CHAPTER VII

CONCLUSIONS AND SUGGESTIONS
Introduction

Municipal government in the state of J&K came into existence in 1886 when the two municipalities of Srinagar and Jammu were established for the purpose of providing better and efficient civic services. However, these institutions of local government have failed to fulfill the aspirations of the people who expect better and improved level of civic services from the municipal bodies. It is unfortunate that the performance of the municipal bodies in the state in providing basic services is very poor. This is largely because of an acute imbalance between municipal service obligations and financial resources. While service obligations of municipal bodies on one hand have been steadily increasing, the financial resources at their disposal on the other hand have remained static. Such an imbalance has not only incapacitated municipal government in the state but has also lowered its image in the public mind. Inspite of various steps taken by the state government with regard to finances of municipalities with the purpose to enable them to provide efficient level of civic services, the situation in this regard has not shown any marked change.

In view of the pressing financial problems of the Municipal Corporations in the state of J&K and in the light of the objectives of
the study set forth, the present study was undertaken to study the Management of financial resources in Municipal Corporations of Jammu and Kashmir and probe objectively on the basis of the findings of the study, the financial health/position of the Municipal Corporations in the state. Two Municipal Corporations of the state viz. the Srinagar Municipal Corporation (SMC) and the Jammu Municipal Corporation (JMC) were selected for the present study as they play a significant role in catering to the civic needs of the huge population in two capital cities of J&K. In view of the objectives of the study, the study relied mainly on the secondary data. Secondary data for the research was collected from the budget documents of municipal authorities, published and un-published documents, reports, statistical hand books, survey and project reports, research papers published in various books and journals on different aspects of municipal finance have served as a source of secondary data.

The data collected from secondary sources was analysed with the help of statistical tools to arrive at dependable results. To elicit a true state of affairs keeping in view the objectives of the study, the statistical methods of percentages, summary statistics such as averages and compound annual growth rates (CAGR) have been used.

Based on the objectives of the study, the study has been divided into seven broad chapters. An attempt has been made in the present chapter, the penultimate one (of the present study) to summarise the main findings of the study with a view to draw meaningful conclusions. This is followed by some important suggestions having significant policy implications for the policy and decision makers in the field of municipal taxation.
Conclusions

The financial resources of the Municipal Corporations in the state consists of revenue from own sources and revenue from external sources. Revenue from own sources comprises of tax and non-tax revenue, while as revenue from external source consist of grants-in-aid from the state Government. The Municipal Corporations in the state have been authorized to levy certain taxes like tax on lands and buildings (property tax), tax on trade and profession, Show tax, Sewerage tax, etc. However, the results of the study clearly revealed that the Municipal Corporations in the state derive their tax revenue only from trade tax, while as non-tax revenues are derived from rent from municipal properties, fees, fines and other miscellaneous sources.

The results of the study clearly revealed that the financial position of the Municipal Corporations in the state of J&K is far from satisfactory. These Municipal Corporations suffer from huge deficit on revenue account which is funded by the state Government through the mechanism of grants-in-aid. The mismatch between the total own source revenues and the total revenue expenditure has been increasing at a rapid pace. The outpacing of the rate of growth of revenue receipts by expenditure growth has been one of the principal reason for the emergence of municipal fiscal imbalance.

The own source revenues have registered an overall growth of 14.36 percent in SMC and 17.00 percent in JMC, while as the revenue expenditures have grown at an overall growth rate of 19.10 percent in SMC and 18.20 percent in JMC. This indicates that the growth in revenue has not kept pace with the continuing increase in the corresponding expenditures. In other words, the revenue generated
from own sources are not adequate to meet the expenditures over the normal activities of the corporations.

The basic problem of municipal finance in the state of J&K is reflected in the large and growing gap between municipal financial resources and the expenditures. This growing gap is mainly due to the fact that the responsibilities of the Municipal Corporations on the one hand have been steadily increasing, while as, the financial resources at their disposal on the other hand have remained static. In other words, funds obtained from revenue sources are not sufficient to cope-up with the increased expenditures on the civic services rendered by these corporations. As a result, the Municipal Corporations are dependent upon the financial help from the state Government for financing these Services.

The findings of the study revealed that the contribution of own source revenue to the total revenue sources of the Municipal Corporations in the state is significantly low compared to National average. The average annual contribution of own source revenues to the total revenues in SMC and JMC is around 14 and 20 percent respectively, which is significantly low when compared to national average (79.62 percent). The main reason for such an un-satisfactory state of affairs is the failure of the Municipal Corporations in the state to utilize its tax base fully by not charging / levying all taxes which they are empowered/ authorized to charge. The contribution from these taxes such as property tax, profession tax, show tax, Sewerage tax, etc. has been nothing. Further, the contribution from non-tax sources (rents, fees and fines) has been very insignificant. The absence of any significant contribution from the tax revenue sources is a clear
evidence of the fact that the Municipal Corporations in the state of J&K have not utilized their taxation powers. Failure to levy different types of municipal taxes has resulted in loss of revenue to the Municipal Corporations.

Though, the Municipal Corporations in the state have taken certain measures for additional resource mobilization, as a result of which the own source revenues increased significantly especially after 1997-98, but at the same time, the increase in the revenue has not commensurated/matched with the expenditure needs of these corporations. Rapid increase in the establishment cost and relentless pressure on other committed expenditures with a very inadequate/inelastic revenue base of local/municipal taxes is the main reason for the mismatch between municipal revenues and expenditures.

The results of the study also revealed that the own source revenues in per-capita terms of Municipal Corporations in the state is considerably low when compared to National average. The all India average of per capita own source revenue of municipalities was recorded at Rs. 482.14 as on 2001-02. On the other hand, the per capita own source revenue of the municipalities in the state as a whole was recorded at Rs. 48.18. However, at the individual Municipal Corporations level, the position of JMC is comparatively better than the SMC. The main reason for such a low per capita own source revenue in these Municipal Corporations is that the income from tax revenue sources is quite insignificant. The lack of tax revenues make these bodies financially backward and dependent upon the state government for financing the civic Services. It is also due to the fact that the Octroi tax which was the main source of tax revenue of the
municipalities in the state was abolished by the state Government in the year 1987 without providing any alternative source of income to these bodies. As a result, the Municipal bodies of the state got financially wrecked and dependent upon grants-in-aid from the government.

An analysis of each source of own source revenue (component wise) has clearly revealed that the Municipal Corporations in the state at present are charging /levying only trade tax, which contributes meager a 2-5 percent of the total Own source revenues. All other municipal taxes such as property taxes, profession tax, lighting tax, entertainment tax, etc. are not levied by the Municipal Corporations in the state. In the absence of any significant contribution from tax revenue sources, the Municipal Corporations in the state derive their revenue mainly from non-tax sources, which includes, rent from municipal property, building permission fee, advance rent (premium), compounding fee and other fees and fines. These non-tax sources contribute 10-12 percent to the total revenue of SMC and 15-17 percent to the total revenue of JMC, which is significantly low when compared to National average. In the country, between 30-40 percent of the revenue from own sources are derived from non-tax sources. The study has found that among the non-tax revenue sources, Rent from municipal property, premium (advance rent) and building permission fee are the main funding sources of revenue of the Municipal Corporations in the state. Revenue from other non-tax sources like compounding fee, sanitation fee, fines, etc. were insignificant as far as their respective yield/ share to the total own Source revenue is concerned. All this indicates that the Municipal
Corporations in the state of J&K have not made the best use of the resources at their disposal.

In the context of acute resource deficiency, the Municipal Corporations in the state have become financially weak and ineffective and dependent on the state Government for financial Support. The Municipal bodies attribute this state of affairs to the inadequate finances at their disposal, emerging from the less elastic sources allotted to them. Not much has been done by the state Government to change their existing financial structure to improve their financial position. By and large the approach of the state Government has been to retain their overall control over the local bodies by not conferring adequate financial powers on them. While the municipal bodies lament their inelastic sources of revenue, but the fact is also that the two Municipal Corporations have failed to fully utilize their existing sources of revenue. There are no two opinions about the fact that the municipal bodies in the state are short of funds, given the existing level of services expected of them.

Analysis of own sources revenues of the Municipal Corporations in the state on the whole does not reveal a rosy situation with regard to municipal finance in the state of J&K. The own source revenues of the Municipal Corporations are markedly inadequate for meeting their expenditure needs. Their resource base has declined because of limited tax powers delegated to them by the state Government. The study has found that there are several factors responsible for the inadequate resource base of the Municipal Corporations in the state of J&K. these factors include; abolition of octroi tax, which used to constitute the financial backbone of the municipalities in the state, lack of freedom to
impose taxes, Encroachment of local taxes by the state Government, poor mobilization of financial resources and the failure of Municipal Administration to innovate new source of revenue are equally responsible for the inadequate resource base of the Municipal bodies in the state of J&K.

In addition to factors listed above, under-utilization of available non-tax revenue sources has been to a large extent responsible for the poor finances of the Municipal Corporations in J&K. Non-tax revenue sources have considerable revenue potential which has remained untapped to a great extent. The income of Municipal Corporations from their own sources can further be increased considerably by exploiting their non-tax sources of revenue. The Municipal Corporations can expand the sources of non-tax revenues by exploiting to the maximum extent such user charges as sanitation and scavenging charges, development charges, garbage disposal charges, charges for strict improvement and sewer extension, etc. and by undertaking revenue yielding remunerative enterprises. The Municipal Corporations may undertake, pay and use type of public utility services such as toilets, parking places, rest houses, marriage halls, municipal markets, etc. Administration of these is simple and initial capital requirement is also within their resources.

Grants as a source of municipal revenue constitutes an important source of revenue of the Municipal Corporations in the state of J&K. The contribution of revenue grants accounted for 82-94 percent of the total income of SMC and 81-88 percent of the total income of JMC. The contribution of grants-in-aid to the total income of the Municipal Corporations in J&K was found more than the all India average of all
the Municipal Corporations and municipalities. In the country, the average contribution of grants-in-aid to the total income of the Municipal Corporations was recorded at 33.89 percent as on 1997-98. In case of municipalities, this percentage was recorded at 41.15. This clearly reveals that the Municipal Corporations in the state are totally dependent upon the state Government for financing the civic services due to poor financial base of their own.

In addition to revenue/recurring grants, the Municipal Corporations in the state have also been given grants on capital account for number of purposes/schemes such as construction of roads, drainage, Garbage collection, street lights, Construction of community bathrooms, toilets, etc. However, the amount of grants has remained grossly inadequate as the responsibilities of the municipal bodies have increased over the years. Further, the grants-in-aid transfers by the state Government are too inadequate to meet the expenditure commitments of these bodies and these compensating grants do not fully offset the impact of loss of revenue caused to them by the abolition of octroi tax. Moreover, the amount of grants paid to Municipal Corporations has been less than the amount fixed. It is generally being paid late and the municipal authorities have to face a number of financial problems on account of late receipt of the grants. The municipal authorities are very critical of the present financial arrangement and complain that this has led to further deterioration in the quality of their civic services. The study has found that the present system of grants-in-aid suffers form many defects. On the one hand, the procedure of giving grants is complex and lengthy, payment is not made in time and on other hand, there is the problem of proper
utilization of grants. Very often, the grants are used for purposes other than those for which they were sanctioned. There has been a complete absence of a definite policy of grants-in-aid on the part of state Government. There is neither consistency nor assurance about the amount of grants. Mostly, it is an adhoc arrangement, depending upon the availability of funds with the state Government. In the absence of assured/regular supply of grants, it is difficult for the Municipal Corporations to plan their schemes in advance. A wise policy of grants-in-aid will go a long way in rejuvenating the municipal life and giving it a new health and vigor.

The results of the study revealed that the total expenditure of the Municipal Corporations in the state has shown an increasing trend throughout the period under study. In case of SMC, the total expenditure in absolute terms has increased from Rs. 447.87 lacs in 1985-86 to Rs. 4499 lacs in 2005-06, registering a CAGR of 17 percent over the period. Similarly, in JMC, the total expenditure in 1985-86 was Rs.258.97 lacs which increased to 2996.10 lacs in 2005-06, recorded a CAGR of 19 percent over the period.

An analysis of total expenditure has clearly revealed that the total expenditures in both SMC and JMC has increased not only in absolute terms but the growth rate has also witnessed a marked increase throughout the period under study. But to provide requisite services of standard quality to its citizens, the important thing in a financially scarce organization like the SMC and JMC is to control rather reduce non-plan expenditures and spend more on capital account which the Municipal Corporations in particular, the SMS has failed to do so.
The expenditure on revenue account (non-plan expenditures) in case of SMC increased at a faster rate than that of expenditure on capital account (Plan expenditures) and even greater than that of total expenditures. However, this is not the case with the JMC, where the growth rate of plan expenditures exceeded the growth rate of non-plan expenditures. In case of SMC, the non-plan expenditure grew at an overall CAGR of 19.10 percent during the period 1985-86 to 2005-06, which is marginally higher than the overall CAGR of 18.20 percent in JMC. Not only the growth rate in non-plan expenditures was recorded higher in SMC, but its Share in total expenditures has also gone-up, unlike in JMC, where the percentage share of non-plan expenditures has witnessed a decline. In SMC, the percentage share of non-plan expenditures to total expenditures increased from 67.75 percent in 1985-86 to 86.60 percent in 2005-06, While in JMC, the percentage Share of non-plan expenditures to total expenditures declined from 80.95 percent in 1985-86 to 76.36 percent in 2005-06.

The results of the study has revealed that the plan expenditures (expenditures on capital account) on the other hand, has shown a declining trend as far as its respective share in total expenditures is concerned, especially in SMC. The percentage share of plan expenditures to total expenditures in SMC has declined from 32.50 percent in 1985-86 to 13.40 percent in 2005-06, In Case of JMC, the picture is altogether different. Unlike SMC, it witnessed a reasonable growth in the percentage share of plan expenditures to the total expenditures. The plan expenditures in JMC increased from 19.5 percent in 1985-86 to 24 percent in 2005-06, which indicates that unlike SMC, the JMC is increasingly focusing on capital expenditures.
in order to provide better services to its people. Not only percentage share, the growth rate of plan expenditures was also recorded higher in JMC (21.79 percent) than the overall growth rate of plan expenditures in SMC (11.90 percent).

Though the total expenditures in both SMC and JMC has recorded a reasonable growth in absolute and relative terms during the period under study, yet a major portion of the financial resources are spent on revenue account which in a recourse crunch organization like SMC and JMC is considered bad aspect of financial management. However, the JMC has shown an improvement in this regard by registering an increase in the share of plan expenditures. These corporations, in particular the SMC need to rationalize their expenditure management by finding the ways to control non-plan expenditures and increasing the Share of plan expenditures. On one hand, efforts should have been made to increase the development expenditures so that civic services could be rendered more efficiently. On the other hand, efforts should have been made to keep the non-plan developmental expenditures at a low level, as it erodes the real value of expenditures on services rendered to its citizens and it does not reflect the actual benefit enjoyed by the people.

The development expenditures which include expenditure on public health and sanitation, public safety, municipal works, etc. shared the largest proportion of the total expenditures on revenue account especially in JMC. The developmental expenditures accounted for 52.52 percent of the total expenditures in 2005-06 in SMC. The picture of distribution between development and non-development expenditures on revenue account in the JMC is far better than the
SMC. In JMC, the developmental expenditures accounted for 67.44 percent of the total expenditures on revenue account. But the fact is that the developmental expenditures on revenue account includes expenditure on salaries and wages of public health, sanitation, public safety, municipal works wings/departments of the municipal corporations. If the salary expenditure is excluded then the actual outlay on these developmental activities works to be very little, as such a worrisome factor about the expenditure management of the Municipal Corporations.

The share of developmental expenditure on revenue account has witnessed a declining trend during the period under study. The share of development expenditures in case of SMC declined from 59 percent in 1985-86 to 52.53 percent in 2005-06. Like SMC, the JMC has also witnessed a declining trend in the share of development expenditure. In 1985-86, the share of developmental expenditure was 73.98 percent, which declined to 67.44 percent in 2005-06. Contrary to it, the non-developmental expenditures on revenue account has shown an upward trend during the said period. The share of non-developmental expenditures on revenue account in SMC has increased from 41.30 percent in 1985-86 to 47.47 percent in 2005-06. In JMC also, the share of non-developmental expenditure has increased from 26.02 percent to 32.23 percent during the same period. The declining trend in developmental expenditures and an increase in the share of non-developmental expenditures is not a healthy trend. It simply reveals inefficient management of finances, as such this aspect needs to be improved upon.
The results of the study revealed that among the various items of development expenditures on revenue account, the most important has been ‘public health and sanitation’. It alone accounted on an average more than 47 percent of the total expenditure on revenue account and nearly 82 percent of the total developmental expenditures of SMC. In case of JMC, it accounted for more than 48 percent of the total revenue expenditure and more than 65 percent of the total developmental expenditure.

The non-developmental expenditures which includes expenditures on general administration and collection charges, shared the second largest proportion of expenditure on revenue account in both SMC and JMC. The SMC on an average has consumed more than 42 percent of its total revenue expenditure on ‘general administration and collection charges’. The position of JMC on this front is comparatively better with regard to expenditures on general administration and collection charge. JMC, on an average has consumed around 30 percent of its total revenue expenditures on general administration and collection charges.

An analysis of expenditure on establishment has clearly revealed that the expenditure on establishment in the Municipal Corporations in the state is much higher compared to National average. Municipalities in India spend on an average 54.20 percent of their total revenue expenditures on establishment. The Municipal Corporations in the state on the other hand spend the largest proportion of their total revenue expenditures on establishment. The SMC, on an average spends around 83 percent of its total revenue expenditures on establishment. The JMC spends around 76 percent on establishment. It indicates that the
Municipal Corporations in the state have failed to check the growth in establishment expenditure which is not a healthy trend. Such a high expenditure on establishment need to be controlled rather reduced.

The development expenditure on capital account which includes expenditure on Capital City Development Programme, Low Cost Sanitation, National Urban Renewal Mission and extended area, has witnessed an increasing trend in both SMC and JMC. But the JMC has recorded highest percentage increase over the years than The SMC. The SMC has recorded an increase of 317.21 percent in 2005-06 over 1985-86. While as, the JMC recorded a whopping increase of 1335.53 percent during the same period. Not only JMC has recorded highest percentage increase during the period under study, but the growth rate in developmental expenditure on capital account was also recorded highest in JMC as compared to SMC. It recorded an annual compound growth rate of 21.79 percent in development expenditure on capital account. Compared to this, the SMC has registered a growth rate of 11.91 percent only.

Among the Various items of developmental expenditure on capital account, Capital City Development Programme (CCDP) shared the largest proportion of the total expenditure on capital account in both SMC and JMC. It alone accounted for more than 60 percent of the total developmental expenditure on capital account in case of SMC and more than 54 percent in case of JMC. This indicates that the Municipal Corporations in the state have given top priority to the development of civic amenities like, construction/repairs/ renovation of lanes, drains, crossing, etc. in their respective cities which is a healthy sign on their part.
As far as priorities of Municipal Corporations regarding constituents of developmental expenditure is concerned, the study has found that both the corporations have same priorities. While public health and sanitation attracts largest share of development expenditure on revenue account and CCDP has remained the top priority on capital account in both SMC and JMC, which is a healthy sign on the part of Municipal Corporations. However, a substantial proportion of expenditure has been incurred on non-developmental activities which need to be economized. It is equally necessary to restrict the growth in non-developmental expenditures so as to reduce the impact of adverse implication on civic services and infrastructural availability. Simultaneously, efforts should be made to increase the developmental expenditure as developmental expenditure directly contributes to the welfare of people.

The performance of the Municipal Corporations in providing civic services has been far from satisfactory. The poor standards of municipal civic services and the failure to perform the functions and responsibilities has not only made the municipal bodies in the state less effective but has also lowered their image in the public mind. Because of unsatisfactory civic services, there is a wide spread resentment and stubborn reluctance to pay even the token “fees/ taxes” presently charged by the municipal bodies. No efforts have been made by the municipal bodies to raise the standard of its services to meet the expectations of the general public.

The inability of the Municipal bodies to render civic services efficiently has become an excuse for the state Government to take over some of the important municipal functions. Instead of strengthening
municipal administration through financial assistance or widening the tax base, the state Government has created special purpose authorities to undertake specific municipal functions. This has resulted in an erosion of the functional jurisdiction of the municipal bodies.

The results of the study also revealed that the Municipal authorities have not, by and large, shown much aptitude for efficient financial management. The main instrument of municipal financial administration—municipal budget is not effective at present and there is wide scope for improvement.

A critical analysis of the existing budgeting practices followed by the Municipal Corporations in the state has shown that these are based on traditional budgetary practices. The budget generally provide for the estimated figures of income and expenditure for the current financial year which is revised after some time and revised estimates is proposed and sanctioned for the remaining period. In order to arrive at figures of income and expenditure for the current year, the corresponding figures for the preceding years are taken into account. In estimating the income, no scientific technique is followed and the estimates about income are generally based on guess work and speculation. The income estimate is mostly shown on higher side which makes the budget surplus in the beginning. By the end of the financial year, the budget turns out to be deficit one. This is unrealistic and defective budgeting system and does not reveal the real financial position of the Municipal Corporations. Preparing budget estimates on the basis of incremental approach is a routine exercise in these bodies, which often has failed to give a realistic budget estimate. Budget documents do not contain physical or performance targets to be
achieved through budget allocation. A mere aggregation of the various items of expenditure and the corresponding resources does not make for a good budget.

Budgeting which is considered as the main instrument of financial management and a good measure of financial control is not based on any definite work programme. It does not spell out clearly the planning programmes, targets and achievements. It also lacks in financial planning based on sound principle of financial management. Municipal budgeting on sound scientific lines has yet to emerge in the state of J&K. Under these circumstances, the Municipal Corporations spend money in the manner they like irrespective of the budget provisions, rules and procedures. Unless, the budgetary practices improve not much head way could be made in the overall municipal financial administration system. In view of various new techniques evolved for budget making, the traditional budgetary practices needs improvement. The performance budgeting as recommended by the Committee on Budgetary Reforms in Municipal Administration if introduced in Municipalities could go a long way to mend this situation. This has been tried at higher levels of government and could be tried at least in the two Municipal Corporations in the state of J&K.

Suggestions

The picture that emerged from the study as a whole, is that the Municipal Corporations in the state of Jammu and Kashmir are very poor in resources at their command. Their existing revenue base is extremely narrow and generally limited to non-tax revenue sources (rents, fees and fines). The “own source” revenues of Municipal Corporations are markedly inadequate for meeting their expenditure
needs. The gap between the financial resources and expenditure requirements is large. In the absence of sufficient financial resources at their disposal, the Municipal Corporations in the state are totally dependent on the state Government for financing the civic services. The central point is that the Municipal Corporations in the state have failed to provide quality civic services to its people mainly due to lack of sufficient financial resources at their disposal.

The problem of resource inadequacy in Municipal Corporations in the state being too serious, call for an immediate action. To overcome the problem of resources in-adequacy, the suggestions put forth in the following Para's if rightly pursued and properly implemented at the different levels of implementation would go a long way in improving the financial health of the Municipal Corporations in the state of J&K.

SI. Assignment of Additional Tax Powers to Municipal Corporations

Municipal bodies by virtue of their status derive their tax powers from the state legislature. The state determines the extent of tax powers it is willing to bestow in the hands of urban local bodies so as to enable them to perform the functions assigned to them. In doing so, state must take the legitimate rights of municipal bodies into account when determining the extent of tax powers it wishes to handover to the urban local bodies. Since the urban local bodies are required to adhere to a desired level of fiscal performance and simultaneously reduce their dependence on grants-in-aid from the state Government, It is appropriate to make suitable fiscal arrangements which would assure the local bodies access to financial resources commensurate with the
responsibilities they are obliged by law to discharge. In this context, it is necessary to have a clear division of functional responsibilities and relationship between the state Government and the municipal bodies in matters related to taxation authority, revenue sharing and expenditure responsibility and the same need to be clearly defined and strictly followed. Overtaking of any legitimate authority to impose taxes of the municipal bodies by the state Government results in erosion in their resource raising capability. In view of this fact, It is suggested that the following taxes that fall within the municipal domain be assigned/ transferred to the Municipal Corporations in the state. These taxes are discussed in the following Para’s.

» Property tax

Tax on land and buildings popularly known as property tax constitutes a very important and single largest source of revenue of the urban local bodies in India. This tax is in force in a majority of Municipal Corporations in the country and is the principal source of their revenue base. In the state of J&k, there is a mandatory provision in the J&K Municipal Corporation Act, 2000, which makes it obligatory for the corporations to impose taxes on lands and buildings. If they fail to do so within a reasonable period, Government shall have to issue orders for the imposition of this tax and the Municipal bodies have to abide by it and take necessary steps for assessment and collection of property taxes. However, the Municipal bodies in the state have never been permitted / authorized by the state Government to impose this tax. There is no evidence of their having been asked, authorized or encouraged by the state Government to impose
this tax. Instead the state Government passed a law in 1962 entitled ‘Urban immoveable property tax Act (Act No. XXII of 1962) and made the sale tax department responsible for the assessment and collection of this tax. Although, this tax rightly and legitimately belongs to the domain of Municipal bodies, the proceeds of this tax were not transferred to these bodies. It could be considered as an unfair encroachment on the legitimate domain or jurisdiction of local self government institutions. It was therefore, a retrograde action. But suddenly and surprisingly, The Government of J&K repealed the Act in March, 2002.

Keeping in view the potential of property taxes for generation of additional revenue, it is suggested that the Municipal Corporations in the state be allowed/authorized to impose this tax. This tax if imposed will go a long way to improve the financial health of Municipal Corporations and will to a great extent lessen the burden of the state government to provide budgetary support to these bodies.

**Tax on profession**

The Act governing the imposition of profession tax in the state of Jammu and Kashmir was repealed by Act VIII of 1983 soon after it was imposed in 1981. The reintroduction of profession, tax was announced in 1997-98 after a gap of 14 years, but it has not been imposed till date. Though, the J&K Municipal Corporation Act, 2000 has authorized the Municipal Corporations to levy a tax on profession but these have never been permitted to levy this tax. It has been contended that the
constitutional Amendment to Article 276 (2) of the constitution of India carried in 1988 raising the limit of the profession tax from Rs. 250 per annum to Rs. 2500 per annum as applicable to other states has not been made applicable to the state of J&K and that the state Government has taken up the issue with the Government of India. It is estimated that the service sector of the state Government will contribute about Rs.10 crore per annum in urban areas on account of profession tax at the rate of Rs.250 per head per annum. Keeping in view the potential of profession tax for generation of additional revenue, it is suggested that a beginning should be made without delay and The Municipal Corporations in the state like in many other states of India such as Andhra Pradesh, Assam, Bihar, Gujrat, Haryana, Karnataka, Kerala, Maharashtra, Orissa, Punjab, Rajasthan, Uttar Pradesh, West Bengal, etc. be allowed to impose the tax on profession at least to the extent of Rs. 250 per head per annum.

➢ Entertainment Tax

Entertainment Tax is a tax which is levied on places of amusement and entertainment including cinemas, Theaters, fairs, circuses, etc. The Rural Urban Relationship Committee (1966) expressed its opinion that “entertainment tax is essentially local in character, being paid by the local residents and its proceeds should be handed over to the local authorities”. Because of its revenue potential, the Zakaria committee (1963) suggested that the entire proceeds from entertainment tax should be earmarked for the local bodies as having a local base and can also be administered by the local authority. In some states like Kerala,
Karnataka, Maharashtra, etc. the tax power with respect to entertainment tax is already assigned to the urban local bodies. In Andhra Pradesh, the state collects entertainment tax and 85 percent of the proceeds of entertainment tax is given to the municipalities. Similarly, in some states like, West Bengal, Gujarat, Rajasthan, Tamil Nadu, Orissa, etc. Entertainment tax is shared by the state government with the municipalities. In the state of J&K entertainment tax is levied and collected by the state Government. The entire proceeds from entertainment tax go to the state exchequer. It is as such suggested that the administration of tax on entertainment should be transferred to the Municipal Corporations. The process of transfer should be completed as early as possible. Pending the transfer, the proceeds of the tax, after deduction of 10% on account of collection charges should be transferred to local bodies.

S2. Mobilizing Internal/Own Sources of Revenue

An important strategy to deal with the management of finances by the Municipal Corporations is to make efforts to mobilize internal/own source revenues from the existing tax and non-tax sources. The study has clearly revealed that there is a tremendous potential for augmenting the own resources of the Municipal Corporations in the state of J&K. Doing so would substantially reduce the resource inadequacy problem currently being faced by the municipalities in the state. The efficiency with which municipalities tap their resources is an important element in putting their finances on a strong footing. Financial assistance from the state Government is not a long lasting solution to the problem of lack of financial resources of municipalities
unless it is accompanied by efforts at the municipal level to augment their own sources.

Keeping this in view, the following few suggestions are made:

➢ The present procedure of the granting building permission is cumbersome. The system of getting “no objection Certificate” from various departments and committees takes months and in some cases years. The prospective builder has to go from pillar to post to get the building permission. This sometimes leads to ultimate option of illegal construction. The system needs rationalization to avoid loss of revenue to the municipalities by way of rising of illegal structures. Further, there is a need for in-corporation of an obligatory clause in the building permission system where-by commercial complexes must have their own parking places. This will lighten load on the roads and facilitates smooth traffic flow.

➢ The revenue potential at current rates generated by the municipal assets, viz., land and buildings, shops, slaughter houses and other municipal property may be assessed and brought on record. The current rates may be reviewed for periodical upward revision to secure a reasonable compatibility with the market rates.

➢ The collection of receipts (revenue) need to be improved by a better financial management consistent with efficiency and economy in the cost of collection, better tax compliance, speedy action to check unauthorized constructions by the
Khilafwarzi agency and creating an awareness among the citizens for payment of local taxes and user charges. The gap between the revenue realized/collected and cost of collection of revenues should be reduced.

➢ The study has clearly revealed that slackness in collection of revenue is equally responsible for leakage in the municipal revenue. The arrears of rent are accumulating in huge amounts. For instance, in 2004-05, more than Rs. 50 lacs remained as arrears of rent in the SMC. During the same year in the JMC, more than Rs.43 lacs remained as arrears of rent. Notwithstanding, sufficiently large amount due to Municipal Corporations are pending, no efforts are being made by the municipal bodies to recover the arrears from defaulters. It is as such suggested that the Municipal Corporations in the state should take special measures to effect the recovery of revenue in arrears. The Municipal Laws confer adequate powers on the municipal bodies to recover municipal revenue and arrears.

➢ Many chunks of land available with the Municipal bodies are rented out through the system called “Zaminee (ground) rent”. The lessees are at liberty to raise any type of temporary structures like khokas type shops on a meager ground rent. The value of the land leased out to people is not priced correctly. It also results in irregular type of structures at every nook and corner giving a shabby look to the surroundings. Keeping this in view, it is suggested that this system is changed to the construction of properly planned
‘Kiosks’/shops, which apart from getting Municipal Corporations higher premium/rent, would go a long way in beautification of municipal areas.

S3. Innovation of New Fiscal Tools (Taxes/Levies)

Abolition of octroi tax and the consequent fiscal stress of Urban local bodies in India have become compelling reasons to innovate new sources of revenue. These compulsions have already led some of the municipal governments in India to innovate new sources of revenue e.g. Municipal Corporation Delhi (MCD), Pune Municipal Corporations, Raipur Municipal Corporations, Municipal bodies in Haryana, etc. introduced an elaborate scheme of taxation to mobilize more revenues after the abolition of octroi. However, the municipal bodies in J&K have failed to innovate any new source of revenue since the abolition of octroi tax in 1987.

In view of this fact, it is suggested that the Municipal Corporations in the state be allowed to impose the following taxes/levies:

- A toll tax on commercial vehicles that enter the jurisdiction of Municipal Corporations.
- Entry tax at the rate of Rs.5 for light vehicles and Rs.10 for heavy vehicles at the time of their entry into the local/municipal limits.
- Marriage tax at the rate of Rs.100 for bride and Rs.200 for bridegroom
- Levies on registration of new vehicles.
➢ Conservancy tax on those who keep the animals including dogs within the municipal limits.

➢ Taxes/levies on Tent houses, cable operators, printing press, ice factories, Gymnasium, Teaching house, Beauty parlours, Motor Works shops, Computer centers, etc.

➢ **Tax on Land Value Increment / Development Charges**

Clause (c) of sub-Section (2) of section 84 of the J&K Municipal Corporations Act, 2000 provide for the imposition of a tax on the increase in urban land values caused by the execution of any development or improvement works by the city governments through city development initiatives. However, this sources of tax revenue has not been exploited/tapped by any of the municipal bodies in J&K. Keeping this fact in view, It is suggested that Tax on Land value increment (LVIT) / Development charges (DC) be devolved to the municipal bodies in J&K. As the land value increments are brought about by local development initiatives of municipal bodies, there exists a rationale and justification for its devolving to municipal bodies.

➢ **Taxation of Government properties**

The Eleventh Finance Commission (2000-2005) have opined that all Government properties, whether they belong to the central or the state Governments should be subject to levy of user charges. The provisions of the J&K Municipal Corporations Act, 2000 section 89 do not permit the taxation of union Government properties but it authorizes charging of
the service charges in lieu of services as may be leviable as per Government of India instructions. Keeping this in view, it is suggested that the Municipal bodies in J&K be empowered / authorized to levy user charges on all the central and state Government properties.

S4. Recovery of User Charges

As pointed out earlier, that the Municipal Corporations in the state have no resources of their own. They are helped by the state Government. In effect, it means that it is the state Government which is paying the cost of the civic services in their entirety. The local bodies are only instruments for spending the money received from the state without any effort on their part to raise their own resources. This has eroded their self respect and worth-whileness. This is largely due to the fact that the Municipal Corporations in the states have failed to innovate new fees and user charges. Within the class of non-tax revenues, user charges and fees occupy a special place in the finances of municipalities due to their potential to contribute to the financial base of the municipal bodies. Keeping this fact in view, it is suggested that the municipal bodies in the state should recover user charges in respect of the following services:

- Sanitation and Scavenging
- Drainage and Sewerage
- Street lighting

The user charges should be recovered from the people who actually live in the jurisdiction of the Municipal Corporations irrespective of whether they are living in their own
house, or in a rented house or a house provided to them by their employer. Besides, the user charges should be recovered from all institutions—schools, offices, commercial establishments, Private hospitals, Nursing Homes, Hotels, Restaurants, Hostels etc.

S5. Flexibility in Setting Rates of Taxes, Charges and Fees

Municipal governments levy a number of taxes, fees, charges, duties, etc. However, these rates of taxes, charges and fees are determined by the state Government. Section 84 of the Jammu and Kashmir Municipal Corporation Act, 2000, regulate the powers and procedures to be followed for the imposition of various taxes, duties, fees, etc. The taxes, duties and fees listed in the enactment can be imposed only with the prior approval of the state Government. Even the rates of taxes, duties and fee are decided by the Government. The municipalities can vary these rates within the prescribed limits after the approval of the state Government.

In the light of the 74th Constitutional Amendment and with the objective of making urban local governments responsible for their actions, it is suggested that the Municipal bodies in J&K be allowed some flexibility in setting / deciding the rates of taxes, charges, and fee within their jurisdiction. The state Government should still have the overall responsibility for determining the maximum and the minimum rates for the municipalities. However, the need for getting the approval of the state Government for varying the rates within the limits prescribed is an unnecessary step in the efficient functioning of the municipal bodies. It is important that flexibility in setting the rates be
provided to the municipal bodies in the state in order to permit them to fully use the resources at their disposal.

**S6. Privatization of Municipal Services**

Reduction in expenditures should become the hallmark of municipal finance in the years to come. This will require that the municipal bodies be willing to privatize those services where the private sector has a cost advantage. On this principal, it is suggested that the Municipal Corporations in the state should privatize the following Services on an experimental basis:

- Collection and disposal of garbage
- Maintenance of street lights
- Maintenance of Municipal parks

These services could be contracted out to the private sector or could be initiated under a joint public-private arrangement. The municipalities would still be responsible for the overall supervision of these actives. If these Services can be performed by the private sector at a cost below what the Municipal Corporations currently incures, then there is a strong case for privatization. Such schemes are being tried in Municipalities such as Rajkot in Gujarat, Hyderabad in Andhra Pradesh, Allahabad in Uttar Pradesh and Trivandrumpurum in Kerala, where the initial response from the public was very promising. On the same pattern these could be tried in J&K as well.
S7. Sharing of State Taxes

Urban local governments are listed as a state subject under entry 5 of the 7th schedule of the Constitution. It is the responsibility of the state government to make these local governments a viable form of institution of local government. Urban local bodies are vested with some tax powers, but it has been found that firstly, these are far from elastic and secondly, the revenue generated from those taxes are not sufficient to perform the functions delegated to them by the state government. Therefore, it becomes necessary that the government find additional sources of revenue for the municipal bodies.

One area of additional source of revenue for the municipalities is the sharing of certain elastic sources of state tax revenues. In the light of 74th Constitutional Amendment and the provision of additional functions to be delegated to municipalities, it is important that some state tax revenues may be shared with the Municipal Corporations in the state like in many other states of India. For instance, shared taxes account for 30.2 percent of the total revenue of municipalities in Andhra Pradesh, 27 percent in West Bengal, 11 percent in Kerala, 7 percent in Assam (NIPFP, 1995).

For the purpose of sharing state tax revenue with the Municipal Corporations in the State, it is suggested that the following state taxes should comprise the divisible pool:

- Sales tax
- State excise
- Motor Vehicle tax
Ten percent of the aggregate of the proceeds of the taxes comprising the divisible poll after deduction of 10% on account of collection charges may be devolved on the Municipal Corporations in the state.


The study has found that the Municipal Corporations in the state are totally dependent upon grants from the state Government for financing the civic services. The study has also found that the amount of grants given to the Municipal Corporations has been less and is generally being paid late. Moreover, there has been a complete absence of a definite policy of grants-in-aid on the part of state Government. In other words, there is no machinery to evaluate and estimate the needs of municipal bodies, nor are there any fixed criteria about the grants-in-aid. There is neither consistency nor assurance about the amount of grants. Mostly, it is an adhoc arrangement, depending upon the availability of funds with the state Government. To ensure continuity and certainty in the flow of grants to the Municipal Corporations in the state, it is suggested that the state Government should evolve a detailed grants-in-aid code. The system of grants should take into account the means and needs of the municipal bodies. The quantum of grants should not be meager to cause any hardship to the municipal bodies nor too lavish to make them sluggish and dependent. The bulk of revenues should be from their own revenues and grants-in-aid should come primarily to bring about a balance in the fiscal capacity of the municipal bodies which is consistent with their expenditure needs. A wise policy of grants-in-aid will go a long way in rejuvenating the municipal life and giving it a new health and vigor.
S9. Value Addition of Sites

There is another way of how civic bodies in the state can help themselves in a big way. They may develop strategic sites for some key activities e.g. petrol pumps, cinemas, community halls, shopping plaza and complex, restaurants, shops, municipal markets, and sell them with necessary and instant permission from the government, This is a great inducement for the prospective customers who save time and money which they would spend in case of their doing it on their lands. This subterfuge is likely to bring enormous profits to a civic body. It has also the advantage of having these things at the appropriate places and avoid public nuisance which having them at wrong places is likely to create. This will also enable the municipal bodies in the state to make judicious and prudent use of their land assets at various sites.

S10. Institutional Finance

Requirement of funds for augmentation of municipal services and urban infrastructure is largely due to rapid urbanization and also deficiencies in the existing level of municipal services. To augment funds, municipal bodies which also need an access to raising of funds from financial institutions. Most of the states in India have constituted their own urban infrastructure finance institutions e.g. (kerala, Karnataka, Tamil Nadu). The experience of this has been rewarding and it is now being replicated in other states. Tamil Nadu Urban Development Fund Institutions now borrows from the capital market to augment its funds. The Bangalore Municipal Corporation in 2003 has borrowed a credit of Rs. 10 billion from HUDCO for financing urban infrastructure (Jha, 2003). Many other states have as well taken the initiative to create similar funds/infrastructure development institutions
for financing project development initiatives of urban local bodies. Andhra Pradesh Urban Infrastructure Finance Development Corporation in the state of Andhra Pradesh, Gujarat Urban Development Corporation and also the Gujarat Municipal Finance Board in Gujarat, Kerala Urban Development Finance Corporation in Kerala, Urban Development Fund in Madhya Pradesh, Urban Development Fund in Punjab are some of the initiatives so far taken by some of the state Governments. In the same pattern, It is suggested that the municipal bodies in J&K should mobilize institutional finances for raising urban infrastructure and for creating remunerative municipal assets. The state Government may consider giving guarantees wherever required for raising loans/institutional finance by the Municipal bodies. This course of action is inevitable to help the municipal bodies in the state for infrastructure development and building revenue yielding assets for generation of resources needed for civic amenities.

S11. Economy in Expenditure

The study has clearly revealed that the outpacing of the rate of growth of revenue receipts by expenditure growth has been one of the principle reasons for the emergence of municipal fiscal imbalance. In the context of the un-sustainability of high growth of revenue expenditure with a very narrow resource base, deficit generation becomes unavoidable but it has to be restricted at a reasonable level. This calls for specific measures to be taken to keep in check the growth in expenditures. For this purpose, following specific measures are suggested:

❖ The Establishment strength of the Municipal bodies does not bear a reasonable relationship with the income of these
bodies. Since the municipal bodies do not generate sufficient resources to meet the establishment cost, it does not seem prudent to create any additional liability on this account. It is therefore, suggested that no fresh creation in the staff strength be made without identifying the resource availability thereof.

❖ It is equally necessary to restrict the growth in expenditures on non-developmental activities so as to reduce the impact of adverse implications for infrastructural availability and growth prospects of urban areas. Assistance available from the state plan, centrally sponsored schemes including funds raised from borrowings should be utilized for capital formation and revenue yielding assets. Misclassification of expenditure, some times deliberate, such as debiting of expenditure on petrol, oil, lubricants (POL) of the administrative vehicles to the POL provisions of functional vehicle (Garbage removal transport) constitute budgetary indiscipline and should in no case be treated with impunity.

S12. Municipal Services

➢ The quality and standard of civic amenities/ Services provided by the Municipal Corporations in the state is most unsatisfactory and leaves much to be desired. Even these meager lamentable and truncated services are not up to the expectations of the citizens. There is gross inadequacy of infrastructure which adversely affects their efficiency and their capability to provide the services and discharge their statutory obligations.
Because of unsatisfactory civic service, there is widespread resentment and stubborn reluctance to pay even the token “fees/taxes” presently charged by the civic bodies. Under these circumstances it will be an uphill task to convince the citizens to pay any more taxes, fees, charges, etc. keeping this fact in view, it is suggested that the municipal bodies in the state should take immediate and effective steps to perceptibly improve the standard and level of municipal services to the citizens. These should not be neglected on any pretext or for any reason. Negligence can attract Public Interest Litigation. The citizens should be assured about the standard of these services before any resource mobilization drive is launched. The improvement need to be done immediately and visibly. For bringing about a perceptible change in the standard of civic service, it is equally necessarily that the basic minimum infrastructure be build up simultaneously in both capital cities of Srinagar and Jammu as quickly as possible.

For a better and coordinated action, civic bodies should without the least delay be entrusted with all the municipal obligatory functions and allowed to perform these without let or hindrance. The revised municipal legislation of the state have brought the basic core service on the schedule of obligatory functions of these municipal bodies. Integration of all services under one umbrella will doubtless enhance the efficiency of these services.
Within the respective local limits, following functions that legitimately belong to these bodies be transferred from the respective line departments of the state Government to the two Municipal Corporations along with the budgetary allocations absolutely necessary for the efficient discharge of such functions:

- Construction, maintenance, alteration, improvement of all public roads (excluding National Highway and roads of strategic importance), streets and lanes irrespective of their width and grade;
- Construction, maintenance of drainage, sewerage and all drains irrespective of their depth and width.
- Water supply; and
- Maintenance of public parks and gardens.

Adequate precautions need to be taken to ensure that no staff is transferred in excess of the genuine requirements arrived at after taking into account the staff already available with the respective municipal bodies.

- In the context of empowered and democratically elected municipal bodies, the development authorities should work more as technical agencies that would advise municipal bodies in formulation of development plans rather function as parallel civic agencies.
- The desirability of avoiding the overlapping of the municipal functions such as maintenance of bus stands,
parking lots, community centre, etc. between the two development authorities of Srinagar and Jammu (SDA and JDA), the housing board on the one side and the municipal bodies on the other may be examined by the state Government and consider transfer of these subjects to the municipal bodies.

S13. Budgeting, Accounts and Audit

The study has clearly revealed that the Municipal authorities in J&K have not, by and large, shown much aptitude for efficient financial management. The main instrument of municipal financial administration, the municipal budget is not much effective at present. It is not based on any definite work programme. It is merely an estimate of income and expenditure, surplus or deficit, as the case may be. It does not spell out clearly the planning programmes, targets and achievements. Hence, municipal budgeting on sound scientific lines has yet to emerge in the state of J&K. Keeping this fact in view, following suggestions are made:

- In order to make budgeting more effective and performance oriented, it is suggested that performance budgeting be introduced in the Municipal Corporations in the state of J&K. This has been tried at higher levels of government and could be tried at least in the two Municipal Corporations of the state.

- As reported by the second State Municipal Finance Commission (2004) that "the Examinor Local Fund has not been receiving accounts from municipalities regularly. Whenever, audit of accounts has been conducted, the
objections raised have not been replied by the concerned institutions and have given scanty attention to the settlement of objections and with the passage of time serious irregularities have lost their gravity and taking of remedial action has become impossible". In view of this fact, it is suggested that a time frame may be evolved for audit of old accounts simultaneously with the current audit. Under no circumstances should the current audit become causality for the reason that audit is pending for lot many years.

It is also suggested that proper procedures for preparation of accounts, their compilation and consolidation should be laid down and complied in the shape of an account code. This code should provide guidelines for preparation of budget estimates and classification for heads of accounts and units of appropriation. The code should, inter-alia, provide for internal check and internal audit. It is also important to lay low the role and responsibility of respective financial advisors vis-à-vis all these matters. Their complementary roles should be lucidly brought out. At present they are busy themselves only with petty affairs and do not feel concerned about more vital matters e.g. resource mobilization, financial prudence and economy or propriety of expenditures. The financial advisors should not only watch the flow of expenditure but also see that municipal bodies step up their tax efforts and realize the resource potential envisaged in the corporation Act. Sensitizing the Financial Advisors to take a more active role in imparting financial discipline and maximizing the income of the municipal bodies from all
sources available to them is important. In view of the fact that the new Municipal Corporations Act envisages the Municipal Corporations to do a lot more than they have been doing hitherto and the transfer to them of their legitimate functions which are at present with the line departments, streamlining of the budgeting and account procedures assumes a special urgency.

S14. Political Risk Management

Paying taxes and user charges is perhaps the most unpleasant thing. Hence no body likes to pay these. It requires provision of quality Services that induces the users to pay for. A hike in taxes and user charges, though quite legitimate for financing civic services, leads to agitation and political unrest. Here comes the Skill of political risk management. It lies in the political domain of local government. Mayor and elected councillors have a pivotal role in managing political risk of tax and tariff increases. But this calls for a strong Mayor system or the cabinet form of local governance so that Mayor and Chairpersons could have a popular and dominant position for political risk management. Hence, the elected representatives have a positive role in convincing the citizens for hike in taxes and user charges for provision of quality and improved civic services.
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