20 years of Achieving Ambitions in India

Municipal Finance

Funding urban development in India


2017
2018
10.43
99.01
125.200
2014
2015
RESERVE BANK OF INDIA

Preface

India has been experiencing a remarkable growth trajectory for the past few years with its GDP pegged at over 7% for the next few years, making India an attractive business and investment destination. This is exemplified by India's improved ranking in 'Ease of Doing Business' report for 2017 and upgradation of its credit ratings by global agencies. This economic surge has largely been driven by India's urban centres, leading to an exponential growth of the cities, especially in the last decade. Hence, to maintain and augment its impressive development story and its global attractiveness, India will have to create sustainable and renewable urban centres.

As per Census 2011, Indian cities support about 377 million people, which is about 31% of the country's population with an average annual addition of 8 million. It is further estimated that by 2030 the population in urban centres will be close to 600 million constituting 40% of total projected population. Complementing such growth calls for a smart and well-planned urbanization design to shape the future of the cities. Rapid urbanization is putting in place an immediate need for Urban Local Bodies (ULBs), municipalities and municipal corporations to plan ahead and provide best-in-class services including infrastructure, housing, social services and security. The estimated scale on which development will need to occur in order to upgrade our cities, will require strengthening of existing revenue sources and creation of new and innovative channels of funds, hence putting the spotlight on MUNICIPAL FINANCE in the country. The government has realized its importance and is insisting that cities undertake relevant studies to explore options that will strengthen funds sources availability to the ULBs.

Advising nearly 60 ULBs in states such as Tamil Nadu, Jharkhand, Gujarat, Rajasthan, Andhra Pradesh and Maharashtra as well as eight smart cities (Bhubaneshwar, Chennai, Amritsar, Vadodara, Trichy, Aligarh, Moradabad and Puducherry) on augmenting their revenue sources through assets owned by government departments, has given us a fair perspective of the existing state of affairs and the unexplored potential to manifold their revenue.

In this paper, we put the focus on Municipal Finance and the role it plays in the services provided by the ULBs. We elucidate their structure, fiscal dependencies, revenue and expenditures, focusing on the sustainable development of the country. The Smart Cities Mission is an opportune moment for Indian cities to attempt innovative financing mechanisms and achieve financial sustainability for the proposed developments.

Presenting new fund-raising tools and the increasing participation from the private sector, we hope this paper acts as an intellectual lodestar guiding the course for India's future cities.

Best regards,

Ramesh Nair
CEO & Country Head
JLL India
ramesh.nair@ap.jll.com

Introduction

Municipal finance encompasses revenue and expenditure decisions made by municipal governments. It outlines the sources of revenue that are used by local bodies, including various taxes, user charges, intergovernmental transfers and the methods of financing infrastructure through the use of operating revenues and borrowings. Municipal finance also addresses issues pertaining to expenditures at the local body level, accountability for expenditure and revenue decisions, the municipal budgetary process and financial management.

In India, local bodies being the forefront of administration, directly influence the welfare of the inhabitants by providing civic services and socio-economic infrastructure facilities. These local governments oversee various expenditures on local services, including transportation, water and sewers, garbage collection and disposal, safety, housing, health, recreation and culture, education and social expenditures. They fund these services and the infrastructure associated with them from a variety of sources under municipal finance.

Need for Municipal Finance

Growing population and rapid expansion of cities is leading to an increasing strain on existing infrastructure. While the government is taking necessary steps towards planning better quality services for citizens, the situation commands an urgent need to study financial planning, as it forms the backbone of any initiative for public interest.

According to World Bank data, the present scale of urbanisation in India is only 33%, whereas the size of the urban population is about 429 million – much larger than that of many other countries. Although it is an indicator of positive development, a host of challenges also accompanies rapid urbanisation. The growing urban sprawl in India is leading to an increase in the use of private vehicles, congested roads, increased pollution, public safety issues and increased household spending. Along with this comes the added stress that an increasing population puts on the existing infrastructure of our cities.

The infrastructure and services being grossly inadequate even for the existing population, the city authorities in India are in a situation to sketch their action for planned urbanisation and peripheral expansion to accommodate migrants and the local population growth.

Significance of 73rd & 74th Amendment Acts, 1992

The 73rd and 74th Constitutional Amendment Acts, 1992 were the most remarkable milestones in reinforcing local governance in rural and urban India. With the intention to make available all essential services to Indian citizens, these Amendment Acts strengthened the municipal bodies and Panchayat Raj institutions. Until then, local governments were under the direct control of the State Government, without legislative provisions.

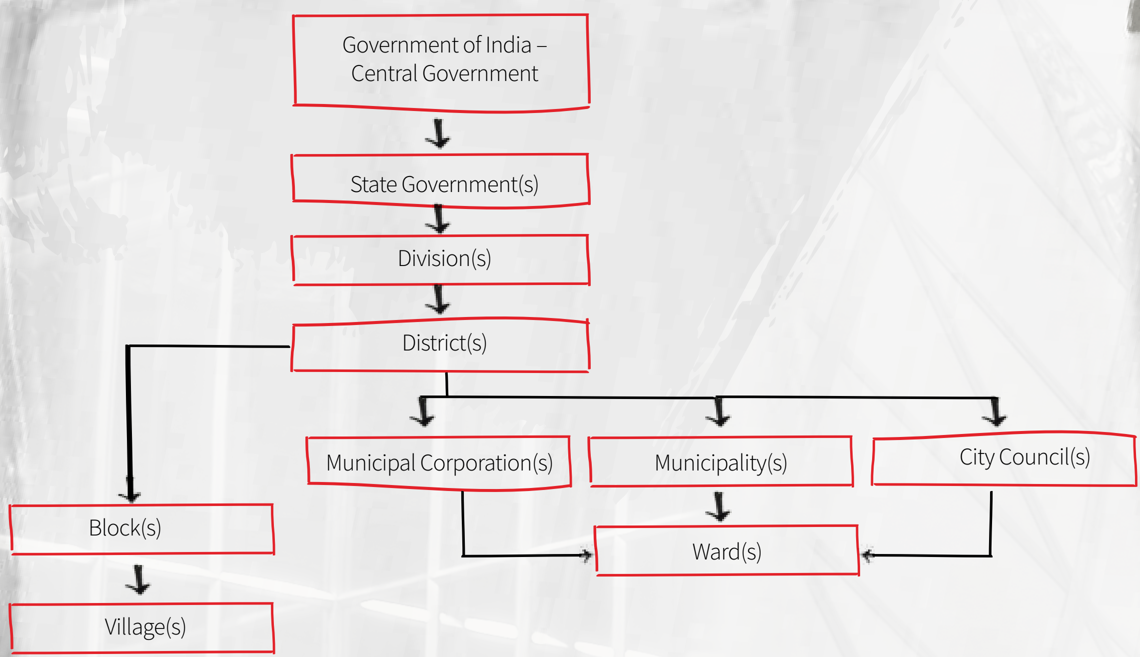
- The Constitutional (73rd and 74th) Amendment Acts provided them strategic roles in delivering services in the hierarchy of the government, thereby giving them more functions, powers and resources.
- The Amendment Acts (for rural and Urban Local Bodies (ULBs), respectively) have accorded a constitutional status to local bodies as the third tier of government.
- The 74th Constitution Amendment Act, 1992 aims at a decentralisation regime through the mechanism of the devolution of functions, finances and functionaries to ULBs.
- The 12th Schedule introduced in the Constitution by the 74th Amendment Act envisages that functions such as "safeguarding the interests of weaker sections of society", "slum improvement and upgrading" and "urban poverty alleviation" belong to the legitimate functional domain of ULBs.
- A Municipal Finance Schedule to match the list of functions included in the 12th Schedule, may comprise all types of taxes or a share from the same, planning permission fee, development impact fee, betterment levy, a surcharge on stamp duty on registration deeds or a share from it. A State Government may provide freedom to ULBs in matters relating to fixation of the tax base and tax rate. Restrictions, if any, may only be by the stipulation of ceilings or maximum rates of tax and limiting the power to grant exemptions.
- Article 243Y, inserted into the Constitution of India by the 73rd Amendment Act, defines it as compulsory on the part of the State Government to constitute State Finance Commissions (SFCs) once in every five years to review the financial position of the Panchayats and the municipalities.
- As far as the ULBs are concerned, it is mandatory for the SFCs to review and recommend the principles of devolution of resources from the State Government to their local bodies and suggest measures needed to improve their financial position.
- Article 243(I) inserted into the Constitution through the 73rd Amendment Act provides for the SFC to address state-local transfer issues.

Administrative Structure

Municipal governance in India has been in existence since 1687 with the formation of Madras Municipal Corporation, followed by Calcutta and Bombay in 1726.

In 1991, the Census of India recorded 3,255 ULBs in the country, which were classified into four major categories: Municipal Corporation, Municipality, Town Area Committee and Notified Area Committee. The municipal corporations and municipalities were representative bodies, while the notified area committees and town area committees were either fully or partially nominated bodies. Later, in 1992, after the enactment of the 74th Amendment Act, the categories of ULBs were reduced to three: Municipal Corporation, Municipality and City Council. They were categorised on the basis that city councils or nagar panchayats were areas in transition from rural to urban areas, municipal councils were smaller urban areas and municipal corporations were larger urban areas.

Administrative Structure of India after the 74th Amendment Act, 1992



Responsibilities of Municipal Bodies

To move forward on the performance, accountability and credibility of local bodies, an effort was made by these amendments to include important functions such as devolution of financial and administrative responsibilities, to the third tier of governance, therefore, creating a trail for fiscal "federalism".
In case of ULBs, vast responsibilities were identified in the 74th Constitution Amendment, including:

- The legislature of a state, by law, can assign any tasks relating to the preparation and implementation of plans for economic development and social justice to local bodies.
- Implementation of such plans and schemes as may be entrusted to them, including those in relation to the matters listed in the 12th Schedule of the Constitution (Article 243W).
- For intensifying the finances of urban local governments, two optimistic features were provided in the 73rd and 74th Amendments to the Constitution:
    a. Provision for the constitution of SFC every five years (Article 243-I as per the 73rd Amendment).
    b. Amendment of Article 280 of the Indian Constitution by adding Section 3(C), which necessitates the Central Finance Commission to suggest measures needed to augment the consolidated fund of the states to supplement the resources of municipalities devolved on the basis of the respective SFC recommendations.

The 18 municipal functions listed in the 12th Schedule of the Constitution include:

i. Urban planning, including town planning
ii. Regulation of land use and construction of buildings
iii. Planning for economic and social development
iv. Roads and bridges
v. Water supply for domestic, industrial and commercial purposes
vi. Public health, sanitation, conservancy and solid waste management
vii. Fire services
viii. Urban forestry protection of the environment and the promotion of ecological aspects
ix. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded
x. Slum improvement and upgrading
xi. Urban poverty alleviation
xii. Provision of urban amenities and facilities such as parks, gardens and playgrounds
xiv. Promotion of cultural, educational and aesthetic aspects
xiv. Burials and burial grounds; cremation grounds and electric crematoriums
xv. Cattle pounds; prevention of cruelty to animals
xvi. Vital statistics, including the registration of births and deaths
xvii. Public amenities, including street lighting, parking lots, bus stops and public conveniences
xviii. Regulation of slaughterhouses and tanneries

Resources and Revenue Composition of Municipal Governance

After the formation of such an effective structure of administration, the financial resources of municipal bodies play a critical role as engines for the productive functioning of the system. With such an importance, the key resources that municipal finance governance includes:

- Own revenues, consisting of tax (of which the property tax is a major source) and non-tax revenues of local bodies.
- Grants, assignments and devolution by the State Government.
- Grants from the Central Government and finance commissions.

The revenue base of municipal bodies can be broadly categorised into:

- Tax revenues
- Non-tax revenues
- Assigned (shared) revenue
- Grants-in-aid
- Loans
- Other receipts

Municipal Revenue Composition

Category	Source
Tax revenue	Property Tax, Octroi, Advertisement Tax, Tax on Animals, Vacant Land Tax, Taxes on Carriages and Carts, etc.
Non-tax revenue	User Charges, Municipal Fees, Sale & Hire Charges, Lease Amounts
Assigned (shared) revenue	Entertainment Tax, Surcharge on Stamp duty, Profession Tax, Motor Vehicles Tax
Grants-in-aid	(i) Plan grants made available through planned transfers from the upper tier of government under various projects, programmes and schemes (ii) Non-plan grants made available to compensate for the loss of income and some specific transfers
Loans	Loans borrowed by the local authorities for capital works, etc. – HUDCO, LIC, State and Central Government, banks and municipal bonds
Other receipts	Sundry receipts, law charge costs recovered, lapsed deposits, fees, fines & forfeitures, rent on tools & plants, miscellaneous sales, etc.

Source: Department of Rural Development and Panchayat Raj, Tamil Nadu (TNRD)

The user charges under the non-tax revenue include water charges, sewerage charges, building licence fees, planning fees, parking charges, betterment charges, slaughterhouse fees and penalty on late tax payment, etc.

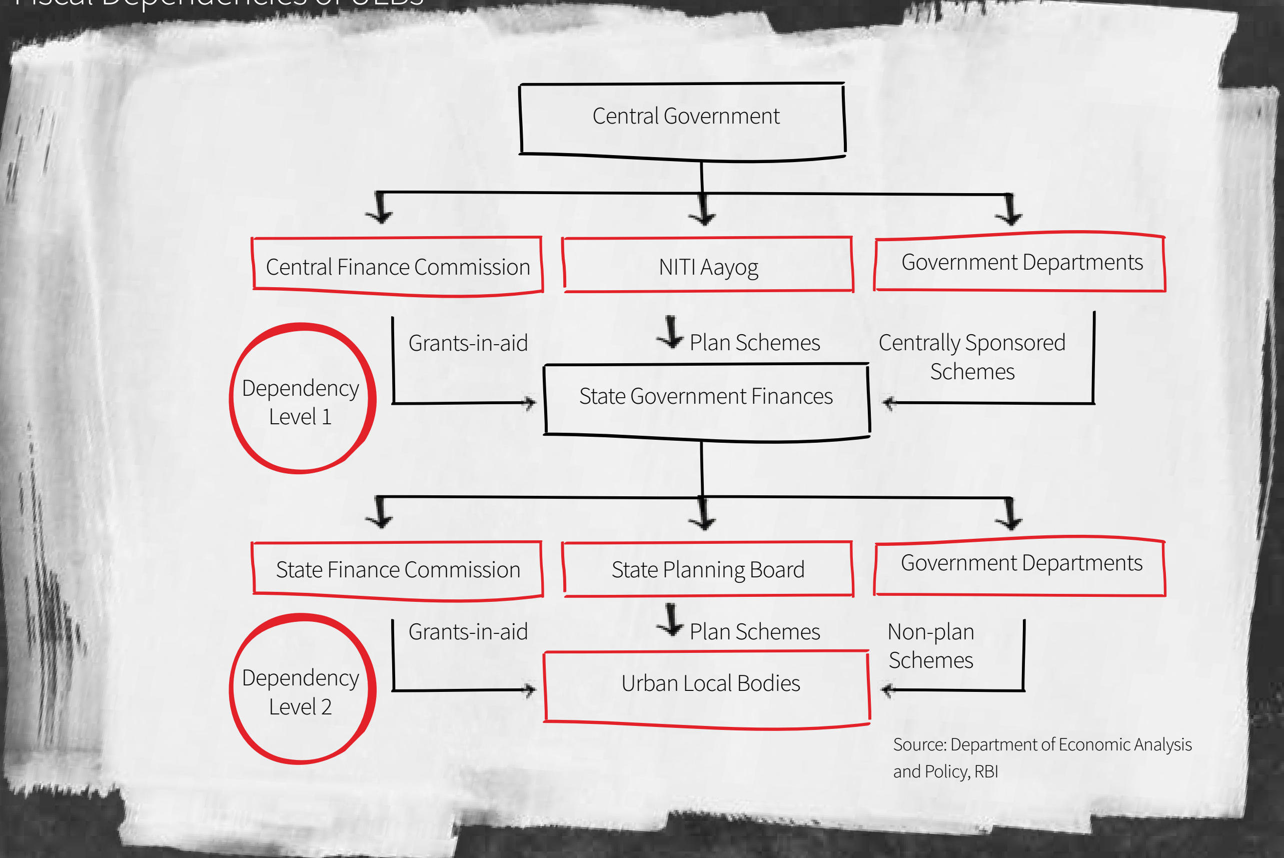
Apart from their own revenue sources, i.e. tax and non-tax revenue sources, the municipal bodies mainly depend on grants from the State Government. These grants are primarily intended to compensate for the disparity of functions and finance. Most financial support from the State Government is in the form of revenue grants to meet current expenses. Likewise, capital grants are also provided for meeting project-specific expenditures.

Because of growing demand, the government is intensely exploring various other ways of augmenting the resources of municipal bodies, including essential reforms in the property tax system and the adequate exploitation of user charges and fees for various services delivered. The government is also looking into ways of strengthening and improving Central and State Government transfers to urban local governments.

Fiscal Dependency of Government

Fiscal dependency or the need for intergovernmental transfers crops up largely out of vertical mismatches between functions and finance as well as out of horizontal disparities between different jurisdictions. A higher-level government may also incline to pay costs of local governments in consideration of fiscal disabilities like poor taxable capacity. It may also be because the Central Government may impose its preferences on the State Government in the national interest, similar to the current initiatives such as smart cities, Make in India, Digital India and Atal Mission for Rejuvenation and Urban Transformation (AMRUT), etc.

Fiscal Dependencies of ULBs



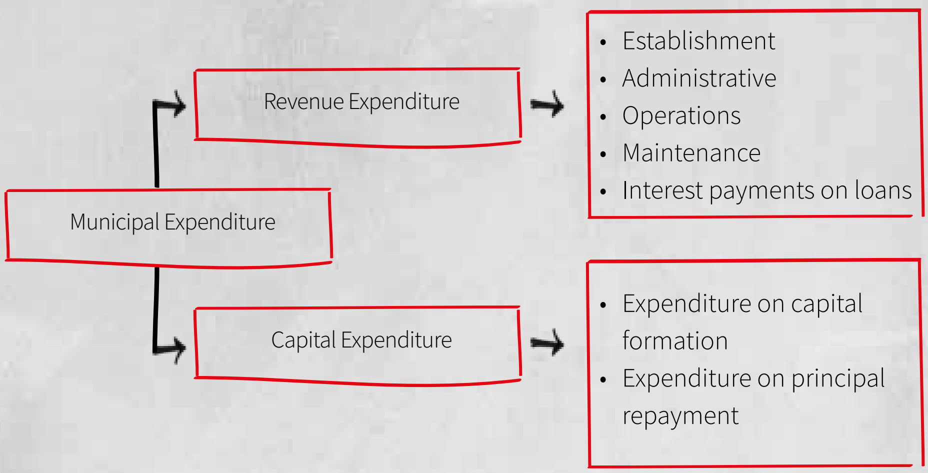
Source: Department of Economic Analysis and Policy, RBI

Municipal Expenditure Composition

The expenditures incurred by municipal bodies can be broadly categorised into:

(a) Revenue expenditure
(b) Capital expenditure

Further, revenue expenditure broadly comprises establishment expenditure, administrative expenditure, operations and maintenance expenditure, and interest payments on loans. Similarly, the capital expenditure comprises expenditure on capital formation and principal repayment.



Source: Department of Economic Analysis and Policy, Reserve Bank of India (RBI)

Municipal Expenditures

Expenditure category	**Expenditure items**
Establishment expenditure	Staff salaries, allowances, wages, pensions & retirement benefits, etc.
Administrative expenditure	Rents, rates & taxes, office maintenance, communications, books & periodicals, printing & stationery, travel expenditure, law charges, etc.
Operations & maintenance	Power & fuel, bulk purchases, stores, hire charges, repairs & expenditure, maintenance, interest payments made on loans
Capital expenditure	Buildings, water supply & sewerage, energy/lighting, solid waste management, culverts, causeways, health & sanitation, management, roads, bridges, parks and recreation spaces, furniture & fittings, tools & plant, equipment, principal repayments of loans, etc.
Other expenditure	Miscellaneous expenses not accounted for in the above

Growing Needs for Municipal Finance

For the betterment of the country, it is critical to facilitate our cities function efficiently. Having seen the chaos in existing cities, it is now important to be extra cautious while designing new cities. India's urban infrastructure investment needs can be impacted by various factors, including:

- New challenges & opportunities in the country because of various ambitious Central Government initiatives such as Smart Cities, Make in India, Digital India, AMRUT, etc.
- Effects of urbanisation & globalisation
- Increasing services and capital
- Advent of information and communication technology
- Information availability
- Foreign Direct Investment (FDI)
- Economic drive and employment opportunities
- Innovation in key sectors
- Citizen engagement and Participative decision making

With such a growing need for infrastructure development, the major challenge in achieving the infrastructure goal of the country continues to be "FINANCE". As infrastructure projects are capital intensive, funding has become one of the major impediments to achieving the infrastructure objectives of our ULBs. There are about 3,636 ULBs in India as per Census 2001. Unfortunately, most of them became weak and inefficient since the Indian Constitution did not make local self-government in urban areas a clear-cut constitutional obligation, even after the 74th Constitution Amendment Act was introduced to strengthen decentralisation at the grass-root levels.

Although the amendment clearly states that the responsibility for urban planning, water supply, social and economic planning, slum upgrading and public health, etc. lay in the hands of ULBs, it does not lay down the revenue base for cities to accomplish these functions effectively. The power to determine the revenue base continues to remain with the State Government and its overarching policies. The financing requirements for real-time functioning and improvement of existing cities as well as providing for orderly urban growth are enormous. There is a pressing need for an environment that encourages cities to plan for improving their revenue flows from their own resources.

Trends in Municipal Finance

Public-Private Partnership (PPP)

In the Budget 2018-19, INR 5.97 crore has been allotted as investments in infrastructure sector. The budgeted investment is 20% more than the last year's expenditure. With such an extreme scale of investment requirements and the limited availability of public resources for investment in physical infrastructure, it is of great importance to explore ways for increasing investment in infrastructure through a combination of public investment, PPPs and, occasionally, exclusive private investment wherever feasible.

Infrastructure developments can be broadly divided into two categories:

i. Large-scale projects that are essential for the public and have no or very little revenue potential for the government

ii. Projects that have striking revenue potential

The first type of infrastructure project is preferably completely government financed whereas the second one can be developed on a PPP basis. As resource constraints will continue to limit public investment in infrastructure, PPP-based development needs can be encouraged wherever feasible. In view of this, there is an over-dependence on the private sector for developing and maintaining infrastructure projects. Typically, private investments in infrastructure projects are in the form of debt raised by developers.

The use of PPP as an instrument of procurement for the creation of infrastructure assets and the delivery of public services has attained global recognition.

Major advantages of PPPs include:

i. Bridging the deficit in the financing of public projects

ii. Brings in new and cost-effective technology for the creation of infrastructure assets

iii. Managerial efficiency

iv. Competency for operation and maintenance of the created assets

v. Contractual accountability of the private party to ensure timely and quality infrastructure service to the end users

As a result, private investment in infrastructure has picked up in recent years, encouraging the government to go for a more ambitious infrastructure creation, through greater emphasis on the PPP mode of execution.

User Charges

It is mandatory in present conditions that, wherever possible, local government services should be paid by the citizens on the basis of the benefits received. Where the beneficiaries can be identified and where the services are not largely redistributive in nature, user fees are recommended.

For example, with the introduction of various revolutionary transportation management initiatives in our cities such as on-street parking management, cycle sharing system facilitating last-mile connectivity for citizens and intelligent traffic management, etc., local governments need to ensure citizens understand that user fees are not a tax snatch but an important way to measure the quantity and quality of developing services that people want and are willing to pay for in the emerging growth environment.

Advertisement Fees

Advertisement fees are trending as a key instrument for revenue augmentation in our ULBs. In fact, advertisement fees – or revenue collected through the leasing of advertisement rights on assets owned by various government agencies – could turn out to be a game changer.

It is to be noted that many Indian cities are now focusing on developing, planning and expanding this opportunity beyond just established media to other assets that present an advertisement fee opportunity – these include public convenience facilities such as restrooms and water fountains, lamp posts, public parks and open spaces, and government buildings.

The Strategic Plan (2011-16) released by the Ministry of Urban Development, the Government of India acknowledged the immense potential for Out Of Home (OOH) advertisement fees to add substantially to the funds available to ULBs. It also made it a point to highlight that poor application, overall lack of innovation and weak enforcement are currently the key hindrances to implementing an efficient advertisement revenue strategy.

OOH advertising has evolved to the extent that it can be almost as useful as traditional advertising media namely newspapers, radio and TV. This presents a good marketing option as the media audience becomes more fractured and more adept at avoiding ads. The OOH advertising market crossed the INR 3,000 crore level at a growth rate of 12% in 2017 against the projected 7% – only marginally lower than then the overall advertisement industry growth of 13.5%.

Today, the OOH advertising medium has taken marketing to an entirely new level – it offers new digital technologies, new lighting and materials, new formats, and the involvement of more creative thinking to make messages reach a larger number of people than ever before.

Most importantly, giving licensing rights to OOH agencies to display advertisements provides the city authorities with a highly reliable revenue stream to help manage the city more efficiently. Currently, around 70 cities, learning from best practice, are exploring the possibilities of augmenting revenue through advertisements.

Opportunities for Cities

- Revenue Augmentation: Additional revenue can significantly contribute towards reducing the city's dependence on tax accruals, creating greater self-dependence and efficiency in reducing the funding deficit.
- No additional cost: Other than on procedural requirements, cities do not have to make any capital intensive investments.
- High demand: A city's assets include public places largely situated in prime locations with high vehicular and pedestrian traffic, both of which are essential factors for effective advertising.
- Reduced operation & maintenance costs: Many Indian cities find it tough to effectively upkeep public convenience facilities such as bus stands, parks, open spaces, etc. The rights to advertise on these assets can be coupled with the responsibility for their operation and maintenance, as well.
- Enhanced city aesthetics: A single body regulating outdoor advertisements brings uniformity, reduces clutter and makes the city look vibrant and unique.
- Ideal means to improve social awareness: A portion of the available advertising space can be reserved for promoting social messages and other important information regarding the city, government and its initiatives

Success Stories

Ahmedabad Municipal Corporation was the first ULB in India to raise resources ~ INR 100 crore through a general obligation bond. It has streamlined its octroi operations and reformed the property tax levy in order to back up debt service obligations of the bond.

Octroi was levied in seven key cities of Gujarat – Ahmedabad, Rajkot, Jamnagar, Bhavnagar, Surata, Baroda and Junagadh. But octroi in these cities was abolished from 15th November 2007, ending a practice that lasted almost 150 years. Earlier, in 2001, octroi was abolished from municipal limits of 141 smaller towns and civic areas in Gujarat. Subsequently, the Government of Maharashtra abolished the levy of octroi by Thane, Navi Mumbai, Nagpur, Pune and Pimpri-Chinchwad Municipal Corporation from April 2013. However, the Local Body Tax (LBT) introduced from 1st October 2013 to compensate for the loss of revenue due to the abolishment of octroi, was subsequently eradicated from August 2015. There is no scope for octroi or LBT to be in force since Goods and Services Tax (GST) has been introduced.

Like water, lighting and latrine tax are commonly levied under most of the municipal acts. In some states such as Tamil Nadu, some of these taxes are adjunct to property tax so that the effective cost of collection is reduced. In effect, people from different economic strata are charged at different rates for the same level of services such as street lighting and collection of recyclable waste from garbage scavenging.

The Karnataka Municipalities Act, 1964 was amended (through Act 24 of 2003) to have a separate chapter for specifying industrial townships and other related matters, to make elaborate provision given the development and the requirement of industrial townships adjacent to or within municipal areas and transitional gram panchayats. Incidentally, Karnataka has a huge number of Central Government Enterprises like Bharat Electronics Limited, Bharat Earth Movers Limited, Hindustan Aeronautics Limited etc., and these corporates had their own townships for the benefit of their employees and their families.

Maharashtra has shown extensive experience in mobilisation of resources for financing urban development. The land banking model was developed by Magarpatta City with active participation of the citizens, under which they would surrender land for an equal share of the development company. The development company would develop and sell land for various uses and utilise the proceeds for the development of infrastructure.

Pune has used Transferable Development Rights (TDR) for acquiring land for development, which is modelled on the already successful experience of using TDR in Mumbai for a wide range of purposes like road, reservation and slum development. Likewise, e-tendering in Aurangabad has resulted in a better contract awarding system and lowered the cost by 5-10%.

The states of Tamil Nadu and Karnataka experimented with different institutional set-ups that leveraged the strengths of a pooled finance mechanism in order to raise resources through the issuance of bonds. This helped them in successfully undertaking water supply and sanitation projects, and in meeting the stipulated terms of the bond issuance.

Revenue Mobilisation Opportunities for ULBs

Municipalities have tremendous potential for growth. However, except for a few large municipalities, the growth of smaller municipalities, ULBs and towns has been muted. In order to strengthen the former and improve the latter, it is important to find revolutionary ways to pool finance. A number of revenue streams are available for ULBs to mobilise revenue. These include property tax, building licence fees, other land-based levies such as betterment levy , valorisation, impact fees, exaction, stamp duty, octroi, hawker / vendor fees, PPP, use charges and advertisement fees.

Moving Forward

Projects should be planned in such a way that they accelerate the pace of growth of tax revenues of various government departments, spur the city's economy and sustainably enhance the paying capacity of citizens.
Value Capture Financing (VCF), Land Value Improvement Tax and Tax Increment Financing (TIF) should be envisaged in planning the finance. Once planned projects are successfully implemented, considering the bankability of the projects, there can be a stake sale either through a private placement or through an Initial Public Offering (IPO) at a significant premium. There is also scope for raising funds for projects that have attained commercial production. This should help cover cost overruns, if any, or if the envisaged capital / revenue inflows do not materialise on time or are not adequate. Hence, adequate development for bettering the lives of citizens and improving the availability of infrastructure becomes a prime need to increase the revenue potential.

Future proofing the finance structure

Municipal Bonds

Municipal bonds are bonds issued by ULBs to raise money for financing specific projects such as infrastructure projects. The Securities and Exchange Board of India regulations (2015) regarding municipal bonds provide that, to issue such bonds, municipalities must: (i) not have negative net worth in any of the three preceding financial years, and (ii) not have defaulted in any loan repayments in the last one year. Therefore, a city's performance in the bond market depends on its fiscal performance. One of the ways to determine a city's financial health is through credit ratings.

Credit Rating

Credit Rating is one of the Transformational Reforms initiated by Ministry of Housing and Urban Affairs (MoHUA) under which 500 cities and towns that account for about 65% of total urban population were to be given Credit Ratings to ensure investments. Of the total 20 ratings ranging from AAA to D, BBB- is the 'Investment Grade' ratings and cities rated below BBB- need to undertake necessary interventions to improve their ratings for obtaining positive response to the Municipal Bonds to be issued. Based on the improved financials, the ULBs can also raise Municipal bonds at finer rates. Currently, 482 cities have started credit rating and 144 cities have investment grade rating

Operation & Maintenance (O&M)

O&M contributes to a lump sum and needs to be provisioned and factored in the financial plan. The city by itself and along with its citizens must be open to the idea of an increase in user charges. Citizens never hesitate to pay extra for better and improved services. Implementation of such user charges can enhance the revenues of ULB, which can lead to significant revenues on a sustainable basis.

Value Capture Financing (VCF)

Value capture is based on the principle that private land and buildings that benefit from public investments in infrastructure and policy decisions of the government, should pay for it (e.g. change of land use or Floor Space Index (FSI)). Appropriate VCF tools can be deployed to capture a part of the increment in value of land and buildings. In turn, the State / Central Government and ULBs can use these to fund projects being set-up for the public. VCF is distinct from the user charges or fees that agencies collect for providing services. It gives the government the opportunity to launch new projects even with a small resource base. The main types of VCF methods are Land Value Tax, Development Charge, Fee for Change of Land Use, Betterment Levy, TDR, Premium on the Relaxation of FSI rules, Vacant Land Tax, Land Pooling System, Land Acquisition and Development, and TIF.

Tax increment financing (TIF)

This is one of the most popular VCF tools used in developed countries, especially in the United States. The incremental revenue from future increase in property tax or a surcharge on the existing property tax rate is ring-fenced for a defined period to finance some new investment in the designated area. This tool is slowly picking up pace and importance in the ULBs.

Ultimately, the choice of a revenue tool will also have an impact on the ability of the local government to deliver services and attract businesses. A profitable model of municipal finance starts with the definitive role of the local government, which is to deliver services to its residents effectively and efficiently.

To conclude, it is imperative to summon that 'one size does not fit all' when it comes to financing of services and infrastructure by local governments. Not all revenue tools will be appropriate for all local governments under all circumstances. It may be necessary to take a smart approach to finance diverse municipalities in different ways based on local conditions and needs to effectively serve our growing economy.

Innovative Funding Tools - The Smart Way Out

A solid financial structure is essential to the success of cities in meeting the growing needs of urbanization. The Smart Cities Mission was the first initiative by the government that linked not only all the Government of India schemes (such as AMRUT, Affordable Housing under PMAY, National Heritage City Development and Augmentation Yojana (HRIDAY), the Swachh Bharat Mission, Skill India, Make in India, Non-Motorized Transport (NMT), Multimodal Integration, Last-mile Connectivity Options and Green Mobility Schemes) but also all the funding mechanisms that are available through convergence. It is not just the urban landscape that will change, but also the way ULBs manage the funding to balance the city's economy. This will change the landscape of Cities to prepare itself in this new era of city competition to become a leading global city. Projects that implement pooling all the financing options available, monitored under a single Special Purpose Vehicle (SPV) under a fixed timeframe with the intervention of technology will definitely set a benchmark for how future cities would manage their finances. The same technique should be replicated across all other ULBs to optimise the benefits.

Contacts

For business enquiries

Shubhranshu Pani
Managing Director
Strategic Consulting | Infrastructure Services | EHS
shubhranshu.pani@ap.jll.com
+91 22 71495 888

A Shankar
Chief Operating Officer
Strategic Consulting, India and Sri Lanka
shankar.arumugham@ap.jll.com
+91 99400 66869

Authors

Simon Thomas
Local Director, Strategic Consulting
Lead - Urban Solutions, India
simon.thomas@ap.jll.com
+91 98400 68451

Robin S
Assistant Vice President
Strategic Consulting
robin.s@ap.jll.com
+91 87544 04800

Abirami C S
Executive
Strategic Consulting
abirami.subramanian@ap.jll.com
+91 99629 87528

Special Acknowledgements

Suvishesh Valsan & Poonam Agarwal

About JLL

JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. A Fortune 500 company, JLL helps real estate owners, occupiers and investors achieve their business ambitions. In 2017, JLL had revenue of $7.9 billion and fee revenue of $6.7 billion; managed 4.6 billion square feet, or 423 million square meters; and completed investment sales, acquisitions and finance transactions of approximately $170 billion. At the end of 2017, JLL had nearly 300 corporate offices, operations in over 80 countries and a global workforce of 82,000. As of December 31, 2017, LaSalle had $58.1 billion of real estate assets under management. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit **www.jll.com**

JLL has over 50 years of experience in Asia Pacific, with over 37,000 employees operating in 96 offices in 16 countries across the region. The firm won the 'World's Best' and 'Best in Asia Pacific' International Property Consultancy at the International Property Awards in 2016 and was named number one real estate investment advisory firm in Asia Pacific for the sixth consecutive year by Real Capital Analytics and ranked among Fortune Magazine's World's Most Admired Companies list third year in a row. **www.ap.jll.com.**

About JLL India

JLL is India's premier and largest professional services firm specializing in real estate. With estimated revenue for FY 2017-18 expected to be ~INR 3,200 crores, the firm is growing from strength to strength in India for over the past 20 years. JLL has an extensive geographic footprint across 10 cities (Ahmedabad, Delhi, Mumbai, Bengaluru, Pune, Chennai, Hyderabad, Kolkata, Kochi and Coimbatore) and a staff strength of over 9,500. The firm provides investors, developers, local corporates and multinational companies with a comprehensive range of services. This includes research, strategic advisory and consultancy, capital markets, transaction management, project and development services, integrated facilities management, property and asset management. These services cover various asset classes such as commercial, residential, industrial, retail, warehouse and logistics, hospitality, healthcare, senior living and education.

JLL was recognised as one of the 'Best Places to Work in India 2017' in the annual sur vey of 'India's Best Companies to Work For' - a joint study conducted by Great Place to Work® and The Economic Times. The firm has also been acknowledged as 'Property Consultant of the Decade' at the 10th CNBC-Awaaz Real Estate Awards 2015 and the Best Property Consultancy in India at the International Property Awards Asia Pacific 2016-17. For further information, please visit **www.jll.co.in.**

JLL

Jones Lang LaSalle Property Consultant (India) Pvt Limited © 2018. All rights reserved. All information contained herein is from sources deemed reliable; however, no representation or warranty is made to the accuracy thereof.