardens or recreation areas; etc.
- In the sphere of administration:
- Survey of buildings and lands and the preparation and maintenance

from time to time of survey maps and plans of the city and other records relating to survey;

- Removal of obstruction and projections in or upon streets, bridges and other public places;
- Registration of births and deaths;
- Compilation and administrative functions of the Corporation;
- Removal of unauthorised encroachment on public streets and public places;
- Checking the construction of unauthorised buildings and pulling down unlawful construction;
- Providing adequate training facilities for the Corporation employees and equipping and motivating them for public service; etc.

2.13 Some of the discretionary functions laid down by the AMC Act, are as follows:

- In the sphere of public works:
  - Giving relief to, and establishing and maintaining relief works in time of famine or scarcity for, destitute person within the limits of the city;
  - Construction or maintenance of, or providing or giving aids for, passengers sheds, libraries, museums, community halls, offices, godowns, shops, markets, dharmashalas, rest houses, etc.;
  - Construction and maintenance of old age homes and orphanages;
  - Construction and maintenance of, or providing aids to, hospitals, dispensaries, asylums, rescue homes, maternity homes and child welfare centers;
  - Construction, purchase, organisation, maintenance, extension and management of mechanically propelled transport facilities for the convenience of the public;
  - Providing accommodation for all classes of employees of the Corporation; etc.
- In the sphere of education:
  - Establishing and maintaining pre-primary schools such as balwadies and crèche;
  - Promotion of civic education, adult education, social education, non formal education and the like;

- Promotion of cultural activities including music, physical education, sports and theatres; etc.
- In the sphere of public health and sanitation:
  - Construction and maintenance of cattle pounds and cattle viers;
  - Provision for unfiltered water supply for non domestic uses;
  - Provision for sewage treatment and preparation of compost manures from sewage and other refuse;
  - Abatement of smoke nuisances;
  - Ambulance service for carrying patients; etc.
- In the sphere of administration:
  - Civic reception to persons of distinction and paying homage on death to persons of repute;
  - Installation of statues, portraits and pictures in appropriate manner;
  - Organization, construction, maintenance and management of swimming pools, public wash houses, bathing places and other institutions designed for convenience of the community;
  - Organizing voluntary labour and coordinating the activities of voluntary agencies for community welfare; etc.
- In the sphere of development:
  - Encouraging formation of co-operatives and, in particular, housing co-operative societies and assistance to those societies in the construction of residential buildings;
  - Providing shelter for the homeless;
  - Undertaking manufacturing of building materials and their distribution at fair prices;
  - Reclamation of waste lands and promotion of social forestry;
  - Collection of statistics and data significant to the community;
  - Integration of the development plans and schemes of the city with the district or regional development plan, if any; etc.

### **ASANSOL DURGAPUR DEVELOPMENT AUTHORITY**

2.14 The Asansol Durgapur Development Authority (ADDA) was established by merging the Asansol Planning Organisation and the Durgapur Development

Authority. Its jurisdiction extends over an area of 1,615.9 sq. km., covering a population of around 30 lakhs, both rural and urban.

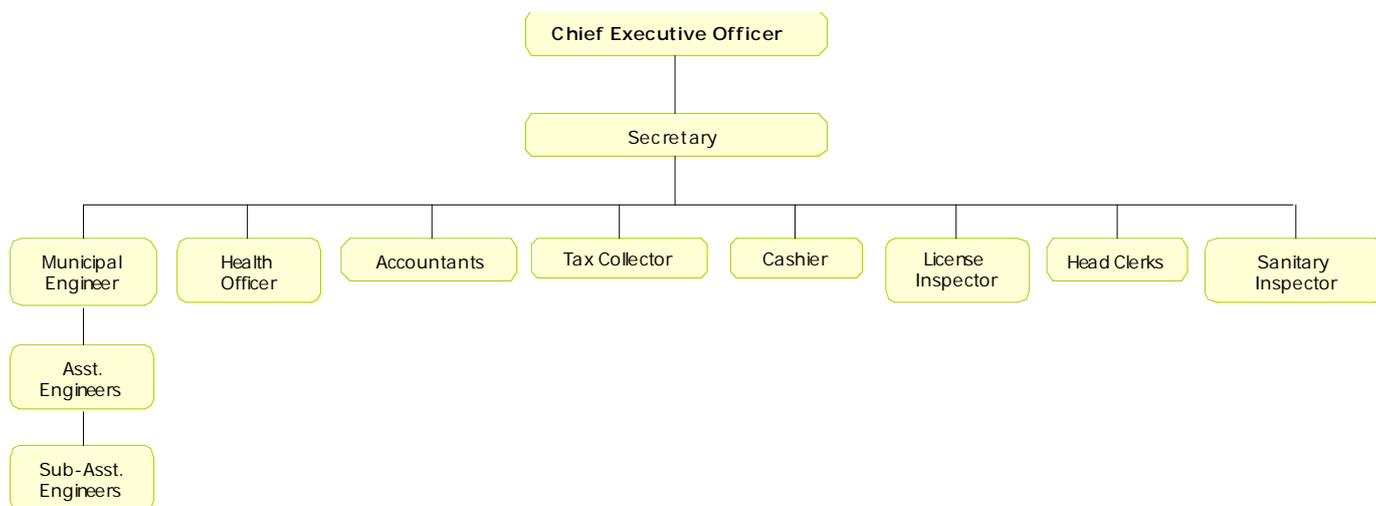
2.15 As a statutory body under the West Bengal Town and Country (Planning & Development) Act, 1979, ADDA derives its powers and functions from Section 13(1)(ii) of the said Act. The salient functions of ADDA are as follows:

- To prepare a present Land Use Map;
- To prepare and enforce an Outline Development Plan;
- To prescribe use of land within its area;
- To prepare and execute development schemes;
- To co-ordinate development activities of all departments and agencies of the State Government or local authorities operating within the Planning Area;
- To carry out such works as are contemplated in the Development Plans;
- To acquire, hold and manage such property, both movable and immovable, as the Development Authority may deem necessary for the purposes of any of its activities and to lease, sell or otherwise transfer any property held by it;
- To purchase by agreement or to take on lease or under any form of tenancy, any land and to erect thereon such buildings and to carry out such operations as may be necessary for the purposes of carrying on its undertakings;
- To enter into or perform such contracts as may be necessary for the performance of its duties and for exercise of its powers under the Act;
- To provide facilities for the consignment, storage and delivery of goods;
- To perform any other function which is supplemental, incidental or consequential to any of the functions aforesaid or which may be prescribed.

2.16 For rapid industrialisation of the region, ADDA has been promoting industrial estates and urban infrastructural development and housing schemes. It operates with the objective of being a one-stop solution to industries and entrepreneurs. It has been instrumental in developing a host of industrial estates, growth centres and industrial & residential townships.

### **ORGANISATION STRUCTURE OF AMC**

2.17 The top level administrative structure of AMC is provided in Exhibit 2.2.

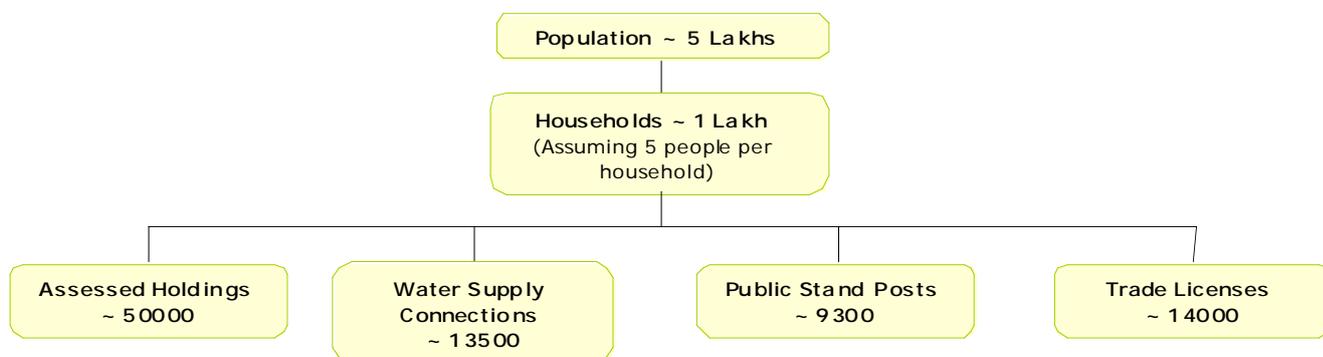
**Exhibit 2.2****Overall Organisation Structure (Head Office)**

Note:

1. Currently there is a part -time Health Officer – Additional Charge

**CONTEXTUAL ANALYSIS**

2.18 A broad contextual analysis of AMC is provided in Exhibit 2.3.

**Exhibit 2.3****Contextual Analysis**

2.19 From the above, it can be observed that:

- There is a significant shortfall in number of assessed holdings and water supply connections when compared to the estimated number of households.
- The number of public stand posts in the city is unusually high. On average there is one public stand post per 50 people.
  - This could be one of the reasons for the lesser number of water supply connections.

- Number of trade licenses issued appears to be on the lower side considering the fact that Asansol is a major trading centre.

### **FINANCIAL ANALYSIS**

2.20 Exhibit 2.4 provides a summary of the overall financials of AMC for the years 2001-02, 2002-03 and 2003-04. It can be observed that:

- Revenue from Government & other grants is the main source of income.
  - These have been gradually reducing over the years.
- Revenue from own sources is growing at a CAGR of 27%.
- Establishment expenditure constitutes between 45%-55% of total revenue receipts.
  - It is almost equal to income from own sources (was higher than income from own sources in the past 2 years).
- AMC has a revenue deficit of about Rs. 4-5 crores if income from Government and revenue grants is ignored.
- AMC is not in a position to meet its establishment expenditure in case Government grants are reduced.
- Government grants are also the main source of capital receipts.

#### **Exhibit 2.4**

#### **Overall Financial Analysis**

(Rs .in Lakhs)

Particulars	2001-02		2002-03			2003-04			CAGR
	Amt.	% of Total	Amt.	% of Total	% gwth. over last year	Amt.	% of Total	% gwth. over last year	
<b>Revenue Receipts</b>	<b>953.60</b>	<b>100.0</b>	<b>1118.43</b>	<b>100.0</b>	<b>17.3</b>	<b>1171.28</b>	<b>100.0</b>	<b>4.7</b>	<b>10.8</b>
Own Sources	351.21	36.8	432.02	38.6	23.0	572.08	48.8	32.4	27.6
Shared Revenues (Assignments)	68.73	7.2	91.03	8.1	32.4	114.95	9.8	26.3	29.3
Government & Other Revenue Grants	533.66	56.0	595.38	53.2	11.6	484.25	41.3	-18.7	-4.7
<b>Revenue Expenditure</b>	<b>926.49</b>	<b>97.2</b>	<b>1022.78</b>	<b>91.4</b>	<b>10.4</b>	<b>1080.37</b>	<b>92.2</b>	<b>5.6</b>	<b>8.0</b>
Establishment	535.62	56.2	502.86	45.0	-6.1	558.47	47.7	11.1	2.1
Other Revenue Expenditure	390.87	41.0	519.92	46.5	33.0	521.90	44.6	0.4	15.6
<b>Surplus/ (Deficit)</b>	<b>27.11</b>	<b>2.8</b>	<b>95.65</b>	<b>8.6</b>	<b>252.8</b>	<b>90.91</b>	<b>7.8</b>	<b>-5.0</b>	<b>83.1</b>
<b>Surplus/ (Deficit) excluding Grants</b>	<b>-506.55</b>		<b>-499.73</b>			<b>-393.34</b>			

<b>Establishment Exp. as % of Own Sources</b>	<b>152.51</b>		<b>116.40</b>			<b>97.62</b>			
Capital Receipts (excluding loans)	107.52		306.11		184.7	353.94		15.6	81.4
Capital Expenditure	894.56		1000.40		11.8	685.26		-31.5	-12.5
<b>Capital Surplus/ (Deficit)</b>	<b>-787.04</b>		<b>-694.29</b>		<b>-11.8</b>	<b>-331.32</b>			<b>-35.1</b>

Source: AMC Budgets & Financial Statements

2.21 Exhibit 2.5 provides a break-up of the revenue receipts of AMC for the past three years. It can be observed that:

- Holding tax is the main source of tax income, growing at a CAGR of 27%.
- Other taxes mainly include license fees.
- Building Plan Fees, Water Connection Charges and Water Supply Charges are the main sources of non-tax income from own sources.
  - Income from Building Plan Fees has increased significantly over the past three years.
  - AMC earns nominal income from Water Supply Charges. However, this has been increasing over the years.
- There has been nominal income from municipal properties.

### **Exhibit 2.5** **Revenue Analysis**

(Rs .in Lakhs)

Particulars	2001-02		2002-03			2003-04			CAGR
	Amt.	% of Total	Amt.	% of Total	% gwth. over last year	Amt.	% of Total	% gwth. over last year	
<b>Own Source</b>	<b>351.21</b>	<b>36.8</b>	<b>432.02</b>	<b>38.6</b>	<b>23.0</b>	<b>572.08</b>	<b>48.8</b>	<b>32.4</b>	<b>27.6</b>
<b>Tax</b>	<b>249.18</b>	<b>26.1</b>	<b>297.44</b>	<b>26.6</b>	<b>19.4</b>	<b>415.37</b>	<b>35.5</b>	<b>39.6</b>	<b>29.1</b>
Property Tax/ Holding Tax	228.81	24.0	272.77	24.4	19.2	373.22	31.9	36.8	27.7
Other Taxes	20.37	2.1	24.68	2.2	21.1	42.15	3.6	70.8	43.9
<b>Non-Tax</b>	<b>102.03</b>	<b>10.7</b>	<b>134.58</b>	<b>12.0</b>	<b>31.9</b>	<b>156.71</b>	<b>13.4</b>	<b>16.4</b>	<b>23.9</b>
Building Plan and/or Site Plan	24.10	2.5	28.99	2.6	20.3	45.19	3.9	55.9	36.9
Water Connection Charges	32.90	3.5	36.43	3.3	10.7	25.59	2.2	-29.8	-11.8
Water Supply Charges	7.96	0.8	12.97	1.2	63.0	31.50	2.7	142.8	98.9
Others	37.07	3.9	56.19	5.0	51.6	54.43	4.6	-3.1	21.2
<b>Shared Taxes</b>	<b>68.73</b>	<b>7.2</b>	<b>91.03</b>	<b>8.1</b>	<b>32.4</b>	<b>114.95</b>	<b>9.8</b>	<b>26.3</b>	<b>29.3</b>

Entertainment Tax	68.73	7.2	91.03	8.1	32.4	94.95	8.1	4.3	17.5
Others	0.00	0.0	0.00	0.0	0.0	20.00	1.7	0.0	0.0
<b>Government &amp; other Revenue Grants</b>	<b>533.66</b>	<b>56.0</b>	<b>595.38</b>	<b>53.2</b>	<b>11.6</b>	<b>484.25</b>	<b>41.3</b>	<b>-18.7</b>	<b>-4.7</b>
<b>Total Revenue Receipts</b>	<b>953.60</b>	<b>100.0</b>	<b>1118.43</b>	<b>100.0</b>	<b>17.3</b>	<b>1171.28</b>	<b>100.0</b>	<b>4.7</b>	<b>10.8</b>

Source: AMC Budgets & Financial Statements

2.22 Exhibit 2.6 provides a break-up of the function-wise expenditure incurred by AMC during the last three years. It can be observed that:

- Establishment expenditure constitutes about 50% of the total expenditure.
- General Administration & Finance, Conservancy, Water Supply, Drainage & Sewerage and Public Works are the main sources of expenditure.
- Expenditure on core services amounts to about 60% of the total expenditure.

### **Exhibit 2.6** **Expenditure Analysis**

(Rs. in Lakhs)

Particulars	2001-02		2002-03			2003-04			CAGR
	Amt.	% of Total	Amt.	% of Total	% gwth. over last year	Amt.	% of Total	% gwth. over last year	
General Administration & Finance	245.22	26.5	248.63	24.3	1.4	267.65	24.8	7.7	4.5
Collection	19.97	2.2	22.23	2.2	11.3	23.49	2.2	5.7	8.4
Drainage & Sewerage	86.04	9.3	83.43	8.2	-3.0	75.92	7.0	-9.0	-6.1
Public Works	16.39	1.8	9.22	0.9	-43.7	58.42	5.4	533.5	88.8
Conservancy	172.90	18.7	200.01	19.6	15.7	183.34	17.0	-8.3	3.0
Public Instruction	16.53	1.8	15.30	1.5	-7.5	16.06	1.5	4.9	-1.5
Registration of Birth & Deaths	0.77	0.1	0.37	0.0	-51.8	0.17	0.0	-54.5	-53.1
Water Supply	229.30	24.7	242.92	23.8	5.9	228.70	21.2	-5.9	-0.1
Health & Sanitation	12.49	1.3	9.05	0.9	-27.5	10.20	0.9	12.6	-9.6
Public Safety (Street Lighting)	74.39	8.0	103.61	10.1	39.3	79.16	7.3	-23.6	3.2
Pension & Gratuity	40.26	4.3	74.56	7.3	85.2	123.96	11.5	66.3	75.5
Others	12.22	1.3	13.44	1.3	9.9	13.29	1.2	-1.1	4.3
<b>Total</b>	<b>926.49</b>	<b>100.0</b>	<b>1022.78</b>	<b>100.0</b>	<b>10.4</b>	<b>1080.37</b>	<b>100.0</b>	<b>5.6</b>	<b>8.0</b>
<b><u>Of Which</u></b>									
<b>Establishment Expenditure</b>	<b>535.62</b>	<b>57.8</b>	<b>502.86</b>	<b>49.2</b>	<b>-6.1</b>	<b>558.47</b>	<b>51.7</b>	<b>11.1</b>	<b>2.1</b>
<b>% of Total Own Revenue</b>	<b>152.5</b>		<b>116.4</b>			<b>97.6</b>			

Source: AMC Budgets & Financial Statements

2.23 Exhibit 2.7 provides an analysis of the revenue and expenditure in respect of certain key functions/ services of AMC. It can be observed that:

- There is a significant gap in expenditure incurred and revenue earned from Water Supply & Conservancy services, which are the main areas of expenditure for the ULB.
- Per capita expenditure on water supply and conservancy services indicates need for additional expenditure to effectively serve the current population level.
- The per capita property tax demand (~ Rs. 5.50 per month) is very low and highly insufficient for AMC to meet expenditure requirement for ideal level of services to the citizens.

### **Exhibit 2.7**

#### **Revenue/ Expenditure Analysis**

(Figures for 2003-04)

Service	Cost Incurred	Per Capita Cost	Income
	Rs. in Lakhs	Rs.	Rs. in Lakhs
Water Supply	228.70	46	31.50
Conservancy	183.34	37	Nil

Revenue	Revenue Earned	Per Capita Revenue
	Rs. in Lakhs	Rs.
Property Tax (Demand)	325.00	65

Source: AMC Budgets & Financial Statements and AFF Analysis

2.24 It can be concluded from the above that there is an urgent need for AMC to improve its financial position and creditworthiness. This can be achieved mainly by targeting increase in revenue from own sources and strengthening the accounting, budgeting, financial management and other related systems and procedures. AFF's observations and suggested interventions in this respect are discussed in the next chapter.

## CHAPTER 3

**OBSERVATIONS & INTERVENTIONS**

3.1 This chapter presents AFF's analysis, observations and suggested interventions in respect of the revenue, financial management and accounting functions of AMC. It also suggests select other taxes/ charges which could be levied, select best practices which could be adopted and other interventions which could be considered for implementation by AMC.

**HOLDING (PROPERTY) TAX****Overall Analysis**

3.2 Holding Tax is the main revenue source for AMC. Exhibit 3.1 provides an overall analysis of Holding (Property) Tax.

**Exhibit 3.1****Holding (Property) Tax Analysis***(Rs .in Lakhs)*

Year	No. of Holdings	Demand			Total Collection	Collection Efficiency (%)	
		Arrear	Current	Total		Overall	Current
1999-00	44,438	274.01	302.77	576.78	176.78	30.6	50.5
2000-01	45,610	400.00	312.78	712.78	208.00	29.2	60.1
2001-02	46,321	504.77	312.77	817.54	240.00	29.4	65.2
2002-03	47,532	577.55	315.00	892.55	283.00	31.7	66.3
2003-04	48,073	609.55	320.00	929.55	391.99	42.2	67.0
2004-05	48,963	537.56	325.00	862.56	454.47	52.7	70.1

Source: AMC

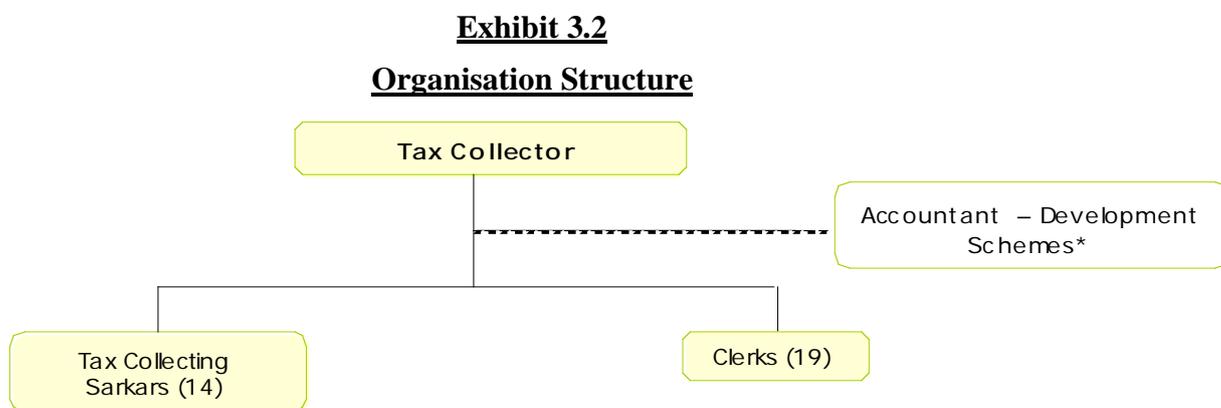
3.3 It has been observed that:

- There has been a marginal increase in number of holdings over the past 6 years.
  - The number of holdings has increased only by 10% in the last six years (CAGR of 2% p.a.). This appears to be on the lower side when compared to the corresponding growth in population.
- The fresh (current) annual demand for Holding Tax has also increased marginally over the years.
  - Increase of only about Rs 23 lakhs over the last 6 years (appx. Rs. 500 per holding added).

- The collection of Holding Tax has been constantly increasing over the years. This has been due to improvement in collection efficiency in respect of both current as well as arrear demand.
- However, there is a need for further improvement in collection efficiency.
  - Collection efficiency for current demand ranges between 65%-70%.
  - As a part of Property Tax Reform measure, URIF & JNNURM have laid down 85% target for collection efficiency of the current demand.

### **Organisation Structure**

3.4 All matters relating to Holding Tax are managed by the Collection Department located at the Head Office. Exhibit 3.2 provides the organisation structure of the Collection Department.



\* Accountant given additional charge to assist Tax Collector in his activities

3.5 It has been observed that:

- AMC does not have an assessment function. The post of Tax Assessor has not been created.
  - Due to the above, there is a total lack of focus on assessment activity. Interim assessments are carried out only on receipt of application from the assessee.
  - AMC does not follow the practice of carrying out provisional assessments, though the AMC Act provides for the same.
- There is no system for ensuring accountability of the collection staff.
  - Collection targets are not set.
  - Lack of incentives/ disincentives to carry out the job in an efficient manner.
- The department is manned by a mix of graduates and undergraduates.
- There is no formal system of providing training to the employees.

### **Comparison between Increase in Holdings, Water Supply Connections & Building Plan Sanctions**

3.6 Exhibit 3.3 provides a broad comparison between the increase in property holdings vis-à-vis building plans sanctioned and increase in water supply connections during 2002-03, 2003-04 and 2004-05.

#### **Exhibit 3.3**

### **Comparison of increase in Holdings, Water Supply Connections and Building Plans**

<b>Years</b>	<b>Inc. in Property Holdings</b>	<b>Inc. in Water Connections</b>	<b>Building Plans Sanctioned</b>
2002-03	1,211	430	1073
2003-04	541	410	836
2004-05	890	393	914

Source: AMC

3.7 It has been observed that:

- Building Plan Sanctions are much higher than the increase in holdings in 2003-04 and 2004-05. There seems to be a lack of interaction/ flow of information between Building Plan Section and Holding Tax Department on grant of Building Plan Sanctions.
  - This information should flow to the Holding Tax Department on grant of Occupancy Certificate/ Completion Certificate.
- Application for Water Supply Connection has not been prescribed as a requirement for sanction of Building Plans.

### **Other Facts and Observations**

3.8 Some other facts and observations in respect of Holding Tax are summarised below:

#### **Assessment**

- The valuation of properties for the purpose of levy of Holding Tax is determined by the West Bengal Central Valuation Board.
- All records in respect of Holding Tax are maintained manually. Due to this, AMC is not in a position to provide an accurate figure of arrears as on date.
  - Discrepancies have been observed in the figures in respect of arrears provided by AMC to AFF. For example, arrears for which demand has been raised has been stated at Rs. 5.37 crores. However, based on the information provided to AFF, arrears from select Government holdings itself exceed Rs. 10 crores.

- The AMC Act provides for levy of a surcharge on holdings used totally/ partially for commercial purpose. Even though the AMC Act provides for imposing a maximum surcharge of 50% on the amount of Holding Tax, AMC currently does not levy any surcharge on holdings used totally/ partially for commercial purpose.
- The last general assessment in AMC was carried out in 1997. Due to this, the Annual Value of the properties on which Holding Tax is levied, which is revised during the general assessment, has remained constant over the last 8 years. Further, there has been no formal proactive assessment activity carried out in the last 8 years in terms of identifying new properties that should be assessed or to check if any property has undergone a change in classification, etc.
- It is possible that there are significant cases of un-assessed and under-assessed properties.
  - This is evident from the comparison of increase in holdings and number of building plans granted during the past three years (refer Exhibit 3.3).
  - Due to absence of the assessment function, there is no proactive system of identifying un-assessed properties. As discussed earlier, interim assessment is carried out only in cases where applications are received from the assessees.
  - There could be cases of vacant land being converted into commercial/ residential properties and residential properties being converted fully/ partially into commercial properties. These cases may not be adequately covered due to absence of a proactive assessment function.

### **Demand**

- The Demand Register has not been maintained up to date.
- AMC does not have the practice of raising bills in respect of Holding Tax.

### **Collection**

- Collection of Holding Tax is done only at the Head Office or by Tax Collection Sarkars through field visits. The Borough Offices currently do not collect Holding Tax.
- A rebate of 8% is provided to assesses paying their dues within the prescribed time limit.
- No action is currently taken against defaulters, though the AMC Act provides for issue of distress warrant and attachment of properties. The officials of AMC are not sure whether they can issue warrant notice.

### **Others**

- Eastern Coalfields Ltd. (ECL) and Indian Iron & Steel Company Ltd. (ISSCO) are the major assessees of AMC.

- ECL is defaulting in payment (current dues of about 5.5 crores).
- IISCO was in a bad financial position and had been declared as a sick industry. Due to this, its demand was reviewed and then reduced from Rs. 2 crores to Rs. 50 lakhs. Subsequently, IISCO has been taken over by Steel Authority of India Ltd. and has managed to turn around its operations, but it still continues to pay Rs. 50 lakhs.
- Eastern Railways also owns large properties in the AMC area. Service Charges payable by railways have been assessed at Rs. 93 lakhs per annum, but Eastern Railways currently pays only Rs. 2.5 lakhs per annum.
- Holding tax arrears in respect of government holdings exceed Rs. 10 crores.
  - Key defaulters include ECL, IISCO, Asansol Polytechnique, Police Department, Evening Lodge, State Public Work Department, etc.

### **Interventions**

3.9 The suggested interventions in respect of Holding (Property) Tax, classified into short and medium to long-term are as follows:

#### **Short-Term**

- AMC should consider levy of surcharge on holdings totally/ partially used for commercial purposes. SMC currently levies a surcharge of 10%.
- The Corporation should initiate a detailed survey to identify un-assessed and under-assessed properties.
- AMC should start raising regularly demand (bills) in respect of Holding Tax dues. Bills should be raised for current demand as well as arrears.
- There is a need to computerise the entire system and records in respect of Holding Tax. This will facilitate:
  - Raising of regular demand for Holding Tax.
  - Generation of data and reports for better monitoring and control, better internal controls and Management Information System (MIS).
  - Possibility of the staff devoting more time on important functions rather than on record keeping.
- AMC should create an assessment function with adequate staffing. The post of Tax Assessor should be created and filled at the earliest. Contractual staff can be appointed for strengthening the function, if required.
- The practice of carrying out provisional assessment should be introduced.

- The system of intimation of issue of Completion Certificate by the Building Plan Section to Holding Tax Department should be formalised.
- AMC should proactively pursue arrears demands. Teams should be formed with specific collection targets. Redressal camps can be held for settlement of disputes. The teams should be empowered to discontinue water connection, issue distress warrants and attach properties. Legal position with respect to the power of AMC to issue distress warrants and attach properties should be clarified at the earliest, if required.

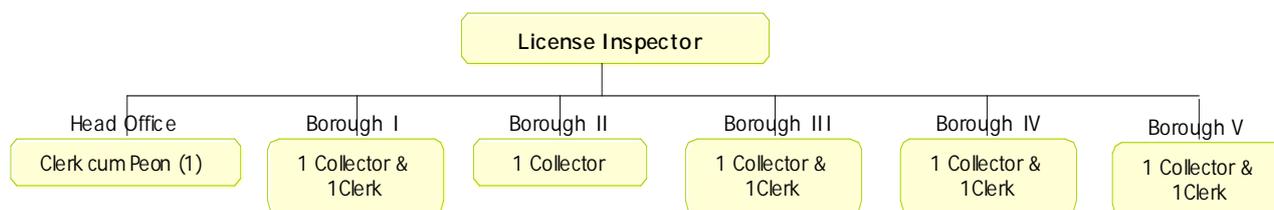
### **Medium to Long-Term**

- Collection of Holding Tax should be decentralised to the Borough Offices.
- Introduction of the system of collection of Holding Tax through branches of banks.
  - This would widely facilitate the citizens in paying their dues to the Corporation and thereby assist in reducing defaults.
- AMC may consider outsourcing the collection function or employing contractual staff to undertake the same. Unemployed youth can be appointed for this purpose (as is the current practice in SMC). Self Help Groups and Non-Government Organisations could also be considered for this purpose.
- There should be a provision for the Annual Ratable Value to be increased more frequently. This increase can be linked to the inflation rate. A gradual increase will result in lesser resistance from assessee vis-à-vis a major increase after a longer period of time.
- AMC must lobby with the State Government and Central Government (through the State Government) for settlement and subsequent regular payment of Holding Tax dues by Central and State Government agencies.
- Introduction of Self Assessment System.

## **LICENSE FEES**

### **Organisation Structure**

3.10 All matters relating to issue of licenses are handled by the License Department. Exhibit 3.4 provides the organisation structure of the License Department.

**Exhibit 3.4****Organisation Structure of License Department**

3.11 The department is manned by a mix of graduates and undergraduates. There is no formal system of providing training to the employees.

**Revenue Analysis**

3.12 Exhibit 3.5 provides details of revenue collected by the License Department.

**Exhibit 3.5****Revenue Analysis of License Department***(Rs. in Lakhs)*

Particulars	2002-03	2003-04		2004-05	
		Amt.	% inc. over last year	Amt.	% inc. over last year
License Fees	18.39	26.22	42.54	28.91	10.28
Cycles, Rickshaws and Vans	2.00	1.29	-35.24	1.82	41.01
Mela, Jatra Permission	0.73	0.35	-52.15	0.43	23.97
<b>Total</b>	<b>21.12</b>	<b>27.86</b>	<b>31.90</b>	<b>31.17</b>	<b>11.88</b>

Source: AMC Budgets & Financial Statements

3.13 AFF has been informed that approximately 14,000 licenses have been issued by AMC during 2003-04. The Demand Register has been maintained manually and hence AMC is not in a position to provide exact details in this respect. The rates of License Fees depend on the nature and size of the business. The rates were last revised with effect from April 1, 2003.

**Other Facts & Observations**

3.14 Some other facts and observations in respect of the License Department are summarised below:

- All records are maintained manually by the Department. The Demand Register has to be re-written at the beginning of each year.
- There is no practice of raising demands for renewal of license.
- There is lack of proactive inspections/ surveys in the field for identifying defaulters.

- No penalty is charged for default in relation to obtaining or renewal of licenses. However, the AMC Act provides for collection of penalty and also prescribes the maximum penalty that can be charged.

### **Interventions**

3.15 The suggested interventions in respect of License Fees, classified into short and medium to long-term are as follows:

#### **Short-Term**

- As a measure to increase the collection and also to identify defaulters, the department should undertake a shop-to-shop survey. Collection targets should be set for the collectors.
- The department should prepare a comprehensive database of all establishments in the Corporation area.
- Maximum penalties should be charged to defaulters.
- The records of the department should be computerised. This would enable centralised monitoring and provide more time to the staff to be in the field.

#### **Medium to Long-Term**

- AMC may consider introducing a scheme for optional advance payment of License Fees for an enhanced period, say 3 or 5 years. This will relieve the traders of the annual renewal requirement. Incentive could be given to encourage people to go for this option. Moreover, this would result in reduced paper work and enable the ULB to focus on identifying defaulters.
- AMC may consider outsourcing the collection function.

### **WATER SUPPLY**

3.16 Damodar River is the main source of water for the ULB. The water is treated at the Water Treat Plant maintained by the State Public Health Engineering Department (SPHE). The operation, maintenance and other matters relating to Water Supply are handled by a division under a Municipal Engineer.

3.17 AMC currently has 13,500 private connections (domestic as well as commercial), 9,300 stand posts and 72 bulk connections. The number of water supply connections is very low as compared to the number of holdings (appx. 50,000). Further, the private connections are currently not segregated into categories such as residential, commercial and others.

3.19 The existing water supply infrastructure serves only about 60% of the current population. The Added Areas (Ward 31 to Ward 50) are currently serviced by the SPHE network, which is very old and hence not functioning effectively. Most of these areas are serviced through water tankers.

3.20 There is a shortage of about 6.5 Million Liters per Day to meet the requirement of the population currently covered. AMC has planned projects for augmentation of the existing resources and also for extending water supply services to the Added Areas. The total planned capital expenditure for the proposed projects is around Rs. 40 crores.

### **Water Supply Charges**

3.21 Water Connection Charges are collected from private and bulk consumers @ Rs. 150 plus 25% of the Annual Valuation determined for Holding Tax purpose. Water Supply Charges are currently levied only on bulk connections. AMC currently does not collect Water Supply Charges from private connections.

3.22 The bulk connections are charged for the water supplied @ Rs. 7 per KL. AMC is in the process of installing water meters for all bulk connections. Currently, the quantity of water supplied is measured on an approximate basis, based on the size of the connection and daily duration (hours) for which water is supplied.

3.23 The MIC has taken an in-principle decision to start collecting Water Supply Charges from private connections. The resolution for this has been passed in 2002, but has yet not been implemented. The resolution proposes levy of Water Supply Charges from the private connection holders based on the Annual Value of the holding where the water connection is provided.

### **Analysis of Water Supply Cost & Charges**

3.24 Exhibit 3.6 provides a broad analysis of the cost incurred and revenue earned by AMC from Water Supply.

**Exhibit 3.6****Water Supply Cost & Revenue Analysis*****Figures for 2004-05, Source: AMC Budget***

Particulars	Amt. in Lakhs
Pay & Allowance	35.9
Repairs & Maintenance	76.1
Electricity Charges	84.6
Water Supply by Truck	27.5
<b>Total (Excluding Int.)</b>	<b>224.2</b>
Interest	40.0
<b>Total Cost</b>	<b>264.2</b>
<u>Revenue Earned</u>	
Supply of Extra Water	31.4
Unassessed Water Tax	0.1
<b>Total</b>	<b>31.5</b>
<b>Surplus/ (Deficit)</b>	<b>(232.7)</b>
<b>Revenue Earned as % of Total Cost</b>	<b>12%</b>

3.25 The cost excludes depreciation on water supply infrastructure and expenditure incurred by SPHE. AMC also currently does not pay for the water it draws from Damodar River. Thus, there is an extremely low recovery of cost incurred on water supply.

3.26 The URIF & JNNURM have laid down reforms for levy of reasonable user charges by ULBs with the objective of recovering full cost of operation and maintenance.

3.27 The proposed water supply projects would put additional pressure on the municipal finances, as illustrated in Exhibit 3.7. The additional annual cash flow requirement of Rs. 520 lakhs has to be seen in the light of the ULB's revenue surplus of Rs. 90 lakhs (including the grants from Government) in the year 2003-04 and water supply revenue of Rs. 31.5 lakhs in 2003-04.

**Exhibit 3.7****Annual Cash Outflow- Proposed Water Supply (Illustrative)**

Project Cost	4000
Debt Component	50%
Total Debt	2000
Rate of Interest	8%
Tenure of the Loan	10 years
Annual Interest Outflow	160
Loan Repayment Outflow	200
O & M Cost	160
<b>Total Annual Cash outflow</b>	<b>520</b>

## **Interventions**

3.28 The suggested interventions in respect of Water Supply, classified into short and medium to long-term are provided below:

### **Short-Term**

- AMC should immediately start levying water supply charges from all private connections. While determining the charges, AMC should aim at recovering the entire cost of operation and maintenance. Interest cost and expenditure incurred by the SPHE should also be considered while determining the cost for fixing the levy of Water Supply Charges.
- A detailed survey should be taken up to identify and regularise illegal connections. A scheme should be designed to facilitate this. Penalties should be levied for regularising the illegal connections.
- AMC should consider segregating the existing water supply connections into residential, commercial and others. The segregation and correct classification of the connections into these categories is required since the Water Supply Charges can be differentiated based on the type of connection.
- AMC should immediately install water meters for bulk consumers.
- Application for a water connection should be made a compulsory requirement for approval of Building Plans.

### **Medium to Long-Term**

- Meters should be installed for all non-bulk connections. To begin with, meters can be installed for non-bulk commercial users.
- Deposits should be collected for all water supply connections and the same should be adjusted against dues in case of defaults.
- Efforts should be undertaken to increase the number of connections. This could be done by:
  - Gradually reduce the number of stand posts.
  - Initiating drive to highlight the benefits of municipal water vis-à-vis bore well & dug well.

## **OTHER AREAS**

### **Building Permissions**

3.29 Some facts and observations in respect of Building Plan Permissions are summarised below:

- All matters relating to Building Plan Permissions are handled by a division under the Municipal Engineer. Permissions for construction of up to 2 storeys are handled from Borough Offices. All other matters are handled at the Head Office.
- AMC levies charges both for approval of site plan as well as building plan.
- There is an absence of the practice of inspection and grant of Occupancy/ Completion Certificate in respect of Building Plans sanctioned.
- There is an absence of a specific encroachment function to check illegal construction.
  - Delays in grant of building permissions and lack of specific encroachment function could have resulted in illegal constructions.

### **Interventions**

3.30 Suggested interventions in respect of Building Permissions, classified into short and medium to long-term are as follows:

#### **Short-Term**

- AMC should introduce a drive for identification and regularisation of illegal constructions.
- The practice of issuing Completion Certificates should be introduced. Charges could be levied for issue of Completion Certificates, as is currently practiced by DMC.
- Scheme for faster processing of Building Plan Permissions should be introduced. Fees should be charged for this purpose. Timelines should be set and strictly adhered to.

#### **Medium to Long-Term**

- An Encroachment Department/ function should be introduced to focus on identification and dealing with illegal construction.

### **Advertisement Tax**

3.31 Some facts and observations in respect of Advertisement Tax are summarised below:

- All matters relating to Advertisement Tax are handled by a division under the Municipal Engineer and are centralised at the Head Office.
- Advertisement Tax is levied depending on the size of the hoarding @ Rs. 12 per square feet.
- There is lack of a proactive system for levy and collection of Advertisement Tax. It is collected from assesseees who voluntarily come to pay the same at the Head Office. The Advertisement Tax is mainly collected from advertising agencies.

Individuals who put up hoardings outside their shops or on their properties are currently not proactively assessed and taxed.

### **Interventions**

3.32 Suggested interventions in respect of Advertisement Tax are as follows:

- The administration of Advertisement Tax should be shifted from the Municipal Engineering Department to License Department.
- AMC should identify and charge all possible sources for Advertisement Tax. Shops and establishments putting up advertisements outside their place of business, advertisement slides shown in cinema halls, etc., should be brought under the ambit of Advertisement Tax.

### **Income from Municipal Properties**

3.34 Some facts and observations in respect of income from Municipal Properties are summarised below:

- Parking fees, market rent and auditorium charges are the only sources of revenue earned from Municipal Properties by AMC.
- AMC does not have a complete listing of all Municipal Properties.
- No vacant land is owned by AMC. Majority of the land resources are owned by ADDA.
- AMC is currently in the process of developing a shopping complex through private sector partnership.

### **Interventions**

3.35 The suggested short-term interventions in respect of income from Municipal Properties are as follows:

- AMC should carry out a detailed survey to compile a listing of the properties owned by it. It should then develop a strategy for optimal utilisation of the properties.
- AMC should compile a complete listing of all hoardings on Municipal Properties and carry out a survey for identifying locations where the Corporation can construct hoardings on its properties (roads, street lights, bus stand, parks, etc.) which can subsequently be auctioned on annual basis.

### **Other Taxes/ Charges which could be levied**

3.36 Select other taxes/charges which could be considered by AMC are as follows:

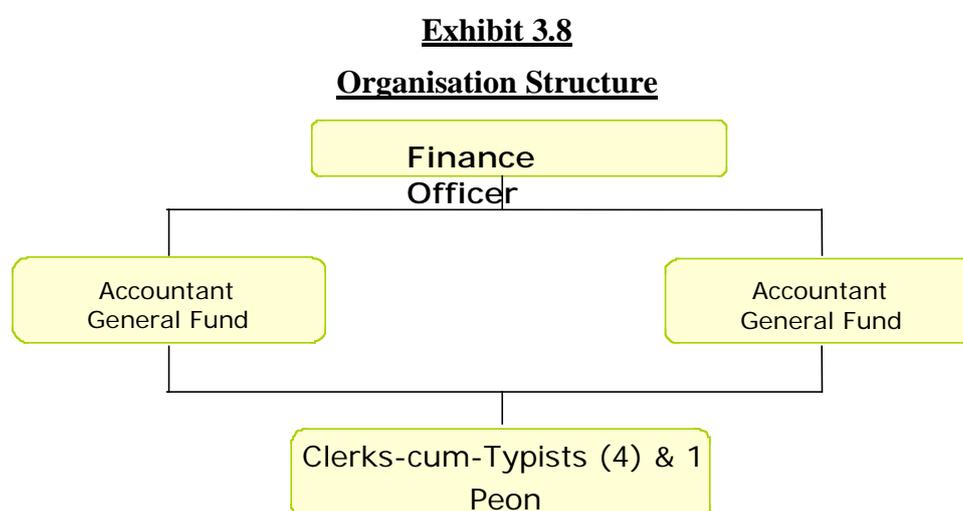
- Solid Waste Charges (Conservancy Charges).

- To begin with these can be collected from large residential complexes and large-scale generators of solid waste, e.g., hospitals, marriage halls, hotels, restaurants, etc.
- Cable Charges (levied by ULBs in Tamil Nadu).
  - Monthly fee per connection collected from cable operators.
- Stay Tax (levied by SMC).
  - Charged per room night stay.
- Theatre Tax/ Show Tax.
  - Per show based on the number of seats.
- Toll Tax (levied by Durgapur).
  - Can be levied on roads used by heavy vehicles and through traffic, e.g., main roads leading to the industrial areas, coal fields, state/ national highway, etc.
- Bus Stand Fees.
  - Private bus operators as well as State Transport Corporation using bus stand constructed and owned by the ULB.
- Eco Fee (Bangalore).
  - Fee collected at the entrance of the parks and gardens, regular users given monthly passes.
  - Amount collected can be used for the maintenance of the parks and gardens.

## **FINANCIAL MANAGEMENT & ACCOUNTING**

### **Organisation Structure**

3.37 The organisation structure of the Finance & Accounts Department is provided in Exhibit 3.8.



3.38 It has been observed that:

- The post of Finance Officer has never been filled.
- There is an absence of Internal Audit function.
- Accounting is partly computerised. The computerisation has been outsourced to a local chartered accountancy firm which has provided the software, hardware and manpower.
- The two accountants are graduates. Among the clerks, there is a mix of graduates and under graduates.
- There is an absence of budgetary control. Budgetary control is not exercised, neither during issue of work order nor at the time of making payment.
- There is an absence of a formal system of tracking expenditures incurred against specific grants. This could result in grants being utilised for activities other than the specified activities.
- There is no formal cash planning/ management. The payment of expenditure takes place as and when cash is available.
  - Cases of delays in actual payment to contractors due to non-availability of funds have been observed. At times, part payments are made to satisfy payment demand from contractors.
- Accounting is done on single entry cash based accounting system.
- No centralised records are maintained of the assets/ liabilities of the ULB.
- There is no formal MIS. Information is collated and submitted as and when required/ asked for.
- Transactions incurred at the Borough Office are not recorded in the books of accounts at the Head Office. There is no formal consolidation.
  - Collections in respect of form fees, etc., are deposited in borough bank accounts. These are used to meet sundry expenses of the Borough Office.
  - These amounts are not consolidated with the Head Office accounts.
- License fees collected at Borough Offices are deposited in a separate bank account maintained in this respect for each Borough. Amounts are transferred from these accounts to the main bank account as and when needed.
  - These are not recorded in the books of account maintained at the Head Office until the transfer takes place. License fee income is consolidated in the budget document through outside book adjustments. AFF has been informed that significant balances are currently lying in these license-specific bank accounts and linked fixed deposits (fixed deposits with face value of Rs. 1.29 crores).

- Some specific bank accounts are not reflected in the balances as stated in the budget statement, e.g., people contributions for Water Supply Scheme.

### **Interventions**

3.39 Suggested interventions in respect of Financial Management and Accounting, classified into short and medium to long-term are provided below:

#### **Short-Term**

- AMC should start following the system of budgetary control on a priority basis. Budgetary control should be exercised both on commitment and on payment.
- A detailed listing of the assets and liabilities of the Corporation should be undertaken and this listing must be subsequently regularly updated.
- The post of Finance Officer should be filled at the earliest.

#### **Medium to Long-Term**

- AMC should design and implement MIS systems (financial and operational MIS). To begin with, an Annual Subsidy Report on the services (Water Supply, Sanitation, Health, etc.) being provided by the ULB should be prepared and presented along with the Budget.
- Accrual basis of accounting should be introduced.
- AMC should consider introducing budgeting reforms such as participative budgeting (public participation in budgeting process); outcome based budgeting, performance budgeting, etc.
- Internal Audit function should be introduced.

### **CREATION OF INTEGRATED DATABASE**

3.40 It is suggested that AMC should consider creating a database integrating the records relating to the key revenue sources such as Holding Tax, License, Water Charges, Advertisement Tax, etc. This would facilitate in:

- Identification of un-assessment and under-assessment;
- Better efficiency in recovery;
- Possibility of having common collection staff for different revenues;
- Could be more effectively implemented and utilised if all revenue departments are consolidated, etc.

3.41 An indicative format illustrating the contents of the integrated database is provided in Exhibit 3.9.



- Around 35%-40% of the project cost raised through contributions from the citizen.
- Deferred payment scheme for construction of roads.
  - Contractor to raise funds for construction of roads who would also be responsible for maintenance of the roads for a period of 3 years.
  - Interest rate on the investment by the contractor decided through tenders.
- Privatisation of street lighting maintenance (Bangalore, Jaipur, Ludhiana, Patiala, Vishakhapatnam).
- Contractor constructing road responsible for its serviceability and maintenance (Ludhiana).

### **TRAINING & CAPACITY BUILDING**

3.44 The employees of the Revenue and Finance Departments should be provided training in the following areas to enable them to perform their tasks in a better manner and improve their efficiency:

- Use of computers (function specific)
- Grievance handling
- Holding Tax management system
- Innovative and effective tax collection mechanism
- Defaulters management
- Citizen servicing
- Water conservation
- Community participation techniques
- Accrual based accounting
- Costing
- Management Information System – Preparing and analyzing MIS reports
- Financial planning & cash management
- Asset management
- Budgeting & budgetary control.

**COST MANAGEMENT & CONTROL**

3.45 Along with efforts to increase revenue, AMC should also consider focusing on cost management and control measures as a means to utilise the available financial resources more effectively and efficiently.

3.46 As discussed in Chapter 2, establishment expenditure constitutes a significant portion of the total revenue expenditure of AMC (about 50%). The department-wise break-up of establishment expenditure is provided in Exhibit 3.10. General Administration, Drainage & Sewerage, Conservancy & Water Supply are the functions contributing to a majority of the establishment expenditure. Pension and Gratuity related expenditures also constitute a significant portion of the total establishment expenditure.

**Exhibit 3.10****Department-wise Establishment Expenditure***(Rs. in Lakhs)*

Particulars	2003-04	
	Amt.	% of Total
General Administration & Finance	236.66	42.4
Drainage & Sewerage	72.65	13.0
Conservancy	35.13	6.3
Water Supply	35.90	6.4
Collection	23.49	4.2
Public Instruction	15.78	2.8
Pensions & Gratuity	123.96	22.2
Others	14.90	2.7
<b>Total</b>	<b>558.47</b>	<b>100.0</b>

*Source: AMC Budget*

3.47 AFF recommends that AMC should target better cost management and control of the Establishment Expenditure. There is scope for cost optimisation, especially in the General Administration and Drainage & Sewerage functions. Overtime costs could be further analysed to identify opportunities to optimise costs.

3.48 Conservancy function incurs a significant expenditure on wages paid to casual labourers. Public works function also incurs expenditure on casual labourers. The total expenditure incurred by the two functions on casual labourers in 2003-04 was about Rs. 63 lakhs (about 6% of the total expenditure). This area can be further studied for cost optimisation.

3.49 During the year 2003-04, AMC has incurred about Rs. 130 lakhs on power charges for operating water supply (Rs. 85 lakhs) and street lightning (Rs. 45 lakhs) services. This constitutes about 12% of the total expenditure for the year. Considering the significant level of expenditure incurred on power consumption, AFF recommends that AMC considers undertaking an Energy Audit for identifying areas for energy conservation.

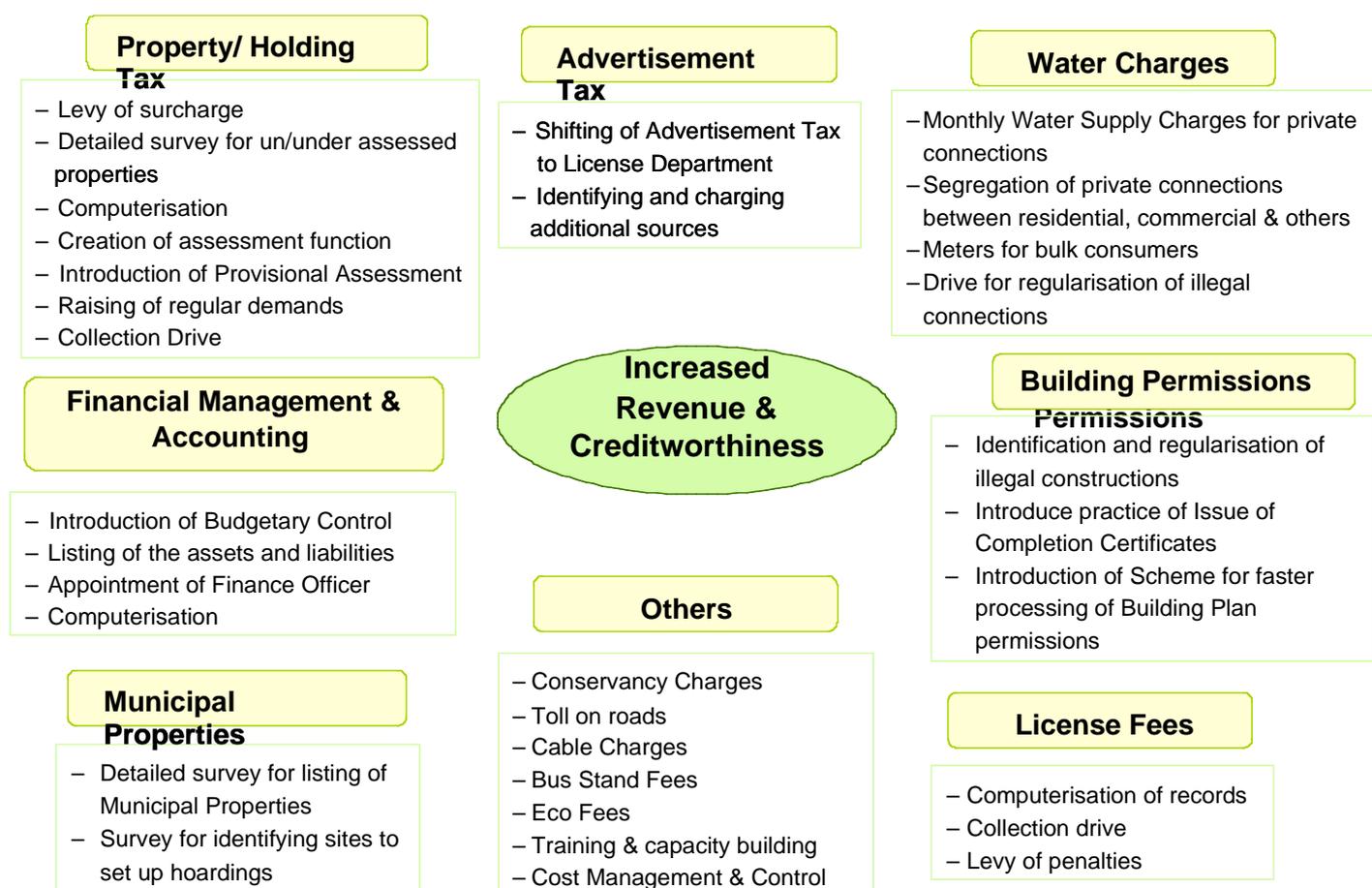
3.50 Possibility of introducing private sector participation in operation and management of select services could also be considered to improve service quality and optimise cost efficiency.

### **SUMMARY**

3.51 Exhibit 3.11 provides a summary of possible short-term interventions suggested by AFF, which USAID FIRE project may pursue through the Action Plans.

#### **Exhibit 3.11**

#### **Summary of Possible FIRE's Short-Term Interventions**



3.52 Action Plans in respect of select interventions, which have been shortlisted by AMC for implementation through a consultative process, are discussed in the next chapter.

## CHAPTER 4

# CONSULTATIVE PROCESS & ACTION PLAN FOR SELECTED INTERVENTIONS AND ESTIMATE OF REVENUES

4.1 This chapter provides details of the consultative process in respect of AMC and the Action Plan for the interventions that were shortlisted for implementation as a result of the consultative process.

### CONSULTATIVE PROCESS

4.2 The key findings of the rapid assessment study carried out by AFF in respect of AMC were presented to the representatives of AMC and the Chief Executive Officer of ADDA at the ADDA office on December 22, 2005. AMC was represented by the Chief Executive Officer and representatives of select key departments. This was followed up with a discussion on February 22, 2006, at the AMC Head Office with the Mayor, select members of the MIC, Secretary and representatives of select key departments. Subsequently, in June 2006 further discussions were held with senior officials of AMC to arrive at a consensus on the interventions and an estimate of the revenue from the same. During the course of the discussions, it was agreed that AMC would like to take up the following interventions for implementation:

- Intervention # 1 – Identification and assessment of un-assessed properties
- Intervention # 2 – Collection drive for Holding Tax arrears
- Intervention # 3 – Levy of Surcharge on holdings used fully/ partially for commercial purpose
- Intervention # 4 – Charging Water Supply Charges from non-bulk consumers
- Intervention # 5 – Drive for regularisation of illegal water supply connections

- Intervention # 6 – Reduction in number of public stand posts
- Intervention # 7 – Increase in License Fees
- Intervention # 8 – Regularisation Drive for identifying defaulters in respect of License Fees
- Intervention # 9 – Generate revenue from Municipal Hoardings

### **ACTION PLANS**

4.3 The Action Plans for each of the above intervention, including an indicative time frame for the various activities, are provided below.

4.4 It is suggested that for each intervention, a ‘Champion’ should be identified in the ULB. This will assist in creating ownership for the interventions among the officials of the ULB. A core group of senior officials may be formed which may meet periodically to take stock of the progress and support the implementation.

<b><i>Intervention # 1 – Identification and assessment of un-assessed properties</i></b>	
<b>Steps</b>	<b>By end of Week</b>
1. Undertake a quick analysis of the areas which could have maximum un-assessed properties to prioritise the areas to be covered under the exercise	2
2. Identify the specific areas which should be taken up on priority basis – this could be determined based on a combination of estimate of un-assessed properties and estimate of Holding Tax which could be collected (zones with higher valuation could be taken up on priority basis)	3
3. Create specific teams and assign them areas to be covered a. If required, staff can be employed on contract basis	4
4. Review and revise the format for collection of information of un-assessed properties with a view to facilitate clear identification of the property in the future	4
5. Carry out detailed field surveys in identified area to capture property identification, ownership, use, plot/built area, number of floors and thereafter compared with the Holding Tax demand (as per records of the Corporation). The information generated will then be transferred to digitized maps and a unique identification number will be assigned to each property.	12
6. Carry out provisional assessment of the un-assessed properties a. MIC to pass necessary resolutions in respect of the same	As and when
7. Update the existing records for new properties assessed	As and when

<b><i>Intervention # 1 – Identification and assessment of un-assessed properties</i></b>	
<b>Steps</b>	<b>By end of Week</b>
8. Issue demand notices based on provisional assessment	As and when
9. Simultaneously, send the data on new properties identified to the Central Valuation Board for assessment	As and when

<b>Intervention # 2 – Collection drive for Holding Tax arrears</b>	
<b>Steps</b>	<b>By end of Week</b>
1. Carry out an analysis of the existing outstanding Holding Tax dues – ward-wise, amount-wise, etc.	4
2. Identify areas/ assessees which have better potential for recovery	6
3. Create specific collection groups and assign them the identified areas	8
4. Set collection targets for the identified groups	8
5. Design and implement a suitable incentive scheme for encouraging teams to meet their collection targets	8
6. Get the councilors involved in the collection drive <ul style="list-style-type: none"> <li>a. Each councilor could be allowed a part of the collection achieved to be used for developmental purpose in their own electoral wards – detailed policies and systems for this needs to be put in place</li> </ul>	8
7. Examine the possibility for outsourcing collection function to unemployed youths, self help groups, etc.	8
8. Empower the collection teams to take actions such as disconnection of water supply charges, against defaulters <ul style="list-style-type: none"> <li>a. If required, get legal opinion on the actions which can be taken by the Corporation against defaulters</li> </ul>	8
9. MIC to pass necessary resolutions to facilitate the collection drive	10

*If required, AMC could consider announcing a suitable waiver scheme to encourage defaulters to voluntarily come forward and clear their dues. If a waiver scheme is decided, then work out the scheme details; get internal approvals for the same and also decide on method of announcement and a work plan for implementation.*

<b><i>Intervention # 3 – Levy of surcharge on holdings used fully/ partially for commercial purpose</i></b>	
<b>Steps</b>	<b>By end of Week</b>
1. MIC to take an in-principle decision to levy surcharge	1
2. Study the legal provisions in respect of levy of surcharge	2
3. If required, take a legal opinion in the matter	2
4. Check the statutes of other ULBs for similar provisions and study the existing practices followed by them in respect of levy of surcharge	2
5. Undertake a broad impact analysis of levy of surcharge on the municipal revenues and the possible reactions from the assessees	3
6. Determine the percentage for levy of surcharge (AMC Act provides for levy of surcharge up to a maximum of 50% of the Holding Tax) a. Evaluate possibility of having different percentages for different kinds/ categories of assessees	4
7. Study the impact of the levy of surcharge on the existing software and other systems, procedures and records maintained by the Assessment and Collections Department	4
8. Make necessary modifications in the systems to support levy of surcharge, if required	6
9. MIC to pass resolution for levy of surcharge – resolution to state the assessee category-wise rate of surcharge, the date from which the resolution shall take effect, etc.	8
10. Closely monitor implementation of the levy of surcharge	From Week 8 Onwards

<b><i>Intervention # 4 – Charging Water Supply Charges from non-bulk consumers</i></b>	
<b>Steps</b>	<b>By end of Week</b>
1. MIC has already taken an in-principle decision to levy water supply charges	-
2. Prepare a database of existing water supply connections. Segregate the water supply connections into domestic and commercial connections	4
3. Determine the charges to be levied for water supply <ul style="list-style-type: none"> <li>a. Charges should be set with the objective of recovering the entire cost incurred on operations and maintenance of Water Supply infrastructure including interest, depreciation and costs incurred by other state government agencies/ departments (State PHE Department, etc.)</li> <li>b. Comparative analysis to be done of Water Supply Charges levied by other ULBs can assist in determining water supply charges</li> </ul>	6
4. Designing the systems and procedures for maintaining records, issue of bills, collection, updation of records and taking actions against defaulters	8
5. MIC to pass resolution for levy of Water Supply Charges – resolution to state the assessee category-wise rate of Water Supply Charges, the date from which the resolution shall take effect, etc.	10
6. Implement the process of charging for water supply	After Week 10
7. Monitor the progress to make necessary changes in the system and take necessary policy decisions, if required, for the smooth roll out of the entire process.	After Week 10
8. Design and implement a software to facilitate the entire process	After Week 10

<b><i>Intervention # 5 –Drive for regularisation of illegal Water Supply connections</i></b>	
<b>Steps</b>	<b>By end of Week</b>
1. Frame a scheme for regularisation of illegal water supply connections – scheme to include the terms and conditions, the penalty to be paid by the consumers, etc.	6
2. Details of similar drives carried out by other ULBs to be studied to learn and develop from their experience	6
3. Examine the possibility of involving the councilors and Self Help Groups to make this scheme a success	8
4. Examine the possibility of providing incentives to citizens for bringing illegal connections to the notice of the Corporation	8
5. Frame guidelines for strict actions, including penalties, against those who continue to have illegal connections after the expiry of the regularisation scheme	8
6. MIC to pass a resolution to authorise the scheme and the guidelines	10
7. Design and implement the necessary systems and procedures to facilitate the implementation of the drive, e.g., necessary forms to be designed, system for recording of collection and updation of records to be laid down, etc.	10
8. Publicise the scheme and encourage consumers to come forward to get their illegal connections regularized	12
9. Form internal teams to undertake surveys of the corporation area to identify illegal connections and persuade the consumers to get them regularised under the scheme	12

<b><i>Intervention # 6 – Reduction in number of Public Stand Posts</i></b>	
<b>Steps</b>	<b>By end of Week</b>
1. Prepare an inventory of the existing Public Stand Posts (PSPs)	2
2. Undertake an exercise to study the need for having public stand posts – based on norms specified, demographic profile of the citizens, etc.	8
3. Identify areas where the PSPs can be removed	10
4. MIC to pass a resolution to authorise reduction of PSPs	12
5. Take necessary actions to remove the PSPs	After Week 12
6. Take the citizens/ consumers into confidence before removal of the PSPs	After Week 12

<b><i>Intervention # 7 – Increase in License Fees</i></b>	
<b>Steps</b>	<b>By end of Week</b>
1. Study the Licensee Fee structure in select ULBs in West Bengal to identify areas where License Fees can be increased/ restructured	3
2. Finalise the revised License Fee structure keeping in mind the maximum License Fees prescribed by the State Government	6
3. MIC to pass a resolution approving the new License Fees	8
4. Start levy of the increased License Fees	Week 9 onwards

<b>Intervention # 8 – Regularisation drive for identifying defaulters in respect of License Fees</b>	
<b>Steps</b>	<b>By end of Week</b>
1. Undertake a quick analysis of the areas/locations which could have maximum defaulters in respect of License Fees to prioritise the areas/locations to be covered under the exercise	2
2. Identify categories of traders which are currently not covered under the Licenses issued by AMC	2
3. Evaluate and finalise options to bring them under the fold of the AMC	4
4. MIC to pass resolution to levy suitable fees/ service charges on the category of traders currently not covered	6
5. Create specific teams and assign them areas/locations to be covered a. If required, staff can be employed on contract basis	8
6. Carryout detailed field survey to identify and regularize defaulters a. Maximum penalties should be levied on all defaulters	After Week 8
7. Update existing records	As and when

<b>Intervention # 9 – Generate revenue from Municipal Hoardings</b>	
<b>Steps</b>	<b>By end of Week</b>
1. Prepare an inventory of the hoardings owned by the Corporation	4
2. Undertake a detailed survey of the city to identify locations where additional hoardings can be put up. These could include municipal buildings, bridges, bus stands, markets, hospitals/ dispensaries, schools, road junctions, street light posts, municipal vehicles, etc.  a. An external agency with required expertise could be appointed for this purpose	8
3. Construct hoardings - explore the possibility of appointing a private agency to do the same on Built-Operate-Transfer (BOT) basis	12
4. Study the existing rates charged by the advertising agency(ies) for the hoardings currently under the control of the advertising agency(ies) to estimate the potential revenue	12
5. Call tenders for leasing the newly constructed hoardings on an annual basis  a. Tenders to be advertised at the state level and if required also at the national level  b. Fix a reserve price based on broad estimates to ascertain that the rights are not given away at a unreasonably lower price	14

Large hoardings at prominent places can be rented on a case-to-case basis. Smaller hoardings on street light posts, etc., can be rented on a consolidated basis.

### **ESTIMATE OF REVENUE INCREASE**

4.5 Broad financial impact of the identified interventions are provided below:

<b><u>Intervention # 1 – Identification and assessment of un-assessed properties</u></b>	
	<i>(Rs. in Lakhs)</i>
Estimated number of un-assessed properties	30000
Discount factor	50%
Assumed un-assessed properties	15000
Current average demand per holding (Rs.)	663.8
<b>Additional Demand (Rs. in Lakhs)</b>	<b>99.60</b>

*Since the General Assessment is likely to be taken up from July 2006, the financial impact of this intervention is likely to accrue only during the Financial Year 2007-08.*

<b><u>Intervention # 2 – Collection drive for Holding Tax arrears</u></b>	
	<i>(Rs. in Lakhs)</i>
Arrears as on March 31, 2005	408.1
Target for the collection drive	25%
<b>Target Collection</b>	<b>102.0</b>

<b><u>Intervention # 3 – Levy of surcharge on holdings used fully/ partially for commercial purpose</u></b>	
	<i>(Rs. in Lakhs)</i>
Annual Holding Tax Demand (2004-05)	325.0
Estimated proportion of demand from holdings used for commercial purpose	50%
Holding Tax from holdings used for commercial purpose	162.5
Rate at which Surcharge is imposed*	10%
<b>Additional revenue through surcharge on Holding Tax on holdings used for commercial purpose</b>	<b>16.30</b>

\* AMC Act allows levy of Surcharge up to a maximum rate of 50% of the Holding Tax

<b><u>Intervention # 4 – Charging Water Supply Charges from non-bulk consumers</u></b>	
<b><u>Intervention # 5 – Drive for regularisation of Illegal Water Supply connections</u></b>	
<b><u>Intervention # 6 – Reduction in number of Public Stand Posts</u></b>	
	<i>(Rs. in Lakhs)</i>
Annual Cost for 2003-04	264.2
Add: Depreciation of Water Supply infrastructure (Assuming cost of Rs. 30 Crores for current water supply infrastructure and depreciation @ 3% p.a.)	90.0
Total Cost	354.2
Less: Revenue collected during the year 2003-04	31.5
Estimated additional demand	322.7
<b>Estimated additional revenue from this intervention, based on discussion &amp; agreement with AMC</b>	<b>50.00</b>

The financial impact of the Interventions # 4, #5, # 6 is indicated above

<b><u>Intervention # 7 : Increase in License Fees</u></b>	
<b><u>Intervention # 8 : Regularisation drive for identifying defaulters in respect of License Fees</u></b>	
Additional revenue from License Fees from both the above interventions, based on discussions and agreement with AMC (Rs. in Lakhs)	<b>20.00</b>

<b><u>Intervention # 9 : Generate revenue from Municipal Hoardings</u></b>	

Financial implication of this intervention is difficult to estimate at this stage

Total financial impact of the above interventions, except intervention # 9 (Rs. in Lakhs)	<b>287.8</b>
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***The financial impact of all the above interventions, except Intervention # 2, shall be recurring on an annual basis (not a one time increase)***

4.6 The revenue income of AMC in 2003-04 was around Rs 1171 lakhs. The above indicated expected revenue increase is about 25% of the 2003-04 revenue income. In case only own sources of revenue are considered, the indicated expected increase would be around 50% of the 2003-04 own sources revenue income.

4.7 The above are very broad estimates only. This is based on data made available during the rapid assessment. As indicated in the report certain key data is not available currently. Hence this should not become the basis for any evaluation.

## **ANNEXURE 1**

### **CLARIFICATIONS ON THE SCOPE OF WORK**

The clarifications/ caveats to the Scope of Work, as provided by AFF in its proposal, are as follows:

- Respective Corporations would have to provide data on revenue and expenditure performance for past three years and expected performance for future two years.
- Projection on future revenue performance would have to be provided by senior management of the respective Corporations.
- Preparation of opening balance of assets / liabilities is not envisaged and we assume that the same is available.
- Updation of accounts is outside the purview of the study.
- Consultants would identify need and scope for computerisation in revenue and financial management of these Corporations. However, the study does not entail the actual development of software/ system.
- In the area of cost control and management, the scope of work would be restricted to identifying select broad areas.
- Consultants would identify training needs for revenue and accounting department staff keeping in mind the objective of the study. However, preparation of training module and provision of training is beyond the scope of the study.
- The study tour is assumed to be in India only.
- Preparation of budgeting and accounting manual is outside the purview of the current study.
- It has been assumed that the data base for linking various sources of information is basically providing a database structure and not to actually provide the data perse.