



CEGIS Support to the Sixth State Finance Commission - Tamil Nadu

Final Report

17 December 2021

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1.Overview

This report attempts to identify recommendations to improve capacity of Municipal Corporations (other than Chennai) in Tamil Nadu to cost effectively deliver improved service delivery outcomes to their citizens. The report is based on analysis of data shared with CEGIS by the Sixth State Finance Commission, field visits/ interviews with key stakeholders, review of relevant documents/ literature and good practices. It also incorporates feedback from the Sixth SFC provided on the draft submission.

The organization of this report is as follows - Section 2 outlines key steps in the report development process, Section 3 summarizes insights from the data analysis and primary discussions across themes, Section 4 provides details of the recommendations (justification, recommendation and supporting examples) along with a profile of the recommendation portfolio (across policy/ legislation, scheme modifications and process changes)

2. Background, Scope and Approach

The Tamil Nadu Sixth State Finance Commission (hereinafter referred to as the SFC) has been constituted to review the financial position of local bodies and make recommendations. One of the major terms of reference is to suggest ways for strengthening the service delivery capacities of local body administrations.

In this context, the Centre for Effective Governance of Indian States (CEGIS) is supporting the SFC. For Municipal Corporations other than Chennai (hereafter referred to as MCs), basis analysis of data facilitated by the SFC, consultations with relevant stakeholders and secondary research, CEGIS shall provide data backed recommendations on

1. Modifying the roles and responsibilities of MCs vis-a-vis that of line departments in view of the principle of subsidiarity and also taking into account the capacity of the MCs for taking up such responsibilities.
2. How autonomy of key functionaries within MCs can be enhanced, along with a corresponding accountability framework
3. Process improvements towards and institutional mechanisms for improving service delivery, collection efficiencies of own revenues, and effectiveness of expenditure

Towards this, CEGIS has followed the below approach

1. Analysis of data submitted by MCs to the SFC on key thematic areas (e.g., outcomes, resources, collection efficiencies, overall governance, service delivery models etc.) and identification of hypotheses on each
2. Interaction with a sample of MCs to validate these hypotheses - both through in person interviews and submission of web forms
3. Secondary research/ discussions with experts to identify potential areas of support to the MCs in view of their issues
4. Validation of some of these inputs and emerging recommendations with the CMA (ongoing)

3. Theme wise Insights

3.1 Outcomes (Service Delivery)

3.1.1 Key observations from analysis of MC data

- Ten of the 14 MCs (those who became MCs till 2014) are covered under the Ease of Living/ Municipal Performance index by MoHUA. On both, while all MCs are above the national median, there is significant gap between TN MCs and category toppers
- Over a third of the MCs have intermittent supply, and on an average, there is significant dependence on external sources for bulk water
- MCs ~ 100 lpcd of supply. However, despite 6 MCs claiming 100% metering of water, there does not appear to be substantiation of supply from last mile (customer side) quantum delivered
- Similarly, in terms of Underground Drainage System (UGD), the average coverage is ~ 26%. However, even within this limited number, the (Sewage Treatment Plant (STP) capacities are sufficient only to treat an estimated 15% of the sewerage. Decanting facilities/ Fecal Sludge Treatment Plant (FSTP) capacity is also limited
- Solid waste collection is reportedly high (all but 3 MCs claim 100% collection). However, a quick per capita assessment of implied generation shows significant variations across MCs. More importantly, composting and safe disposal are still low, with land availability remaining a large issue.

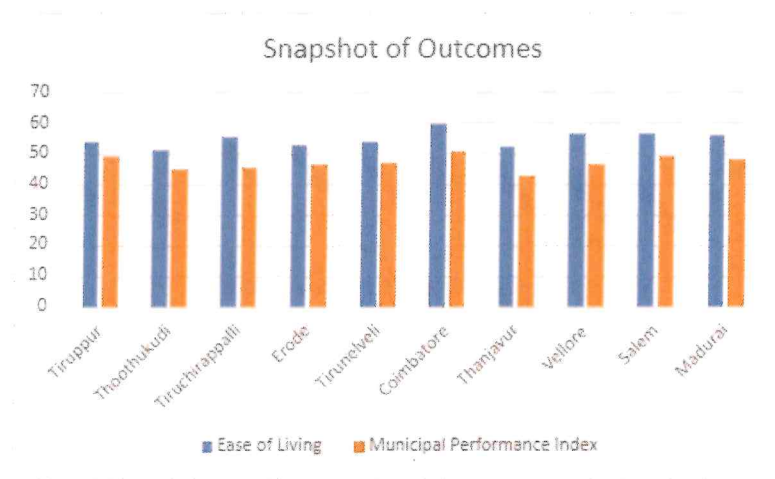
3.1.2 Inputs from Primaries

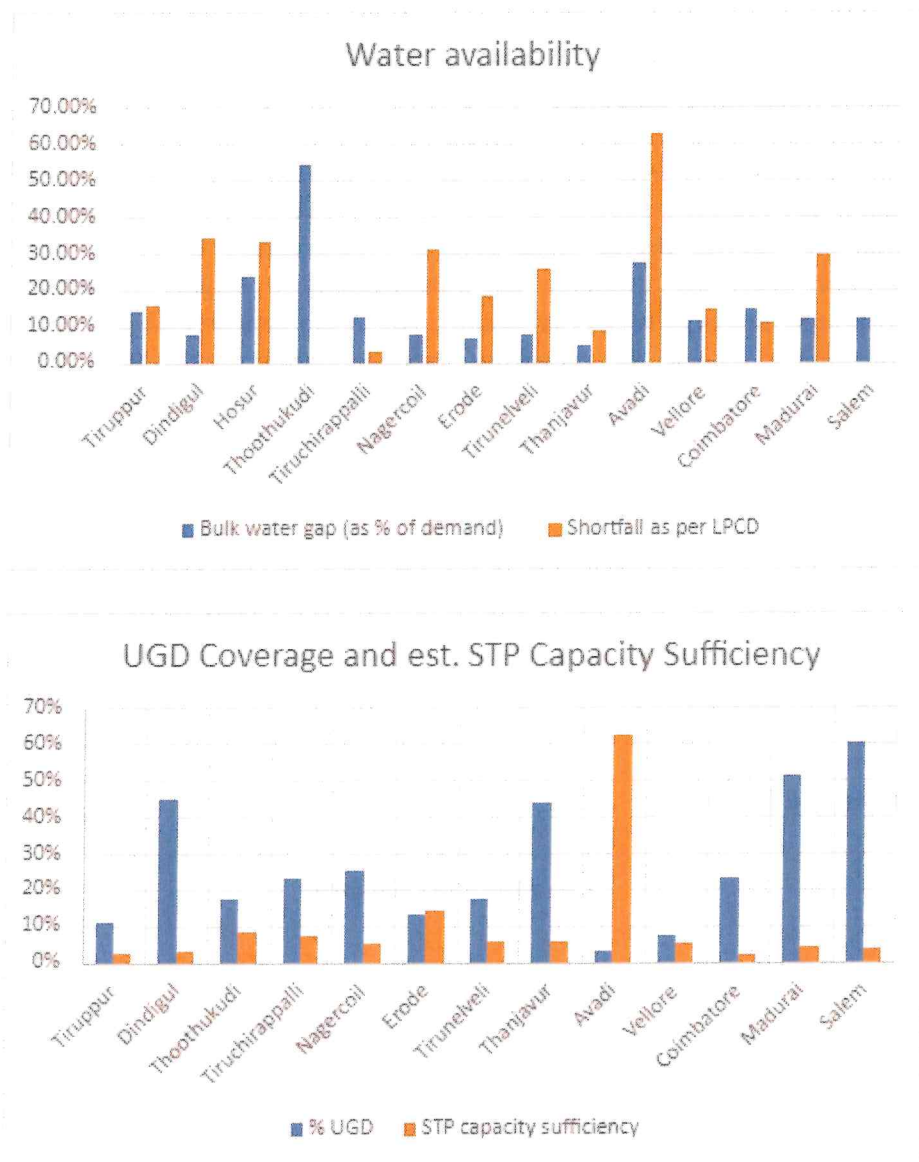
- MCs feel that while service delivery is influenced by both infrastructure availability and Operations and Management (O&M), the latter is typically weaker, since infrastructure creation happens intermittently through projects and schemes. In particular, they identify maintenance of legacy assets (especially water and drainage) as key issues. Also given the infrastructure creation projects over the past decade, there is likely to be a significant need for planned O&M over the coming years to ensure that the useful life of the assets is maximized.
- On infrastructure creation, MCs have indicated that they need support on being able to make strategic choices (e.g., UGD vs. decentralized coverage decisions on liquid waste management, assessment of different technologies in solid waste management (SWM) etc.). Given addition of new areas to MCs on an ongoing basis, infrastructure development and extension are likely to be relevant on an ongoing basis, and hence this could be an area for support (templates/ tools for project planning and alternative evaluation).
- A recurrent theme among MCs on service delivery is on the approach taken to converge service delivery in newly added areas with those of the core ULB. This convergence appears to be a fairly long drawn process (e.g., sometimes lasting 8-10 years), with a felt need for structured support and guidance on processes,

assessments and tracking. The processes related to transfer of assets falling in the newly added areas from the line departments to the MCs needs streamlining to ensure a time-bound handover.

- On a related note, MCs acknowledge that their definitions of “service delivery quality” are typically subjective. Even where MCs have a rough system to classify wards on “service access” (e.g. arterial roads, access to UGD, water etc.), this definition used for property tax classification is largely static and does not incorporate elements of service quality. MCs also concur that practical and easy to implement methods for capturing service quality would help them prioritize interventions, especially in the context of added areas. Additionally, such transparent “need based” assessments would also help provide justification for investments, which are currently seen as sometimes being politically driven at the State level.
- Finally, (again in the context of newly added areas), MCs feel that a standard mechanism to provide funds for improving infrastructure in newly added areas is required. While the Integrated Urban Development Mission (IUDM) has been used in the past, this is seen as an ad-hoc measure, and a dedicated funding window, along with guidelines on allocation based on “service quality gaps” is a strongly felt need.

3.1.3 Charts and Tables





3.2 Financial Resource Availability

3.2.1 Key observations from analysis of MC data

- Though “own income” accounts for a significant share of receipts, the distribution of revenue income is largely range bound (for FY20, min of 2030, max of 3267 and median of 2960). This is despite large variations in real estate prices (proxy for property tax potential) across MCs
- Non tax revenue has become a key component of total receipts, increasing from 29% in FY15 to 36% in FY20 (positive outliers are Tirunelveli, Erode and Salem). Tax revenues have also increased from 26% to 36% (positive outliers are Thoothukudi,

Coimbatore and Madurai). Overall, dependence on transfers from State and Central Governments has decreased.

- Within non tax revenues, fees and fines account for ~ 35%, and special services ~ 42%, with the rest coming from investments and income from properties. However, this mix has been largely static over the past 5 years (FY15-FY20). Given the higher buoyancy potential for special services and income from properties of late, this could merit closer scrutiny.
- There is significant variation in total receipts. Even accounting for the lumpy nature of capital receipts and taking a 5 year average (FY16-FY20), per capita receipts vary from ~ Rs. 3000 (Avadi, Tiruppur) to ~ Rs. 10,000 (Tirunelveli, Thanjavur)
- There seems to be low utilization of the O&M gap filling fund or Infrastructure gap filling fund, and apart from 2 ULBs which got Tamil Nadu Innovation Initiatives (TANII) fund in FY16 (Thoothukudi at Rs. 1.34 cr. and Madurai at Rs. 4 cr), there seem to be no further rounds.

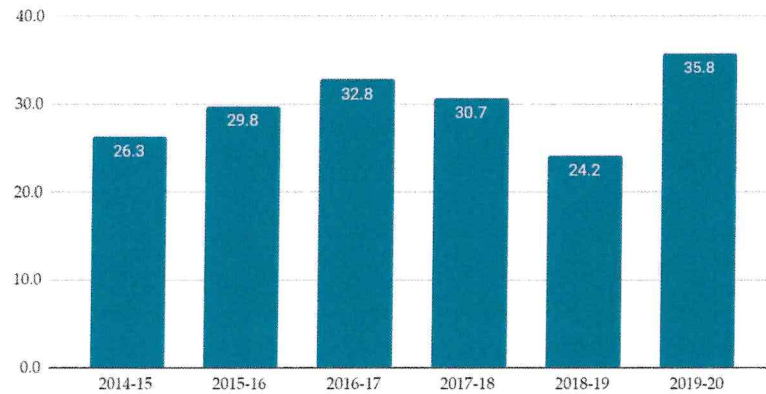
3.2.2 Inputs from Primaries

- It is generally felt that improving income from ULB properties (e.g., commercial complexes, shopping areas etc.) is a relatively high potential area for MCs. Many of the MC properties have not been monetized or are under long term leases negotiated several years ago (in many cases the leases having expired but rolled over at nominal charges). MCs also feel that unlike property taxes or service charges, which impact citizens more broadly, monetizing properties is a more focused approach
- There are recent examples of successful steps towards asset monetization. Of particular note is Thanjavur's tendering of commercial complexes (newly redeveloped shops) through a transparent auction process. The Supreme Court [judgement](#) associated with this also provides comfort to MCs to go for market-based price discovery on expiration of the old leases. (Refer to Annexure 5.1 for copy of the SC Judgement)
- Another high potential and minimally disruptive area of attention for raising financial resources seems to be widening the base for property taxes. First, the classification of wards into PT zones (typically based on access to infrastructure) is dated (usually done in 2008, with no subsequent updates). Even within the existing methodology (which is crude, but easy to implement), there have been no reclassifications since 2008, despite several infrastructural investments being made. Second, expanding the assessment base for PT by tightening the linkages between occupation certificates, PT assessments and property transfers is a repeated suggestion from multiple MCs
- The overall knowledge and appreciation of avenues like TANII for MCs to undertake relatively "risky" and "innovative" projects appears to be limited. During discussions, most MCs (especially Finance and Engineering heads) were not aware of

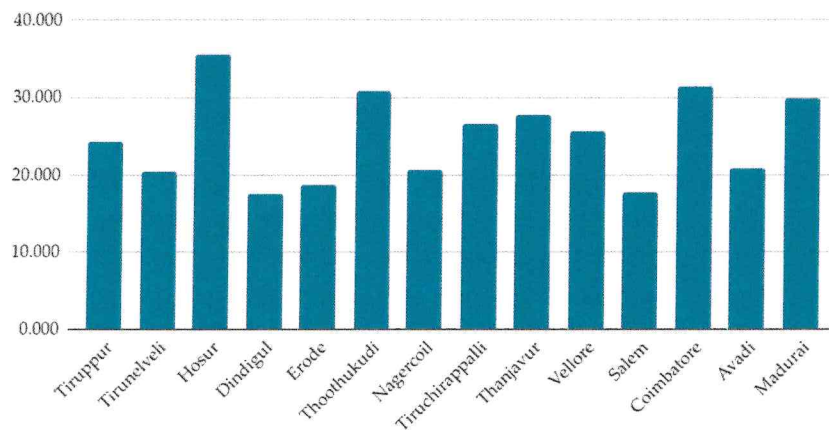
the features of TANII, but agreed that such an avenue would be useful to try out some of their long-standing internal ideas around revenue augmentation.

3.2.3 Charts and Tables

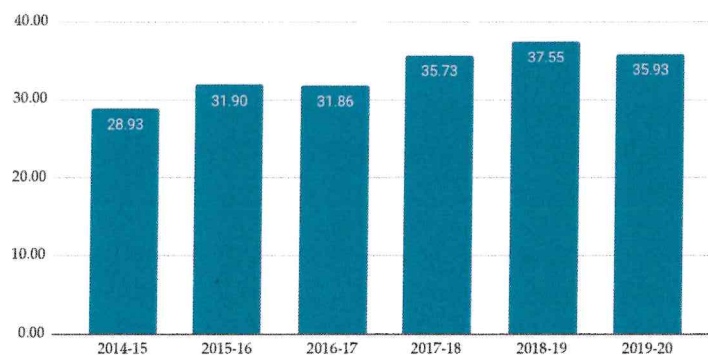
Average share of tax revenue for all corps out of total revenue over the years (in %)



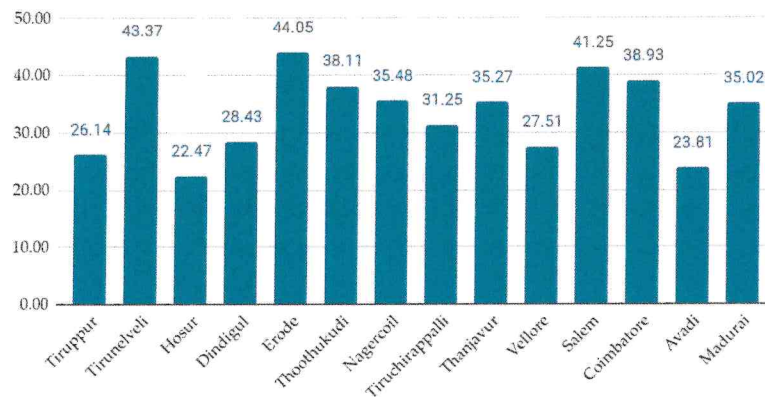
Average share of tax revenue out of total revenue for corporations from 2014-15 to 2019-20 (in %)



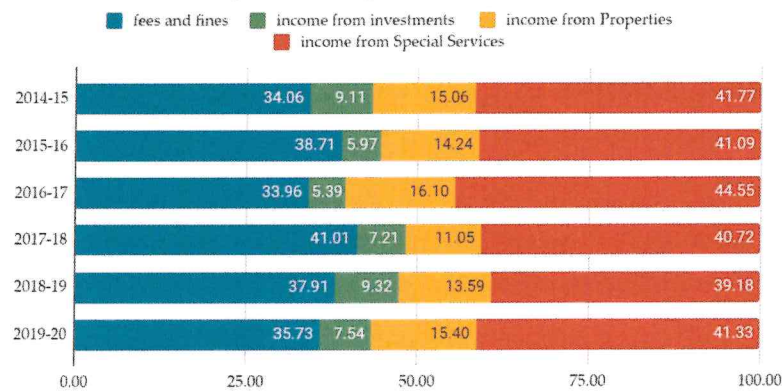
Average share of non-tax revenue generated by all municipal corps out of total revenue generated over the years (in %)



Average share of non-tax revenue for corporations out of total revenue from 2014-15 to 2019-20 (in %)



Average share of non-tax revenue component out of total tax revenue for all corps over the years (in %)



3.3 Quality of Expenditure

3.3.1 Key observations from analysis of MC data

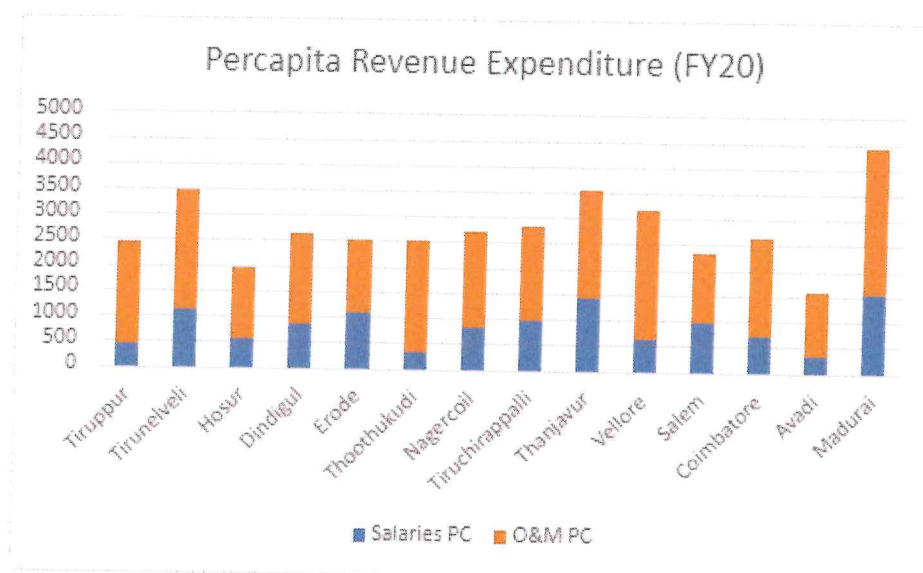
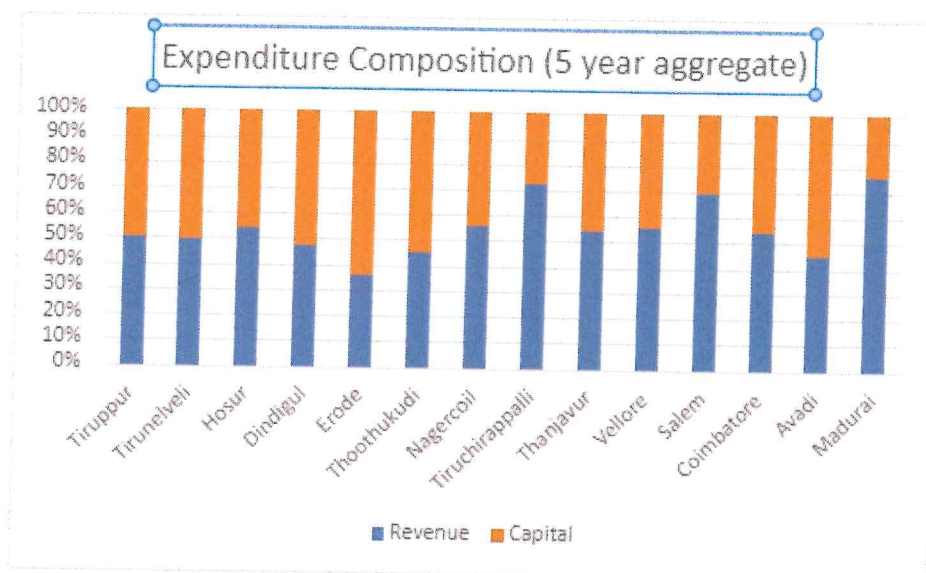
- The overall mix between revenue and capital expenditure has been mostly stable (slightly worsening from 56:44 in FY16 to 59:41 in FY20). However, there is variation across MCs in this (Erode is a positive outlier and Madurai and Salem are negative outliers)
- Even within revenue expenditure, the share of salaries vs. O&M expenditure varies significantly across MCs, from under 20% (Thoothukudi and Tiruppur) to above 40% (Erode, Thanjavur, Salem).
- Given that Capex is lumpy, comparisons for a single year could be misleading. However, even a 5 year combined view of capex shows large variations - Madurai,

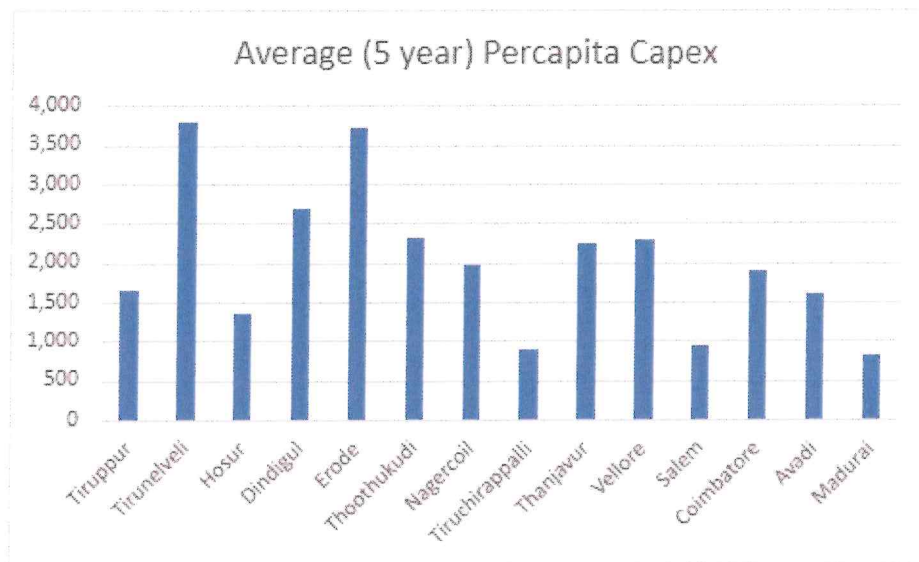
Salem and Trichy have under INR 1000 per capita (per year based on 5 year average) and Tirunelveli and Erode have over INR 3000 per capita

3.3.2 Inputs from Primaries

- Increasing stress on salaries, and issues in timely payment of pensions are highlighted by several MCs. Given the threshold limit of 49% for salary payments, post which freezes on recruitments are triggered, many MCs have resorted to outsourcing of certain functions/ functionaries. Hence, HR costs (committed expenses) seem to form a large chunk of the financial burden on MCs, and the current controls are felt to be working on keeping this burden range bound
- An interesting point of observation is on the above outsourcing. For a truly operative view of “committed expenses”, expenditure under such contract/ outsourcing arrangements needs to be included under the definition. However, doing so immediately would place an undue burden on the MCs. A state level assessment of the long term burden of committed expenditure under current trajectories of employment would be helpful to understand if these pressures are transitory, or whether structural changes need to be made (by the State and the MCs) towards this
- The recent initiatives of CMA around creating depreciation registers and asset registers (e.g., road ledger) is felt by the MCs as a positive step, which can help feed into project planning in the mid term. Connecting these registers with future rounds of funding, and potentially devolution (in the next SFC rounds) could help match resources to specific needs. This is particularly prominent given the thematic push by the CFC as well on specific areas (e.g., earmarking funds for water and sanitation)
- Capacity to comprehend and implement newer project models such as outcome funding (pay for outcomes rather than projects) seems to be relatively limited. While the transformative potential of such mechanisms on the quality of expenditure is high, these could happen on a pilot basis to start with for some success stories to be created to inform broader rollout

3.3.3 Charts and Tables





3.4 Human Resources

3.4.1 Key observations from analysis of MC data

- Availability of quality human resources is a key requirement for improved service delivery. On an average (in 2020), the sanctioned staff per 1000 population (2011) was 2.8.
- However the variation in actual working staff levels across MCs is lower (standard deviation of 0.5) than that of sanctioned numbers (standard deviation of 1.9).
- Issues of unavailability are particularly high for technical areas like legal cell and taxation appeal which have few sanctioned posts. Similarly, among major Departments, Revenue (56%) and Engineering (51%) have large vacancies.
- Average vacancy rates are at ~ 40%, and the sanctioned figures are quite dispersed compared to filled posts.
- MCs are already using outsourcing for several functions (sanitation workers, data entry operators, drivers etc.). Broadly, their qualitative feedback of such outsourcing channels also appears to be positive, and the cost is much lower (average of under 1.8 lakh per year which is much lower than the lowest grade pay).

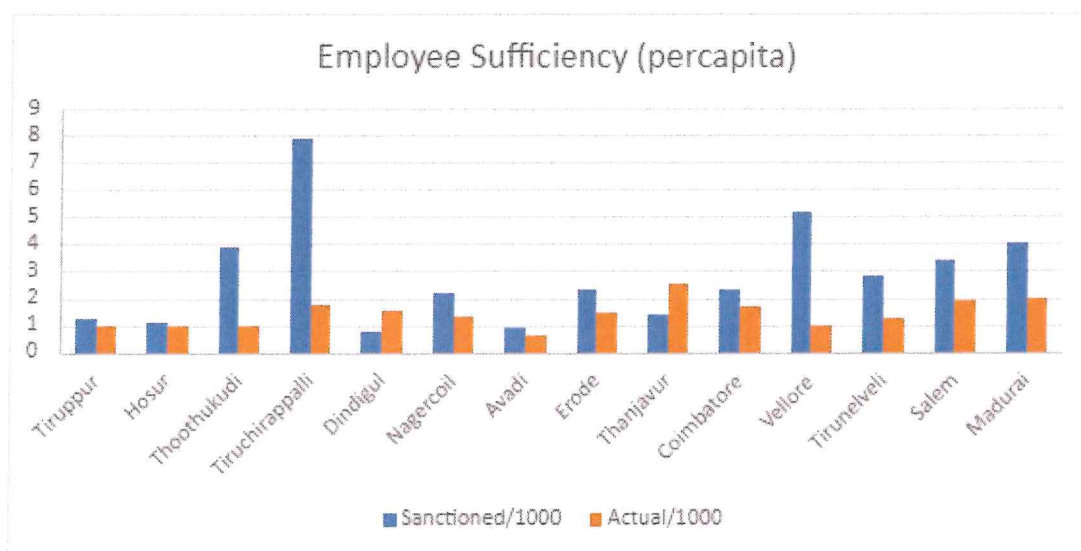
3.4.2 Inputs from Primaries

- Staffing is one of the top areas of concern of MCs, with demands being articulated across frontline and managerial positions. In the context of a freeze on regular recruitments (for MCs with high levels of committed expenses), frontline functions are seen as being relatively more outsourceable compared to managerial positions. For large municipal corporations there is a need for additional administrative heads (IAS / PCS Grade 1 cadre) particularly for the public health department.
- MCs acknowledge that “norms based benchmarks” should be put in place to drive sanction of posts and recruitments. Such benchmarking should consider key demand factors (e.g., population, newly added areas etc.) with a transition pathway towards greater convergence across MCs.
- In general, contracts and outsourcing are driven by constraints on regular recruitment, rather than from intrinsic benefits (e.g., greater accountability, lower long term commitments etc.) and costs (e.g., loss of MC’s internal capacities, managerial bandwidth of MCs to manage contracts etc.). Provision of guidelines to help MCs assess the relative suitability of different recruitment channels (e.g., on roll/ contract/ outsourcing functions and outsourcing functionaries) is requested.
- Within the current resource envelopes, there are many cases of redeployment driven by needs. To illustrate, some Municipal Corporations mentioned redeploying some of the Engineering Department resources to support tax assessments and punitive

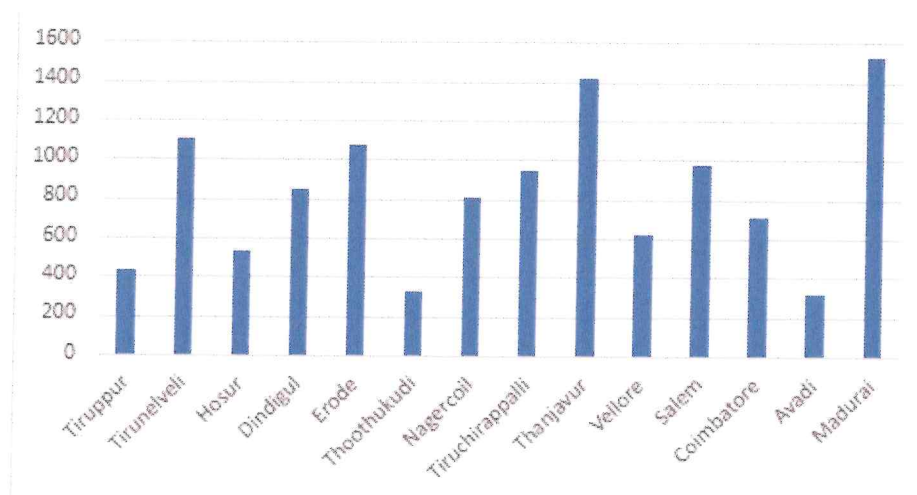
actions (e.g., disconnections) during the Jan-March quarter, since a large amount of assessment and collection work is focused then.

- Integration of newly added areas has been highlighted as a key issue on the HR front as well. In several cases, even after many years post assimilation, the HR integration does not seem to have happened. Provision of guidelines for time bound integration of the cadre is a key felt need.
- Having formal systems for rotation of staff across MCs is one of the most frequently emphasized areas for reform. It is strongly felt that such a system would both help reward good talent (e.g., officers who are able to conceptualize, design and procure projects have unique skill sets which might not be required within a particular MC all the time) and penalize poor performance. The current process for moving from one MC to another is felt to be highly non-transparent with avenues for rent seeking. Additionally, the option value of such a platform itself was felt as being useful in providing a performance orientation for staff.
- Training and capacity building was in general felt to be more rote and with limited practical application. A move from “designation based” training to “role based” training, with focus on fewer and more relevant modules emphasizing on the current demands on roles was requested. For instance, “handling community interfaces during execution of works” is a very specific and strongly felt need of MCs which are implementing works which involve road access restriction.

3.4.3 Charts and Tables



Salaries PC (Citizen Population)



3.5 Collection Efficiency

3.5.1 Key observations from analysis of MC data

- Given that property taxes and other charges account for a large share of MC revenues (Property taxes ~ 21%, Profession tax ~ 4.5% and Water supply and drainage tax ~ 8.2%), and given constraints around large revisions of tax rates, improving collection efficiency is a relatively more efficient pathway to increase revenues.
- However, the collection efficiencies of these have been dipping over time on property taxes and water/ sanitation taxes.
- This has resulted in piling up of arrears - for instance, in property tax, 5 MCs (Thoothukudi, Nagercoil, Thanjavur, Vellore and Salem) had arrears at over 100% of the current year demand in FY20.
- Similarly, collection efficiency of water and sewerage charges has also been stagnant/ declining (compared to benchmarks of 90% recommended by MoHUA).

3.5.2 Inputs from Primaries

- One area which multiple MCs have already begun working on is integrating multiple databases and touch points for better capture of assessee information. For instance, comparing PT records with electricity Discom records to check on the number and categorization of properties is being done on a periodic basis. However, this is currently done on an ad-hoc basis with room for structural support on data sharing and comparisons.
- On similar lines, MCs have also expressed interest in linking the PT database with the registration platform to ensure that property registration data concurs with the PT assessment data, and registration becomes a point of compliance for dues.

- Temporary redeployment to focus on collection functions during the first quarter of the calendar year was mentioned in some MCs.
- Bundling collection of service charges (water, sewerage) with PT was discussed, but MCs were inconclusive on the net benefits of such bundling.
- A specific suggestion was to impose interest charges on late collections. While Chennai Corporation has this¹ (both interest on late payments and incentive for early payments), a similar setup is felt to improve liquidity.
- A recurring request of the MCs is to place mechanisms for collection agents. This seems to have been attempted (e.g., through the postal network), but MCs feel that broad basing such partnerships would help improve collections. TANGEDCO prominently figured in some of the discussions, especially given the potential for linked service disconnection. MCs also seem to be open to incentives for their own staff linked to collection outcomes. However, the legality of such mechanisms, along with potential incentive mismatches was acknowledged as being important to consider
- MCs indicated limited control over litigations, as well as on amnesty and renegotiations on PT. Given arrears form a large chunk of the regulatory assets with the MCs, creating a mechanism for one-time renegotiation of dues was requested to be considered. On a related note, there is limited evidence with MCs on the response rates of collections to rate changes (Laffer curve effects).
- Given rate changes are the jurisdiction of the Property Tax Board, and given the long gap since the last revision (2008), pilots on changing rates and amnesty schemes could help understand the response on collections, and help shape better tax policy

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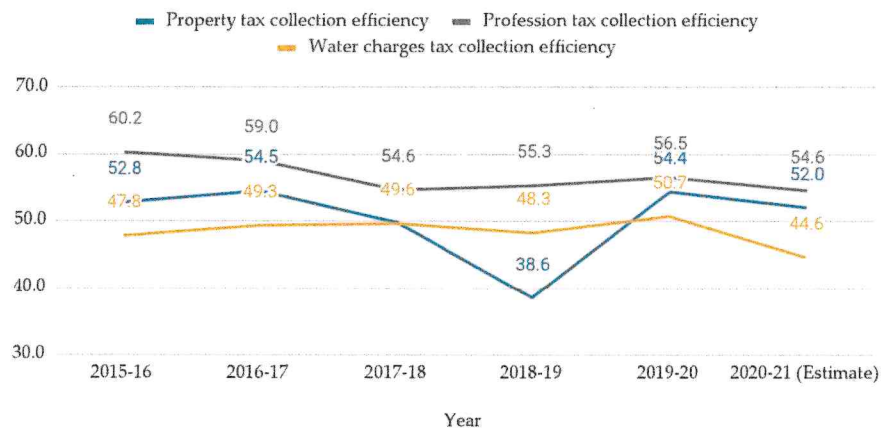
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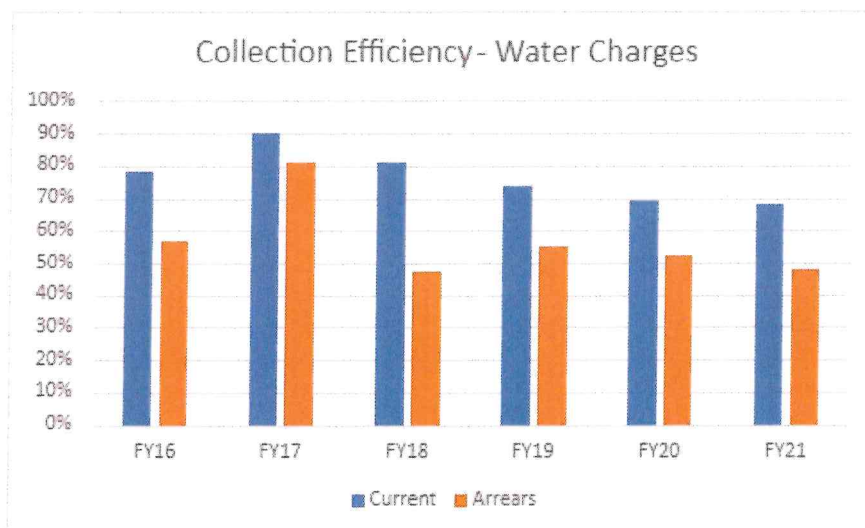
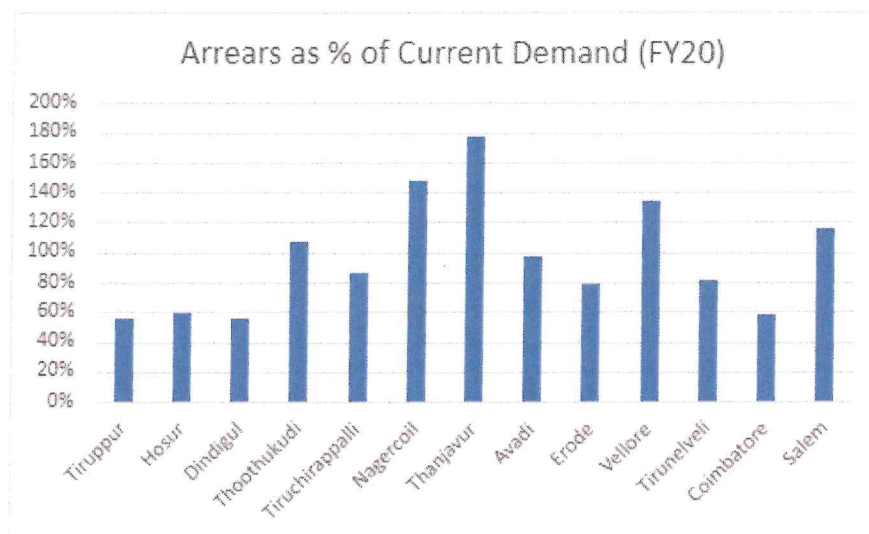
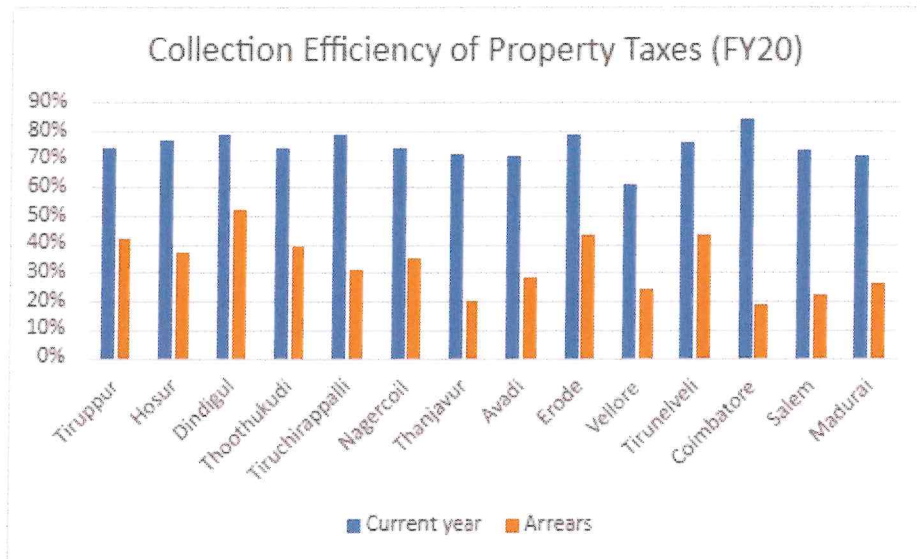
3.5.3 Charts and Tables

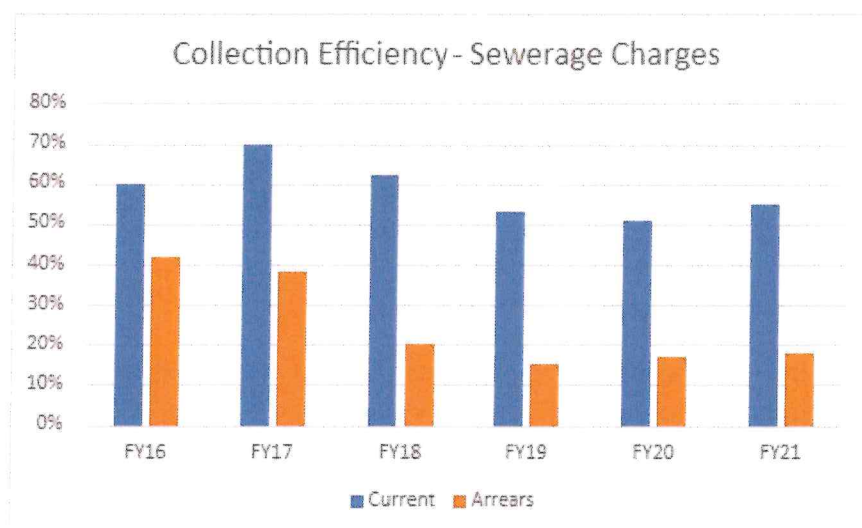
Average share of revenues from major taxes as a share of total revenue over the years (in %)



Average tax collection efficiency for all corporations for top 3 taxes over time (in %)







3.6 Cost Coverage and Ability to Charge

3.6.1 Key observations from analysis of MC data

- In principle, at a minimum, the operating expenses for key services (water, sanitation, solid waste management, parking etc.) need to be covered through user fee collections. However, across India, most ULBs collect only a fraction of even operating costs
- Property tax rates in India have been acknowledged as one of the least in the world (as % of GDP), despite property tax being one of the most progressive instruments. The 5th SFC has also highlighted potential to significantly enhance PT in ULBs, especially MCs. However, despite on-paper ability to increase property tax rates, actual increases have been much lower and less frequent
- There are issues in accurate apportionment and measurement of costs. For instance, even excluding the 2019 cohort of MCs, the per capita O&M costs (FY20) vary significantly
- Similarly there is variation (though of a lesser magnitude) in the tariffs
 - Water charges range from Rs. 53 to Rs. 220, at an average of Rs. 116 (meter rate) and from Rs. 15 to Rs. 200, at an average of Rs. 93 (tap rate)
 - Sewerage charges vary from under Rs. 60 (Tiruppur, Tirunelveli, Trichy) to over Rs. 150 (Vellore, Coimbatore, Madurai, Avadi)
- The above create a wide range of cost coverage (fraction of O&M expenses covered by user charges)
- Correspondingly, there is also a large gap in measuring “quality of service delivered”. Even in areas like water, where 6 of 14 MCs have 100% metering, there is

limited information on quality of service (water quality, timings, pressure, regularity etc.)

- Such lack of objective basis for setting tariffs (driven by costs or quality of service) also reflects in the tariff setting frequency. Only 4 of the 14 ULBs had water tariff revisions in the past 5 years (post 2015), another 6 between 2010 and 2015, and the rest over 10 years ago (2010 or earlier)

3.6.2 Inputs from Primaries

- In general, there seems to be an understanding of broad principles for tariff setting (e.g., minimum coverage of O&M through user charges). However, there are two acknowledged issues - first, there seems to be limited formalization of how cost to serve (even the O&M component) should be calculated. Second, the user charges assume a collection rate of 100%, which for most services is felt to be extremely ambitious (typical collection rates are half of this)
- Templatization of the tariff setting/ proposal process was acknowledged as a useful area for support. Especially given political pressures (councils) in resetting tariffs, some guidance from the State (CMA) on the process for such tariff resetting, along with guidance to compulsorily undertake revisions on a periodic basis were felt to provide some cover for such revision proposals
- To support MCs on the tariff setting/ proposal process, it was also felt that some benchmarks on both costs and tariffs from across the States should be provided. This could also help communicate/ justify the increases to citizens for greater legitimacy, which was felt as being positively linked to compliance and collections
- On property taxes, while the rate setting powers are with the Property Tax Board, revision of the status of the PT zones over time was acknowledged as something the MCs could do within their powers. Given the criteria for such classification is largely objective and can be done relatively easily, this could be an immediate area of focus
- On assessments of willingness and ability to pay, MCs felt that this was largely a political process and that they would have limited capacity to implement formal assessments. They were of the opinion that a “cost based” rationale for justifying tariffs should be placed before the Council, supported by relevant benchmarks, and that the Council would bring qualitative assessments of willingness/ ability to pay

3.6.3 Charts and Tables

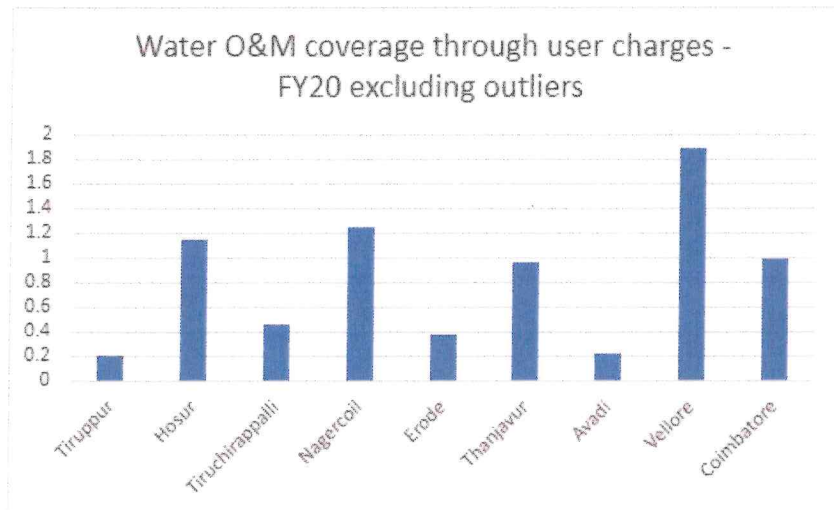
Comparison of water tariffs (as on Mar 2020) across MCs

	Meter Rate	Tap Rate	Supply Type	Year of Revision
Tiruppur	72	0	Intermittent	1993
Dindigul	0	46	Regular	2018
Hosur	0	125	Regular	2020

Thoothukudi	150	15	Regular	2015
Tiruchirappalli	0	160	Regular	2014
Nagercoil	53	50	Regular	2003
Erode	0	62	Regular	2017
Tirunelveli	100	0	Regular	2010
Thanjavur	0	75	Regular	2013
Avadi	220	0	Regular	0
Vellore	0	200	Regular	2020
Coimbatore	100	60	Intermittent	2013
Madurai	0	75	Intermittent	2012
Salem	0	151	Regular	2015

Per capita O&M and collection for water

	O&M per capita FY20	Collection Per capita FY20	O&M coverage through charges	%collection FY20
Tiruppur	680	135	0.2	-
Dindigul	57	250	4.41	42
Hosur	55	63	1.14	66
Tiruchirappalli	54	25	0.46	52
Nagercoil	75	93	1.24	69
Erode	378	139	0.37	86
Tirunelveli	20	186	9.4	62
Thanjavur	108	104	0.96	51
Avadi	15	3	0.22	39
Vellore	61	115	1.89	36
Coimbatore	226	224	0.99	54



3.7 Alternate Models of Ownership/ Service Delivery

3.7.1 Key observations from analysis of MC data

- In line with the 74th Amendment, several services have been moved under the purview of MCs. However, many services still witness joint participation in service delivery by MCs and other entities. These include para-statal agencies and line Departments
- Most MCs already maintain the lion's share of both roads and drains by themselves. ~ 95% of drains and ~ 90% of roads are maintained by MCs, and the rest by other Departments (Highways, PWD etc.). Given significant synergies and operational efficiencies from vesting this entirely with the MCs, the same could be evaluated
- Across MCs, the realization rate of own projects seems to be higher than TWAD - To illustrate, 754 of 816 MLD was realized for own projects (92%) compared to 74% for TWAD. This could potentially indicate maturity to diversify the choice of project implementation partners
- Almost all MCs have some form of Pvt. partnerships across service delivery areas (solid waste management, pumping O&M, street lights, UGD, water supply etc.), and are largely satisfied with the arrangement
- There seems to be broad support for privatization/ outsourcing SWM with 10 of the MCs indicating that it is a feasible idea, including indicating a preference for creating level playing fields for NGOs
- However, despite agreeing that some form of engagement with the Pvt. sector is efficient, most MCs are not able to quantify savings - on service delivery or employee costs (given the vacancy figures compared to sanctioned posts)

3.7.2 Inputs from Primaries

- MCs are in general in favour of taking O&M ownership of all roads and storm water drains within their jurisdictions, in view of greater operational control and better coordination on access, repairs, service interruptions etc. However, they also request that the funds for maintaining these be made available from line Departments (e.g., through share of road taxes proportionate to registrations in their jurisdiction)
- On para-statal agencies, MCs state having mixed experience working with TWAD Board. While the technical capabilities of TWAD Board are in general acknowledged, issues are felt on responsiveness and accountability. MCs with greater experience of designing and implementing projects feel that working internally (with support from Pvt. sector) at times is preferable to partnering with TWAD Board
- On the larger question of level and nature of engagement with the Private sector, MCs appear to be divided on the motivations. While most MCs feel that working with the Private sector is beneficial, they also feel that the cost savings are hard to quantify, and that most of the savings on personnel time are usually redeployed in other functions (given the large prevalence of vacancies). This also at times seems to put MCs on the defensive (one MC felt that the onus of justifying the Pvt. partner model was always on the MC, while there was no such close scrutiny for in house provision). Clarification of the value of Pvt. partnerships (in whichever form) through consideration of financial and non financial savings, and changes in service quality were considered important
- MCs feel largely confident about their technical capability in engaging with the Private sector, with ToR/ contract definition, procurement and renegotiations identified as areas for normative guidance from the CMA/ State

3.7.3 Charts and Tables

Municipal Corporation	% roads maintained by other Dept	% drains maintained by other Dept.
Tiruppur	2.54%	2.42%
Dindigul	13.26%	6.25%
Hosur	7.49%	4.75%
Thoothukudi	22.00%	3.41%
Tiruchirappalli	8.34%	5.43%
Nagercoil	16.47%	11.69%
Erode	13.63%	1.42%
Tirunelveli	11.08%	1.97%
Thanjavur	7.92%	48.60%
Avadi	1.60%	6.12%
Vellore	11.26%	1.03%

Coimbatore	19.90%	0.18%
Madurai	7.72%	2.20%
Salem	15.47%	4.72%

MCs profiled on engagement with the private sector for service delivery

MC	Waste collection	Street cleaning	Street lights	Pumping O&M	UGD	Water Supply	Health/ Sanitation
Tiruppur	Yes	Yes	Yes				
Hosur	Yes	Yes	Yes				
Tiruchirappalli	Yes	Yes	Yes	Yes			
Thoothukudi			Yes	Yes	Yes		
Dindigul	Yes		Yes		Yes	Yes	
Erode	Yes	Yes	Yes		Yes		
Nagercoil	Yes		Yes				
Tirunelveli			Yes		Yes		
Vellore	Yes	Yes	Yes		Yes		
Madurai							
Coimbatore						Yes	
Avadi			Yes	Yes		Yes	Yes
Salem			Yes			Yes	
Thanjavur	Yes	Yes	Yes	Yes	Yes		

3.8 Institutional Capacity and Transitions

3.8.1 Key observations from analysis of MC data

- There seems to be an effect of vintage on outcomes. If we split the MCs into 3 groups (pre 2000, 2000-2010 and post 2010). Despite having average endowment levels, older MCs seem to have better governance. While this need not be strictly causal, it is useful to assess the “transition” that a ULB goes through when it becomes a MC - in terms of both demands and opportunities for capacity enhancement

Particulars	Pre 2000	2000-2010	Post 2010
Municipal Corporations	Trichy, Tirunelveli, Coimbatore, Madurai, Salem	Tiruppur, Thoothukudi, Erode, Vellore	Hosur, Dindigul, Nagercoil, Avadi, Thanjavur
Municipal Performance Index score (2021)	48.04	45.56	42.6
Ease of Living score (2021)	56.24	53.6	52.18
Per Capita MC Income (2020)	INR 5762	INR 6691	INR 5241
Average sewerage charge (proxy to willingness to charge)	116.4	103	91
Non Tax Revenue to total revenue (proxy for diversification)	37.96%	33.95%	29.1%

3.8.2 Inputs from Primaries

- MCs feel that more structured support in transitioning to enhanced responsibilities (as Municipal Corporations) would be helpful. This could include both people level and institutional capacity building. Smoothing capacity in transition
- The Smart City Mission experience has placed greater resources and autonomy on the MCs over the past few years. Broadly three trends are observed
 - MCs feel that greater autonomy, especially for project level approvals are warranted given the SCM experience. While the usual approval limit within MCs for projects is INR 1 Crore, this is INR 3 Crore for SCM projects. MCs feel that they are able to handle projects up to INR 3 Crore internally, with periodic accountability to the CMA
 - While recognizing the SCM as a channel for infrastructural funding, MCs however do not necessarily see it in the true sense of an SPV (i.e. one that would be relevant through the O&M stages of projects). For instance, there are few projects where real investment is brought in by Private partners, or where the Smart City SPVs are envisaged playing an O&M role (sharing both costs and revenues with the MC).
- In general, with expanding size, MCs feel that support on improving systemic outreach to citizens will be valuable

- There is overall limited felt need for regulatory capacity improvement, with MCs preferring to focus on their service delivery/ provision roles in the near - mid term

4. Recommendations

Based on the above thematic analysis and inputs from primary interactions, and in corroboration with good practices, the following list of recommendations has been drawn up. These are organized across three groups (1) Revenue enhancement (especially property taxes), (2) HR and capacity building and (3) Service delivery and others. Under each group, recommendations have further been classified by category (i) those requiring policy or legislative actions (ii) those requiring modifications to schemes or creation of new schemes involving financial outlays and (iii) Process improvements and creation of/ modifications to guidelines which can be done relatively quickly. Finally, the tentative timelines to implementation for each recommendation is classified into (a) Short term (under 6 months), (b) Medium term (1-2 years) and (c) Long term (2-3 years). For each recommendation, an owner, along with key supporting stakeholders has been mapped:

4.1 Revenue Enhancement (especially Property Tax)

4.1.1 *Creation of a robust property database with unique property identifiers (UIDs²) using the existing GIS maps with timely updates*

- (a) Problem Statement: Lack of a consolidated and periodically updated database of properties that would aid in widening the property tax net through timely updation, in assessments and in tracking changes in ownership of properties as a result of transactions and mutations
- (b) Recommendation: Creation of a robust property database with unique property identifiers (UIDs) and linking these with the existing GIS maps created as part of the Jawaharlal Nehru National Urban Reform Mission (JnNURM). UID then becomes the basis of recording any transactions and calculating tax liabilities on the property
- (c) Example: Cities which have improved property tax assessments with the use of GIS are:
 - 1. Greater Visakhapatnam Municipal Corporation - Under Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the Corporation introduced GIS mapping and unique property identifiers and added 50,000 new properties and 47,000 vacant land parcels to its property register. The Corporation doubled its tax collection from INR 77 crores to INR 169 crores from 2010-11 to 2013-14 on account of updated property rolls.
 - 2. Pune Municipal Corporation - The Corporation created a digital database of properties with GIS mapping and unique identifiers. With the update in property rolls, the taxable base for properties increased from 8.34 lakh to 9.23 lakh, resulting in an addition of Rs. 89 crore to the tax base.³

² Awasthi & Nagarajan, "Property Taxation in India: Issues Impacting Revenue Performance and Suggestions for Reform," 11

³<https://www.hindustantimes.com/pune-news/pmc-completes-gis-mapping-of-2-5-lakh-properties/story-6ChuhYmluO9fWqD88gmRIJ.html>

3. Karnataka's Asthi project - Among the property tax reforms, the state carried out cadastral-level GIS mapping. More than 3.8 million properties were covered under the exercise. The use of GIS mapping brought about 1.2 million additional properties under the tax net.

4.1.2 Linking the revenue and town planning data with such a property database to facilitate convergence

- (a) Problem Statement: Lack of interoperability of data and a coherent work flow across departments such as Town Planning and Revenue renders tracking property transactions difficult and thus impacts the efficiency of tax collection
- (b) Recommendation: Linking the revenue data with respect to stamp duties and the town planning data with respect to planning permissions, construction and completion with the property database through the UIDs to facilitate convergence. This has been recommended by the Fifth SFC in its report and would immensely benefit in widening the tax base almost real-time
- (c) Data / Evidence / Reference / Example: The Pune Municipal Corporation linked the servers of property tax and the Inspector General of Registration and Stamps Office helps get unassessed properties into the tax base.

4.1.3 Assess modifications to property tax assessments process / basis

- (a) Problem Statement: The Urban Local Bodies in the state levy property taxes based on the Annual Rental Values (ARV) method. However, the ARV is the least preferred of the three valuation methods due to the difficulty in determining market rental values
- (b) Recommendation: To change the valuation method to an unit area method given its predictability and ease of compliance under self assessment methods. This has been endorsed by the Fifth SFC in its 2016 report. As per the recommendation, The value of the property should be determined based on the guideline value of the land, the value of the building, the built up area, type and quality of construction, number of floors and its usage.
- (c) Data / Evidence / Reference / Example: Patna Municipal Corporation successfully transitioned to this method back in 2002⁴ and other cities like Delhi, Kolkata, Bengaluru and Pune also follow unit area based system of valuation.

4.1.4 Commission studies / pilots related to property tax assessments, collection platforms, IEC and improve capacity of municipal corporations

- (a) Problem Statement: The ULBs face a common problem of pending property revaluations that is mostly rooted in the resource and staff crunch.
- (b) Recommendation: The larger corporations with the state can experiment with artificial neural networks (ANN) based modelling of the real estate market to do mass assessments of properties. This could be done using both the static (construction and operational characteristics) and the dynamic parameters (state of

⁴ Awasthi & Nagarajan, "Property Taxation in India: Issues Impacting Revenue Performance and Suggestions for Reform," 19

the economy) in partnership with institutions such as Wadhvani AI. Such a model could potentially facilitate frequent revaluation cycles, say once every 2 to 3 years, and requires fewer staff to undertake the appraisal processes

- (c) Data / Evidence / Reference / Example: It has been previously demonstrated for a select Russian cities⁵ using the geographical, construction, operational, time, and macroeconomic factors as input parameters. The model was successful in predicting the value of properties with an acceptable degree of accuracy.

4.1.5 Assess devolution of property tax related powers to MCs - to decide on the tax rates and the incentive structure for enforcement agents and the taxpayers

- (a) Problem Statement: The tax rates are currently decided by the state government and are not linked to the financial needs of the ULBs. These rates are not revised frequently except under extraordinary circumstances. The last revision to the property tax rates in the state was in 2008.
- (b) Recommendation: While the state can prescribe the minimum and maximum tax rates, the municipal corporations should have the discretion in setting the property tax rates along with the incentive structure for enforcement agents and the taxpayers. This shall bring an immediate linkage to service delivery and build accountability for service delivery performance
- (c) Data / Evidence / Reference / Example: This has been recommended by the World Bank in its report titled - "Property Taxation in India: Issues Impacting Revenue Performance and Suggestions for Reform"

4.1.6 State level cell to support MCs in mapping properties, suggesting monetization options, reviewing contracts and support on auction processes.

- (a) Problem Statement: The Municipal corporations do not have the technical expertise in coordinating sophisticated GIS systems and unique property identifiers. They also lack the bandwidth to invest in their enforcement staff. Additionally, some MCs have attempted initiatives to monetize existing resources (e.g. commercial complexes, real estate) which have learnings (both on successes and failures) for other MCs. However, currently, there is no single institutional body to hold together and disseminate such learnings
- (b) Recommendation: The state should constitute a body or board which provides the ULBs with technical support and legal advisory to improve monetization initiatives. The body can serve as the nodal point for cadastral records and UID assignment of properties in the state which the ULBs can then refer to. This body will also maintain a repository of asset monetization initiatives undertaken, along with reference templates (e.g. DPRs, bid advisory notes, auction guidelines, contract templates, legal advisory etc.)
- (c) Data / Evidence / Reference / Example: Karnataka Municipal Data Society (KMDS), a registered society, was constituted in 2008, to strengthen urban local bodies (ULBs) through e-governance. The society maintains a state-level Municipal Data Cell where a centralized database of all the ULBs is maintained. The society overlooks the

process of rolling municipal applications, implementing technology reforms and capacity building of municipal staff.

4.1.7 Conduct an annual exercise of reclassification of property tax zones to ensure that the latest infrastructure access is reflected in the classification (interim measure)

(a) Problem Statement:

The prevailing system of zoning wards of MCs for PT assessment is based on some measure of infrastructure access (e.g., road width, UGSS, piped water supply etc.). While there is a need to switch over to a better objective criteria for indexing the zones to reflect true market appreciation of the properties (in the mid term), the wards have not been reclassified since 2008 within the existing system resulting in loss of PT revenue. This is under the ambit of MCs and can be done expeditiously

(b) Recommendation:

As an immediate step, MCs should reclassify their wards under PT zones on an annual basis to capture the investments made in the wards in the preceding years for better realisation of PT potential. The CMA should provide technical assistance to the MCs that may need support in undertaking the reclassification exercises.

4.2 Human Resource and Capacity Building

Ensuring availability of optimal bench strength of municipal staff with the required knowledge and skill sets is a common challenge for municipal corporations in the State. The felt need is greater in managerial and administrative head level positions (e.g., Assistant Commissioner for Public Health) compared to frontline functionaries as the latter can be outsourced. Lack of benchmarking has resulted in disproportionate availability of staff in the municipal corporations in the State. Mobility of municipal staff, especially the technical cadre across the MCs is undertaken on a case-to-case basis that limits leveraging in-house technical expertise on similar or advanced level projects being undertaken in other MCs.

Furthermore, the current approach for capacity building and training of municipal staff is supply-driven and designation-based with limited innovation in training delivery thereby restricting full-fledged participation of municipal staff. To address these issues and challenges, the following recommendations are proposed:

4.2.1 The CMA should undertake a cadre benchmarking exercise to ensure availability of municipal capacity especially for merging MCs

(a) Problem Statement

Data provided by the MCs indicate wide variations in the availability of municipal staff. On an average (in 2020), the sanctioned staff per 1000 population (2011) was 2.8. This is much lower compared to other municipalities in the international and national arena. For example, Durban has 30 civic workers per 1000 people, Pune and Ahmedabad have 7 and 6, respectively whereas Chennai has about 5.⁶ Primary consultations suggest that there are no

⁶

<https://timesofindia.indiatimes.com/city/bengaluru/citys-civic-strength-350-staff-for-11-people/articleshow/45540823.cms>

standard norms for arriving at the required staff capacity for merging municipal corporations. MCs require an objective criteria of staffing for effective and efficient service delivery.

(b) Recommendation

The CMA should formulate guidelines for integration of human resource cadres for newly added areas. Among other aspects, these should cover (i) sufficiency of HR across levels and functions in view of consolidated availability and service delivery needs (ii) identification of training needs and capacity building pipeline for the staffs of merging municipalities / town panchayats, (iii) resourcing and approvals for bridging quantity and quality gaps and (iv) norms for integration of cadre across added areas with specification of timelines for the integration process.

4.2.2 The CMA should evaluate developing processes for enabling mobility for personnel across Municipal Corporations, along with a transparent rule based system for movement, in consideration of factors such as need, performance, skills etc.

(a) Problem Statement:

The mobility of staff of MCs in the State especially in the technical cadre such as municipal engineering is limited to one-off transfers for reasons related to handling of new / complex projects in another MC or pending disciplinary actions against the staff etc. Currently, such transfers take place within a given cadre and ensure equivalence of the grade of the staff to avoid any long-term career progression issues. However, there are no policy / guidelines to effect such transfers and the process by which such transfers / deputations are currently made is not transparent. Lack of visibility in transfers results in uncertainty and limits the potential of leveraging in-house technical expertise in implementing similar or advanced level projects / schemes in other MCs that take up such projects.

(b) Recommendation

Given the wide variations in the life-cycle of projects handled by the MCs, the knowledge and skills deficit in one MC could be bridged by another MC within the State. For instance, officials involved in conceptualisation and structuring of a water supply project on a PPP mode could support another MC that is planning a similar project. Similarly, a municipal engineer who oversaw the takeover of a UGSS project from the parastatal could be deputed to the MC that is likely to witness a similar transition of assets.

The CMA should formulate guidelines that provide for a transparent and mutually beneficial process for deputation of staff from one MC to another. The guidelines should detail the parameters for (i) defining the felt need (ii) duration of deputation (iii) fixed and flexible terms and conditions (iv) incentives for deputation, if any. The number of such deputations could be limited to 10% of the total municipal staff for select grades.

4.2.3 Formulate a state-wide Capacity Building and Training Policy and a Capacity Building and Training Programme (CBTP) with appropriate funding provisions

(a) Problem Statement

With evolving functions of MCs, increased devolution of funds, greater transparency through RTI, globalisation, climate change and other factors, the MCs are placed in a complex and challenging role with increasing expectations of their performance and their ability to respond effectively and efficiently to the needs of their citizens. MCs are in a greater need to invest in their human capital to manage rapid urbanisation with available resources in a sustainable manner. At present there is no dedicated policy at the state or departmental level along with a dedicated capacity building programme to guide comprehensive and systematic capacity building of human resource of the MCs.

(b) Recommendation

The key objective is to strengthen GoTN's existing training systems to institutionalise a competency framework approach to capacity building in TN. This approach will allow GoTN to scale its existing training initiatives to all government employees by building and leveraging a standardized technology platform, individual "competency profiles" of all government employees, analysis of "competency gaps" between employees and roles, a network of high quality domestic and global training providers to fill these gaps, and modularized digital training content that employees can complete as convenient. The CMA could consider anchoring the urban component of the capacity building programme / platform within the TNIUS.

(c) Reference: CIDCO Capacity Building Platform - Ujjwal

- The City and Industrial Development Corporation (CIDCO) is a New Town Development Authority of Maharashtra responsible for town planning and development.
- In 2017, CIDCO launched 'Ujjwal' - its first online training portal to implement CIDCO's new Training Policy
- The New Training Policy was designed to aid the training and knowledge enhancement needs of all the Class I and Class II CIDCO Officers
- Ujjwal is an integrated platform that provides access to a wide range of managerial, technical and behavioural courses from world-class institutes.
- Ujjwal's Training Management System has four modules capturing (i) employee database including age, experience, designation, cadre and reporting officer (ii) list of 77 training partners and (iii) list of 999 training courses available for CIDCO employees with, training calendar, details of course description, intended audience, start and end dates and fees (iv) Feedback and outreach through rating of courses, monthly reports etc. are available
- So far 788 CIDCO employees have completed training in courses of their choice by providing plug-in training needs and knowledge gaps in a timely manner and the

platform has contributed in reduction of institutional barriers to training by promoting the role of the employee towards the organisation.

4.2.4 Develop and administer role based “training needs assessments.” Leverage ICT for “refresher trainings” and to track the effect of training on perceived capability and performance

Strengthening the capacities of the urban local bodies especially the municipal corporations is critical given their share of urban population, investment size and increasing absorption of functions and powers devolved to them. Together these 14 municipal corporations are responsible for providing high-quality municipal services to 10.5 million (Census 2011) urban population and during the past five years they have invested nearly Rs. 2600 (Excluding CCMC) in various municipal projects, schemes and works. Some of the municipal corporations such as Coimbatore, Tiruchirappalli etc. have started implementing water supply and sewerage projects on their own thereby acquiring new domain capabilities. Municipal Officials across levels take on responsibilities of tasks for which they do not have any prior experience or knowledge. For example, 12 of the 14 municipal corporations are setting up integrated command and control centres under the smart cities projects, several have taken up bio-mining projects under SBM etc. With growing citizens' expectations and increase in the number of municipal corporations taking up infrastructure projects in newer areas and/or large project size, there is a need for systematically building capacities and reducing competency gaps of municipal officials for achievement of better outcomes.

Some of the specific training and capacity building issues faced by the municipal corporations include limited capacity and skill sets to comprehensively appraise high-value projects. Further, projects that are likely to have significant environmental and social impacts and those with inter-sectoral linkages are particularly challenging for the officials. In such projects, training on stakeholder engagement and management including exposure to best practices in citizen engagement is of interest to the municipal officials. It was highlighted during our consultations that the felt need for capacity building and training is greater during the project implementation period due to lack of qualified field staff. It was also mentioned that often there are significant lags between the time of training received and use of knowledge /skills received and a just-in-time training to officials would be helpful. There is limited innovation in the delivery of training imparted as most of the training programmes follow a classroom based training delivered by subject matter experts with provision of exposure visits in some cases.

The current approach to capacity building and training of municipal functionaries across departments and levels needs to be revisited to make it more comprehensive, rigorous, inclusive and efficient. The Tamil Nadu Institute of Urban Studies is the nodal institute for imparting training and some training programmes are conducted directly by the CMA and other agencies such as TNUIFSL and TUFIDCO. A review of the training programmes offered by these agencies suggests that most of the training programmes focus on improving understanding of officials on new processes, guidelines etc. and contribute to expanding their knowledge base linked to specific programmes including the CSSs.

Further, the training programmes target ‘designations’ such as municipal engineer (for all technical training), sanitary worker (for SWM training) and not specific ‘roles’ that the officials in such designations perform in a given year. For example, an executive engineer may play a technical role during the project appraisal stage (DPR stage) and more supervisory role at the project O&M stage and considering the time-lag between these stages, he/she may not need both these competencies in a given year. Given that training needs are dynamic and linked to ‘activities’ rather than ‘designation’ that a municipal official holds, prioritization of the felt-training needs across designations and departments / organization would help in building capacities in a sustainable way. These 14 municipal corporations have a combined staff strength of 27,305 and even accounting for vacancies (~40%), nearly 16,383 officials need to be imparted training including learning on different competencies each year. Assuming a per person training duration of 10 days, this amounts to 1.6 lakh training days which can have a significant impact on service delivery operations – the core job functions of municipal functionaries. TNIUS’s capacity to manage training of such scale is limited – during 2018-19 – 2020-21, TNIUS trained 9,866 across 20 courses and most of these training courses targeted mid and junior level functionaries. Leveraging ICT to design an e-learning platform could open avenues for self-learning and training at scale and at the same time cover the training needs of a large number of officials who have limited or no access to high-quality training programmes.

(b) Recommendation:

The CMA should consider making a shift-from a ‘designation or a rule-based’ training system to a ‘role-based’ capacity building ecosystem would entail (a) identification of multiple roles that an individual is supposed to perform, (b) the set of activities associated with each role and finally (c) current and required competency level for each activity across behavioral, functional and domain aspects (DoPT, 2021). The CMA could evaluate developing a competency enhancement linked continuous learning platform that provides municipal officials flexibility in taking up courses of their choice relevant to their existing and required competencies. In order to incentivise acquisition of competencies, provision of one-time financial assistance to municipal officials could be explored. Further, salary increments of municipal staff could be linked to completion of training courses.⁷

4.2.5 Provide Technical Assistance to MCs on Infrastructure Planning and Alternative Project Implementation Models

(a) Problem Statement

MCs have gained funding access to several GoI and GoTN programmes and schemes that are linked to improvements in service delivery levels. Unlike sectors like roads where infrastructure choices are mature and to an extent standardised, municipal services such as water, solid waste management, sanitation etc. have alternative models of infrastructure and service delivery (e.g., sewerage vs. non-sewered sanitation) and often city managers have to take an incremental approach in achieving universal coverage due to lack of funds and

⁷ As per the AP Public Health and Municipal Engineering Services Rules 1965, PWD officials and subordinates need to pass an Accounts Test and the penalty to pass the test within the prescribed period results in stoppage of increment [G.O.Ms.No. 168, Municipal administration, dated 20-2- 1965]

competing priorities. However, a long-term planning perspective is required given that both capital and O&M funding needs to be factored in for uninterrupted service delivery. MCs require capacity to evaluate such choices in view of local context, long term sustainability and fiscal constraints.

(b) Recommendation

The CMA should strengthen its technical support to the MCs in the area of long-term goal setting for each MCs based on their current service levels, resources and implementation capacities. This support should include capital investment planning, comprehensive O&M of infrastructure assets created including assessment of service quality (e.g., timeliness of the services provided, interruptions during service delivery and complaint redressal etc.).

To aid this, two activities should be taken up by the MCs / CMA on an immediate / short-term basis. First, the Terms of Reference of consultants appointed by the MCs / CMA should include the task of creating a repository of template / tools and other resources related to infrastructure project planning and assessment of alternative implementation models (e.g., PPP) for both capital expenditure and O&M projects. For example, the City Wise Inclusive Sanitation Sanitation Assessment and Planning (CWIS SAP) Tool has been developed by BMGF to help decision makers compare outcomes of different sanitation interventions or investments. Similarly, the World Bank has an Urban Regeneration Decision [Tool](#) that helps decision making over four key phases of an urban regeneration project - scoping, planning, financing and implementation. The [PPP tools](#) developed by the World Bank can be used for (1) prioritization of infrastructure pipeline (2) assess the implementation mode of projects (PPP vs public sector) and (3) structuring of a sustainable PPP project. The Bank has also developed [tools](#) for 'Performance-based Contracting for Non-Revenue Water Reduction' and Climate Change Assessment and Adaptation.

Second, the MCs with support from CMA if required take analytical studies to forecast their committed liabilities over time, and in comparison with expected revenues for better longer term planning. The CMA should provide support to the MCs that require undertaking studies to assess their overall financial positions (and debt-service forecasting) with respect to committed expenditure on projects (both capex and opex), salaries including pension liabilities and contingencies. This would help the MCs in assessing the fiscal space for new debts and additional financial commitments.

The formation of four new municipal corporations in the State provides an opportunity to systematically build their technical infrastructure from scratch. Interventions such as GIS based mapping of municipal properties, utility infrastructure including roads could be taken up in these newly formed MCs early on to build a comprehensive municipal infrastructure database.

4.3 Service Delivery and Other Areas

4.3.1 Develop guidelines for measuring service delivery through a combination of access (e.g., infrastructure) and user feedback related elements, and use this as a basis for coming up with service improvement plans and resources for newly added areas.

(a) Problem Statement

Over the past two decades, several Municipalities have been upgraded as MCs. Additionally, there have been many rounds of additions of LBs to MCs, expanding their jurisdiction. Such transitions however lack a rule based mechanism (based on need) for allocation of resources for upgradation. This makes it difficult to allocate resources optimally. The current system of classification of wards into tiers based on access to infrastructure is crude, and even in its current form has not been updated since 2008 (wards have not been reclassified). Given the announcement in August 2021 to create additional Municipal Corporations (Tambaram, Kancheepuram, Kumbakonam, Karur, Cuddalore and Sivakasi), this assumes significance to evaluate needs of newly added/ upgraded areas

(b) Recommendation

Develop an easy to assess index of “deprivation” or “service delivery” which can be implemented at the ward level. This can include elements of access/ infrastructure and service delivery (e.g. kms of road length, kms of SWD length, total functional street lights, % households with water and sewerage connections, quantity of water supplied etc.). In addition to these, citizen centric measures such as complaints per capita, unresolved grievances, and citizen satisfaction with overall service delivery can be included. Given the emergence of phone based surveys as a low cost platform, such citizen focused assessments can be quickly rolled out to areas which are proposed to be added to Municipal Corporations, to assess their level of need rapidly. Both the ease of living index and SBM provide templates to carry out rapid citizen centric assessments. This index can be linked to funding available for such upgrades to make it more salient.

Create a fund which can be used by MCs with newly added areas, along with a set of rule based processes (drawing from the above deprivation index) for determining allocation. This fund will focus on equalizing levels of service delivery and access between core and added areas, to ensure that such equalization is achieved in a time bound manner

4.3.2 Create rule based processes to guide addition of new areas into MCs

(a) Problem Statement

The current process for announcing mergers of new areas into MCs is unclear, with limited transparency on the factors considered for such a decision. Given the wide variation in the profiles of ULBs declared as MCs (e.g. population, area, time for which they have been Municipalities etc.), together with wide ranging ramifications of such announcements, it is important to provide transparency on what factors can trigger an upgrade. This will also help ULB managers plan for transitions over time

(b) Recommendations

Create guidelines to advise decision makers on decisions of upgradation and merger of LBs to MCs. These guidelines can incorporate elements of (a) Administrative synergies (b) Economic synergies (c) Citizen/ elected representatives felt needs (d) Human resource efficiencies and integration considerations and (e) Financial sustainability in view of expenditures and revenues of the local bodies in consideration. There are domestic and

Global examples of such rule based systems which the State could draw from. Such a considered analysis of potential and challenges for integration would be a useful input to decision making both prior to and post the merger decisions

(c) Examples

Gujarat:

- In Gujarat, municipal corporations can identify areas that could be added within their jurisdictions and submit proposals to the State Government. For example, both Ahmedabad and Gandhinagar Municipal Corporations identified Bopal-Ghuma and surrounding areas for including them within their municipal boundaries.
- The Municipal Corporations discuss the underlying rationale for such inclusion with the State Government and negotiate the areas for merger. However, the final decision is taken by the State Government.
- For the newly added areas, funds are allocated from a State Government scheme called Golden Jubilee Chief Minister's Urban Development Scheme.
- Once the decision to upgrade or merge areas to a MC is taken, the Gujarat Municipal Finance Board (GMFB) works with the MCs to collect data on income and expenses of last three years, salary expenses, bifurcation of expenses into revenue and grants from GMFB, sanctioned and filled posts to evaluate how the MC can generate revenue, what its expenses are and what staff requirements it would have if it is upgraded.

South Africa

- The Municipal Demarcation Board (MDB) is an independent authority which is responsible for determination of municipal and ward boundaries in accordance with the Municipal Demarcation Act
- Municipal boundary redetermination process is opened after the completion of local government elections and is announced in advance
- The boundary redetermination process comprises eight steps (i) initiation of Boundary Redetermination in terms of Municipal Demarcation Act (MDA) (ii) Publication of the terms of the process (iii) Consideration of views and suggestions from public / stakeholders (iv) Determine boundaries or conduct public meetings / conduct formal investigations / or conduct both (v) consider reports (vi) Decision to redetermine or not re-determine is taken (v) Consider objections (vi) Final decision on redetermination - confirm 'vary' or 'withdraw' and publish decision in provincial gazette as per MDA terms.
- Applications for retermination can be submitted online by the public or any other stakeholder

- The application form captures information such as (i) Motivation for redetermination of boundaries (advantages and disadvantages) (ii) Impact of redetermination (on budgets, the equitable share, grant received from National or Provincial governments, tax base, infrastructure, grading, administration & HR, transfer of assets and liabilities etc.) (iii) Consultations (views of stakeholders consulted) (iv) Demarcation objectives (how will the proposed redetermination improve provision of services to the communities in an equitable and sustainable manner? How will it promote social and economic development? How will it enable integrated development? How will it help in having an inclusive tax-base? etc. (v) Factors taken into account (demographic data - patterns of human settlement, migration and employment, dominating transport movements; spending, commercial and industrial linkages; financial viability and administrative capacities - revenue base, expenditure, liquidity, financial management capacity and audit findings; sharing of administrative and financial resources, effect on traditional rural communities (police, health, education etc.); land use, social, economic and transport planning; coordination with other levels of government; topographical, environmental and physical characteristics etc. (vi) Financial, Human Resource and Infrastructure Capacity - list of functions performed by district municipalities on behalf of affected municipalities, list of functions performed by external service providers etc.
- The MDB periodically carries out capacity assessments of municipal bodies and makes recommendations for improvements in their effective functioning.

The Netherlands:

- Municipalities are encouraged to take initiatives on 'merger' based on felt need; in exceptional cases, decisions are taken at the provincial level (owing to weak financial or administrative municipal capacity). The guiding principle is to assess whether merging will strengthen the administrative capacity and benefit the wider region
- Assessment criteria for mergers: There are five criteria on which the government assesses the merger decision. These are (1) public support, (2) internal coherence (do the towns fit together), (3) administrative capacity, (4) balance in the region and (5) sustainability. On the public support aspect, merger plans are made available to the public for 8 weeks and anyone can submit their views to the municipal authorities. The municipalities also need to announce when the merger plan document would be available for public inspection in the town hall.
- Municipalities can get the financial implications of mergers investigated in advance and any of the affected municipalities can submit a request to carry out the municipal merger impact assessment

4.3.3 Support to MCs in applying to innovative funding windows like TANII. Templatize application forms, and provide training through examples of model projects

(a) Problem Statement

Given the high pressure on available sources of funding to meet committed expenditure

(salaries, pensions etc.), MCs have a low appetite to invest in innovative projects on both revenue and expenditure sides. Despite dedicated funding channels like TANII being available for this purpose, its uptake is constrained by both lack of awareness among MCs, and the process of evaluating and finalizing applications at Departmental level rather than the LBs directly applying. Upto 2019-20, 320 projects from 30 departments worth Rs. 632.88 crores were recommended under TANII. In the years 2020-21 and 2019-20, Rs. 60.58 crores (9 projects) and Rs. 80.04 crores (49 projects) were recommended under TANII, respectively. However, the number of projects under the MAWSD has been low compared to others. As per the list of projects recommended under TANII, only five projects were from MAWSD in 2015-16 and no projects were recommended in the last five years.⁸

(b) Recommendations

Augment the overall pool and create a sub fund under TANII for local bodies to apply. This can also draw from performance grants from the FCs and other sources as well. At least for MCs (given their higher overall capacity), provide for a direct online application process where the MCs apply on a given template incorporating elements such as proposal novelty, replicability, broader relevance of the issue sought to be addressed etc. Provide CMA/MAWSD access to comment on such applications through a work flow rather than having them as channels for submission of the applications.

In addition to TANII/ GoTN/ GoI programs, there are also several funding platforms available globally which encourage convergence between Governments and Pvt. sector to attempt innovative solutions. For example, M/o HUA launched the Promoting Innovative Smart Solutions under SCM (upto Rs. 3 crores), CITIIS (funding upto Rs. 100 crores), Cycles4Change Challenge (funding upto Rs. 1 crore) under the Smart Cities initiative.⁹ At the international level, some of the funding platforms that MCs can reach out for action research include the Global Grand Challenge of BMGF and Global Innovation Fund (GIF).¹⁰ The above mentioned digital TANII portal can also be a conduit to such resources, redirecting MCs to appropriate platforms for raising resources.

4.3.4 Utilize the proposed unified procurement portal to support MCs on procurement and post award management

(a) Problem Statement

While procurement of large infrastructure projects which are part of schemes are typically supported by PMUs at the State level, the same level of support is not available to MCs towards post award/ procurement management of these projects or towards O&M centric projects. In this context, GoTN has also announced the creation of an e-procurement portal for all Departments - *"E-procurement will be mandatorily adopted across all procuring entities. A separate e-procurement portal will be created for the Government of Tamil Nadu to enhance transparency in Government procurement"*. This could be a suitable platform to support MCs on all procurement (works and services), and on post award management as well.

⁸ For details, please refer to <http://www.spc.tn.gov.in/TANII.html>.

⁹ Details are available at <https://smartnet.niua.org/>

¹⁰ GIF funds development, rigorous testing, and scaling up of new products, services, business processes, or policy reforms that are more cost-effective than current practice and targeted at improving the lives of the world's poorest people.

(b) Recommendation

Onboard MCs to the e-procurement portal with functionalities across procurement planning (evaluation of alternative procurement models and options), procurement, evaluation and selection, contracting and post award management. Incorporate functionalities to assess post award outcomes (quality of works/ services delivered, time overruns, cost overruns etc.) and link this back to future rounds of procurement through analytics. Provide capacity building support to MCs to use this platform, with special emphasis on issues of usability and user interface to maximize participation

4.3.5 Revision of approval norms for projects in MCs

(a) Problem Statement

Approval norms for MCs are currently set at INR 1 Crore, with larger projects under the CMA's jurisdiction for approvals. However, the recent projects under Smart City Mission have had higher approval limits (INR 3 Crore), and MCs have demonstrated capacity to absorb such sizes. Additionally, such limits remain fixed over time (till intermittent revisions), while the basis for these limits (project costs) keep expanding over time driven by inflation.

(b) Recommendation

On a trial basis, consider extension of the SCM limits on approvals to all projects of Municipal Corporations. Basis self-reporting by the MCs, evaluate adherence to norms/ controls and decide on regularizing the enhanced limits.

Create an indexing mechanism for approval limits linked to indices of inflation (WPI, services etc.) for works and services contracts. It is to be noted that several contracts led by multilateral agencies already have mechanisms for such price indexation and linked approval authority

4.3.6 Initiate discussions with PWD and Other Departments having meagre ownership of road and SWM assets for transfer to MCs

(a) Problem Statement

Due to functional fragmentation, the ownership of assets such as roads (including SWD) rests with multiple departments such as PWD, Highways etc. in the State. Lack of complete ownership results in different service levels and coordination issues during implementation of pan-city projects.

(b) Recommendations

CMA / MAWSD could initiate discussions with other departments that currently hold a small percentage of road and SWD assets in the MCs to understand their intent to transfer it to the MCs. In the event of transfer of roads from other Departments to the MCs, corresponding share of road taxes / O&M funds should also be transferred to the MCs for proper O&M of the assets.

4.3.7 Formulate mechanisms for effective and timely coordination with GOI Ministries, agencies, PSUs related to service delivery, land, RoW and property taxes

(a) Problem Statement

Consultations with MCs indicate that most pan city projects that cover multiple jurisdictions especially those involving central government ministries, departments and PSUs witness significant time delays in completion due to securing permissions / no-objection certificates etc. Existing mechanisms of consultations and communications are not very effective in driving a common understanding of the project requirements and resolution of issues and disputes.

(b) Recommendations

The State Government / MAWSD should formulate mechanisms for effective communication including securing of permissions etc. and speedy resolution of disputes among the concerned agencies at a District level.

Summary of Recommendations

No.	Recommendation Group/ Recommendation	Ownership	Category	Timeframe
4.1	Revenue Enhancement			
4.1.1	Creation of a robust property database with unique property identifiers (UIDs) using the existing GIS maps with timely updates	ULBs with technical support from CMA	Process improvements	Short term
4.1.2	Linking the revenue and town planning data with such a property database to facilitate convergence	CMA should lead this, along with the Revenue Dept.	Process improvements	Medium term
4.1.3	Assess modifications to the property tax assessment process/ basis along the following lines <ul style="list-style-type: none"> - Revision of property tax rates - Including the currently excluded properties such as private educational institutions, charity-run buildings - Revision of the valuation method from the ARV method to the unit area based one as suggested by the fifth SFC report in 2016 and the World Bank report - Structure incentives (e.g., discounts and rebates on payment of timely property tax) and penalties (e.g., levy of interest on arrears) on delinquency - Conduct studies to assess the effect of tax rates on compliance and collections to inform future tax revisions 	Property Tax Board	Process improvements/ Policies	Medium term
4.1.4	Commission studies / pilots related to property tax assessments, collection platforms, IEC and improve capacity of municipal corporations on the following: <ul style="list-style-type: none"> - Incorporate user friendly improvements on the collection platforms such as accepting multiple payment models at PoS, automatic 	CMA to lead this, in partnership with select MCs	Resources and guidelines	Short - Mid term

	<ul style="list-style-type: none"> - scheduling, location tagging etc. - Conducting mass assessments using artificial neural networks (ANN) based dynamic modelling of the real estate market - Micro experiments can be administered in select MCs to test the efficacy of performance pay on tax collection - both for existing staff and for third parties (commission basis) - Create templates for MCs to calculate cost to serve (capital and O&M) for tariff justifications. Develop and maintain a State level portal with cost to serve and tariff benchmarks of MCs and parastatal agencies using data from past projects - Platforms for IEC reach to citizens across taxes 			
4.1.4	Assess devolution of property tax related powers to MCs - to decide on the tax rates and the incentive structure for enforcement agents and the taxpayers.	State Government	Policy	Mid term
4.1.6	State level cell to support MCs in mapping properties, suggesting monetization options, reviewing contracts and support on auction processes.	CMA in partnership with ULBs	Process improvements	Short term
4.1.7	Conduct an annual exercise of reclassification of property tax zones to ensure that the latest infrastructure access is reflected in the classification (interim measure)	MCs	Process improvements	Short term
4.2	HR and Capacity Building			
4.2.1	<p>The CMA should undertake a cadre benchmarking exercise to ensure availability of municipal capacity especially for merging MCs.</p> <p>Among other things, these should cover:</p> <ul style="list-style-type: none"> - Sufficiency of HR across levels and functions in view of consolidated availability and service delivery needs 	CMA, along with TNIUS	Schemes/ Guidelines	Mid term

	<ul style="list-style-type: none"> - Identification of training needs and capacity building pipeline - Resourcing and approvals for bridging quantity and quality gaps - Norms for integration of cadre across added areas with specification of timelines for the integration process 			
4.2.2	The CMA should evaluate developing processes for enabling mobility for personnel across Municipal Corporations, along with a transparent rule based system for movement, in consideration of factors such as need, performance, skills etc.	MAWSD and Human Resources Management Department	Policy/ Legislation	Mid-long term
4.2.3	Formulate a state-wide Capacity Building and Training Policy and a Capacity Building and Training Programme (CBTP) with appropriate funding provisions (details in annexure)	TNIUS and CMA	Policy	Mid term
4.2.4	Develop and administer role based "training needs assessments." Leverage ICT for "refresher trainings" and to track the effect of training on perceived capability and performance	TNIUS and CMA	Process improvements	Short term
4.2.5	<p>Provide Technical Assistance to MCs on Infrastructure Planning and Alternative Project Implementation Models</p> <ul style="list-style-type: none"> - Working with existing consultants appointed by MCs/ CMA etc., create a repository of templates/ tools and resources to support MCs on infrastructure project planning and assessment of alternative implementation models (E.g. public sector comparator assessments) for both capital and O&M projects - Provide analytical support to MCs to help them forecast their committed liabilities over time, and in comparison with expected revenues for better longer term planning - Create guidelines to help Department and MCs assess the most suitable methods of recruitment specific to role characteristics (sample template in annexure) 	CMA, in partnership with consultants already appointed by various agencies	Resources and guidelines	Short term

4.3	Service Delivery and Other Areas				
4.3.1	Develop guidelines for measuring service delivery through a combination of access (e.g., infrastructure) and user feedback related elements, and use this as a basis for coming up with service improvement plans and resources for newly added areas.	CMA	Process/ Guidelines	Short term	
4.3.2	Create rule based processes to guide addition of new areas into MCs	CMA	Process/ Guidelines	Short term	
4.3.3	Support to MCs in applying to innovative funding windows like TANII. Templatize application forms, and provide training through examples of model projects	CMA	Process/ guidelines	Short term	
4.3.4	Utilize the proposed unified procurement portal to support MCs on procurement and post award management	Finance Department, MAWSD/CMA	Process	Mid term	
4.3.5	Revision of approval norms for projects in MCs	CMA, Finance Department	Policy/ Legislation	Mid term	
4.3.5	Initiate discussions with PWD and Other Departments having meagre ownership of road and SWM assets for transfer to MCs	MAWSD / CMA	Process / Guidelines	Mid term	
4.3.6	Formulate mechanisms for effective and timely coordination with GOI Ministries, agencies, PSUs related to service delivery, land, RoW and property taxes	State Government / MAWS	Process / Guidelines	Mid term	

5. Annexures

5.1 Copy of Supreme Court Judgement on Thanjavur Municipal Corporation related to setting rates of municipal properties

