

Research Study Series
Number 98

**Innovative Resource Mobilisation
Practices: A case of
Urban Local Bodies in Tamil Nadu**

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December 2004

This study was made possible through support provided by USAID under the terms of Grant No. 386-A-00-99-00075-00. The opinions expressed herein are those of the authors and do not necessarily reflect the views of the US Agency for International Development.

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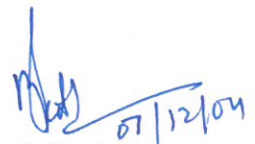
Preface

There is a paradigm shift in municipal resource mobilisation practices. The reasons for this change are increasing urbanisation, inadequate financial assistance from the central and state governments, high demand for urban civic services and, problems in the urban infrastructure financing system. Of late, urban local bodies (municipalities) have been adopting innovative methods for effective financial planning and management. The success achieved is, however, limited to a few municipalities. This study documents the innovative resource mobilisation practices in selected cities/towns of Tamil Nadu. These include public participation through beneficiary's contribution, expenditure management, levy of new user charges, public-private participation, etc. The experiences of Tamil Nadu, where a range of experiments were carried out with active support from local leaders, bureaucrats, and beneficiaries, are noteworthy.

The case studies documented are some good examples of mobilising resources for urban infrastructure development. There is considerable scope for replication of such practices in other municipalities of Tamil Nadu as well as in other states of India.

This study was sponsored by the Institute under the Indo-USAID Financial Institutions Reforms and Expansion (FIRE-D) Programme and conducted by the Infrastructure and Technology Consultants India Pvt. Ltd.

December 2004


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Abbreviations

ARV	Annual Rental Value
BPL	Below Poverty Line
CMWSSB	Chennai Metropolitan Water Supply and Sewerage Board
CWSS	Combined Water Supply Scheme
FIRE (D)	Financial Institutions Reform and Expansion (Debt)
GO	Government Order
GoTN	Government of Tamil Nadu
HH	Households
IEC	Information, Education and Communication
LCS	Low Cost Sanitation
LIC	Life Insurance Corporation
lpcd	Liters Per Capita Per Day
MAWS	Municipal Administration and Water Supply Department
MLD	Million Liters Per Day
O&M	Operation and Maintenance
OHTs	Overhead Tanks
PSP	Private Sector Participation
RE	Revised Estimates
SFC	State Finance Commission
TNUDF	Tamil Nadu Urban Development Fund
TNUIFSL	Tamil Nadu Urban Infrastructure Financial Services Limited
TUFIDCo	Tamil Nadu Urban Finance and Infrastructure Development Corporation
TWADB	Tamil Nadu Water and Drainage Board
UGD	Under Ground Drainage
ULBs	Urban Local Bodies
USAID	United States Agency for International Development

Executive Summary

Introduction

Urban Local Bodies (ULBs) in India often face the pressure of inadequate resources to meet recurring expenditure and investment needs for core urban civic services. There is a growing realisation among urban managers on the need to innovate, especially in the context of declining state and central government's financial support to ULBs, to sustain investments and to carry on their functions. In addition to state level initiatives in the form of legislative and regulatory measures, ULBs are making concerted efforts to enhance their resource base through a series of reforms at local levels. Several ULBs in Tamil Nadu have risen to the occasion by putting such practices in place.

"Innovation" is now recognised as the key to success in resource mobilisation efforts of ULBs to tap revenue sources, both tax and non-tax. In addition to raising municipal resources, ULBs have been adopting innovative mechanisms in the form of cost cutting or expenditure management for effective financial planning. Besides, additional resource mobilisation at local government levels is usually possible through "taxation" and "user charges". In recent years, apart from internal resource mobilisation, ULBs are increasingly tapping funds in the form of direct borrowings from Financial Institutions, capital markets (through municipal bonds), or through appropriate financial intermediaries or institutions and various other arrangements for attracting direct private investment. In order to access such funds or supplement resources by way of external borrowing, ULBs are assessing their sustaining capacities and are taking steps to gain investor confidence by enhancing tax rates, improving collection efficiencies, enabling public-private partnerships, etc.

The Municipal Sector in Tamil Nadu is making rapid strides in resource mobilisation and capacity building at local levels by implementing accrual accounting systems, enabling regular revision of property taxes, facilitating public-private partnerships, offering incentives for better collection efficiencies, training on various Municipal aspects, etc. The Indo-US FIRE Project and its partner, the National Institute of Urban Affairs (NIUA) have been supporting this reform agenda.

This report includes the salient features of the innovative resource mobilisation practices and findings in respect of ten selected urban local bodies of Tamil Nadu. The following five broad areas of innovative resource mobilisation emerge, based on which, this report has been divided into five sections:

1. Public Participation through Beneficiaries Contribution
2. Property Tax Rate Enhancement
3. Cost Reduction
4. Levy of New User Charges
5. Other Practices

The innovative resource mobilisation practices were initiated by each of the municipality under study. Though some of the municipalities have initiated more than one type of reform, yet the classification of municipalities in this report is based on the most significant reform initiated by a local body. Table 1 appearing in chapter 1 of this report provides information on the key initiatives of ULBs in Tamil Nadu.

An innovative resource mobilisation practice involves various aspects, such as administrative and legal process awareness generation and acceptance by the public. For this, political and administrative backing is a key motivating factor. In the following paragraphs, the case of each sample local body has been discussed.

Areas of Innovative Resource Mobilisation

Public Participation through Beneficiaries Contribution

Beneficiaries contribution is emerging, as an effective instrument for generating resources to meet capital needs and sustaining investments. The towns of Valsaravakkam, Pallavaram, Ambattur and Virudhachalam have demonstrated that beneficiary contribution can indeed be a significant source of finance for local bodies, especially for financing capital-intensive projects. The process of soliciting beneficiary contribution and the advantages accruing to the local body are discussed below.

Valsaravakkam Town Panchayat

Valsaravakkam, a Selection Grade Town Panchayat bordering Chennai Corporation is spread over an area of 8 sq. km. Its current population is estimated at around 35,000. Though, it was sound financially, it did not have enough resources to fund its proposed Under Ground

Drainage (UGD) project, costing approx. Rs. 1,375 lakhs for a projected population of about 16 lakhs by the year 2031. The ULB decided to keep the debt component of the project fund as low as possible and solicited beneficiary contribution to fund the project.

Innovative Financing Mechanism in Valsaravakkam

Valsaravakkam is the first Town Panchayat in Tamil Nadu to solicit significant beneficiary contribution, to share the project capital cost and reduce the debt component of the funding structure. Options were worked out for an optimum "User Fee" to cover the debt servicing commitments and O&M expenses. The ULB could tap resources of about Rs.1,059 lakhs (of the total project cost of Rs. 2,032 lakhs) under the available TNUDP grant fund and loan components, leaving a gap of about Rs. 941 lakhs. The balance (47%) cost had to be mobilised through beneficiary contribution (new connection charge).

Awareness Generation among the Public

Initially, public response was lukewarm, but repeated campaigns by elected representatives, well-known personalities including film stars, and officials from Municipal Administration and water Supply (MAWS) Department, Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB), DMA, District Collector, on "with project" and "no project" scenarios motivated people to participate. Door-to-door campaigns and street and neighbourhood level meetings were carried out to explain features of the scheme. Till date, the ULB has mobilised Rs. 329.76 lakhs from the public and has been continuing its citizen's mobilisation drive.

Administrative and Legal Process

As per provisions of the District Municipalities Act of Tamilnadu, the Council, through its resolution dated 26th July 1999, resolved to levy a non-refundable, one-time deposit charge for domestic and non-domestic connections to the tune of Rs. 12,000 and Rs. 24,000 per connection respectively. The resolution also provides for levy of a user fee for various categories of consumers. The Government of Tamil Nadu (GoTN) gave its administrative sanction entrusting CMWSSB with the implementation responsibility. In order to minimise burden on the public, the Council also resolved to split the deposit into two portions, allowing people to pay the amount in two equal instalments. However, for all new assessments, contribution is collected up-front at the time of building plan approval.

The loan component for the proposed scheme is Rs. 749.23 lakhs, for which the annual debt servicing commitment will be about Rs. 103 lakhs. Based on the proposed tariff structure, the local body would be generating around Rs. 120 lakhs per annum (8000 connections), leaving an insufficient Rs. 17 lakhs to meet establishment and O&M expenses.

Was the Experiment a Success?

The Valsaravakkam UGD scheme is expected to be commissioned by 2004 and is progressing as per schedule. The local body has received the “Grant Fund” of Rs. 300 lakhs. The ULB could mobilise about Rs. 329.77¹ lakhs as public contribution by December 2001, which has earned an interest of about Rs. 18 lakhs. As per project financing structure, beneficiary contribution will be utilised at the final stage and thus interest earning would meet any unforeseen expenses or cost escalations.

Pallavaram Municipality

Pallavaram is a Selection Grade Municipality within the Chennai Metropolitan Area, with an area of 16.12 sq. km., and an estimated population of about 1.8 lakhs in 2001. In 1997, an Under Ground Drainage scheme was proposed for Pallavaram, to cover a population of over 3 lakhs by the year 2027. The Project cost was estimated at Rs. 5,545 lakhs, the estimate for the first phase (2002-07) being Rs. 3,673.62 lakhs covering over 25,000 assessments by the year 2017/18. The system can be put to use from 2004-05 onwards. Project structuring is yet to be carried out. Although the financial position of the local body is not sound, GoTN has cleared the project in principle. Administrative sanction will be accorded, subject to mobilisation by the municipality of 50 per cent of the public contribution (Rs. 350 lakhs) due for collection from identified beneficiaries during the year 2002/03.

Administrative and Legal Process

As per the requirements of the District Municipalities Act of Tamil Nadu, 1920, the Council, through its resolution, has resolved to levy a one-time non-refundable deposit charge (Rs. 10,000 for residential and Rs. 20,000 for non-residential and industrial consumers) and monthly charges (Rs. 150 for residential, Rs. 450 for non-residential and Rs. 750 for industrial consumers, respectively). However, the above charges could not be levied due to public representations urging that the fees and charges be fixed on par with adjacent ULBs of

¹ About 4737 households (HH) have paid the first instalment of Rs. 6000/- and 165 HHs have paid fully.

Alandur and Tambaram where the amount ranges from Rs. 5,000 to Rs. 7,500. The Council made another resolution reducing the deposit by 50 per cent and forwarded it to GoTN for approval. GoTN rejected the same, citing non-viability of the project considering the high capital cost in comparison with other local bodies. Thus, the municipality decided to continue with the initially proposed deposit and tariff structure.

Achieving Public Participation

Though the first attempt of the Municipality to solicit public participation met with some resistance from the public, continuous commitment of official and non-official wings of the ULB resulted in some progress. Against the target of 7,008 residential assessments, the municipality has mobilised connection fees from 3,855 assessments.

Current Status

In order to obtain administrative sanction for the scheme, the ULB has to meet the requirement of 50 per cent mobilisation through public contribution. Against the target of Rs. 379.60 lakhs, the local body could mobilise Rs.195.55 lakhs (26 per cent) as on December 2001. Poor collections are attributed to resistance from flat owners to pay the deposit for each flat as proposed by the ULB. Flat owners contend that a block of flats should be considered as a single connection. Deposit mobilisation from the targeted 292 non-domestic consumers has been rather dismal, with only 28 having paid up. To achieve the target of 50 per cent, the local body has formed four groups headed by local body officials to drive the collection process. The support of the Councillors is also sought to avoid cost and time overruns. Political leaders have also taken up the gauntlet and are actively participating in the mobilisation drive through door-to-door campaigns as well as complaint redressal meetings at ward levels. It has been observed that the delay in clearance from Pollution Control Board and in acquiring sufficient land for treatment facility and disposal sites has also slowed down the process of resource mobilisation.

Ambattur Municipality

Ambattur, a Special Grade Municipality adjacent to Chennai Corporation, lies within Chennai Metropolitan Area. It is spread over an area of 40.36 sq. km., having an estimated population of 3.3 lakhs in 2001.

Ambattur Municipality decided to plan and implement a UGD scheme to cover only certain wards of the town, comprising a population of 91,631 in 1991, while the expected population would be 1,55,250 for the year 2027. The total project cost is estimated at Rs. 3,960 lakhs (Base Cost Rs. 3,266.57 lakhs). Encouraged by the response to its adjoining Municipalities' initiatives in soliciting significant contributions to the capital costs of UGD schemes from households, Ambattur Municipality decided to follow suit – with significant capital cost-sharing by system users. Beneficiary contribution to the tune of 19 per cent of project cost is proposed.

Administrative and Legal Process

In line with GoTN's policy of involving public as the stakeholders in infrastructure projects, the project was cleared in principle and granted administrative sanction, subject to the condition that the Municipality mobilises 50 per cent of beneficiary contribution, and technical sanction would be awarded only after the local body is able to mobilise 75 per cent of public contribution. To this effect, the council has passed a resolution to seek Rs. 7,500 as non-refundable one time deposit and beneficiaries need to pay the amount before 31st January 2002, failing which the amount would be increased to Rs. 10,000.

The scheme is expected to benefit about 10,000 residential assessments (out of a total of 18,677 assessments in wards to be covered by the UGD system). This conservative estimate is based on the assumption that the remaining assessments would be dependent on Low Cost Sanitation (LCS) and other community facilities provided by the municipality. To meet the requirements of GoTN, the municipality has mobilised Rs. 204.00 lakhs (27 per cent) as on December 2001, against the mandatory 50 per cent amounting to Rs. 375 lakhs.

Virudhachalam Municipality

Virudhachalam is a Selection Grade Municipality located in Cuddalore District, housing a population of 52,819 (Census of India, 1991). The Municipality is spread over an area of 25.57 sq. km. and the current population is estimated to be around 65,000.

The municipality has conceived improvements to its water supply scheme so as to enhance coverage. The cost of the scheme has been met with public contribution and grants from GoTN without any contribution from the ULBs' regular revenue sources. The concept is

“innovative” as the ULB could create a capital asset without utilising either own or loan funds, resulting in a revenue-generating asset.

Project Initiation and Motivation

Current water supply service level in Virudhachalam Municipality is about 50 lpcd. This system is poorly endowed with a distribution network of about 56 per cent of the road length. Only 28 per cent of property tax assessments have individual house service connections (3500 HSCs) and a majority of the population depends on public stand posts (185 in number). Considering the limited supply coverage, the Municipality formulated a water supply network extension (about 8.31 km.) scheme to improve coverage by reaching out to the unserved areas. The objective of this scheme was to improve service levels by providing more house connections (estimated at over 2,000 assessments), which in turn would improve finances of the local body through water charges (Domestic Water Charges Rs. 22 / month/connection). The Council passed a resolution to take up the implementation of the scheme.

Beneficiary Contribution for Improvement in Water Supply – Virudhachalam’s Success Story

The cost of the proposed improvements to the water supply network in Virudhachalam was estimated at Rs.60.00 lakhs. As the financial position was not strong enough to bear the investment burden, the Municipality proposed to mobilise public contribution through a non-refundable one-time deposit of Rs. 2,000 per connection from each of the 2,000 beneficiaries. In this process, the local body could mobilise Rs. 40 lakhs from the beneficiaries and received a grant of Rs.18 lakhs from GoTN under the Golden Jubilee Fund. The balance of Rs. 2 lakhs was met from interest earnings from the beneficiaries’ deposits. The Scheme is slotted to be operational by February 2002.

The scheme is being implemented without any outflow from municipal funds and with little contribution from the State in the form of grants. Virudhachalam water account runs in deficit to the tune of Rs. 4 to 5 lakhs every year. But through extension of the network and providing additional 2,000 connections, the local body would be able to generate an additional income of Rs. 5.28 lakhs at the existing water tariff rates of Rs. 22 per month per connection.

The experience of Valsaravakkam, Pallavaram, Ambattur and Virudhachalam clearly indicates the following:

- a. Local bodies can implement capital-intensive infrastructure with beneficiary contribution,

- provided there is strong political will and public backing;
- b. selling the idea to the public, i.e., making the public aware of the expected benefits of the project, contributes in no small way to public acceptance and willingness to pay;
 - c. effective politico-administrative leadership is a key to success;
 - d. post-project increase in land and property values is one of the major benefits; and
 - e. the involvement of stakeholders, and transparency in proceedings is essential.

Enhancement in Tax Rates

Enhancement in tax rate is one of the best practices in municipal resource mobilisation initiated by some local bodies in Tamil Nadu. Bodinaikanur and Arakonam are two municipalities in Tamil Nadu that have successfully achieved the apparently difficult feat of tax revision in a span of just two years, which is normally accomplished in five years. In the initial days, the municipal bodies faced considerable opposition.

Bodinaikanur Municipality

Bodinaikanur, a Grade-I Municipality town falls in Theni District of Tamil Nadu. The Municipality is spread over an area of 7.23 sq. km. whose current population is estimated to be around 75,000. Bodinaikanur Municipality levies a tax of 13.38 per cent half yearly, which is far below compared to other local bodies in the state that levy 15-20 per cent half yearly. The Municipal Commissioner proposed to enhance the tax rate to 16.5 per cent, which has resulted in a substantial increase in municipal income. Similarly, modifications were made in the structure of the property tax, which included nearly doubling the General Tax, and increasing the share of Water Supply and Drainage from 3.38 per cent to 4.5 per cent.

In the year 2000-01, TNUIFSL had awarded Bodinaikanur Municipality as the best Municipality in terms of its financial management for the implementation of innovative practices, i.e., revision of property tax, birth and death certificates through post and charging marriage halls for waste collection.

Motivation for Enhancing Taxes

Since the Annual Rental Value (ARV) had already been enhanced in October 1998 during the quinquennial revision, the only way to mobilise additional resources was to revise property tax rates. The other motivating factor in this regard was the local body's debt servicing commitment that has increased by about Rs. 10 lakhs towards the recent TNUDF loan, in

addition to the existing debt commitment of over Rs. 40 lakhs per annum on old loans.

Administrative and Legal Process

Initially, the municipal council was unwilling to enhance the tax rate as the general revision was undertaken just two years back (on 01/10/1998) and again an enhancement of over 23 per cent through enhancing the tax rate could lead to public agitation. But, given the financial scenario of the local body and the Commissioner's persuasion, the Council accepted the Commissioner's proposal.

Milestones

Once the tax rate was enhanced, the current demand increased to Rs. 88.00 lakhs from Rs. 71 lakhs, resulting in an increase in current demand by 23 per cent. Based on the share of property tax in the total revenue, it is estimated that municipal income would jump by over 6 per cent. In addition to tax rate enhancement, the local body has also achieved 100 per cent tax collection. This was achieved by motivating the bill collectors through appropriate monetary incentives to bill collecting employees.

Arakonam Municipality

Arakonam, a First Grade Municipality in Vellore District spans over an area of 9.06 sq. km. whose estimated current population is about 88,000.

The financial health of Arakonam is poor, with a deficit in operating balance during the last three years. The revenue generated here was at a rate of 13 per cent, while expenditure soared at 23 per cent per annum. In order to bridge the gap, Arakonam initiated two innovative resource mobilisation practices, i.e., tax rate enhancement and cost reduction.

Initiation and Process of Tax Rate Enhancement

Property tax, the single largest and most elastic source of revenue of urban local bodies, is levied as a percentage of the Annual Rental Value (ARV) of a property. Arakonam Municipality levies a tax of 13 per cent half yearly. The property tax rate in Arakonam Municipality had been almost static for over 25 years except for revisions of Annual Rental Value once in five years since 1987 onwards. Prior to 1987, the ARV was revised only once

in 1970, and property tax rates were never revised. The Municipal Council under Section 80² of the District Municipalities Act, is empowered to increase the tax rate. The General Tax component of Property Tax was enhanced from 2 to 4 per cent of ARV in 2000. It also restructured the share of different components of property tax, raising the General Tax from 2 to 7 per cent of ARV half yearly, and reducing the Water Supply and Drainage component from 5 to 2 per cent of ARV half yearly in 2001 (as per Council Resolution 341 dated 28/2/2000).

Tax Rate Enhancement and Cost Reduction in Arakonam

Arakonam Municipality has taken steps to improve its finances through a series of measures through tax enhancement and cost reduction. The steps that have been initiated by the Municipality are:

1. Tax Rate Revision: Enhancing property tax rates, which were in vogue for over 25 years; and
2. Cost Reduction Measures: Taking over the maintenance of the Water Supply scheme from the TWAD Board.

The general tax component was enhanced from 4 to 7 per cent by transferring 3 per cent from water tax, which was put into practice from 01/10/2001. The logic for reduction in water tax is that the Municipality levies a user charge for water supply, which could be rationalised to meet the expenses under this head. The motivation came from the elected representatives who realised the precarious financial position and unanimously gave their approval for enhancement. On implementation of tax rate enhancement, the current demand of property tax was increased to Rs. 92.93 lakhs from Rs. 80.38 lakhs, which is an increase of 15 per cent. Thus, the overall municipal income would improve by over 4 per cent.

Valsaravakkam Town Panchayat

Although the main focus of reform in Valsaravakkam was centred around Beneficiary Contribution, the municipality also enhanced its property tax receipts. As a result, considerable increase in property tax receipts was achieved due to enhancement in annual demand of

Tax Rate Enhancement: Lessons Learned

The experience of Bodinaikanur, Arakonam and Valsaravakkam indicates

- 1) That Property Tax lends itself most appropriately to Tax Rate Enhancement, as it constitutes the highest source of income of local bodies.
- 2) That Revision of Taxes is a hard decision that depends on the ability and willingness of local leadership including elected representatives to spearhead reforms.
- 3) And, that monetary incentives to bill collectors go a long way in ensuring timely collections.

property tax by more than 100 per cent (from Rs. 24 lakhs in 1997/98 to over Rs. 50 lakhs in

² The section empowers the ULBs to increase tax rate by placing a resolution for any modification and publish the same in the newspapers as per the procedures calling for any objections and suggestion from the taxpayers.

1999/2000). Prior to 1998, the Town Panchayat was levying house tax as per the Tamil Nadu Panchayats Act, but after being brought under the purview of the Tamil Nadu District Municipalities Act, the ULB could levy Property Tax. The increase in property tax demand is due to the additional components covered under property tax as well as the quinquennial revision of rental value given effect from 1/10/1998 (II Half Year/1998-99).

Cost Reduction

Arakonam, Pattukottai and Cumbum are three local bodies in Tamil Nadu that have attempted to cut costs through different ways. Arakonam has demonstrated that operating the scheme on its own instead of TWAD Board would significantly reduce the operating costs. Pattukottai has demonstrated that cost reduction is possible through privatisation of certain services. Further, Cumbum municipality has attempted to reduce the pressure by mobilising part of the project capital cost from would-be lessors of commercial establishments, prior to commencement of a real estate project. It is evident that cost reduction measures have to be case specific.

Cost Reduction Measures in Arakonam

Arakonam Municipality has its own water supply system, supplying about 0.6 MLD of water from Kallar River, which was commissioned in 1938. The TWAD Board had implemented a scheme in 1970 to augment water supply by 5 MLD through a Combined Water Supply Scheme (CWSS). The major beneficiaries of the scheme are Arakonam Municipality (4.2 MLD) and other bulk consumers (0.8 MLD) including the Railways, Tamil Nadu Telecommunication Ltd. and Tamil Nadu Steel Plant. Ownership of the scheme lays under the Municipality, though the operations and maintenance is vested with TWAD Board.

The water account of the municipality shows a deficit, apart from outstanding dues of Rs. 16 lakhs to TWAD Board as on March 2000. This prompted the municipality to explore cost reduction measures. The need for cost reduction arose from the high O&M cost charged by TWAD (Rs. 52.45 lakhs per annum) including 22 per cent centage. With electricity charges constituting over 40 per cent of O&M expenses, the municipality has to pay centage for this amount. This could be avoided if the system were to be maintained by the municipality itself.

In addition to high O&M cost, the local body was also losing revenue from bulk supply² users, though it was the owner of the scheme and was paying for the O&M. Considering the issues involved and loss in revenue to the local body, it was decided to maintain the scheme so that the costs could be reduced and additional revenues could be generated from bulk consumers.

Administrative and Legal Process

On the request of Municipal Council, GoTN handed over the scheme to the Municipality for O&M. Arakonam Municipality had requested the government to sanction twelve additional posts for the maintenance of the new scheme. However, the state government gave its approval for five additional staffs only, including the transfer of one Fitter Mistry from TWAD Board. The total strength of staff for both the schemes maintained by the Municipality now stands at seventeen, against twenty five (TWAD & Municipality) that were involved prior to taking over of the O&M from TWAD Board. Thus, the municipality could optimise the potential of staff for O&M, while reducing establishment expenses due to restructuring.

Was the Experiment a Success?

Following the Government order, TWAD Board transferred the scheme to the local body on May 14, 2001. The local body is now expected to save about Rs. 49.38 lakhs per annum of which Rs. 25.45 lakhs would be from cost savings while the rest would be additional income generated from bulk consumers. Municipal officials found this experiment a success because in addition to cost saving and revenue enhancement, an improved level of services was achieved.

Pattukottai Municipality

In order to augment water supply and improve water supply system coverage, the TWAD Board proposed a project for the improvement of the water supply system at a cost of Rs.691.77 lakhs. The Scheme is expected to result in significant improvements in the water supply system with the construction of three overhead tanks and three pumping stations in different parts of the town with six hours of water supply in a day; and improvement of per capita supply from the present level of 60 to 114 lpcd.

³ Bulk water supply rate: Railways : Rs.7.5; Industrial supply: Rs.10.50 per 1000 litres.

Pattukottai Municipality undertook improvements in its water supply systems in 1999. The Municipality required an additional thirty staff for system operation and maintenance, but was not in a position to recruit additional staff due to GoTN rules barring fresh recruitment in Municipalities. As a result, the Municipality decided to privatise certain operations of the water distribution system, which negated the necessity to recruit new staff, and had the added benefit of ensuring efficiency in service delivery as well.

Following implementation, the Scheme was handed over to the local body on 19 January 2000 for O&M. It was estimated that an additional thirty staff would be required for O&M of the scheme (mainly for pumping operations), for which salary and other allowances were estimated at Rs.18 lakhs per annum. However, GoTN's ban on fresh recruitment in Municipalities resulted in the Municipality's decision to privatise certain components of the water distribution system, beginning with pumping operations.

Administrative and Legal Process

GoTN has laid down a policy clearance order for the ULBs in the State, indicating the areas of privatisation in the sectors of Solid Waste Management, Water Supply, Sewerage, Drain Cleaning, Public Toilets, Road Maintenance, Street Lighting, Parking lots, parks and play grounds, and vehicle maintenance. The GoTN states that this list is indicative and local bodies are free to investigate other areas of privatisation. Thus, there is no legal or administrative hurdle for the privatisation of O&M of water supply pumping stations.

Implementation Process

In the process of implementation, the ULB issued tenders calling for bids for privatisation of the water supply pumping station. In response to the tender, five firms have collected the tender forms; of which only two firms applied. The lowest bid amounted Rs. 9.0 lakhs per annum thereby, saving the Municipality Rs. 9 lakhs per annum when compared to the Municipal expenses that would amount to Rs. 18 lakhs per annum, had it employed its own staff. The ULB is responsible for the supply of consumables such as Chlorine and it monitors the works. Apart from direct savings of Rs. 9.0 lakhs, the local body would be saving the indirect cost towards pension, gratuity, etc. The privatisation of pumping water supply has ensured proper supply of water twice a day (for 3 hours in the morning and 3 hours in the evening).

Lessons Learned - Pattukottai

The lessons learnt through the Pattukottai experience is that privatisation of manpower intensive components of water supply systems could result in significant financial savings and efficient service delivery.

Cumbum Municipality

Cumbum, a First Grade Municipality in Theni District spans over an area of 6.58 sq. km. whose current estimated population is about 60,000. The Municipality proposed to construct a new bus stand with shops and other facilities. The motive behind this proposal was to create an asset that would generate additional revenues through lease of shops and collection of fees from the bus operators. Though initial cost is high, it is expected that the Scheme would be commercially viable in the long run. The proposal has received the consent of TNUDF, which has agreed to fund the Project in principle, and has appointed consultants to carry out necessary studies to examine its commercial viability. To garner its share of the project cost, the municipality devised an innovative method of mobilising an initial deposit from the lessee of the shops.

The Priming Decision

TNUDF facilitated the detailed design and financial feasibility study for a Bus Stand in Cumbum. The cost of construction of Bus Stand and 30 shops within the Bus Stand complex was estimated at Rs. 170 lakhs. The high project cost was financially unviable if funded entirely through a loan. Hence, TNUDF advised the local body to reduce the debt component of the project cost through its own contribution, to make the project a viable proposition.

The municipality mobilised an initial deposit from probable leasers of shops by convincing them to contribute Rs. 1.00 lakh each as a goodwill gesture. On the assurance of local body that it will contribute Rs. 30.00 lakhs towards the Project. The financial structuring of the project was such that the share of loan, grant and beneficiary contribution was 52 per cent, 30 per cent and 18 per cent of the estimated cost respectively.

Was Cumbum's Experiment a Success?

The scheme has met with partial success, as only seven beneficiaries have paid the full amount, while others have watched the progress of work before making a commitment. The expected date of completion of the project is September 2002. As work is progressing at a

slow pace, a few depositors are demanding a refund, to which the local body is responding with an assurance that the project would be completed as per schedule. The fact that the Scheme itself is innovative cannot be disputed. However, for such a Scheme to be a real success, the first prerequisite is to build investor confidence, which would require delivering the goods (in this case, completing the project) on time.

Cost Reduction: Lessons Learned

1. That optimisation of manpower and improved management of a scheme by a local body could negate the necessity of having another partner agency in service provision and lead to lower costs for the ULB.
2. That privatisation of manpower intensive components of infrastructure like water supply systems could result in significant financial savings and efficient service delivery.
3. That if contribution from public investors is required, building investor confidence and delivering goods on time is essential.
4. That cost reduction measures can indirectly lead to efficiency in service delivery.

Levy of New User Charges

Imposition of Solid Waste Charges as an additional source of local revenue is a fairly recent innovation. This has been initiated in Bodinaikanur, Gobichettipalayam and Namakkal municipalities in Tamil Nadu.

Gobichettipalayam Municipality

Gobichettipalayam, a First Grade Municipality located in Erode District of Tamil Nadu spreads over an area of 7.51 sq. km. whose current population is about 55,150.

Solid Waste Management: Door-to-door collection of solid waste has been initiated in 11 wards of Gobichettipalayam. The local body held several meetings with the Councillors and the public, soliciting donations and contributions for purchase of implements for solid waste collection and transportation equipment. Additional resources were generated for the purchase of tricycles for waste collection.

Bodinaikanur Municipality

Although the most important reform initiated by Bodinaikanur Municipality is that of Tax Rate Enhancement, yet the ULB has also initiated the practice of collection of user charges from marriage halls, and door-to-door collection of solid waste.

User Charges for Solid Waste Collection from Marriage Halls: As per Council Resolution No.352 dated 12th December 1996, Rs. 50 was charged per function, which was increased to Rs. 100 per function in 2000-01; the Municipality also proposes to ban the use of plastic and impose a fine of Rs. 5,000 on manufacturers, Rs. 2,500 on wholesalers, Rs. 750 on retailers and Rs. 100 on consumers, if they use plastic bags.

Door-to-Door Collection of Solid Waste has also been initiated in parts of the town, with separation of biodegradable and non-bio-degradable waste.

Namakkal Municipality

Namakkal, a Selection Grade Municipality located in Namakkal District, spreads over an area of 10.24 sq. km. whose current population is about 52,000.

Revenue Enhancement through Solid Waste Charges in Namakkal

With a view to enhance revenue collection, the local body in Namakkal plans to levy garbage/waste collection charges from the many marriage halls and hospitals in the town. In this regard, the Municipal Commissioner has initiated the process by putting forward a resolution before the council for approval. The Council is yet to finalise the charges to be levied on these major producers of waste.

The local body has proposed to adopt the vermi composting method of garbage disposal, for which 13.4 acres of land has been acquired outside the Municipal limits at Lathuvadi village. The cost of land acquisition is Rs.13.7 lakhs, which is received from the state government as a grant. The ULB has decided to utilise the waste collected from the market for vermi composting. Since the waste is biodegradable, segregation is not required.

Solid Waste Charges: Lessons Learned

1. Charging for solid waste disposal from marriage halls increases efficiency in disposal of waste generated in these halls, while generating revenue for this essential municipal function.
2. Door-to-door collection of solid waste and separation of biodegradable and non-biodegradable waste requires awareness generation among the public. With public awareness, it is possible to seek public contribution towards purchase of tools or transportation equipment for solid waste collection.

Other Practices

Bodinaikanur has initiated the following innovative practices apart from those mentioned above, which are sure to have far-reaching impacts not only on the resource mobilisation scenario of the municipality but on its efficiency and effectiveness in providing municipal services as well. This plethora of initiatives indicates that progressive leaders, who are open to change, head the municipality.

1. Birth and Death Certificates: The Municipality now facilitates delivery of certificates through post in case the applicant is unable to collect it in person within three days. A service charge of Rs. 5 per certificate is levied to meet the additional postal expenses (Council Resolution No. 327, dated 24 October, 2000).

2. Engaging Voluntary Organisations for Maintenance of Public Toilets: The advantages to the municipality are reduced maintenance costs and availability of additional manpower for other municipal services. The need for new recruitment is reduced, resulting in cost reduction and improvement of the service.

3. Rainwater harvesting: New building plans in the town are now sanctioned only after provision is made for rainwater harvesting. The building inspector of the local body inspects implementation of the rainwater harvesting facility as per plan and approves the same. This is likely to reduce consumption of treated water, energy and other associated costs.

4. Revision of Water Charges: In a bid to enhance revenue sources, the ULB is also proposing to increase water rates from the present flat rate of Rs. 20 to Rs. 35 per month towards the proposed improvement of water supply system to cover unserved areas.

Gobichettipalayam has initiated the following innovative practices apart from those mentioned above:

1. Service Charges from Cable TV Operators: GoTN has allowed local bodies to collect charges from the cable TV operators for the use of public property (Right of Way). Gobichettipalayam is the first local body in Tamil Nadu to levy a charge of charge of Rs.5,500/- per annum per kilometre of cable length from cable operators (Council Resolution

313, dated 31st May 2000) and a monthly fee of Rs. 15 per connection (resolution No. 429, dated 31st July 2000). The total revenue generated through these measures was about Rs. 4.19 lakhs in the year 2000-01.

2. Tax Collection Centres: Special tax collection camps and door-to-door campaigns were initiated for collection of taxes and charges. Councillors took interest in organising such camps, through which people were encouraged to utilise facilities and pay taxes. This practise was first started on December 10, 2001, when special collection camps were held at four locations covering all wards for a period of three hours a day. Three more such camps were organised as on 31st December 2001 and initial results indicate substantial improvements in tax collection after each camp. A healthy competition among Councillors was triggered to improve revenue collection from their respective wards. There are increasing demands from citizens to organise more such camps on holidays.

Namakkal has initiated the following innovative practices apart from those mentioned above:

1. Water Supply and Under Ground Drainage: The ULB is in the process of providing additional water to the town by improving the water supply scheme. The TWAD Board has completed preliminary investigation and site identification for the additional components of the water supply system. The total cost of the project is estimated to be about Rs. 30 crores. The ULB is seeking funds from TNUDF, backed by its Council Resolution No. 386, dated 21/12/2001.

2. Maintenance of Municipal Toilets: The local body has contracted the maintenance of a public toilet to an NGO on a pilot basis (Council for Integrated Rural Development). The local body pays a monthly fee of Rs. 2500 towards maintenance of the toilet block, thereby reducing manpower cost and overheads, while ensuring effective maintenance of the facility. Based on the pilot case, the Council plans to contract more such facilities in a phased manner.

Scope for Replication of Innovative Practices

The case of Valsaravakkam has proven that strong political will and public backing can effectively address problems currently affecting the urban sector. In addition, such schemes would also generate additional resources and enhance the overall financial position of the

ULBs. Initiation of such projects has led to higher land and property values, thereby increasing the revenue flow in the form of surcharge on stamp duty. Taking a cue from the success of Valsaravakkam, Town Panchayats of Porur and Rameshwaram have initiated similar projects (still at a preliminary stage).

The experiences of Pallavaram and Ambattur demonstrate that transparent procedure, sincere and continuous campaigns and awareness creation among citizens, leads to success in initiating public contribution. Effective political and executive leadership also makes an impact on the process. The provision of municipal services with beneficiary contribution ultimately results in increasing the values of land and property in the municipality, which would enhance the financial position of the ULB through increased accruals from the surcharge on stamp duty.

Collection of deposits for water connection from beneficiaries is prevalent in local bodies of Tamil Nadu. The deposits earned for connection from domestic and non-domestic consumers range from Rs. 2,000 to Rs. 10,000. The success of the water supply scheme in Virudhachalam can be taken up by other ULBs wherever improvements to the existing water supply projects are required. The process is easy to replicate as the GoTN's policy advocates public contribution for capital projects.

There is high potential for replication of the practice of tax rate enhancement as there are over 50 municipalities in the state where the tax rate is below 13 per cent. Bodinaikanur is one such municipality, which had implemented the practice by enhancing the tax rate from 13.38 per cent to 16.5 per cent per half year. Similarly, Tiruppur and Rajapalayam municipalities have enhanced the tax rates in the past to meet the growing need for additional operating funds. In order to replicate the practice in other local bodies, there is a need to gain public confidence by improving the infrastructure facilities as done in Bodinaikanur.

There seems to be some potential for replication of Arakonam's experience in other towns where TWAD Board maintains combined water supply schemes. However, in the case of Arakonam, it was easy to implement reforms, as it was a single town scheme, whereas most CWSS involve more than one town. Replication may be possible only if the initiative comes from the major beneficiary ULB and is accepted by the other smaller beneficiaries.

The implications of private participation in municipal services in Pattukottai have resulted in better supply of water on a day-to-day basis. Accordingly, the collection of water supply charges will increase which would enhance the financial position of the ULB. The project is a model for other ULBs and would form a benchmark for future privatisation of local infrastructure services. With the success of experiences at Pattukottai, the other local bodies such as Nagapattinam and Nagercoil are also planning to privatise some of the municipal services.

Thus, each of the ten cases reviewed offers a glimpse of the type and process of Innovative Resource Mobilisation by ULBs in Tamil Nadu. There is considerable scope for replication of most of such practices in other ULBs in Tamil Nadu as well as in other states.

Chapter 1

Introduction

Background

Reform is a keyword in the present economic environment in the country at all levels of government (Central, State and Local). The urban sector reforms initiated in early 1990's focussed primarily on decentralisation of urban governance and empowerment of the local government with regards to their functions and finances. The substantial functional and financial devolution resulting from the 74th Constitutional Amendment Act, 1992, represented an opportunity for the ULBs, and at the same time, a significant risk as most of them do not have the capacity or the resources to handle these new responsibilities. Moreover, additional resources being channelled to the ULBs are far below the required levels of resources to meet recurring expenditure and investment needs for the operation and maintenance and provision of core urban civic services.

A notable transformation is taking place at local government level in their approach towards resource mobilisation amongst other urban governance aspects. The agenda for such transformation includes legislative reforms, capacity building for better governance and creating financial structures to link financial reforms. "Innovation" is the key for the resource mobilisation efforts of the ULBs to tap the sources of revenue, both tax and non-tax within the ambit of the legislative framework. In addition to raise the municipal resources, ULBs are increasingly adopting innovative mechanism in expenditure management for an effective financial planning.

At the local level, the scope for mobilising additional resources is through "taxation" and "user charges". In taxation, property tax makes the main local tax base. The revenue earned through property tax has been declining in real terms in many states, primarily due to inappropriate valuation. A considerable effort has been made since then, to reform and simplify the system.

In addition to mobilise resources externally, significant avenues have opened up in recent years to tap funds in the form of direct borrowings from Financial Institutions, capital markets (through municipal bonds), or indirect access through appropriate financial

intermediaries or institutions and various other arrangements for attracting direct private investment. To gain access to such funds or to supplement resources through external borrowing, the ULBs are assessing their sustaining capacities and are taking steps to gain the confidence of the investors through a series of measures such as enhancing tax rates, improving collection efficiencies, enabling public-private partnerships, etc.

Local bodies have initiated measures on expenditure management through cost cutting and contracting out of certain services, etc. In addition to the state level initiatives in the form of enabling legislation and regulations, the ULBs are making concerted efforts to enhance their resource base through a series of reforms. There is a growing realisation among the urban experts on the need to innovate, especially in the context of declining state and central government support to the ULBs, to sustain investments and to carry on their functions. Even while capital investments have been receiving lower priority in terms of fund allocation from the municipal fund, the relaxation on the utilisation of Eleventh Finance Commission grants to ULBs¹ allowing utilisation of grant proceeds for O&M of infrastructure is likely to result in lesser spending on capital works. Against this background, the Municipal sector in Tamil Nadu is making pioneering efforts, both in terms of resource mobilisation and capacity building at local levels by implementing accrual accounting systems, thereby enabling regular revision of property tax, facilitating public- private partnerships, offering incentives for better collection efficiencies, including training on various Municipal aspects.

Project Appreciation

The Indo-US FIRE Project, supported by USAID is aimed at providing solutions to address the development challenges faced by urban India. The Project has been assisting the local governments to devise sustainable mechanism to develop commercially viable urban infrastructure projects, assessing credit-worthiness through credit rating, financing projects through municipal bonds and private sector participation. The Project is supporting the reform agenda by building the capacities of the ULBs through propagating appropriate resource mobilisation mechanism, accounting and financial management reforms, training and institutional development to compliment the on-going initiatives in this direction.

¹ The Eleventh Finance Commission grants are permitted to be used on capital and operation and maintenance of infrastructure systems, as against the original directives of utilising the proceeds only on capital works, which compelled the ULBs to take up capital works.

The National Institute of Urban Affairs (NIUA), a partner of the FIRE Project advocates for policy changes in the urban sector. The Institute co-ordinates research and training initiatives and acts as a catalyst in creating awareness amongst the Urban Experts on the issues facing the sector through information dissemination by conducting meetings, seminars and workshops.

In this context, with a view to disseminate resource mobilisation strategies adopted by various ULBs, NIUA is organising a National Seminar on Resource Mobilisation in February 2002. NIUA has assigned M/s Infrastructure and Technology Consultants India Private Limited (ITCL) a study to document the *“Innovative Resource Mobilisation Practices in ULBs of Tamil Nadu”*, which would form the part of a comprehensive documentation of the *“Innovative Resource Mobilisation Practices in ULBs of India”*.

Scope of the Study

While several ULBs have initiated efforts of some kind for enhanced resource mobilisation and expenditure management, the scope of the current study is to document the innovative resource mobilisation practices initiated by select (ten) ULBs of Tamil Nadu, which are listed below.

Bodinaikanur	Gobichettypalayam
Cumbum	Ambattur
Pattukottai	Valsarvakkam
Namakkal	Pallavaram
Virudhachalam	Arakonam

The documentation includes reviewing of practices and documenting the same in the following structure:

1. Description of the innovative practices
2. Review the items in practice
3. Motivation for implementing the practices
4. Critical factors for success
5. Administrative, legal and other issues involved during implementation

6. Quantum of additional resources mobilised
7. Cost saving measures undertaken
8. Possibility for replication

The summary of the key initiatives in the select ULBs is presented in Table 1.1.

Table 1.1: Summary of Innovative Resource Mobilisation Practices in the Project ULBs

S. No.	Innovative Practices										
		Arakonam	Ambattur	Bodinaikannur	Cumbum	Gobichetypalalayam	Namakkal	Pallavaram	Pattukotai	Valsarvakkam	Virudhachalam
Revenue Enhancement											
1	Levying New Taxes i.e. Cable & Advertisement Tax	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔
2	Tax Rate Revisions	↔		↔							
3	Levy of New user Charges- Water										
4	Levy of New user Charges- Sewerage		↔					↔		↔	
5	Levy of New user Charges- Solid Waste			↔		↔	↔				
6	Remunerative Enterprises				↔						
7	Contribution by beneficiaries-for Developmental Works										
8	Contribution by beneficiaries-for Water Supply Projects										↔
9	Contribution by beneficiaries-for Under Ground Drainage Project		↔					↔		↔	
10	Take-over schemes from Nodal Agencies for O & M (TWAD, etc.)	↔									
11	Subsidy from Government										↔
Cost Saving/Reduction											
1	Appointment of Project Management Consultants				↔	↔					
2	Privatisation of Operation-Bulk Water Supply								↔		
3	Privatisation of Operation-Solid Waste Management										
4	Privatisation of Traffic Island, Parks etc.										
5	Take-over of schemes from Nodal Agencies for O&M (TWAD, etc.)	↔									
6	Mobilisation of Low Cost Funds										
7	Handing over Public Sanitation Facilities to NGOs			↔							

Note: '↔' in the table highlights a specific practice.

Organisation of the Study

The study was conducted in two stages. The first stage involved discussions with state-level officials and a review of the secondary information on the initiatives taken by the ULBs in the state. Based on this review, a checklist was prepared for discussion during visits to each of the select towns. The second stage involved a field visit to each of the select 10 ULBs for

collection of primary information on their initiatives for detailed discussions with the officials.

Report Structure

The report consists of three chapters. A brief background and scope of the study is discussed in the introductory chapter. Chapter two documents the measures taken by the ULBs to strengthen their financial position. The important lessons learned from a review of innovative resource mobilisation practices are mentioned in the chapter three of the report.

Chapter 2

Innovative Resource Mobilisation Practices

Valsaravakkam Town Panchayat

Valsaravakkam is a Selection Grade Town Panchayat situated on the outskirts of Chennai Corporation having a population of about 22,000 as per 1991 census. It spreads over an area of 8 sq. km. The current population is estimated to be around 35,000. It is the first Town Panchayat in Tamil Nadu to solicit significant beneficiary contribution for the Under Ground Drainage Scheme in order to reduce the debt component of the funding structure. The financial position of the Town Panchayat is sound with a 14 per cent compounded annual growth in revenue. The essential feature of the town is expenditure management, which can be seen from the fact that its establishment expenditure is less than 30 per cent of the total revenue expenditure.

In last five years, the capital account was in deficit, implying transfer of considerable revenue surplus for developmental works. Though, the current year account shows a deficit, the overall position of the ULB shows a surplus due to the accumulated surplus from the previous years.

Table 2.1.Valsaravakkam: Financial Position at a glance

(Rs. in lakhs)

Items	1995-96	1996-97	1997-98	1998-99	1999-00
				Actuals	R.E
Revenue Receipts					
Property Tax	27.88	17.05	17.01	30.07	70.76
Other Own Receipts	24.64	23.13	11.74	45.36	40.87
Assigned Revenue	69.03	57.73	97.66	71.29	75.26
Grants	0.00	2.88	25.59	23.18	21.31
Total	121.55	100.79	152.00	169.90	208.20
Revenue Expenditure					
Establishment	13.49	7.41	23.96	21.05	22.25
O & M	67.38	34.89	32.54	17.96	40.79
Debt Servicing	0.00	0.00	0.00	0.00	15.00
Total	80.87	42.30	56.50	39.01	78.04
Surplus/Deficit	40.68	58.49	95.5	130.89	130.16
Capital Account					
Capital Income	0.00	4.84	10.28	213.96	43.26
Capital Expenditure	57.24	47.16	63.21	291.78	261.88
Surplus/Deficit	-57.24	-42.32	-52.93	-77.82	-218.62
Overall Surplus/Deficit	-16.56	16.17	42.57	53.07	-88.46

It can be seen from Table 2.1 that there is a considerable increase in property tax receipts of the ULB. This is attributed to the fact that the Town Panchayat could enhance the annual demand of property tax by over 100 per cent from Rs. 24 lakhs in 1997/98 to over Rs. 50 lakhs in 1999/00².

Description of Practices

Despite a sound financial position, the ULB did not have sufficient resources to fund the proposed Under Ground Drainage project. The ULB decided to keep the debt component of the project fund as low as possible and solicited beneficiary contribution to part fund the project; thereby, reducing the debt burden.

Project Initiation

Considering the gravity of the situation faced by the ULB due to unprecedented flooding, the project was initiated in the year 1996 by the efforts of official and non-official representatives. The topography of the ULB is like a "bowl" and hence, receives all the floodwater during rainy season. The enormity of the situation necessitated the ULB to implement the project with active support from GoTN. Considering its proximity to the existing UGD system of the Chennai City Municipal Corporation and also due to non-availability of land for treatment and disposal facilities, it was decided to implement the scheme under the ambit of the existing system of the City Municipal Corporation. Chennai Metro Water Supply & Sewerage Board, responsible for the provision of water supply and sewerage services in Metropolitan area, was appointed as the nodal agency for implementing the scheme, which includes project formulation and management.

A first essential step in this direction was to assign the consultancy work to CMWSSB in March 1998 to carry out the necessary engineering studies and to ascertain the financial feasibility of the scheme. CMWSSB estimated the cost at Rs. 1,375 lakhs for the population of about 1.6 lakhs by the year 2031. Finally, the project cost was worked out to be Rs. 2,032 lakhs, which included physical contingencies, supervision charges and price escalation.

² Prior to 1998, the Town Panchayat was levying house tax as per the Tamil Nadu Panchayats Act. After being brought under the purview of The Tamil Nadu District Municipalities Act, the ULB could levy Property Tax. The increase in property tax demand is due to the additional components covered under the property tax as well as the quinquennial revision of rental value taken up and given effect from 1/10/1998 (II Half Year-1998-99).

Financial Structuring of the Project

The scheme was a large-scale infrastructure project beyond the financial capabilities of the local body. Therefore, an alternate financial structuring was worked out instead of traditional debt or grant funded project structure to minimise the burden on the local finances.

To enhance the commercial viability of the project, an innovative financing mechanism was structured; wherein, public participation through beneficiary contribution (in the form of connection fee) was solicited for sharing the project cost (capital cost). Further, options were made for an optimum “User Fee” to cover the debt servicing commitments and O&M expenses. Considering the available funding options in the State and the sustaining capacity of the ULB, the project was structured by making use of the available grants and user contribution.

The Tamil Nadu Urban Development Fund (TNUDF) has a “Grant Fund” component to support the ULBs in the state if 30 per cent of the beneficiary population is below poverty line. The Fund provides for 30 per cent of the total project costs as grant with a maximum ceiling of Rs. 300 lakhs. With 37 per cent of the total population below poverty line, Valsaravakkam was eligible for the Grant Fund and could avail a maximum amount of Rs. 300 lakhs as grant. The ULB also tapped the grant available under the Low Cost Sanitation (LCS) Program and an amount of Rs. 10 lakhs was obtained through this source. On the loan front, the ULB tapped the resources from the State Government promoted Tamil Nadu Urban Finance and Infrastructure Development Corporation (TUFIDCo) and TNUDF, the principal agencies responsible for funding such projects in the state. TUFIDCo administers the centrally sponsored “Megacity Project” which provides loan and grant funds for infrastructure projects within the metropolitan limits. Since Valsaravakkam Town Panchayat falls within the metropolitan limits, it is eligible to seek assistance under the mega city project. Accordingly, the ULB could tap the resources to the tune of Rs. 374.66 lakhs at 5 per cent interest rate from TUFIDCo. The balance portion of the loan was raised from TNUDF to the tune of Rs. 374.66 lakhs. Against the total cost of Rs. 2,032 lakhs, the ULB could tap resources of about Rs.1,059 lakhs under the available grant and loan components; thus, leaving a gap of about Rs. 941 lakhs to implement the project.

In order to tie up the balance portion of the project cost, it was proposed to mobilise resources through beneficiary contribution (connection charge). Appropriate non-refundable deposition

was worked out considering the number of tax assessments and assuming a full coverage of the assessments. The assessments were grouped into two categories - domestic and non-domestic, and the fee per connection was fixed at Rs. 12,000 and Rs. 24,000 respectively. The revenue mobilised through the above contribution was estimated to be over and above the requirement of Rs. 941 lakhs, considering a total of 8,150 property tax assessments, of which, about 375 are non-residential³. Considering the above options, the financial structuring for the project was carried out and is presented in Table 2.2.

Table 2.2: Valsaravakkam: Financial Structuring of the Project

S. No.	Sources of Funds	Amount (in Rs. Lakhs)	Terms
1	TNUDF Grant (from Grant Fund)	300.00	If 30 % of beneficiaries are BPL
2	TUFIDCO Loan- Megacity Project	374.66	@5% Interest-2 Years moratorium
3	TNUDF Loan	374.66	@16% interest- 5 Year moratorium
4	GoTN Grant under LCS programme	10.00	
	Sub Total	1059.32	
5	Beneficiary Contribution	941.00	
	Total	2000.32	

Source: GO (2D) No.110, dated 28/10/1999.

Motivation for Innovative Practices

The main objectives of Valsaravakkam Under Ground Drainage Project are firstly, to alleviate the problem of frequent flooding, and secondly, to enhance the overall quality of life of its citizens through the eradication of prevailing unsanitary and unhygienic conditions.

The enormity of the 1996 flood had motivated the citizens and the elected representatives of the ULB to implement the project. The neighbouring Madhavaram Town had witnessed death of two persons due to sudden flooding during the same time. The encouragement from the officials of the Municipal Administration & Water Supply Department (MAWS) and GoTN's declared policy of involving public under the concept of "Namakku Naamae" (We-for-Ourselves) scheme with public as the stakeholders in any infrastructure project, to participate and supplement the investment has been a major motivating factor in the design of the scheme.

Though the initial response of the public was not very encouraging yet repeated campaigns by the elected representatives, well-known personalities and officials from MAWS

³ The figures reported are the assessments at the time of the study in 1999. Discussions with the officials of the ULB revealed that there was only a marginal increase of assessments in these two years.

Department, CMWSSB, DMA, District Collector, on "with project" and "no project" scenarios have motivated the public to be a part of the project. In addition, the ULB has carried out door-to-door campaigns, street and neighbourhood level meetings (170 such meetings were conducted) to explain the salient features of the scheme. The local body also roped in film personalities for publicising the benefits of the project during the collection of deposits from the public. Through these exercises, the ULB, till now, could mobilise Rs. 329.76 lakhs from public and is continuing its drive to pursue the citizens to pay up for their connections.

Administrative and Legal Process

Under the District Municipalities Act of Tamil Nadu, the ULB has to resolve the issues relating to implementation of infrastructure projects, charges and user fees. Accordingly, the ULB, through its resolution dated 26th July 1999, has levied non-refundable one time deposit charges for domestic and non-domestic connections to the tune of Rs. 12,000 and Rs. 24,000 per connection respectively. Further, the resolution also provides for levy of user fee for various categories of consumers. The administrative sanction for the scheme came from GoTN in the form of a GO dated 28th October 1999, which entrusted implementation responsibility to CMWSSB.

In order to minimise the burden on public, the ULB also resolved to split the deposit into two portions thereby permitting the people to pay the prescribed amount in two equal instalments. However, for all new assessments, the contribution is being collected up-front at the time of approval of building plan.

In order to debt servicing and to provide for O&M of the project, the ULB has resolved to levy cost-recovery based monthly tariff. Keeping in view the affordability of the public, the monthly tariffs for various categories were pegged as presented in Table 2.3. The ULB decided to keep the tariffs static for a period of the first 10 years followed by a nominal increase for the next 20 years.

Table 2.3: Valsaravakkam: Proposed Monthly Tariff

(in Rs.)			
S. No	Type of Unit	Upto FY 2009-2010	From FY 2011-2033
1	Residential	125	130
2	Non Residential	375	390
3	Industrial	625	650

Source: Council Resolution No. 2, dated 26/7/1999.

As observed, for the loan component of Rs. 749.23 lakhs, for the proposed scheme, the annual debt servicing commitment will be Rs. 103 lakhs. Based on the proposed tariff structure, the local body would be generating around Rs. 120 lakhs per annum (8000 connections), thus leaving only Rs.17 lakhs for meeting the establishment and O & M expenses which would not be sufficient for the smooth functioning of the system⁴.

Extent of Success and Lessons

The Valsaravakkam UGD scheme, the first such initiative by a Town Panchayat, is expected to be commissioned by 2004. It is progressing as per schedule⁵ with the local body already receiving the “Grant Fund” component of Rs. 300 lakhs. The local body could mobilise about Rs. 329.77⁶ lakhs as public contribution by December 2001, which in turn, has earned an interest of about Rs. 18 lakhs, which would act as a cushion in case of shortage of fund flow in later stages. The project financing is structured in such a way that the beneficiary contribution would be utilised during the final stage. The fund drawl in terms of sources is planned in the order as presented in Table 2.2.

The lessons learnt through these innovative practices are as follows:

- Need for a strong political leadership to drive the process;
- Continuous commitment from the enforcing agencies;
- Even smaller ULBs can take up such innovative projects successfully;
- Peoples confidence can be won if they are educated on the need for the project and a transparent process is followed in project structuring;
- Overcoming community apprehensions through active participation of stakeholders such as key policymakers, municipal councillors, municipal staff and citizens at large;
- Sustaining "Capital Projects" through public participation is possible; and
- Creation of a positive impact on the peoples mind for increased involvement.

Scope for Replication in Other ULBs

While implementation is yet to be completed, all indications are clear that this approach

⁴ The tariff structure proposed by the ULB need to be reviewed to take into account the cost recovery aspects.

⁵ On behalf of Valsaravakkam Town Panchayat, CMWSSB has appointed M/s IVRCL Infrastructure & Projects Limited for executing the project for Rs. 1,293 lakhs on 2nd May 2001 which is expected to be completed by 1st May 2004.

⁶ About 4737 households have paid the first instalment of Rs. 6000/- and 165 HHs have paid fully.

would lead to a sustainable outcome. The strong sense of community response to the project has also vindicated this stand. The credit for such innovation rightly goes to the GoTN, local body involved and the residents at large in supporting the project. As the Project was significantly hinged upon, the initial deposit amount being collected from the resident, it has been a great challenge for all project partners.

The drivers of this project are the official and non-official representatives who had spent considerable amount of time to motivate the public to become partners in the project. The elections conducted in October 1996 enabled elected representatives to take charge of the civic administration to give the necessary political leadership. Taking a cue from this success story, the Town Panchayats of Porur and Rameshwaram have initiated similar projects, which are still in a preliminary stage.

Conclusions

The public contribution is emerging as a key factor to generate revenue to meet the capital needs and to sustain investments. The scheduled progress of the project is well within the moratorium period eligible under TNUDF for smooth financial management. The case of Valsarvakkam have proved that the initiative driven by a strong political desire and public backing have the capacity to solve the ailments faced by the urban sector. In addition, such schemes would also generate additional resources and enhance the overall financial position⁷ of the ULBs.

Pallavaram Municipality

Pallavaram, a Selection Grade Municipality within the Chennai Metropolitan Area spreads over an area of 16.12 sq.km. The municipality houses a population of 1,11,866 persons as per 1991 census with an estimated current population of about 1,80,000.

The revenue of the municipality has grown as high as 22 per cent per annum during the last five years. However, it appears that the high growth in revenue expenditure and debt servicing have negated the effect of the high growth in income. Table 2.4 presents the summary of the municipal fund of Pallavaram during the last five years.

⁷ The implementation of the project has resulted in increasing land and property values in Valsarvakkam, thereby, increasing the revenue flow in the form of surcharge on stamp duty. Further the ULBs in Tamil Nadu are levying vacant land tax based on a per centage of capital value of land. The value increase of the vacant urban land within the Town Panchayat is likely to yield additional revenue under this head also.

Description of Practices

Pallavaram Municipality planned for an Under Ground Sewerage Scheme, for the funding of which, it was decided to keep the debt component at the lowest level. Thus, the Municipality decided to mobilise resources by ensuring contributions in the form of connection charges from the beneficiary households.

Project Initiation

Sewerage systems in Tamil Nadu cover only parts of the state capital and partially in a few other cities. Thus, the residents primarily depend on septic tanks and individual night soil disposal systems. In this regard, the Government of Tamil Nadu (GoTN) identified twelve towns⁸ including the suburb municipalities of Chennai Metropolitan Area in June 1997 for implementing sewerage schemes with the primary aim to upgrade the sanitation situation. Pallavaram being a suburb municipality within CMA is also included under this project.

Table 2.4 Pallavaram: Financial Position at a Glance

(Rs in lakhs)

Items	1995-96	1996-97	1997-98	1998-99	1999-00
				Actuals	R.E.
Revenue Receipts					
Property Tax	104.99	110.95	105.90	97.71	204.67
Other Own Receipts	80.65	114.20	102.85	118.05	161.22
Assigned Revenue	97.27	125.74	151.11	203.99	172.64
Grants	1.50	16.10	139.37 ⁹	105.93	102.77
Total	284.42	366.99	499.24	525.67	641.30
Revenue Expenditure					
Establishment	118.39	132.61	155.27	231.24	214.82
O & M	86.16	130.39	121.33	130.36	326.94
Debt Servicing	2.14	15.50	13.41	48.01	241.50
Total	206.68	278.50	290.02	409.61	783.26
Surplus/Deficit	77.74	88.48	209.22	116.06	-141.96
Capital Account					
Capital Income	81.60	83.63	48.11	61.00	51.00
Capital Expenditure	129.12	96.02	166.66	275.74	78.50
Surplus/Deficit	-47.52	-12.39	-118.55	-214.74	-27.50
Overall Surplus/Deficit	30.21	76.09	90.67	-98.68	-169.46

⁸ The twelve towns consists of Salem, Madurai, Coimbatore, Tirunelveli, Tiruchirapalli, Alandur, Ambattur, Tambaram, Erode, Karur and Vellore including Pallavaram.

⁹ It needs mention that prior to 1997/98 Municipalities used to receive revenue grants on adhoc basis or scheme specific grants. But from 1997/98 onwards due to implementation of First State Finance Commission recommendation to devolve funds to the local bodies from the State revenue to the local bodies. On implementation of the First SFC recommendations share grants in total revenue went up from round 4 per cent to over 20 per cent. At the same time, the simultaneous implementation of Pay Commission recommendations to local body employees in the State has increased the commitment towards salary and pension substantially, setting off the devolution effect.

Tamil Nadu Water and Drainage (TWAD) Board was initially vested with the responsibility of investigating these schemes, which was taken up later on by the Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL). The State Asset Management Company was formed with a holistic view of improving the urban infrastructure levels in Tamil Nadu for co-ordinating investigation and detailed studies and also to structure the finances for these projects.

TNUIFSL appointed Consultants to prepare a Detailed Project Report for the Under Ground Drainage scheme for Pallavaram Municipality.

Project Structuring

The Consultants prepared a detailed project report to cover a population of over 3 lakhs by the year 2027. The cost of project is estimated at Rs. 5,545 lakhs and the scheme is likely to be implemented in two phases. The cost for the first phase is estimated at Rs. 3,673.62 lakhs covering over 25,000 assessments by the year 2017/18. The construction of the first phase of the project is phased over a period of five years starting from 2002/03 to 2006/07. However, the system can be put to use from 2004-05 onwards and about 7,008 assessments would be covered in the first year of operation (Table 2.5).

Table 2.5 Pallavaram: Estimated Coverage of Assessments

S. No.	Project Phasing and Expected Coverage	Residential	Non-Residential
		No. of Assessments	
1	2002/03	7,008	146
2	2003/04	11,479	239
3	2004/05	13,644	284
4	2005/06	15,766	328
5	2006/07	16,397	342

The Municipality has yet to receive administrative and technical sanction for the proposed under ground scheme, and the project structuring is yet to be carried out.

Though, the financial position of the local body is not yet sound GoTN has cleared the project in principle and has agreed to accord administrative sanction subject to the condition that the municipality mobilises 50 per cent of the public contribution due to be collected from

the identified beneficiaries during the year 2002/03 (GO No. 133, dated 5/3/2000). This would amount to the Municipality mobilising atleast Rs. 350 lakhs to get the administrative sanction.

Administrative and Legal Process

Under the District Municipalities Act of Tamil Nadu 1920, the Council has to resolve for implementing any infrastructure project and for the levy of charges and user fees. The council through its resolution No. 76, dated 2nd June 2000 has resolved to levy one-time non-refundable deposit charges and monthly charges as presented in Table 2.6.

Table 2.6 Pallavaram: Proposed Deposit and Monthly Tariff

(in Rs.)

S. No.	Type of Unit	Non Refundable Deposit	Monthly Service Charge
1	Residential	10,000	150
2	Non -Residential	20,000	450
3	Industrial	20,000	750

Source: Council Resolution No. 76, dated 2/6/2000.

Though the council initially resolved to collect the deposit as mentioned above, yet it could not collect the same due to public representations urging that the fees and charges to be fixed on at par with other adjacent ULBs of Alandur and Tambaram where the deposit amount ranges from Rs. 5,000 to Rs. 7,500. Considering the request, the Council through its resolution dated 1st June 2001 further resolved to reduce the deposit by 50 per cent and forwarded it to the GoTN for the approval. However, GoTN rejected the suggestion citing the non-viability of the project considering the high capital cost involved when compared to the other local bodies. The Municipality decided to continue with the initially proposed deposit and tariff structure.

Motivation for Innovative Practices

The main objective of Pallavaram UGD Project was to upgrade the sanitation situation in the suburban municipalities and to enhance the overall quality of life of its citizens.

Initially, the citizens were averse to accept the project due to high initial deposit, but encouragement from the officials of the Municipal Administration & Water Supply Department and repeated campaigns by past and present elected councillors have motivated the public to participate in the project.

As a part of the motivation exercise, Mr. T.R. Balu, Honourable Minister for Environment & Forests¹⁰, GoTN had addressed public meetings to mobilise public support for the project and promised to mobilise alternative resources to reduce the burden on the public. Recently, Ms. Valarmati, Honourable Social Welfare Minister of GoTN has taken the initiative to address the public and resident welfare associations in order to speed up the process of mobilisation of deposit to commission the project as per schedule and to avoid cost escalations.

Extent of Success and Lessons Learned

Though the first attempt of the Municipality to solicit public participation faced some apprehension from the public, yet the continuous commitment of the official and non-official wings of the ULB resulted in some progress in terms of convincing the citizens to contribute to make the project a success. The municipality collected Rs. 195.55 lakhs from the public by 31st December 2001. During the first year of the operation of system, about 7,008 residential assessments are expected to be connected to the system, out of which the municipality has mobilised connection fee from 3,855 assessments through a continuous drive. The status of the number of connections ensured as on 31st December 2001 is presented in Table 2.7.

Table 2.7 Pallavaram: Status of Deposit Mobilisation

S. No.	Particulars	(no. of connections)	
		Domestic	Non- Domestic
1	Target- 1 st Year beneficiaries	7008	292
2	Target Achieved	3855	28
3	Balance	3153	264

In order to obtain administrative sanction for the scheme, the ULB has to meet the requirements of 50 per cent mobilisation through public contribution. Against a target of Rs. 379.60 lakhs, the local body could mobilise Rs.195.55 lakhs (26 per cent) as on December 2001. The reason for poor collection is related to resistance from flat owners to pay the deposit for each of the flat as proposed by the ULB. The flat owners contend that the block of flats should be considered as a single connection by the ULB.

To achieve the target of 50 per cent, the local body has formed four groups headed by the officials of local body to drive the collection process. The support of the councillors is also

¹⁰ The municipality falls under the parliamentary constituency of the minister.

sought in this regard to avoid cost and time overruns. Considering the positive aspects of the scheme, the political leadership has also taken up the challenge and is actively participating in the mobilisation drive through door-to-door campaigns and also during complaint redressal meetings at the ward level. It is learnt that the delay in clearance from Pollution Control Board and acquiring sufficient land for treatment facility and disposal sites have also slowed down the process of deposit mobilisation.

The lessons, which could be learned from this innovative practice, are as follows-

- Clearances and approvals upfront to build confidence amongst the public;
- Clearing apprehensions through continuous campaign and leadership;
- Explaining the benefits of public participation; and
- Better Co-ordination among all agencies involved.

Scope for Replication in Other ULBs

While resource mobilisation is in progress and over 50 per cent of beneficiaries have contributed the first instalment, it is understood that continuous campaigns amongst the project beneficiaries would lead to success, though with some initial hiccups. This model of soliciting significant cost sharing by the citizens was being resorted to by quite a few Urban Local Bodies.

Conclusions

The conclusions indicate that capital projects such as the scheme designed for Pallavaram Municipality can be implemented with public contribution, provided the process involves stakeholders and is conducted in a transparent manner. Effective political and executive leadership would also make an impact to drive the process. As in the case of Valsaravakkam, the provision of UGD facility in Pallavaram would result in increasing the values of land and property in the Municipality, which would enhance the financial position of the ULB through increased accruals from the surcharge on stamp duty.

Ambattur Municipality

Ambattur, a Special Grade Municipality adjacent to the Chennai Municipal Corporation, lies within the Chennai Metropolitan Area. Spreading over an area of 40.36 sq. km. the

Municipality houses a population of 2,15,424 as per 1991 census. The estimated population in 2001 is about 3,30,000.

Ambattur Municipality has had sound financial position during the last five years. The revenue has been increasing at a compounded annual growth rate of about 15 per cent, and the Municipality has maintained a comfortable positive closing balance during the last five years.

Table 2.8: Ambattur: Financial Position at a Glance

(Rs. In lakhs)

Items	1995-96	1996-97	1997-98	1998-99	1999-00
	Actuals				R.E.
Revenue Receipts					
Property Tax	266.56	299.45	332.61	219.22	609.53
Other Own Receipts	218.21	170.97	325.83	360.34	219.91
Assigned Revenue	304.63	374.11	561.33	414.94	380.22
Grants	1.24	6.77	164.43	154.04	172.10
Total	790.64	851.30	1384.20	1148.54	1381.76
Revenue Expenditure					
Establishment	178.49	216.60	266.48	348.08	393.03
O & M	253.63	274.33	217.50	338.00	320.18
Debt Servicing	25.68	35.80	26.47	19.09	12.27
Total	457.80	526.73	510.45	705.17	725.48
Surplus/Deficit	332.84	324.57	873.75	443.37	656.28
Capital Account					
Capital Income	17.00	42.08	42.10	54.14	339.78
Capital Expenditure	273.54	198.30	201.56	305.86	406.80
Surplus/Deficit	-256.54	-156.22	-159.46	-251.72	-67.02
Overall Surplus/Deficit	76.30	168.35	714.29	191.65	589.26

However, it may be noted that the outstanding loan of Ambattur Municipality is about Rs. 500 lakhs for which the debt servicing commitment is around Rs.78 lakhs per annum, where as actual payment is far below the commitment. In this context, it has been observed that once the local body starts paying its actual commitment regularly, its surplus position may dwindle and the position may not be as strong as evident from Table 2.8.

Description of Practices

In line with the policy of the GoTN to improve the sanitation facilities in twelve major towns of the state including the suburban municipalities of Chennai Municipal Corporation,

Ambattur Municipality decided to plan and implement a UGD scheme. Encouraged by the mixed responses to its adjoining Municipalities' initiatives in soliciting significant contributions to the capital costs of UGD schemes from the households, Ambattur Municipality decided to follow the same model of project funding- with significant capital cost-sharing by the users of the system.

Project Initiation

Ambattur is one of the twelve municipalities identified by GoTN to be provided with UGD system and has initiated the process in 1997. Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL) was nominated as a nodal agency to co-ordinate the investigation and detailed studies, and to structure the finances for the project. TNUIFSL appointed consultants to prepare a Detailed Project Report for an under ground drainage system for Ambattur Municipality.

Project Structuring

Though population as per 1991 Census is 2,15,424, the scheme is designed to cover only certain wards (Wards 1 to 20 except 4 & 5 & 31) of the town consisting of a population of 91,631 in 1991. The expected population is 1,55,250 for the year 2027. The remaining area of the municipality is already covered under the housing scheme implemented by Tamil Nadu Housing Board.

The total landed cost of the project is estimated at Rs. 3,960 lakhs (Base Cost Rs. 3,266.57 lakhs). Municipality is yet to receive administrative and technical sanction for the proposed under ground drainage scheme, therefore, a tentative financing structure is proposed. The financing structure has been evolved considering the grant and loan funds under the Mega City Project, TNUDF and TUFIDCo, as presented in Table 2.9.

Table 2.9 Ambattur : Financial Structuring of the Project

S. No.	Sources of Funds	Amount (in Rs. Lakhs)	Terms
1	TUFIDCO Loan- Megacity Project	1880.00	@5% Interest-2 Years moratorium
2	TUFIDCO Grant	100.00	Under LCS Programme
3	TNUDF Grant	300.00	If 30 % of beneficiaries are BPL
4	Contribution by Municipality	300.00	-
	Sub Total	2,580.00	-
5	Beneficiary Contribution	750.00	@ Rs.7,500 per connection for 10,000 Nos.
6	TNUDF Loan	630.00	@16% interest - 5 Year moratorium
	Total	3,960.00	

Administrative and Legal Process

In line with GoTN's policy of involving public as the stakeholders in infrastructure projects, the project was cleared in principle and granted administrative sanction subject to the condition that the Municipality would mobilise 50 per cent of public contribution from the beneficiaries (10,000 assessments) amounting to about Rs. 375 lakhs (GO No. 16, dated 30/11/2001) before 31st January 2002. Moreover, the technical sanction would be awarded only after the local body is able to mobilise 75 per cent of public contribution (GoTN Letter No. 52029/98/MCP4, dated 29/07/1999).

To this effect, the council has passed a resolution to seek Rs. 7,500 as non-refundable one time deposit and the beneficiaries need to pay the amount before 31st January 2002, failing which the amount would be enhanced to Rs. 10,000.

The estimated annual O&M expenditure on the scheme is about Rs. 78 lakhs. The Municipality has proposed a tariff structure to generate sufficient cash flows to meet significant portions of the operating expenses. The monthly user charges proposed by the Council are presented in Table 2.10.

Table 2.10 Ambattur: Proposed Tariff Structure

S. No	Particulars	Users Charges- (Rs. Per month)
1	First 2 Years	150
2	3 rd Year -to 8 th Year	200
3	9 th Year to 13 th Year	280
4	And thereafter	330

Motivation and Extent of Success for Innovative Practices

The project was conceived to improve the environmental quality of the municipality and to provide a better condition of life. The scheme was replicated considering the experiences of Alandur, Pallavaram and solicited public participation to part fund the project and to reduce the debt burden so that the project can be made financially viable. The scheme is expected to benefit about 10,000 residential assessments (a conservative estimate, considering a total of 18,677 assessments in wards proposed to be covered by the UGD system). The conservative estimate is based on the assumption that the remaining assessments would be dependent on LCS and other community facilities provided by the municipality.

In order to meet the requirements imposed by GoTN, the municipality has mobilised Rs. 204.00 lakhs (27 per cent) as against 50 per cent amounting to Rs. 375 lakhs, as on December 2001.

Scope for Replication in Other ULBs

With resource mobilisation in progress and over 27 per cent of beneficiaries already contributing to the scheme with active participation of Council and Municipal officials, the project would achieve the desired levels of success. The continuous encouragement by the official and non-official wings of the municipality is likely to see the project being implemented in the right direction.

Conclusions

It may be concluded that capital projects such as the scheme designed for Ambattur Municipality can be implemented with public contribution, provided the process involves stakeholders and is conducted in a transparent manner. Moreover, effective political leadership and efficient bureaucracy would also make an impact to drive the process. Other ULBs implementing similar schemes, the provision of UGD facility in the municipality would result in increasing the values of land and property, which would ultimately enhance the financial position of the ULB through increased accruals from the surcharge on stamp duty.

Arakonam Municipality

Arakonam, a First Grade Municipality situated in Vellore District, spans in an area of 9.06 sq. km., having population of 71,928 as per 1991 Census. The estimated current population is about 88,000.

The Municipal finance of Arakonam is unhealthy, with a deficit operating balance during the last three years (Table 2.11). Here, the revenue had increased at the rate of 13 per cent while the expenditure soared at 23 per cent per annum. The non-debt liability of the Municipality was about Rs. 72 lakhs by March 2000, of which dues to TWAD Board were about Rs. 16.00 lakhs and pension dues amounted to be Rs. 24.70 lakhs.

Table 2.11 Arakonam: Financial Position at a Glance*(Rs.in lakhs)*

Items	1995-96	1996-97	1997-98	1998-99	1999-00
	Actuals				R.E
Revenue Receipts					
Property Tax	36.12	36.66	46.67	53.45	60.55
Other Own Receipts	58.10	95.91	61.01	79.98	91.97
Assigned Revenue	32.66	46.23	28.16	48.21	49.37
Grants	1.17	7.27	8.32	8.46	7.75
Total	128.05	186.07	144.16	190.10	209.64
Revenue Expenditure					
Establishment	64.09	67.75	93.06	119.21	134.64
O & M	42.07	95.01	89.11	55.54	91.97
Debt Servicing	0.00	3.97	21.29	12.23	21.45
Total	106.16	166.73	203.46	186.98	248.06
Surplus/Deficit	21.89	19.34	-59.30	3.12	-38.42
Capital Account					
Capital Income	34.52	48.75	0.00	56.24	54.06
Capital Expenditure	36.30	31.51	65.04	62.25	96.76
Surplus/Deficit	-1.78	17.24	-65.04	-6.01	-42.70
Overall Surplus/Deficit	20.11	36.58	-124.34	-2.89	-81.12

Description of Practices

Arakonam Municipality with its weak financial position has taken actions to improve its finances through a series of measures including enhancement in tax rate and cost reduction. The steps initiated by the Municipality are as follows-

- 1. Tax Rate Revision:** Enhancing the property tax rates, which were in vogue for over 25 years; and
- 2. Cost Reduction Measures:** Taking over the maintenance of the Water Supply scheme from the TWAD Board.

Enhancement in Tax Rates*Initiation of the Practice*

Property tax, the single largest and most elastic source of revenue in urban local bodies is levied as percentage of the Annual Rental Value (ARV) in the Municipal limits. Arakonam

Municipality levies a tax of 13 per cent half yearly. Here, the property tax rate was in vogue for over 25 years except for revisions in Annual Rental Value effected once in five years from 1987 onwards. Prior to 1987, the ARV was revised only in 1970 and tax rates remained untouched.

The Municipal Council, under Section 80¹¹ of the District Municipalities Act, is empowered to increase tax rate. The Municipality enhanced the tax rates and restructured the share of the different components as presented in Table 2.12.

Table 2.12 Arakonam: Enhancement and Restructuring of Tax Rates

S. No	Components of Property Tax	Existing tax Rates	Enhancement of Rates ¹²	Restructuring of Tax Rates ¹³
		As percentage of ARV- Half Yearly		
1	General Tax	2.0	4.0	7.0
2	Scavenging Tax	1.5	1.5	1.5
3	Street Lighting	2.0	2.0	2.0
4	Water Supply & Drainage	5.0	5.0	2.0
5	Education	2.5	2.5	2.5
	Total	13.0	15.0	15.0

Source: Council Resolution No. 341 dated 28/2/2000 and 447 dated 9/6/2000- Gazette Notification Council Resolution No. 982, dated 19/9/2001.

Motivation for the Practice

The Municipality has been facing increasing operating deficits during the last few years. This prompted the Municipality to explore avenues for enhancing revenues from own sources. The Municipality decided to revise the property tax rate, which was very low, compared to the tax levied by many local bodies in the state where it was ranging between 15-20 per cent half yearly. The Municipal Commissioner proposed to enhance revenue through enhancement in tax rates, which was accepted by the council. As the tax base (ARV) was already enhanced since Oct 1, 1998 during the quinquennial revision, the only option left was to revise the rates to mobilise additional resources. The motivation came from the elected representatives who unanimously gave approval for the enhancement in tax rates.

¹¹ The section empowers the ULBs to increase tax rate by placing a resolution for any modification and publish the same in the newspapers as per the procedures, calling for any objections and suggestion from the taxpayers.

¹² Gazette Notification as per TN District Municipalities Act 1920, under section 80.

¹³ Council Resolution No. 982, dated 19/9/2001.

Administrative and Legal Process

The municipal council had decided to increase the tax rate by an additional 2 per cent under the general tax component (Council Resolution No. 341, dated 28/2/2000) which is being implemented since Oct 1, 2000. As per the Municipalities Act, the Council is empowered to alter the components of the tax, but for reducing the overall tax rates, it needs the approval of the Government. The increased tax rate was published in District Gazette on 30/06/2000 and called for any objections and suggestive remarks from taxpayers of the municipality.

Apart from enhancement in tax rates, the Council had passed a resolution (Council Resolution No. 982, dated 19/9/2001) to restructure the tax components in order to enable greater contribution to the general fund through increase in share of general tax in the property tax structure. The general tax component was enhanced from 4 per cent to 7 per cent by transferring 3 per cent from water tax, which was put into practice since Oct 1, 2001. The logic for reduction in water tax component is that the Municipality levies a user charge for water supply, which can be rationalised to meet the expenses under this head.

Extent of Success and Scope for Replication

On implementation of tax rate enhancement, the current demand was increased to Rs. 92.93 lakhs from Rs. 80.38 lakhs, accounting an increase of 15 per cent in current demand. Based on the share of property tax, it is estimated that municipal income would improve by over 4 per cent.

In the above context, it is understood that there is high potential for replication of these practices as there are over 50 Municipalities in the State where the tax rate is below 13 per cent. Bodinaikanur is one such Municipality, which had implemented these practices by enhancing the tax rate from 13.38 per cent to 16.5 per cent half yearly. Similarly, Tiruppur and Rajapalayam Municipalities have enhanced the tax rates in the past to meet the growing need for additional operating funds.

Cost Reduction Measures

Arakonam Municipality has its own sources of water supply, supplying about 0.6 MLD from Kallar River, which was commissioned in the year 1938. The TWAD Board had

implemented a scheme in 1970 to augment water supply by 5 MLD through a Combined Water Supply Scheme (CWSS). The major beneficiaries of the scheme are Arakonam Municipality (4.2 MLD) and other bulk consumers (0.8 MLD) including the Railways, Tamil Nadu Telecommunication Ltd. and Tamil Nadu Steel Plant.

The ownership of the scheme lays with the Municipality, though the operation and maintenance is vested with TWAD Board. Generally this practice is in vogue in all CWSS of Tami Nadu where more than one beneficiary is involved. In such cases, the Municipality meets the capital and O&M costs, while other beneficiaries pay only user charges to TWAD Board for the quantity of water supplied to them.

A review of the water account of the municipality indicates a deficit despite outstanding dues of Rs. 16.00 lakhs to TWAD Board as on March 2000. This has prompted the municipality to explore cost reduction measures and the option emerged was to take up the O&M of the scheme which was earlier with TWAD Board. The reason for taking up this initiative is to reduce the high O&M expenses charged by TWAD Board, which was draining the resources of the municipality. The status of water account is presented in Table 2.13.

Table 2.13 Arakonam: Status of Water Account

(Rs. in Lakh)

Items	1995-96	1996-97	1997-98	1998-99	1999-00
	Actuals				R.E
Receipts					
Water Charges	8.27	9.90	14.12	11.26	15.00
Other Income	3.56	3.25	5.78	13.41	18.00
Total	11.83	13.15	19.90	24.67	33.00
Revenue Expenditure					
Establishment	6.94	4.69	4.32	13.26	19.31
Power Charges	1.25	2.90	3.02	1.25	2.85
Others	4.65	11.76	39.86	4.40	20.77
Total	12.84	19.35	47.19	18.91	42.93
Status	-1.01	-6.20	-27.29	5.76	-9.93

Initiation and Motivation for the Practice

The initiation has come from the municipality to reduce the high cost of O&M charged by TWAD Board, which was charging Rs. 52.45 lakhs per annum including 22 per cent centage. With electricity charges constituting over 40 per cent of O&M expenses, the municipality has to pay centage for this amount, which the municipality can avoid in case the system is

maintained by the municipality itself. In addition to high O&M cost, the local body is losing the revenue from bulk supply¹⁴ users though it was the owner of scheme and was paying for the O&M. Considering the issues involved and loss in revenue to the local body, it was decided to maintain the scheme on its own so that the costs can be reduced and additional revenues can be generated from the bulk consumers. The municipal council through a resolution decided to take up the operation and maintenance of the scheme as it has the necessary technical capabilities¹⁵.

Administrative and Legal Process

On request from the Municipal Council, GoTN accepted to hand over the scheme to the Municipality for operation and maintenance (GO No. 159, dated 13/03/2001). Arakonam Municipality had requested the government to sanction 12 additional posts (Council Resolution No. 815, dated 21/06/2001) for maintenance of the new scheme. However, government had approved only five additional staff including the transfer of one Fitter Mistry from TWAD Board. The staffing arrangements for the O&M of the scheme are presented in Table 2.14.

Table 2.14 Arakonam: Staffing Arrangements (position after taking the scheme for O & M)

S. No.	Particulars	TWAD Board Staff	Existing ULB Staff	Existing ULB Staff posted at New Scheme	Additional Staff
		Numbers			
1	Electrical Superintendent	1	1	1	
2	Maintenance Helper	1			
3	Cleaners		4	3	2
4	Work Helper	4			
5	Electrician- Grade II	4	2	2	1
6	Fitter	1	3	2	1
7	Fitter Mistry	1			1 (from TWAD)
8	Watchman	1	1		
9	Pipe Inspector		1	1	
	Total	13	12	9	5

The total staff strength for both the schemes maintained by the Municipality now stands at 17 as against 25 (TWAD Board & Municipality) who were involved prior to the taking over of

¹⁴ Bulk water supply Rate: Railways is Rs. 7.50 and Industrial supply is charged at Rs. 10.50 per 1000 litres.

¹⁵ The municipality has twelve staff working on the old scheme commissioned in 1938, which is being maintained by them.

the O&M from TWAD Board. Thus, the municipality could optimise staff utilisation for the O&M, while reducing the establishment expenses due to the restructuring.

Extent of Success

Further to the Government order, TWAD Board had officially transferred the scheme to the local body on 14/05/2001. By taking over of the scheme the local body would be saving about Rs. 49.38 lakhs per annum of which Rs. 25.45 lakhs is cost savings and the rest is the additional income generated (Refer Table 2.15) from bulk consumers. However, the local body had to spend about Rs. 12 lakhs initially towards upgradation of pumping machinery, motors and other major repairs.

Table 2.15 Arakonam: Cost Savings and Revenue Enhancement after take-over of the Scheme

S. No.	Particulars	Prior to Take over	After take over	Savings/ Additional Revenue
		Rs. in lakhs		
1	Payments to TWAD Board	52.45		52.45
2	Establishment- Existing	10.70	10.70	0.00
3	Establishment- New		3.00	-3.00
4	Electricity Charges		24.00	-24.00
Sub Total Expenditure		63.15	37.70	25.45
5	Income from House service Connections @ Rs. 40/month	33.60	33.60	0.00
6	Income from Railways @ Rs. 7.5 per KL – Supply 0.76MLD		20.59	20.59
7	Income from TTL @ Rs. 10.5 per KL – Supply 0.09 MLD		3.34	3.34
Sub Total Income		33.60	57.53	23.93
Total Savings				49.38

The Municipal officials are of the opinion that in addition to cost saving and revenue enhancement, the other significant benefit is to address the problem through improved service levels.

Scope for Replication

It is generally observed that TWAD Board maintains most of the Combined Water Supply Schemes (CWSS). In the above context, there seems to be some potential for replication of the above practices in other towns. However, in the case of Arakonam the success was attributed to the fact that it was a single town Scheme, whereas most CWSS involves more

than one town. The replication can be possible only if the initiative comes from the major beneficiary ULB, provided the other smaller beneficiaries accept the same.

Such initiatives assume significance as the duplication in maintenance cost can be avoided and the role of para statal agencies could be limited to planning, implementation of schemes and in offering technical assistance to the ULBs. Also, the power to revise the user charges from other beneficiaries should rest with the Municipality, so that the Municipality can levy cost-based charges.

Conclusions

The Municipality has demonstrated practices of improved revenue mobilisation and cost control by adopting measures of tax revisions and infrastructure management. These are initiatives in the right direction where the benefits of which in the long run could be extended to other areas of revenue generation and management.

Bodinaikanur Municipality

Bodinaikanur, a Grade-I Municipality has a population of 66,500 (1991 census) and falls in Theni District of Tamil Nadu. The Municipality is spread over an area of 7.23 sq. km. The current population is estimated to be around 75,000.

Table 2.16 Bodinaikanur: Financial Position at a Glance

Items	1995-96	1996-97	1997-98	1998-99	1999-00
	Actuals				R.E
Revenue Receipts					
Property Tax	46.61	45.91	53.27	58.90	63.35
Other Own Receipts	43.32	45.18	93.97	56.00	76.14
Assigned Revenue	21.52	44.79	33.08	36.22	33.06
Grants	4.13	4.78	73.00	68.94	57.17
Total	115.58	140.66	253.32	220.05	229.71
Revenue Expenditure					
Establishment	76.10	90.07	108.01	138.87	139.50
O & M	19.74	29.76	54.47	45.14	42.95
Debt Servicing	16.00	12.42	21.53	44.91	22.75
Total	111.84	132.25	184.01	228.93	205.21
Surplus/Deficit	3.74	8.41	69.31	-8.88	24.50
Capital Account					
Capital Income	0.00	8.00	38.50	50.17	53.75
Capital Expenditure	5.08	20.41	125.53	76.70	112.71
Surplus/Deficit	-5.08	-12.41	-87.04	-26.53	-58.95
Overall Surplus/Deficit	-1.34	-3.99	-17.73	-35.41	-34.45

Note: Deposits and Advances are excluded.

The municipality has recorded an annual increase of about 18 per cent in its revenue. However, the status of the revenue account has been inconsistent with surplus ranging from a minimum of Rs.3.74 lakhs in 1995/96 to a maximum of Rs.69.31 lakhs in 1997/98, registering a deficit operating balance in 1998/99 (Table 2.16). The deficit in 1998/99 was attributed to high debt payments by the local body and low realisation of other own receipts. It is observed that during the last five years, the combined status of revenue and capital accounts was in deficit ranging from Rs.35.41 lakhs in 1998/99 to Rs.1.34 lakhs in 1995-96.

Description of Practices¹⁶

Property tax, the single largest and most elastic source of revenue in urban local bodies is levied as a percentage of the Annual Rental Value in the Municipal limits. Bodinaikanur Municipality levies a Tax of 13.38 per cent half yearly. The municipality has enhanced the above rate to 16.5 per cent, which has resulted in a substantial increase in the income of the ULB. The structure of the property tax before and after enhancement is presented in Table 2.17.

Table 2.17 Bodinaikanur: Enhancement in Property Tax Rates

S. No.	Components of Property Tax	Existing Tax Rates	Enhancement of Rates
		As per centage of ARV- Half Yearly	
1	General Tax	2.00	4.00
2	Scavenging Tax	2.50	2.50
3	Street Lighting	3.00	3.00
4	Water Supply & Drainage	3.38	4.50
5	Education	2.50	2.50
	Total	13.38	16.50

Initiation and Motivation for the Practice

In view of the poor financial position and the existing low tax rates (13.375 % per half year) compared to other local bodies in the state, where it ranges from 15-20 per cent half yearly, the Municipal Commissioner proposed to enhance the tax rate. Since the tax base (ARV) was already enhanced in October 1998 during the quinquennial revision, the only way to mobilise additional resources was to revise the property tax rates. The other motivating factor for this initiative was that of local body's debt servicing commitment which has increased to about

16 In year 2000-01 TNUFSL had termed Bodinaikanur Municipality as 'best Municipality' in terms of its financial management for the implementation of innovative practices, i.e., revision of property tax, Birth & Death certificates through post and charging marriage halls for waste collection.

Rs. 10 lakhs towards recently borrowed TNUDF loan, in addition to the existing debt commitment of over Rs. 40.00 lakhs per annum on old loans.

Administrative and Legal Process

The TN District Municipalities Act empowers the municipal council to modify the prevailing tax rates through a resolution. Initially the Council was unwilling to enhance the tax rate as the general revision was undertaken just two years back (on 01/10/1998) and again an enhancement of over 23 per cent by way of enhancing the tax rate could lead to public agitation. But given the financial scenario of the local body and the persuasion by the commissioner, the Council accepted the Commissioner's proposal and a resolution was passed to this effect on 30.11.1999. As per the resolution, the tax rate was enhanced from 13.38 to 16.5 per cent half yearly to be implemented since Oct.1, 2000 (Second half of the FY 2000-01), after calling for objections and suggestions from public, and was notified in the District Gazette.

Extent of Success and Scope for Replication

On implementation of tax rate enhancement, the current demand was increased to Rs. 88.00 lakhs from Rs. 71 lakhs resulting in an increase in current demand by 23 per cent. Based on the share of property tax in total revenue income, it is estimated that municipal income would jump by over 6 per cent.

In addition to enhancement in the taxes, the local body has also achieved the target of a 100 per cent tax collection. This was achieved by motivating the bill collectors through appropriate incentives¹⁷ due to which the collection targets were met well before the closure of financial year.

In the above context, it is understood that there is high potential for replication of the above practices as there are over 50 Municipalities in State where the tax rate is below 13 per cent. In order to replicate these practices in other local bodies, there is a need to gain public confidence by improving the infrastructure facilities as was done in Bodinaikanur.

¹⁷ The role of commissioner in motivating the bill collectors was notable in this context, where in order to motivate the staff, she had recommended monetary incentives to the better performing employees.

Other Initiatives

User Charges for Solid Waste Collection from Marriage Halls

There are about twenty-one Marriage Halls in the town and the local body collects solid waste from their premises. In view of the amount of waste generated from these marriage halls, the local body felt that the hall owner should pay an additional charge towards waste collection. Accordingly, the Council resolved to levy a charge of Rs. 50 per function (Council Resolution No.352, dated 12th December 1996), which was further enhanced to Rs. 100 per function in the year 2000-01.

In addition to the generation of revenue towards solid waste management, it has also improved the waste disposal scenario around the marriage halls. Formerly, waste was indiscriminately dumped at the nearby open places leading to unhygienic conditions.

In addition to the waste collection charges, the local body is now proposing to levy a penalty for the usage of plastic bags in the town. It is proposed to levy a fine of Rs. 5,000 to the manufacturers, Rs. 2,500 to the wholesalers, Rs.750 to the retailers and Rs. 100 to the consumers if they use plastic bags as containers/packaging material. This initiative of the Municipality will minimise the workload for segregating non-bio-degradable materials in its dumping grounds. The order is planned for implementation after reviewing the public reactions and appropriate modifications.

Birth and Death Certificates

Issuing of Birth and Death certificates is one of the responsibilities of the local body. In order to make the process simpler for the applicants, the Municipality decided to facilitate delivery of the birth certificates through post if the applicant is unable to collect it personally. The Municipality has levied a service charge of Rs. 5 per certificate to meet the additional postal expenses (Council Resolution No. 327, dated 24th October 2000). If the applicant fails to collect the certificate within three days, the local body would post the certificate to the address mentioned in the form. This scheme was well appreciated by the public, as it would facilitate a convenient procedure, if he/she is unable to collect the certificate in person.

Door-to-Door Collection of Solid Waste

Implementation of door-to-door collection of solid waste is another pro-active initiative of Bodinaikanur Municipality. In line with new guidelines of municipal solid waste

management, the local body has started door-to-door collection of solid waste in ten wards of the town from December 2001. Prior to the implementation of the program, the officials of the local body and the councillors conducted several public awareness campaigns and highlighted the need to segregate waste at source and to co-operate with the door-to-door collectors.

Public was informed to dispose the waste in two bins, green coloured bin meant for biodegradable waste and red coloured bin for non-biodegradable waste. As per the program, the newly bought container carts of the local body collect the waste from the individual houses and transfer the same to the collection vehicle.

While the initial response from the public is very encouraging, the programme needs to be monitored for some more time for assessing its success and replicability.

Engaging Voluntary Organisations for Maintenance of Public Toilets

Bodinaikanur Municipality has twenty-nine public toilets, which are maintained by the local body. On an experimental basis, the local body has engaged a voluntary organisation for the maintenance of three public toilets on a pilot basis.

The advantage of the municipality through this innovative activity is reduced maintenance costs and availability of additional manpower for other municipal services. Thus, the municipal staffs relieved from these works are now being used for other activities of sanitation, thereby reducing the need for new recruitment resulting in cost reduction and also improvement in services.

Rainwater Harvesting

In order to conserve water resources, the local body has started rainwater harvesting in the higher income group areas. The new building plans in the town are now sanctioned only after the provision is made for the rainwater harvesting in the plan. The building inspector of the local body inspects the implementation of the rainwater harvesting facility as per the plan and approves the same. As a result of this, the consumption of Municipal supply is likely to reduce, thus saving treated water, energy and other associated costs.

Revision of Water Charges

In a bid to enhance the revenue, the ULB is also proposing to increase the monthly water rates from the present flat rate of Rs. 20 to Rs. 35 per month. While a similar effort in 1996 could not be implemented, the approval of the new council and the public response on this aspect is awaited. The local body anticipates the approval of the public and the council in view of the proposed improvement to water supply system to cover the unserved areas.

Gobichettipalayam Municipality

Gobichettipalayam is a First Grade Municipality located in Erode District of Tamil Nadu. Housing a population of 48,364 as per 1991 census, the town spans an area of 7.5 sq. km.. The present population of the town is estimated at 55,150.

A review of the financial position of Gobichettipalayam Municipality reveals that the increase in revenue is commendable at around 24 per cent compounded annual growth rate. However, the expenditure had grown at a rate of 26 per cent leading to decline in surplus. It can be observed that during the last five years, the capital account was in deficit indicating revenue surplus being used for developmental works (Table 2.18).

Table 2.18 Gobichettipalayam : Financial Position at a Glance

(Rs .in lakhs)

Items	1995-96	1996-97	1997-98	1998-99	1999-00
	Actuals				R.E
Revenue Receipts					
Property Tax	54.81	52.09	64.21	71.91	99.41
Other Own Receipts	84.35	97.92	103.82	145.78	201.36
Assigned Revenue	41.47	41.65	59.84	72.81	68.51
Grants	0.54	5.61	57.82	81.18	61.28
Total	181.17	197.27	285.69	371.68	430.56
Revenue Expenditure					
Establishment	89.60	100.79	116.72	142.10	144.16
O & M	70.44	71.73	116.80	202.80	247.99
Debt Servicing	0.00	9.46	17.84	13.01	12.19
Total	160.04	181.98	251.36	357.91	404.34
Surplus/Deficit	21.13	15.29	34.33	13.77	26.22
Capital Account					
Capital Income	38.95	13.25	34.33	104.37	49.10
Capital Expenditure	52.92	27.94	40.11	119.91	50.20
Surplus/Deficit	-13.97	-14.69	-5.78	-15.54	-1.10
Overall Surplus/Deficit	7.16	0.60	28.55	-1.77	25.12

Note: Deposits and Advances are excluded.

Description of Practices

User Charges for Solid Waste and Debris Collection

The local body initiated the process of levying user charges for collecting solid waste from marriage halls. The Council, through its Resolution No. 842, dated 7th January 2000, had approved to a charge of Rs. 150 per function, which is proposed to be enhanced to Rs. 200 per function.

Similarly, the council has resolved to charge Rs. 300 per lorry load, towards the lifting charges of construction debris from the sites (Resolution number 841, dated 7th January 2000).

Service Charges from Cable TV Operators

The Government of Tamil Nadu has allowed the local bodies to collect charges from the cable TV operators for the use of public property (Right of Way). Gobichettipalayam is the first local body in the State of Tamil Nadu to have implemented this order. The municipality charges Rs.5,500/- per annum per kilometre of cable length from the cable operators (Council Resolution No.313, dated 31st May 2000). Besides, the council through its resolution No. 429, dated 31st July 2000 started collecting an additional monthly fee of Rs. 15 per connection from the cable operators. The total revenue generated from these measures was about Rs. 4.19 lakhs in the year 2000-01.

Other Initiatives

Tax Collection Centres

Another innovative measure of the local body towards the enhancement of the collection performance was to organise special collection camps in a group of wards for collection of taxes and charges. The councillors of the local body have taken keen interest in organising such camps and have carried out door to door campaigns to inform people about camps and urging them to utilise the facilities and pay up their taxes.

This practise is operational since Dec. 10, 2001. The special collection camps were held at four locations covering all wards for a period of 3-hours a day. Three more such camps were organised as on 31st December 2001 and initial results indicate substantial improvements in tax collections. The revenue collection has improved after every camp. This trend has

initiated a competition among the councillors to improve revenue collection from their respective wards. There are increasing demands to organise more such camps on holidays.

Solid Waste Management

In respect of solid waste management, the government issued guidelines and rules. The ULB has started door-to-door collection of waste in 11 wards. The local body held several meetings with the councillors and public to solicit donations and contributions for the purchase of equipments for solid waste collection and transportation. The meetings resulted in generating additional resources for the purchase of tricycles for waste collection.

Pattukottai Municipality

Situated in Thanjavur District of Tamil Nadu, Pattukottai is a Selection Grade Municipality with a population of 58,062 (1991 census). The town spreads over an area of 21.83 sq. km. and its current population (2001) is estimated to be 65,453.

Table 2.19 Pattukottai: Financial Position at a Glance

(Rs in. lakhs)

Items	1995-96	1996-97	1997-98	1998-99	1999-00
	Actuals				R.E
Revenue Receipts					
Property Tax	34.19	46.31	47.93	37.81	61.00
Other Own Receipts	56.73	53.29	84.34	183.23	101.69
Assigned Revenue	72.25	92.27	68.08	83.90	85.95
Grants	0.07	52.29	87.33	80.04	77.30
Total	163.23	244.15	287.67	384.98	325.94
Revenue Expenditure					
Establishment	58.98	68.92	76.42	93.40	105.50
O & M	48.82	59.41	92.39	105.84	111.25
Debt Servicing	19.13	12.62	3.24	0.08	81.00
Total	126.92	140.96	172.04	199.33	297.75
Surplus/Deficit	36.32	103.19	115.63	185.65	28.19
Capital Account					
Capital Income	7.03	16.45	4.84	16.02	35.70
Capital Expenditure	106.72	83.83	98.06	175.91	61.25
Surplus/Deficit	-99.69	-67.38	-93.22	-159.89	-25.55
Overall Surplus/Deficit	-63.37	35.81	22.41	25.76	2.64

In order to appreciate the current financial position of Pattukotai Municipality, a review of past years finances was attempted, which reveals that the local body is financially sound with about 18 per cent compounded annual growth rate in revenue. Pattukotai has maintained significant revenue surpluses during the last five years (Table 2.19). The deficit in capital account balance indicates significant transfers of revenue surpluses to the capital account, which is a positive feature.

Description of Practices

Pattukottai Municipality undertook improvements to its water supply systems with the technical assistance of the TWAD Board in 1999. The Municipality required an additional thirty staffs for the operation and maintenance of a system, but was not in a position to recruit additional staff due the GoTN rules barring fresh recruitment in Municipalities. As a result, the Municipality decided to privatise certain operations of the water distribution system, which would not only save the trouble of recruiting new staff, but would also ensure efficiency in delivery of services.

Background

The average water supply in Pattukottai works out to be about 60 lpcd at the aggregate level, as against a minimum desirable level of 90 lpcd. Also, the coverage of the water distribution system is very poor, with only 3,437 house service connections as against the total 15,000 property tax assessments.

In order to augment and improve the coverage of water supply system, the TWAD Board proposed a project for the improvement of water supply system at a cost of Rs. 691.77 lakhs. Municipal Administration and Water Supply Department has approved the proposal (GO No.285, dated 3rd August 1998).

The water supply scheme improvement proposal includes construction of three overhead tanks and three pumping stations at different places of the town, in order to enable wider spatial coverage. The total capacity of the OHTs is 35 lakh litres with pumping mains of 7.72 km. and the distribution mains of 85.54 kms. About 76.57 lakh litres of water is pumped per day. With a total pumping duration of 16 hours a day, water is planned to be supplied twice a day for a total of six hours. The per capita supply after the new scheme was planned to improve to 114 lpcd from the existing 60 lpcd.

Initiation of the Practice

After improvements, the entire scheme was handed over to the local body on 19 January 2000 for operation and maintenance. It was estimated that an additional staff of 30 would be required for operation and maintenance of the scheme (mainly for the pumping operations), for which the annual financial commitment towards salary and other allowance was estimated at Rs.18 lakhs per annum. However, the GoTN has barred fresh recruitment in Municipalities, as a result of which the Municipality decided to privatise certain components of the water distribution system, beginning with the pumping operations.

Administrative and Legal Process

Private sector participation in Tamil Nadu has begun in early 90s with the initiation of Tirupur water supply project. The construction of the 28 km. long bypass in Coimbatore, construction of bridge across river Amaravathi in Karur through the concessionaire, privatising O&M of sewage pumping plants by CMWSSB in Chennai can be cited as success stories of the State.

GoTN through its G.O. No. 69, dated 4th April 1998 issued by department of Municipal Administration and Water Supply has laid down a policy clearance order for the ULBs in the State, indicating the areas of privatisation in the following sectors of urban infrastructure:

- Solid Waste Management, Including Collection, and Disposal
- Water Supply
- Sewerage
- Drain Cleaning
- Public Toilets
- Road Maintenance
- Street Lighting
- Parking Lots, Parks, Play Fields
- Vehicle Maintenance

According to the GO, the above list is indicative and local bodies are free to investigate other areas of privatisation. In this background there is no legal or administrative hindrance for the local body to privatise the operation and maintenance of the water supply pumping stations.

Implementation Process

The ULB issued tenders calling for bids for privatisation of water supply pumping station. In response to the tender, 5 firms have collected the tender forms, of which only two firms applied. The lowest bid amount was Rs. 9.0 lakhs per annum thereby saving the Municipality Rs. 9 lakhs per annum when compared to the municipal expenses that would amount to Rs. 18 lakhs per annum, had it employed its own staff. The ULB is responsible for supply of consumable, such as chlorine and it monitors the works. Apart from direct savings of Rs. 9 lakhs, the local body would be saving the indirect cost towards pension, gratuity, etc.

Extent of Success and Lessons

The privatisation of pumping water supply has ensured proper supply of water twice a day with total duration of 6 hours (3 hours in the morning and 3 hours in the evening). The lessons, which could be learned from this innovative practice, are: Unbundling of services and Privatisation of manpower intensive components of water supply systems, which could result in significant financial savings and efficient service delivery.

Conclusions

The implications of private participation in municipal services have resulted in better supply of water on a day-to-day basis. Accordingly, the collection of water supply charges will increase which would enhance the financial position of the ULB. The project is a model for other ULB's and would form a benchmark for future privatisation of local infrastructure services. With the success of Pattukottai, the other local bodies such as Nagapattinam and Nagercoil are also planning to privatise some of the municipal services.

Cumbum Municipality

Cumbum is a First Grade Municipality situated in Theni District and houses a population of about 52,435 as per 1991 census. The municipal jurisdiction spans an area of 6.58 sq. km. The estimated current population is about 60,000.

A review of the financial position of Cumbum Municipality reveals that its revenue income increased by over 22 per cent compounded annual growth rate. However, growth during the last two years has declined and the revenue account is in deficit. Except during 1996/97, the overall Municipal account is in deficit (Table 2.20).

Table 2.20 Cumbum : Financial Position at Glance

(Rs. in lakhs)

Items	1995-96	1996-97	1997-98	1998-99	1999-00
	Actuals				R.E
Revenue Receipts					
Property Tax	29.28	28.72	30.36	34.81	43.38
Other Own Receipts	31.39	38.10	44.71	58.40	51.21
Assigned Revenue	23.02	23.63	41.95	40.44	39.36
Grants	6.41	55.83	74.06	93.72	64.15
Total	90.10	146.28	191.08	227.37	198.10
Revenue Expenditure					
Establishment	59.18	72.94	108.11	100.21	154.30
O & M	33.04	53.59	42.41	43.20	42.19
Debt Servicing	2.36	4.22	21.80	12.89	2.05
Total	94.58	130.75	172.32	156.30	198.54
Surplus/Deficit	-4.48	15.53	18.76	71.07	-0.44
Capital Account					
Capital Income	22.60	16.21	35.42	21.08	37.36
Capital Expenditure	33.26	26.98	75.17	88.30	88.21
Surplus/Deficit	-10.66	-10.77	-39.75	-67.22	-50.85
Overall Surplus/Deficit	-15.14	4.76	-20.99	3.85	-51.29

Note: Deposits and Advances are excluded.

Description of Practices

In order to have a proper Bus Stand facility, the Municipality proposed to construct a new bus stand with shops and other facilities. The municipality proposes to create an asset that would generate additional revenues through lease of shops and fees from the bus operators. The scheme in the long run would be a sound commercial proposition though the initial costs are high. The proposal has received the consent of TNUDF, which has in principle agreed to fund the project, and has appointed consultants to carry out the necessary studies to examine the financial viability of the scheme.

Initiation and Motivation for the Practice

TNUDF appointed consultants for preparation of detailed design and financial feasibility of the Bus Stand. The cost of construction of Bus Stand and 30 shops within the Bus Stand complex was estimated at Rs. 170 lakhs. In view of the high project cost, which was financially unviable if funded entirely through loan funding, TNUDF suggested the local body to reduce the debt component of the project cost by way of own contribution, to make the project a viable proposition.

Project Structuring

To garner its share of the project cost, the municipality had structured an innovative method by way of mobilising the initial deposit, from the lessors of the shops. In order to mobilise the

initial deposit, the local body identified the probable lessors and convinced them to contribute Rs. 1.00 lakh each as goodwill. On assurance of the local body, that it will contribute Rs. 30.00 lakhs towards the project, the Bus Stand project was approved (GO No. 118, dated 27/02/2001). The funding pattern for the project is presented in Table 2.21 The structuring was worked out to minimise the debt burden on the municipality through a mix of loan-grant-own share mix.

Table 2.21 Cumbum : Funding Pattern for the Proposed Bus Stand

Funding Pattern	Amount (in Rs. lakhs)	% Share
Loan Amount	89.00	52.4
Grant	51.00	30.0
ULB/Beneficiary Contribution	30.00	17.6
Total	170.00	100.0

Source: GO No. 118, dated 27/02/2001.

Extent of Success and Lessons

As on date the innovative practice adopted by the local body is a partial success with only 7 beneficiaries paying full amount of deposit while the others are waiting to see the progress of work. The expected date of completion is September 2002. As work is progressing at a slow pace, few depositors are demanding for the refund, with the local body assuring them that the project would be completed as per schedule.

Virudhachalam Municipality

Virudhachalam is a Selection Grade Municipality located in Cuddalore District, housing a population of 52,819 as per 1991 census. The Municipality is spread over an area of 25.57 sq. km. and the current population is estimated to be around 65,000.

The finances of the Municipality had shown a negative annual balance during the last three years (Table 2.22). This was primarily due to higher growth in expenditure (21 per cent) than the growth in income (13 per cent) during the last five years. The increase in expenditure may be attributed partly to the fact that the debt servicing commitment has increased from 1998/99 onwards, due to the policy decision of GoTN to restructure all the outstanding Government and LIC loans and to be repaid in 20 years @ 13.5 per cent interest. In case the local body fails to repay, it will be deducted at source from the State devolution. However,

the Municipality has maintained positive operating (revenue account) balance and utilised the revenue surpluses for minor capital works.

Table 2.22 Virudhachalam: Financial Position at Glance

(Rs. in lakhs)

Items	1995-96	1996-97	1997-98	1998-99	1999-00
	Actuals				R.E
Revenue Receipts					
Property Tax	29.04	35.69	34.01	26.72	42.07
Other Own Receipts	37.77	30.83	34.16	40.40	46.79
Assigned Revenue	49.73	33.57	38.97	69.86	75.30
Grants	5.86	27.62	84.25	67.28	37.78
Total	122.40	127.71	191.39	204.26	201.94
Revenue Expenditure					
Establishment	50.57	72.04	71.49	98.56	106.59
O & M	42.22	35.43	51.59	65.23	80.37
Debt Servicing	1.87	3.00	5.34	29.85	20.57
Total	94.66	110.47	128.42	193.64	207.53
Surplus/Deficit	27.74	17.24	62.97	10.62	-5.59
Capital Account					
Capital Income	0.35	7.01	0.00	0.00	8.67
Capital Expenditure	4.28	7.09	63.79	80.44	55.63
Surplus/Deficit	-3.93	-0.08	-63.79	-80.44	-46.96
Overall Surplus/Deficit	23.81	17.16	-0.82	-69.82	-52.55

Note: Excluding Advances and Deposits.

Description of Practices

The municipality has conceived a plan for the improvement of the water supply scheme to enhance the coverage of the scheme, the cost of which would be met with public contribution and grants from GoTN without any contribution from the ULBs' regular revenue sources. The concept is "innovative" as the ULB can create a capital asset without utilising either own or loan funds, resulting in generation of revenue asset.

Current Levels of Service

The current water supply level in Virudhachalam Municipality is about 50 lpcd at the aggregate level. The coverage of the water supply system is poor, with a distribution network coverage of about 56 per cent of the road length. The coverage of the system is even poorer, with only 28 per cent of property tax assessments having individual house service connections (3,500 HSCs). Majority of the population depends on public stand posts (185 Nos.). The details of service levels are presented in Table 2.23.

Table 2.23 Virudhachalam: Current Water Supply Service Levels

S. No.	Service Components	Level of Services
1	Total Quantity of Water Supplied	3.26 MLD
2	Per Capita Supply	54 litres per day
3	Total Length of Distribution Network	37.12 Km.
4	% Roads Covered by Distribution Network	56 per cent
5	% Assessment covered by Individual connections	28%
6	No. of Service Reservoirs (Over Head Tanks)	3 Nos.
7	Total Capacity of Reservoirs	14 lakh litres
8	% Storage Capacity	42 % of the Supply

Initiation and Motivation for Practice

Considering the poor service coverage, the Municipality formulated a water supply network extension scheme to improve the coverage by reaching out to the unserved areas. The objective of formulating the scheme was to improve the service levels by providing more house service connections, which in turn would improve the finances of the local body through water charges (Domestic Water Charges of Rs. 22 / month/connection). The Council passed a resolution to take up the implementation of the scheme (Council Resolution No. 5374, dated 28 August 1999) in this regard..

Project Formulation

The components of water supply improvement scheme consisted of construction of two overhead tanks each with a capacity of two lakh litres. Moreover, the proposal included extension of distribution network by about 8.31 km. to serve over 2,000 assessments. The cost for the proposed improvements was estimated at Rs.60.00 lakhs. As the financial position of the Municipality was not strong enough to take such a large investment, it had proposed to mobilise public contribution through a non-refundable one time deposit of Rs. 2,000 per connection from the 2,000 beneficiaries.

In this process, the local body could mobilise Rs.40 lakhs from the beneficiaries and it received a grant of Rs.18 lakhs from GoTN under the Golden Jubilee Fund, and the balance of Rs. 2 lakhs was met from the interest earned from the beneficiary's deposits. The scheme is estimated to be operational by February 2002.

Scope for the Replication of the Practices

The practice of collecting deposits for water connection from the beneficiaries had been prevailing in local bodies of Tamil Nadu. Most of the local bodies follow this practice and deposits for connection collected from domestic and non-domestic consumers ranges from Rs. 2,000 to Rs. 10,000. The success of this scheme at Virudhachalam can be replicated by other ULBs wherever improvements to the existing water supply projects are required. The process is easy to replicate as the GoTN's policy advocates public contribution for capital projects.

Conclusions

As observed from above, the scheme is being implemented without any out flow from the municipal funds and with little contribution from the State in the form of grants.

The figures presented in Table 2.24 reveal that Virudhachalam water account is in deficit by about Rs. 4 to 5 lakhs every year. But through extension of the network and providing additional 2,000 connections, the local body would be able to generate an additional revenue of Rs. 5.28 lakhs at the existing water tariff rates of Rs. 22 per month per connection.

Table 2.24 Virudhachalam: Status of Water Account

(Rs.in lakhs)

Items	1995-96	1996-97	1997-98	1998-99	1999-00
	Actuals				R.E
Receipts					
Water Charges	7.90	9.70	7.92	6.84	7.00
Other Income	0.56	0.09	1.29	0.27	0.15
Total	8.46	9.79	9.21	7.11	7.15
Revenue Expenditure					
Establishment	4.01	14.48	6.58	6.72	6.82
Power Charges	1.70	0.02	0.67	3.30	4.99
Others	0.79	0.20	0.70	1.19	0.54
Total	6.50	14.70	7.95	11.21	12.35

Namakkal Municipality

Namakkal is a Selection Grade Municipality situated in Namakkal District, which covers an area of 10.24 sq. km., and having a population of 45,048 as per 1991 census. The current population of Namakkal is estimated at 52,000.

Table 2.25 Namakkal: Financial Position at a Glance

(Rs.in lakhs)

Items	1995-96	1996-97	1997-98	1998-99	1999-00
	Actuals				R.E
Revenue Receipts					
Property Tax	80.09	72.51	78.20	89.89	132.63
Other Own Receipts	126.90	129.01	125.62	146.48	154.83
Assigned Revenue	86.69	120.30	143.81	158.73	142.12
Grants	0.09	3.04	70.73	64.71	79.97
Total	293.77	324.86	418.36	459.81	509.55
Revenue Expenditure					
Establishment	86.21	102.84	121.31	152.11	177.73
O & M	151.73	166.41	137.48	230.36	302.46
Debt Servicing	41.30	40.89	43.21	48.53	46.35
Total	279.24	310.14	302.00	431.00	526.54
Surplus/Deficit	14.53	14.72	116.36	28.81	-16.99
Capital Account					
Capital Income	0.00	6.75	9.09	40.17	53.80
Capital Expenditure	28.87	19.73	46.74	105.87	143.94
Surplus/Deficit	-28.87	-12.98	-37.65	-65.70	-90.14
Overall Surplus/Deficit	-14.34	1.74	78.71	-36.89	-107.13

Note: Advances and Deposits are excluded.

The annual operating financial balance of Namakkal Municipality during the last five years has been generally low (Table 2.25). Here, the revenue income has increased at a reasonable rate of 14 per cent per annum (compounded growth), but the growth in revenue expenditure has been higher at about 17 per cent per annum. The significant deficit in revenue during 1999/00 may be attributed to a high jump in O&M expenses (over 30 per cent) from Rs. 230 lakhs in 1998/99.

Description of Practices

With a view to enhance revenue collection, the local body plans to levy garbage/ waste collection charges from marriage halls and hospitals in the town. The Municipal Commissioner has initiated the process to put forward a resolution before the council for approval in this regard. The Council is yet to finalise the charges to be levied on the waste producers.

Other initiatives

Water Supply and Under Ground Drainage

The ULB is in the process of providing additional water to the town by improving the water supply scheme. The TWAD Board has completed preliminary investigation and site identification for the additional components of the water supply system. The land acquisition

process is in progress. The total cost of the project is estimated to be about Rs.30 Crores. The ULB is seeking funds from TNUDF, backed by a resolution passed by the Council in this regard (Council Resolution No. 386, dated 21/12/2001).

Solid Waste Management

The local body has proposed to adopt the vermi composting method of garbage disposal, for which 13.4 acres of area has been acquired outside the Municipal limits at Lathuvadi village. The cost of land acquisition is Rs.13.7 lakhs. The local body received a grant of Rs.13.7 lakhs from state government to meet the land acquisition cost. The ULB has decided to utilise the waste collected from the shandy/ market for vermi composting, since the waste is biodegradable and segregation is not required.

Maintenance of Municipal Toilets

The local body has contracted to an NGO(Council for Integrated Rural Development), for the maintenance of a public toilet on a pilot basis. The local body pays a monthly fee of Rs. 2,500 towards maintenance of the toilet block, thereby reducing their manpower cost and overheads, while ensuring effective maintenance of the facility. Based on their experience with this pilot case, the Council plans to contract out more such facilities in a phased manner.

Chapter 3

Lessons Learned from Successful Innovations

The lessons learned from innovative practices implemented by ULBs of Tamil Nadu can be grouped under the following major headings:

1. Innovative practices need of the hour
2. Strong political leadership to drive the process
3. Support from the state government
4. Public support and Information, Education and Communication (IEC) efforts
5. Proper and advance planning
6. Alternative financial options
7. Effective co-ordination and teamwork
8. Emergence of Private Sector Participation (PSP) as a key factor

Need for Innovative Practices

Reforms are the keyword in the present economic environment in the country at all levels of government. The flow of resources from higher levels of governments is declining due to macro level reforms undertaken at higher levels of government. In addition, the following reasons for innovations can be cited:

- Precarious financial position of ULBs is a major impediment to meet recurring expenditure and undertake any development works.
- Operating deficits are increasing in all ULBs.

Hence, reforms are essential to bail out ULBs from their present financial crisis and innovative practices for resource mobilisation and cost saving measures are the need of the hour.

Strong Political Leadership to Drive the Process

As observed from the case studies, the local council and the local political leadership are the driving force for the implementation of innovative practices and resource mobilisation. Following guiding forces have been identified for successful implementation of reforms:

- Willingness of ULB Councils comprising various political parties to take hard decisions and to adopt innovative mechanism both on resource mobilisation and on expenditure management. The resolution of the councils is crucial for any such change.
- Resistance to the usual motives like vote catching tricks against increase of tax rates and fees is slowly changing. Councils of smaller municipal towns are also willing to be a part of the reform process and are trying to convince their citizens.
- Commitment and active support of state political leadership is essential.
- Political will of elected representatives are required.
- Mutual cooperation among local bodies of different categories can make innovative practices a success story (Common Sewerage Treatment Plant).
- ULBs election should be held at regular interval, so that elected representatives are in office to play the crucial role of convincing and motivating the people.

Support from the State Government

Innovation and reform process at local levels can be successful only if supported by the State Government in the form of administrative and reforms oriented policies.

- Active support of State Government for innovative practices is essential.
- To endorse proven success stories in any local body for replication in other local bodies.
- Extend Technical Assistance to smaller ULBs to make the project or reform a success.
- Decentralisation of powers by enhancing the monetary powers of councils and field officers for according administrative and technical sanctions.
- Encourage the local bodies for adopting Best Practices and award incentives and performance medals.
- A preliminary in-principle clearance of projects by government, setting forth the specific path to be followed for final clearance of the project together with the financial options and preconditions shall clear many doubts and act as an incentive for projects needing public contribution.
- Readiness to devolve funds and adopt financial reforms (SFC) and system changes (computerisation, accrual accounting).

- State support to channelise available funds under different allied sectors and schemes of both Central and State governments for a successful financial structuring of the project.
- Declared State policy of privatization and public participation in urban infrastructure projects.
- Adopt innovative ideas and replicate success stories elsewhere to create a separate fund to take care of expenditure on feasibility study, appraisals, preparation of project reports, etc.
- Create financial intermediaries for easy access by local bodies for their capital needs.
- Reduce the process time in giving project clearance by having Empowered Committees for single window clearance of projects.

Public Support and IEC

Any innovative project or reform will be successful only if public participation is ensured and are made the responsible stakeholders of the project. Moreover, Information, Education and Communication (IEC) play an important role for any reform-oriented action.

- Public are willing to be partners even for a high cost infrastructure, if there is proper IEC, if they are taken into confidence and if the level of mutual trust between ULB and people is high.
- Beneficiary contribution from public is forth coming, provided the purpose is clear and transparent with due accordance to people's priorities and the rates and charges are reasonable and affordable.
- If public support is ensured, even large-scale infrastructure projects, which are beyond the financial capabilities of the local body, can be taken up.
- Proper IEC activities are essential to drive home the point that civic services are no longer free and that every aspect of civic service has a cost.
- Creation of better awareness of the relevant problem among citizens and motivating them to think about affordable solutions and for changing their attitude from "resistance to changes" to "positive to changes".
- Public contributions are a key factor for large urban infrastructure project and this is a proven factor in case of local bodies in Tamil Nadu, provided the process involves public as stakeholders and is conducted in a transparent way.

- Creation of positive impact on the citizens for increased involvement and adherence to project schedule.

Proper and Advanced Planning

The fundamental requirement for innovation or the project to be successful is proper and advanced planning which shall take into account all unforeseen contingencies, both physical and financial. The lessons from ULBs of Tamil Nadu are:

- Exhibition of willingness exhibited to mobilize additional resources through confidence of investors/donors for urban infrastructure.
- Proper financial structuring is necessary to reduce debt burden considerably.
- ULBs with lower percentage of establishment expenditure and better realisation of taxes have better confidence to face challenges and enter into new ventures for creating assets.
- Alternative financial structuring and innovative financial mechanism are essential in creating infrastructure, instead of solely relying on debt and Government Grant.
- Every available financial option should be thoroughly probed and the best option suitable for the local body and acceptable to the beneficiary should be selected. But once an option is finalised (e.g. upfront deposit contribution or user charge-is fixed), it is better to be firm on it.
- Sufficient cash flow should be in-built into the project to take care of O&M.

Alternative Financial Options

In case of problems during implementation and later during operational stage, the ULBs should have an alternative financing option to overcome the problems. The following alternative financial options are outlined below:

- ULB should explore direct borrowings from financial institutions and capital markets through Bonds and indirect access for capital investments through financial intermediaries feasible.
- Regular revision of ARV for property tax assessment is required.
- Moderate increase in tax rates and fees should be made depending on budgetary needs in a gradual manner which is generally not protested by citizens, provided it matches local level reforms and improved delivery of services.

- In collection of public contribution, the "cat on the wall" group jumps into the general stream and participate, if there is a threat of extra financial' commitment for late comers.
- Urban infrastructure projects generate indirect revenue due to increase in market value of land and properties and this need should be captured by appropriate methods.

Effective Co-ordination and Teamwork

The role of Chief Executive of the local body is a motivating factor to the staff for better performance and adoption to changes. In addition, commitment of officials and non-officials of the ULBs is necessary. It is equally essential to ensure tenure security for key officials for speeding up project and building confidence among citizens. Further, in addition to internal co-ordination, effective co-ordination with parastatal agencies (TWAD Board, etc.) is essential for success of PSP projects.

Emergence of Private Sector Participation as a Key Factor

Private sector participation is essential in urban infrastructure projects, in order to capitalise the PSP phenomenon. The following points have been identified below which are essential for ensuring private sector participation:

- A clear-cut state policy on privatisation is required.
- Unbundling of services and privatisation of manpower intensive components of core civic services result in significant financial savings and efficient delivery of services.
- Increased interest among local bodies for encouraging PSP and willingness in private sector to enter into urban infrastructure field is equally important.
- Indirect benefit of PSP is improvement in financial health of concerned ULB, apart from efficient delivery of services.