

# **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 cost cutting or expenditure management for effective financial planning. Besides, additional resource mobilisation at local government levels is usually possible through "taxation" (under which property tax is the mainstay of ULBs) 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 (indirect access). 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 waster 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 26<sup>th</sup> 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. 329.77<sup>1</sup> 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, 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 Tamilnadu 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

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<sup>1</sup> 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 have 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:

1. Local bodies can implement capital-intensive infrastructure with beneficiary contribution, provided there is strong political will and public backing;
2. 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;
3. effective politico-administrative leadership is a key to success;
4. post-project increase in land and property values is one of the major benefits; and
5. 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 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

#### **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.

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 80<sup>2</sup> 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).

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.

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

#### **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.

<sup>2</sup> 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 Tamilnadu 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 supply<sup>2</sup> 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, 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 lpcd to 114 lpcd.

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<sup>3</sup> 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 Learnt - 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 lessees 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. 5000 on manufacturers, Rs. 2500 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 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.