CHAPTER - 8

Summary, Conclusions and Policy implications

The major aim of this study has been to examine empirically the financial position of the ULBs in the State of Punjab and to suggest remedial measures to augment financial resources of these bodies so as to make them viable and self-reliant units of local self-government as envisaged in the 74th Amendment to the Constitution. Keeping this broad objective in view, the study purports to review the existing resource position of the ULBs in Punjab and to suggest remedial action as well as other sources of revenue including accessing the capital market.

A Brief Summary of the Methodology

The present study is the aggregate study of all the ULBs of Punjab. It is essentially a time series study. The time period of the study covers both the pre and post 74th Constitutional Amendment period, i.e., from 1970-71 to 1990-91 (Period-I) and from 1991-92 to 2005-06 (Period II).

The study is based mostly on secondary data. The data are obtained mainly from Statistical Abstracts of Punjab and Directorate of Local Government, Punjab. Apart from these sources, the study has also drawn upon the Reports of the First, Second and Third Punjab Finance Commissions. Urban Finance, the quarterly newsletter, and other
publications of the National Institute of Urban Affairs (NIUA), New Delhi, have also been consulted.

The data have been analyzed by applying various statistical techniques. A review of finances of ULBs in Punjab was undertaken. The growth rates of income and expenditure and their components were calculated by using compound annual growth rate (CARG) formula. Explanatory variables for determination of revenue and expenditure were identified on the basis of principles of economic theory and the existing empirical literature. The hypotheses advanced were statistically tested for significance. Multiple regression analysis was used in deciding the best set of explanatory variables for explaining variations in the dependent variables. Elasticity of tax revenue was measured by Divisia Index Approach. At the local level, data on legal tax bases are not available, so elasticity of tax revenue has been measured by using proxy tax bases. The buoyancy of the tax revenue was estimated with respect to income variables by regression technique. The tax efforts of the ULBs were calculated by using regression analysis.

**Summary of the Main Findings**

In this section, we summarize our main findings.

The ULBs in the State of Punjab have had a long history. However, in their present form, they were introduced during the British period. But until now, the ULBs have not become financially independent and have to depend
upon the State government to meet their revenue requirements. Municipal Administration in the ULBs has turned out to be a synonym for maladministration. The quality of civic services in urban areas of the State is far from satisfactory. With rapid increase in urbanization, coupled with lack of commensurate increase in municipal income, the quality of civic services has deteriorated. In fact, the municipal inertia can be attributed to financial inadequacy on the one hand and administrative inefficiency on the other.

Under the Constitution of India, the ULBs fall exclusively within the purview of State governments. The Constitutional Seventy-fourth Amendment Act, 1992 has been a breakthrough in the history of urban local governance in India. Apparently, it may seem that the 74th Amendment, 1992 has made a dent in the urban governance in India in comparison to the status enjoyed by the ULBs prior to it. In fact, local administration was a State subject according to Article 12, Schedule 5, list II of the Constitution. Articles 268 and 269 of the Constitution specify the duties that are to be levied by the government of India but will be collected by the State governments. It also clearly mentions the duties and taxes that will be levied and collected by the government of India but are assigned to the States. No such provision was kept for ULBs. The 74th Amendment, 1992 was in reality reluctant enough to keep such provisions. Article 243 X of the constitution does not specify the duties, tolls and taxes to be levied and collected by the State and assigned to the ULBs. The ultimate decision of
authorizing and assigning selective taxes to the ULBs continues to reside with the State legislature. However, the formation of the State Finance Commissions (SFCs) has been a significant step in this direction. Article 243 Y empowers the SFCs to make governing principles regarding (a) the distribution between the State and the municipalities of the net proceeds of taxes, duties and tolls leviable by the States, (b) the determination of taxes, duties, tolls and fees which may be assigned to or appropriated by the municipalities, and (c) the grants-in-aid to the municipalities from the consolidated fund of the State. Thus, it can be seen that 74th Amendment, 1992 has more or less succeeded in keeping the financial powers of the ULBs within the jurisdiction of the State governments. Similar is the case so far as the devolution of functions and responsibilities of the ULBs is concerned. Article 243 W, Schedule 12 of the 74th Amendment, 1992 contains a long list of obligatory functions for the ULBs. However, what functions and responsibilities should actually be assigned to the ULBs in place of or in addition to what they already have is still left to the State legislatures. If the provisions of the 74th Amendment, 1992 are analyzed critically, the amendment seems to have succeeded only in providing a long list of functions and responsibilities to the ULBs without doing much in empowering them with financial powers. Thus, in the absence of devolution of financial powers from the State governments, i.e., financial
empowerment, the political empowerment of the ULBs, as envisaged by the 74th Constitutional Amendment, fails to make much sense.

The shortage of resources is a major problem faced by the ULBs. The resource base of the ULBs has remained unchanged. There has been a great appreciation in the responsibilities of the ULBs but their resources have not kept pace with the increasing responsibilities. The main sources of revenue of the ULBs in the State are tax revenue and non-tax revenue, which are supplemented by loans and grants-in-aid. Octroi (until recently), property tax (house tax and service taxes), tax on professions, trades and callings, tax on animals and vehicles, tax on roads and ferries etc. are the taxes with the ULBs. Non-tax revenue include user charges, rents of lands, houses, dak-bunglows etc., income from municipal property, receipts from markets and slaughter houses, fees from educational institutions and other fees, fines and Tehbazari, etc. Besides tax and non-tax revenues, the ULBs get financial assistance from the Central or State governments through loans and grants. The ULBs also raise resources by accessing the capital market. For example, the Ludhiana Municipal Corporation raised a sum of Rs. 17.84 crore in 1999 by issuing non-convertible, non-cumulative redeemable municipal bonds through private placement for up-gradation of its infrastructure.

Taxes constituted a major source of revenue for the ULBs. Their contribution was 67.75 per cent of total revenue in 1991-92 and 64.17 per
cent in 2005-06. The share of non-tax revenue was 23.31 per cent and 20.57 per cent in 1991-92 and 2005-06 respectively. Loans and grants-in-aid contributed 4.31 per cent and 4.62 per cent respectively in 1991-92 and 4.55 per cent and 10.44 per cent respectively in 2005-06.

The most important of the tax revenue of ULBs is octroi. It contributed 82.94 per cent of tax revenue in 1991-92 and 77.84 per cent in 2005-06. In fact, octroi was the only tax which was the backbone of municipal finance in Punjab and it would be fair to say that ULBs ran primarily on octroi collections. Many a times, it had been suggested to abolish the tax due to its regressive nature and vexatious character. None of the committees entrusted with the assessment of investigating the position of road transport and/or any allied subject, had a kind word to say about octroi. Some of the committees appointed by the Central Government suggested alternative taxes to replace octroi. The Zakaria Committee (1963) recommended abolition of octroi gradually and its replacement by surcharge on sales tax or a turnover tax. The Rural-Urban Relationship Committee suggested a levy of surcharge on sales tax in quantum not exceeding 25 per cent of the sales tax. The Road Transport Taxation Enquiry Committee recommended municipal turnover tax as an alternative to octroi. The Study Group on Octroi, appointed by the Government of Maharashtra suggested multi-point turnover tax. The Gujarat Taxation Enquiry Commission (1979) recommended abolishing octroi throughout the State except by municipal
corporations and its replacement by entry tax on all declared goods. In Punjab, the government through an ordinance promulgated on 01.12.2001 abolished octroi except on electricity. This decision was struck down by the Punjab and Haryana High Court on 18.05.2002. The Congress party, which came into power in Punjab, re-imposed octroi. The Punjab government again fixed 01.07.2003 as a deadline for the abolition of octroi in the State and replaced it with what is called Local Area Development Tax (LADT) to mop up an estimated income of Rs. 720 crore, which was supposed to be disbursed among the ULBs in the State to compensate them for the loss of revenue from abolition of octroi. However, the major factor coming in the way of replacing octroi with LADT was the appeal preferred by the Punjab government against the decision of High Court. Finally, octroi was abolished by the government of Punjab with effect from 01.09.2006. Until 01.09.2006, before the Punjab government abolished it, octroi used to account for approximately 70 per cent of the income of the ULBs. Wherever octroi has been abolished in India, the State governments have compensated the ULBs for the loss of revenue arising out of the abolishing of octroi. The same has been the case in Punjab too. The Punjab government has created a Punjab Municipal Fund, into which 10 per cent of the receipts from the value added tax (VAT) would flow directly. At the same time, this percentage is expected to translate into an income of Rs. 550 crore annually, and hopefully, would increase in future. In the event of any shortfall in these
receipts, the government has decided to make up the deficit to ensure that at least Rs. 550 crore reaches the ULBs annually. The apportionment of this amount among the ULBs would be based on the proportionate earnings from octroi of the ULBs during the year 2005-06.

Property tax, i.e., the tax on lands and buildings and service taxes, is the second major tax with the ULBs. The contribution of this tax to the total revenue was 7.36 per cent in 1991-92 and 6.18 per cent in 2005-06. As a percentage of tax revenue, it constituted 10.86 per cent in 1991-92 and 9.63 in 2005-06. In the State, annual ratable value of the property is the basis on which tax is levied. In case of non-rental properties, the capital value of the premises is the basis for arriving at annual ratable value. The Local Finance Enquiry Committee (1951), the Taxations Enquiry Committee (1953-54), the Zakaria Committee (1963) and Municipal Finance Enquiry Committee of Karnataka State (1975) recommended capital value as the base of the tax. In actual practice, the value of the property, both capital and rental, increases but the tenants continue to pay the rent initially agreed upon. To solve this problem, the Local Finance Enquiry Committee (1951) suggested the shifting of additional property tax burden to the tenants. In Punjab, progressive rates of tax have been adopted in the bigger ULBs. It has been observed that landlords and tenants collude for mutual benefits. Static rental values due to the provisions of Rent Control Act and undervaluation of properties mainly due to local influences, have prevented the exploitation of
the full potential of the tax. To exploit this source fully, there is a need for its Central Valuation Agency as suggested by the Zakaria Committee (1963) or a State Level Valuation Agency as suggested by NCAER (1980), for proper assessment of the property, changes in the provisions of the Rent Control Act and fixation of a minimum rate of tax. The Report of Third Punjab Finance Commission (2006) has recommended the adoption of unit area method of assessment of properties by the ULBs in Punjab. This method is working well in Delhi and Bangalore.

In case of ULBs of Punjab, the contribution of other taxes to total tax revenue is insignificant. Tax on professions, trades and callings constituted 0.29 per cent in 1991-92 and 0.97 per cent in 2005-06. Tax on roads and ferries constituted 0.10 per cent of the total revenue in 1991-92 and 0.45 per cent in 2005-06. The contribution of tax on animals and vehicles was 0.19 per cent and 0.18 per cent in 1991-92 and 2005-06 respectively. Even though the contribution of tax on roads and ferries to total revenue is insignificant, yet it has shown the highest annual growth rate of 23.79 per cent among all the taxes of the ULBs.

The contribution of non-tax revenue to total revenue of ULBs has not changed significantly. In 1991-92, they formed 23.31 per cent of total revenue and in 2005-06 their contribution was 20.57 per cent. Non-tax revenue mostly comprises of user charges, lighting rate, rents of lands, houses, dak-bunglows etc., receipts from market and slaughter houses,
income from municipal property, fees from educational institutions and other fees, fines, etc. In view of the limitation of local tax revenue, non-tax revenue assumes importance. But the revenue potential of this source has not been fully exploited by the ULBs. The domain of user charges is narrow and is confined to water and sewerage charges. The ULBs have not been revising the rates of their non-tax levies on a regular basis. For example, government orders were issued to revise the rates of water and sewerage charges in 1993. With regard to the rest of the items, except in a few odd cases the rates of non-tax items of income have not been revised for long periods. The ULBs are unable to undertake remunerative enterprises due to their limited resources. Lack of resources and initiatives on the part of the ULBs and indifference on the part of the higher level of governments have prevented them from undertaking remunerative enterprises and hence tapping this source of revenue.

For financing large capital works, the ULBs depend upon loans. The borrowing powers of the ULBs are regulated by Punjab Local Authorities Loan Act, 1922 and rules made thereunder. The share of loans was 4.31 per cent and 4.55 per cent in 1991-92 and 2005-06 respectively. The ULBs apply to State government for permission to raise loans and if amount of loan exceeds Rs. 25 lakh, than it has to be approved by the Central government. The existing loan facilities from the government should be widened and norms for sanctioning loans should be liberalized. If a loan is
for productive proposes and the government is satisfied with the repaying capacity of a ULB, liberal attitude should be adopted in providing loans. The ULBs generally have a narrow credit base. The scope for raising loans in the open market is limited. The solve this problem, they should be a general adoption of a system of government guarantee for such loans.

Grants-in-aid as a source of revenue contributed 4.62 per cent of total revenue in 1991-92 and its contribution increased to 10.44 per cent in 2005-06. Grants-in-aid are mostly ad hoc and discretionary in nature, depending upon the availability of funds with the State. The absence of a statutory code makes grants-in-aid an unreliable source of revenue. The Local Finance Enquiry Committee (1957), The Taxation Enquiry Commission (1953-54) and the Zakaria Committee (1963) recommended proper system of grants-in-aid. But till now, no such code for grants-in-aid has been prepared. The questions of grants should be looked in conformity with the principles that govern grants to States from the Central government. To this effect, the Study Group of Ministry of Works and Housing recommended that while distributing resources, the financial needs of the ULBs should also be taken into account.

Coming to the expenditure of the ULBs, the pattern shows a rising trend. The total expenditure of ULBs has shown an annual growth rate of 10.99 per cent during the period 1991-92 to 2005-06. The deflated expenditure, i.e., expenditure at constant prices with 1993-94 as base, has
grown at an annual rate of 4.90 per cent. The per capita expenditure of the ULBs was Rs. 461.73 in 1991-92. It increased to Rs. 12221.96 in 2005-06. About 80 per cent of the expenditure of the ULBs goes to the provision of civic services in the State. Expenditure on Public Health, Water Supply and Convenience has remained the major item of expenditure. It constituted 50.65 per cent in 1991-92 and 40.17 per cent in 2005-06. The annual growth rate of expenditure under this head was 9.29 per cent. The expenditure on Public Works, growing at an annual rate of 15.17 per cent, was the second major item of expenditure of the ULBs. Its share increased from 17.47 per cent to 30.41 per cent during the period. Expenditure on Public Safety declined from 9.17 per cent to 7.74 per cent. Its growth rate was found to be 9.76 per cent. Expenditure on Public Instructions was found to be insignificant, contributing 0.59 per cent in 1991-92 and 0.36 in 2005-06.

The establishment cost of the ULBs in Punjab continues to be high. The expenditure on establishment as percentage of total expenditure increased from 39.57 in 2000-01 to 45.43 in 2005-06. This is in contravention to the instructions issued by the Department of Local Government that expenditure on salaries etc. should not exceed 35 per cent of the total expenditure of the ULBs. Therefore, expenditure on establishment needs to be reduced to provide more funds for the provision of civic services.
In the present study, an analysis of the determinants of revenue and expenditure of ULBs in Punjab has been undertaken for Period-I (1970-71 to 1990-91) and Period-II (1991-92 to 2005-06). Multiple regression analysis was used as analytical technique. In case of tax revenue, total tax revenue, revenue from property tax and octroi were considered. Aggregate expenditure and other categories of expenditure such as Public Safety, Public Health and Public Works were considered separately. The dependent variables were measured both in absolute and in per capita terms. The inclusion of explanatory variables was governed by theoretical as well as empirical considerations. For determinants of tax revenue, variables such as urban income, urban population, work force, literate persons and number of urban workers were taken. In case of property tax and octroi, two additional variables, i.e., number of residential houses and number of octroi posts were considered for these two respectively. For the study of determinants of expenditure, the variables included were tax revenue, loans and grants, urban income, urban population density and urban area. For different functional categories, other appropriate variables were selected. In fact, the chosen independent variables represented fiscal, demographic and socio-economic characteristics. Due to lack of information on variables such as property values, household incomes, etc. other possible explanatory variables were taken into consideration. The regression results show that in both the periods i.e. Period-I (1970-71 to 1990-91) and Period-II (1991-92
to 2005-06), tax revenues were determined by urban income and urban population. In case of municipal expenditure, these were largely determined by taxes, loans and grants-in-aid. However, the variable urban population failed to explain the variation in expenditure.

In order to test the differences in the regression coefficients in the two time periods, a dummy variable was introduced in each equation of the regression model. The introduction of dummy variables did not make much difference in the estimated regression coefficients. However, the value of $R^2$ did increase in all the estimated regression equations.

With a view to measure the responsiveness of taxes of ULBs to changes in urban income, tax elasticity and buoyancy were estimated. At the local level, data on tax bases are not available. In the present study, elasticity of total taxes and individual taxes were calculated by using proxy tax bases. The result of elasticity showed that in Period-I (1970-71 to 1990-91), total taxes were not elastic. Among the individual taxes, only property tax and octroi were found to be elastic while tax on professions, trades and callings was not elastic. In Period-II (1991-92 to 2005-06), neither the total taxes nor the individual taxes, were found to be elastic. As far as estimates of buoyancy are concerned, in Period –I (1970-71 to 1990-91), total municipal taxes were found to be buoyant. Among individual taxes, property tax, octroi and tax on professions, trades and callings were found to be buoyant, whereas the tax on animals and vehicles and tax on roads and ferries were
not found to be buoyant. In Period-II (1991-92 to 2005-06), total taxes were not buoyant. Among individual taxes, tax on animals and vehicles and tax on roads and ferries were found to be buoyant whereas all other taxes were not buoyant in this period. The results broadly suggest that there has been a very few discretionary changes at the level of ULBs. The rates of taxes have not been revised for long because of local pressures and vested interests. Besides, a large amount of taxes are in arrears.

In the present study, tax efforts of ULBs in Punjab were also estimated for Period-I (1970-71 to 1990-91) and Period-II (1991-92 to 2005-06). A modified version of the regression equation used by Bawa and Gill (1988) was adopted for our analysis. The ratio of municipal tax revenue to urban income in the State was taken as dependent variable. Among the explanatory variables, the variables considered were per capita urban income, share of municipal income to urban income, percentage of urban to total population, literates as percentage of total population and per capita development expenditure (Public Works) by ULBs. The variables per capita income and share of municipal income in urban income represented the structure of the economy while the variables literates as percentage of total population and per capita development expenditure represented the level of tax compliance. The results of the regression analysis showed that in both the periods, two independent variables, viz., share of municipal income and per capita development expenditure were found to be determining the tax
efforts of the ULBs. The remaining independent variables, viz., per capita urban incomes, percentage of urban population to total population and literates as percentage of total population, were not found to be significant. However, when all the five factors were taken into consideration in multiple regression model, the results showed that they explained 64 per cent of the variation in the dependent variable, while in Period-II (1991-92 to 2005-06) their explanatory power increased to 81 per cent. In Period-I (1970-71 to 1990-91, share of municipal income and per capita development expenditure were found to be significant, whereas in Period-II (1991-92 to 2005-06) only one independent variable viz. per capita development expenditure, was found significant. The conclusion derived from the regression analysis is that the main determinants of the tax efforts of the ULBs in Punjab are the share of municipal income in urban income and per capita development expenditure. This means that larger the municipal income that comes from urban income of the State, the more is the tax-income ratio or tax efforts of the ULBs. Also, the higher the per capita development expenditure of the ULBs on public works such as roads, buildings, establishments, stores etc., the more will be the income generated from these components, and hence, larger will be the tax efforts of the ULBs.

The resources of ULBs in Punjab are inadequate to meet the increasing demand of urban civic services. A review of the finances of ULBs reveals that the tax resource base of ULBs is narrow, confined to only
two main taxes, namely octroi and property tax. Together, these two taxes constituted more than 80 per cent of the tax revenue of the ULBs. The non-tax revenue of the ULBs mainly comes from user charges, rents of lands, houses etc., sale of municipal property etc. and accounts for about 20 percent of the revenue of the ULBs. The ULBs cannot depend upon government grants as these are highly erratic and unpredictable and contribute a very low percentage of total revenue. Therefore, ways have to be found to augment the limited resources of the ULBs. This becomes all the more important as under the 74th Constitutional Amendment, 1992, the resource mobilization has become the primary responsibility of the ULBs to achieve the constitutional objective of financial autonomy as well as for improving the financial health of the ULBs. In present study, four such potential areas were identified which could augment the resources of the ULBs. These measures are: user charges for urban services, commercial exploitations of municipal properties, privatization of urban services and accessing the capital market, i.e., issuing of municipal bonds. The domain of user charges, which at present is confined to water and sewerage charges, must be extended to include parking lots, solid waste management, etc., the cost of services, at least operation and maintenance (O&M) charges must be recovered from the beneficiaries. The rates of the charges should be periodically revised. The municipal properties of the ULBs in the form of lands, shops etc. are valuable capital assets of the ULBs. These properties
have tremendous potential for commercial exploitation. If properly planned and developed, these can generate considerable resources for cash-starved ULBs. The low-rent yielding properties must be sold to the tenants to generate revenue. The rents of other properties must be rationalized and revised periodically. Privatization of urban services is another alternative with the ULBs to generate resources in form of cost savings and increasing the service coverage, by involving private sector in provision of urban services, popularly known as public-private partnership (PPP). The ULBs may use many partnership arrangements in the provision of services such as Build-Own-Operate (BOT), Build-Own-Operate-Transfer (BOOT), contracting out, leasing etc. Contracting out is the most common means of involving the private sector for providing urban civic services. In Punjab, the Municipal Corporations of Amritsar, Jalandhar and Ludhiana, have used private sector for such activities as sanitations and public health, solid waste management, development and maintenance of gardens, etc. Accessing the capital market by issuing of municipal bonds is yet another measure of financing urban infrastructure projects. Municipal bonds are issued by the ULBs for financing urban infrastructure projects and services such as water supply, sewerage, solid waste management etc. In Punjab, a sum of Rs. 17.84 crore was raised by Ludhiana Municipal Corporation in 1999 by issuing secured, non-convertible, non-cumulative redeemable bonds through private placement. However, municipal bonds can be issued by larger ULBs.
Policy Implications

We now present the implications of our main findings.

- The urban income of the state was found to be the main determinant of municipal taxes and expenditures as revealed by the regression results. The higher the urban income, the higher would be the share of municipal taxes in municipal income and hence the higher would be the municipal income. The municipal income must be supplemented by loans and grants, which in turn, have a favourable impact on municipal expenditure. Therefore, efforts should be made to increase the urban income of the state. An increase in urban income of the state is all the more important as the level of civic services provided by the ULBs depends upon the availability of resources with them and is not governed by the demand for public goods and services.

- In order to increase the tax efforts of the ULBs in Punjab there is a need to raise the share of municipal income in the urban income as well as the development expenditure on public works. This implies that larger the municipal income that comes from the urban income of the state, the more is the tax-income ratio or tax efforts of the ULBs.
Similarly, higher the per capita development expenditure of the ULBs on public works, namely roads, buildings, establishments, stores, etc., the more would be the income generated from these components and hence larger would be the tax efforts of the ULBs.

- An important finding of the study is that municipal taxes are more elastic and buoyant in Period I (1970-71 to 1990-91) than in Period II (1991-92 to 2005-06). This means that discretionary measures had little revenue effect. The municipal tax structure has not changed much in terms of introduction of new taxes as well as revising the rates of existing taxes. The small difference between elasticity and buoyancy coefficients in Period II shows hesitation on the part of the ULBs to take bold measures for mobilization of tax sources. Therefore, there is a need to devise innovative measures on the part of the ULBs for mobilization of taxes. At the same time, an efficient tax machinery must be evolved for better tax compliance as well as to plug the loopholes in the existing tax system.

- The ULBs in Punjab enjoy taxation powers as delegated to them by the State government through appropriate municipal legislation and from the list of State taxes as given in the Seventh Schedule of the Constitution. Despite a long list of taxation tools available to the ULBs they are not utilizing all the taxes that they can levy by statute. There has been little perceptible change in fiscal powers actually
exercised by the ULBs even more than fifteen years after the passing of the 74th Constitutional Amendment, which sought to vest them with a wider functional domain as per the Twelfth Schedule to the Constitution to equip them with sufficient financial powers in proportion to their enhanced responsibilities. Therefore, it is imperative that the ULBs exercise their taxation powers to their full potential. Suitable amendments to the existing legislation should be enacted to this effect so as to bring the existing legislations into conformity with the Constitutional provisions.

- Notwithstanding a whole gamut of taxes available to the ULBs, the regime of State Controls retains powers to levy or abolish any tax, fix rates of taxes and levies and grant exemptions. This regime of State controls needs to be reduced. The ULBs must be given powers to fix rate of taxes and revise them periodically to generate sufficient resources. Moreover, exemption from a tax to any class of persons or properties should be left to the ULBs, who may, however, be required to obtain prior sanction of the State government before granting exemption.

- With the abolition of octroi in the State with effect from 01.09.2006, a Punjab Municipal Fund was created to adequately compensate the ULBs from loss of revenue. In this fund, 10 per cent of the receipts from the value added tax (VAT) were proposed to flow directly, and
this percentage was expected to translate into Rs. 550 crore annually, and hopefully would increase in future. There have been some instances where full compensated amount has not reached the ULBs. Therefore, the State government must ensure that at least Rs. 550 crore reaches the ULBs annually.

- All exemptions from property tax must be drastically reduced. Wholesale exemption from property tax in case of self-occupied houses etc. is not warranted, as it leads to situation where the citizen do not feel empowered to demand better services, and the ULB is starved of funds to provide civic services. It is strongly recommended that the property owners in the State must pay a reasonable and affordable tax on their properties every year. The tax may be paid half-yearly to avoid hardship. The tax should also be paid on a formula, which takes into account the quality of civic services in a particular locality, the use to which the property is being put, and similar easily established criteria, with possible reductions for aged pensioners and indigent widows. Property tax is a significant source of income for the ULBs with vast potential for growth. With the abolition of octroi in Punjab w.e.f. 01-09-2006, the property tax has emerged as the largest and the most important source of revenue for the ULBs of the State. To realize its full potential, the assessment of property tax should be rationalized by the adoption of unit area
method of assessment as is being increasingly done by various ULBs in Delhi and Bangalore, and the system is working well. It has been estimated by Punjab’s Department of Local Government that an amount of Rs. 450 crore can become available annually to the ULBs from a judicious application of the unit area based approach to property tax.

There is a cost attached to all services and the ULBs cannot be run as charitable institutions. In any community there are some services that are used only by certain categories of people or are used very differently, i.e., greatly by some people and very little by others. It is, therefore, important to levy user charges. Application of user charges also ensures that limited resources are not wasted as is the case when services are provided free of any charge to the users. User charges should be levied on a variety of services such as water supply, sewerage, solid waste management, parking lots etc., at affordable levels to increasingly recover the cost of operation, maintenance, billing and collections. The principle of user charges is that it should apply to services which are for the benefit of identifiable beneficiaries rather than community at large. The user charges are essential sources of revenue to augment the resources of the ULBs. The ULBs that levy such charges should be given incentives proportional to the results achieved.
- The ULBs should also explore other non-tax sources through levy of additional fees and charges, such as valorization charges, betterment fees, and impact fees etc., to augment their resources.

- In many parts of the World, as also in some parts of India, profession tax is levied on persons earning above a certain level of income. There is a limit of Rs. 2500/- per annum on this tax, as fixed by the Constitution of India. Punjab being a prosperous State where earnings are high and the quality of life superior, it makes eminent sense to levy profession tax in urban areas to ensure that the civic amenities in Punjab also develop apace with the economic development of the State. Thus, Profession tax, i.e., tax on individuals, traders, commission agents, shopkeepers etc., should be levied. To be genuinely useful in augmenting local finances, this tax should be levied and collected for the ULBs by the Excise and Taxation Department, thereby ensuring efficiency and economy in collection.

- Tax on advertisements and hoardings must also be levied by the ULBs. This is an area with tremendous potential for revenue generation. The ULBs must cash in on this highly potential tax.

- All water connections should be metered. If this is not possible, higher rates may be levied on unmetered connections. The recent decision of the Punjab government to make the metering of all water connections mandatory is a positive step. If implemented, it will not
only help in checking the wastage of precious water but also increase the revenue of the ULBs of the State.

- Reducing the flab and slack in functioning of ULBs can lead to significant increase in their resources. Measures suggested for economy in expenditure include reducing expenditure on establishment through progressive outsourcing and privatization of services and improvement in billing and revenue recovery system.

- The bigger ULBs with sound financial position must be encouraged to raise resources for urban infrastructure projects through municipal bonds. These bonds should be rated by a suitable credit rating agency to instil people’s confidence in such bonds.

- Municipal properties in various cities and towns such as lands, shops etc. constitute valuable capital assets of the ULBs. These can generate considerable revenue if properly planned and developed. The ULBs must take adequate steps to commercially exploit such properties. All low-rent yielding properties must be sold to the tenants. The rents of the properties must be rationalized and increased periodically.